DemandTec, Inc.
Form 10-Q
October 02, 2009

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended August 31, 2009

OR

o **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: 001-33634
DemandTec, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**94-3344761**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**

One Circle Star Way, Suite 200
San Carlos, California 94070
(Address of Principal Executive Offices including Zip Code)
(650) 226-4600
(Registrant s Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The number of shares of the registrant s common stock, par value $0.001, outstanding as of September 25, 2009 was: 28,782,218.

DEMANDTEC, INC.
FORM 10-Q
TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

DemandTec, Inc.
Condensed Consolidated Balance Sheets
(In thousands, except per share data)

	As of August 31, 2009 (Unaudited)	As of February 28, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 33,669	$ 33,572
Marketable securities	34,860	46,426
Accounts receivable, net of allowances of $125 and $120 as of August 31, 2009 and February 28, 2009, respectively	4,553	11,000
Other current assets	3,406	4,230
Total current assets	76,488	95,228
Marketable securities, non-current	7,842	7,886
Property, equipment and leasehold improvements, net	4,238	5,429
Intangible assets, net	6,252	8,405
Goodwill	16,662	16,492
Other assets, net	575	715
Total assets	$ 112,057	$ 134,155
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 12,164	$ 12,962
Deferred revenue	39,824	46,415
Notes payable, current	434	1,720
Merger consideration payable	1,000	12,343
Total current liabilities	53,422	73,440
Deferred revenue, non-current	1,836	2,400
Other long-term liabilities	656	1,666
Commitments and contingencies (see Note 5)		
Stockholders equity:		
Common stock, $0.001 par value 175,000 shares authorized; 28,772 and 28,059 shares issued and outstanding as of August 31, 2009 and February 28, 2009, respectively	29	28
Additional paid-in capital	139,975	133,320
Accumulated other comprehensive income	387	682
Accumulated deficit	(84,248)	(77,381)

Total stockholders equity	56,143	56,649
Total liabilities and stockholders equity	$ 112,057	$ 134,155

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

DemandTec, Inc.
Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended August 31,		Six Months Ended August 31,	
	2009	**2008**	**2009**	**2008**
Revenue	$ 19,796	$ 18,632	$ 39,341	$ 36,686
Cost of revenue(1)(2)	6,300	5,846	13,004	11,501
Gross profit	13,496	12,786	26,337	25,185
Operating expenses:				
Research and development(2)	7,997	6,610	16,153	13,113
Sales and marketing(2)	5,414	5,239	10,845	10,411
General and administrative(2)	2,786	2,497	5,160	4,671
Restructuring charges			278	
Amortization of purchased intangible assets	588	331	1,177	420
Total operating expenses	16,785	14,677	33,613	28,615
Loss from operations	(3,289)	(1,891)	(7,276)	(3,430)
Interest income	162	472	391	1,006
Interest expense	(31)	(20)	(62)	(23)
Other income (expense), net	21	(117)	107	(63)
Loss before provision for income taxes	(3,137)	(1,556)	(6,840)	(2,510)
Provision for income taxes	8	12	27	92
Net loss	$ (3,145)	$ (1,568)	$ (6,867)	$ (2,602)
Net loss per common share, basic and diluted	$ (0.11)	$ (0.06)	$ (0.24)	$ (0.10)
Shares used in computing net loss per common share, basic and diluted	28,535	27,204	28,346	26,951
(1) Includes amortization of purchased intangible assets	$ 465	$ 153	$ 931	$ 305
(2) Includes stock-based compensation expense as follows:				
Cost of revenue	$ 523	$ 465	$ 941	$ 854
Research and development	948	580	1,804	1,172
Sales and marketing	652	771	1,271	1,211
General and administrative	719	430	1,244	798
Total stock-based compensation expense	$ 2,842	$ 2,246	$ 5,260	$ 4,035

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

DemandTec, Inc
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended August 31, 2009	Six Months Ended August 31, 2008
Operating activities:		
Net loss	$ (6,867)	$ (2,602)
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation	1,551	1,408
Stock-based compensation expense	5,260	4,035
Amortization of purchased intangible assets	2,108	725
Other	14	131
Changes in operating assets and liabilities:		
Accounts receivable	6,395	6,121
Other current assets	660	(291)
Other assets	(5)	(881)
Accounts payable and accrued expenses	486	3,213
Accrued compensation	(1,072)	1,064
Deferred revenue	(7,155)	(5,265)
Net cash provided by operating activities	1,375	7,658
Investing activities:		
Purchases of property, equipment and leasehold improvements	(481)	(1,484)
Purchases of marketable securities	(28,390)	(36,054)
Maturities of marketable securities	40,000	30,720
Acquisition of Connect3	(12,544)	
Purchase of intangible assets		(200)
Change in restricted cash		200
Net cash used in investing activities	(1,415)	(6,818)
Financing activities:		
Proceeds from issuance of common stock, net of repurchases	1,387	1,596
Payments on notes payable	(1,286)	(8)
Net cash provided by financing activities	101	1,588
Effect of exchange rate changes on cash and cash equivalents	36	(189)
Net increase in cash and cash equivalents	97	2,239
Cash and cash equivalents at beginning of period	33,572	43,257
Cash and cash equivalents at end of period	$ 33,669	$ 45,496

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

DemandTec, Inc.
Notes to Condensed Consolidated Financial Statements

1. Business Summary and Significant Accounting Policies

Description of Business

DemandTec, Inc. (the Company or We) was incorporated in Delaware on November 1, 1999. We are a leading provider of on-demand optimization solutions to retailers and consumer products, or CP, companies. Our software services enable retailers and CP companies to define category, brand, and customer strategies based on a scientific understanding of consumer behavior and make actionable pricing, promotion, assortment, space, and other merchandising and marketing recommendations to achieve their revenue, profitability and sales volume objectives. We deliver our applications by means of a software-as-a-service, or SaaS, model, which allows us to capture and analyze the most recent retailer and market-level data and enhance our software services rapidly to address our customers ever-changing merchandising, sales, and marketing needs. We are headquartered in San Carlos, California, with additional sales presence in North America, Europe, and South America.

Basis of Presentation

Our condensed consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Our fiscal year ends on the last day in February. References to fiscal 2009, for example, refer to our fiscal year ended February 28, 2009. The accompanying condensed consolidated balance sheet as of August 31, 2009, the condensed consolidated statements of operations for the three and six months ended August 31, 2009 and 2008, and the condensed consolidated statements of cash flows for the six months ended August 31, 2009 and 2008 are unaudited. The condensed consolidated balance sheet data as of February 28, 2009 was derived from the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended February 28, 2009 (the Form 10-K) filed with the Securities and Exchange Commission, or SEC, on April 23, 2009. The accompanying statements should be read in conjunction with the audited consolidated financial statements and related notes contained in the Form 10-K, as well as subsequent filings with the SEC.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of our management, include all adjustments necessary, all of which are of a normal recurring nature, for the fair presentation of our statement of financial position and our results of operations for the periods included in this quarterly report. The results for the three and six months ended August 31, 2009 are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending February 28, 2010.

Reclassifications

Certain amounts previously reported in the consolidated balance sheet as of February 28, 2009 and the consolidated statement of cash flows for the six months ended August 31, 2008 have been reclassified to conform to the current period classification.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the condensed consolidated financial statements, as well as the reported amounts of revenue and expenses during the periods presented. Significant estimates and assumptions made by management include the determination of the fair value of share-based payments, the fair value of purchased intangible assets, the recoverability of long-lived assets and the provision for income taxes. We believe that the estimates and judgments upon which we rely are reasonable, based upon information available to us at the time that these estimates and judgments are made. To the extent there are material differences between these estimates and actual results, our consolidated financial statements will be affected.

Revenue Recognition

We generate revenue from fees under agreements with initial terms that generally are one to three years in length. Our agreements contain multiple elements, which include the use of our software, SaaS delivery services, and professional services, as well as maintenance and customer support. Professional services consist of implementation, training, data and modeling, and analytical services related to our customers use of our software.

Because we provide our software as a service, we follow the provisions of SEC Staff Accounting Bulletin No. 104, *Revenue Recognition*, and Emerging Issues Task Force, or EITF, Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*, or EITF 00-21. We recognize revenue when all of the following conditions are met:

- there is persuasive evidence of an arrangement;
- access to the software service has been provided to the customer;
- the collection of the fees is probable; and
- the amount of fees to be paid by the customer is fixed or determinable.

In applying the provisions of EITF 00-21, we have determined that we do not have objective and reliable evidence of fair value for each element of our offering. As a result, the elements within our agreements do not qualify for treatment as separate units of accounting. Therefore, we account for all fees received under our agreements as a single unit of accounting and recognize them ratably over the term of the related agreement, commencing upon the later of the agreement start date or the date access to the software is provided to the customer.

Deferred Revenue

Deferred revenue consists of amounts billed or payments received in advance of revenue recognition. We generally invoice our customers in annual installments, although some multi-year agreements have had certain fees for all years invoiced and paid upfront. Contracts under which we advance bill customers are non-cancellable. Deferred revenue to be recognized in the succeeding twelve month period is included in current deferred revenue on our consolidated balance sheets with the remaining amounts included in non-current deferred revenue.

Concentrations of Credit Risk, Significant Customers and Suppliers and Geographic Information

Our financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities, accounts receivable, and a line of credit. Although we deposit our cash with multiple financial institutions, our deposits, at times, may exceed federally insured limits. Collateral is not required for accounts receivable.

As of August 31, 2009 and February 28, 2009, long-lived assets located outside the United States were not significant. As of August 31, 2009, one customer accounted for 23% of our accounts receivable balance, and as of February 28, 2009, one customer accounted for 15% of our accounts receivable balance.

In the three and six months ended August 31, 2009, one customer accounted for 17% and 15%, respectively, of total revenue. In the three and six months ended August 31, 2008, one customer accounted for 14% and 13%, respectively, of total revenue. Revenue by geographic region, based on the billing address of the customer, was as follows (in thousands):

	Three Months Ended August 31,		Six Months Ended August 31,	
	2009	**2008**	**2009**	**2008**
United States	$ 17,153	$ 16,070	$ 34,002	$ 31,499
International	2,643	2,562	5,339	5,187
Total revenue	$ 19,796	$ 18,632	$ 39,341	$ 36,686

The equipment hosting our software is in two third-party data center facilities located in California. We do not control the operation of these facilities, and our operations are vulnerable to damage or interruption in the event either of these third-party data center facilities fails.

Table of Contents

Impairment of Long-Lived Assets

We evaluate the recoverability of our long-lived assets, including purchased intangible assets and property and equipment, in accordance with Statement of Financial Accounting Standards, or SFAS, No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Long-lived assets are reviewed for possible impairment whenever events or circumstances indicate that the carrying amount of these assets may not be recoverable. We measure recoverability of each asset by comparison of its carrying amount to the future undiscounted cash flows we expect the asset to generate. If we consider the asset to be impaired, we measure the amount of any impairment as the difference between the carrying amount and the fair value of the impaired asset. We observed no impairment indicators through August 31, 2009.

Stock-Based Compensation

We account for employee and director stock-based compensation pursuant to the provisions of SFAS No. 123 (Revised 2004), *Share-Based Payment*, or SFAS No. 123(R), which requires that all share-based payments be recognized as an expense in the statement of operations based on their fair values over the vesting period. Grants of stock options to employees and to new members of our board of directors generally vest over four years and annual stock option grants to existing members of our board of directors vest over one year. Performance-based stock units, or PSUs, vest pursuant to certain performance and time-based vesting criteria set by our Compensation Committee. We evaluate the probability of meeting the performance criteria at the end of each reporting period to determine how much compensation expense to record. Because the actual number of shares to be issued is not known until the end of the performance period, the actual compensation expense related to these awards could differ from our estimates. Restricted stock units, or RSUs, vest solely pursuant to time-based vesting criteria set by our Compensation Committee. We measure the value of PSUs and RSUs at fair value on the measurement date, based on the number of units granted and the market value of our common stock on that date.

Net Loss per Common Share

We compute net loss per share in accordance with SFAS No. 128, *Earnings per Share*, or SFAS No. 128. Under the provisions of SFAS No. 128, basic net loss per share is computed using the weighted average number of common shares outstanding during the period except that it does not include unvested common shares subject to repurchase. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options or upon the settlement of PSUs and RSUs, shares subject to issuance under our 2007 Employee Stock Purchase Program, or ESPP, and unvested common shares subject to repurchase or cancellation. The dilutive effect of outstanding stock options, PSUs and RSUs, and shares subject to issuance under the ESPP is reflected in diluted loss per share by application of the treasury stock method and on an if-converted basis from the date of issuance. Because the Company has been in a loss position in all periods shown, shares used in computing basic and diluted net loss per common share were the same for the three and six months ended August 31, 2009 and 2008, as the impact of all potentially dilutive securities outstanding was anti-dilutive.

The following table presents the calculation of historical basic and diluted net loss per common share (in thousands, except per share data):

	Three Months Ended August 31,		Six Months Ended August 31,	
	2009	**2008**	**2009**	**2008**
Net loss	$ (3,145)	$ (1,568)	$ (6,867)	$ (2,602)
Weighted average number of common shares outstanding	28,536	27,223	28,348	26,973
Weighted average number of common shares subject to repurchase	(1)	(19)	(2)	(22)
Shares used in computing net loss per common share, basic and diluted	28,535	27,204	28,346	26,951

Net loss per common share, basic and diluted	$	(0.11)	$	(0.06)	$	(0.24)	$	(0.10)

The following weighted average outstanding shares subject to options to purchase common stock, PSUs and RSUs, shares subject to issuance under the ESPP, and common stock subject to repurchase were excluded from the computation of diluted net loss per common share for the periods presented because including them would have had an anti-dilutive effect (in thousands):

8

Table of Contents

	Three Months Ended August 31,		Six Months Ended August 31,	
	2009	2008	2009	2008
Shares subject to options to purchase common stock, PSUs and RSUs, and shares subject to issuance under the ESPP	4,084	4,690	4,002	4,659
Common stock subject to repurchase	1	19	2	22
Total	4,085	4,709	4,004	4,681

New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board, or FASB, launched the FASB Accounting Standards Codification, or the Codification, as the single source of authoritative U.S. GAAP recognized by the FASB. The Codification reorganizes various U.S. GAAP pronouncements into accounting topics and displays them using a consistent structure. All existing accounting standards documents are superseded as described in SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, or SFAS No. 168. All of the contents of the Codification carry the same level of authority, effectively superseding SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, which identified and ranked the sources of accounting principles and the framework for selecting the principles used in preparing financial statements in conformity with U.S. GAAP. Also included in the Codification are rules and interpretive releases of the SEC, under authority of federal securities laws that are also sources of authoritative U.S. GAAP for SEC registrants. The Codification is effective for interim and annual periods ending after September 15, 2009. The Codification will have no impact on our financial statements other than changing the way specific accounting standards are referenced in our condensed consolidated financial statements.

Recently Adopted Accounting Pronouncements

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, or SFAS No. 165, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. SFAS No. 165 requires an entity to recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet. For unrecognized subsequent events that must be disclosed to keep the financial statements from being misleading, an entity will be required to disclose the nature of the event as well as an estimate of its financial effect, or a statement that such an estimate cannot be made. In addition, SFAS No. 165 requires an entity to disclose the date through which subsequent events have been evaluated. SFAS No. 165 is effective for the interim or annual financial periods ending after June 15, 2009, and is required to be applied prospectively. We adopted the provisions of SFAS No. 165 in the quarter ended August 31, 2009. Our adoption of SFAS No. 165 had no impact on our condensed consolidated financial statements.

In April 2009, the FASB issued three FASB Staff Positions, or FSPs, that are intended to provide additional application guidance and enhance disclosures about fair value measurements and impairments of securities. FSP No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, or FSP 157-4, clarifies the objective and method of fair value measurement even when there has been a significant decrease in market activity for the asset being measured. FSP No. 115-2 and FSP No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, establish a new model for measuring other-than-temporary impairments for debt securities, including criteria for when to recognize a write-down through earnings versus other comprehensive income. FSP No. 107-1 and APB 28-1, *Interim Disclosures About Fair Value of Financial Instruments*, expand the fair value disclosures required for all financial instruments within the scope of SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, to interim periods. All of these FSPs are effective for interim and annual periods ending after June 15, 2009. We adopted these FSPs in the quarter ended August 31, 2009. Our adoption of these FSPs had no impact on our condensed consolidated financial statements.

In November 2008, the FASB ratified EITF 08-7, *Accounting for Defensive Intangible Assets*, or EITF 08-7, which applies to purchased intangible defensive assets that the acquirer does not intend to actively use, but intends to hold to prevent its competitors from obtaining access to the asset. EITF 08-7 clarifies that defensive intangible assets are separately identifiable and should be accounted for as a separate unit of accounting in accordance with SFAS No. 141(R) and SFAS No. 157, *Fair Value Measurements*. EITF 08-7 is effective for intangible assets purchased in fiscal years beginning on or after December 15, 2008. We adopted EITF 08-7 in March 2009. Our adoption of EITF 08-7 did not impact our current condensed consolidated financial statements, but may change the accounting treatment associated with business combinations on a prospective basis.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets,* or FSP 142-3, which amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. We adopted FSP 142-3 in March 2009 and there was no impact on our condensed consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*, or SFAS No. 141(R), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree in a business combination. SFAS No. 141(R) also establishes principles around how goodwill acquired in a business combination or a gain from a bargain purchase should be recognized and measured, as well as provides guidelines on the disclosure requirements on the nature and financial impact of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. In April 2009, the FASB issued FSP No.1 41(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that Arise From Contingencies*, or FSP 141(R)-1, which amends SFAS No. 141(R) by establishing a model to account for certain pre-acquisition contingencies. Under the FSP 141(R)-1, an acquirer is required to recognize at fair value an asset acquired or a liability assumed, which arises from a contingency, in a business combination, if the acquisition-date fair value of that asset or a liability assumed can be determined during the measurement period. If the acquisition-date fair value cannot be determined, then the acquirer should follow the recognition criteria in SFAS No. 5, *Accounting for Contingencies*, and FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss an interpretation of FASB Statement No. 5*. FSP 141(R)-1 has the same effective date as SFAS No. 141(R). We adopted SFAS No. 141(R) and FSP 141(R)-1 in March 2009. Because we did not complete any business combination activities in the six months ended August 31, 2009, the adoption of SFAS No. 141(R) and FSP 141(R)-1 did not impact our current condensed consolidated financial statements, but will change the accounting treatment for business combinations on a prospective basis. The adoption of SFAS No. 141(R) for future business combinations will result in the recognition of certain types of expenses in our results of operations that are currently capitalized pursuant to existing accounting standards, among other potential impacts.

2. Acquisition

In February 2009, we acquired all of the issued and outstanding capital stock of privately-held Connect3 Systems, Inc., or Connect3, a provider of advertising planning and execution software, for a purchase price of approximately $13.5 million, which consisted of $13.3 million cash consideration and $201,000 of acquisition costs. We paid approximately $11.3 million of the consideration in March 2009, and paid an additional $1.0 million in August 2009 that had been withheld to secure certain indemnification obligations. The remaining $1.0 million, less any amounts used to satisfy any claims for indemnification that we may make for certain breaches of representations, warranties and covenants, will be distributed to the former Connect3 shareholders in June 2010.

We recorded the assets acquired and liabilities assumed at fair market value in accordance with SFAS No. 141, *Business Combinations*. In allocating the purchase price based on estimated fair values, we preliminarily recorded approximately $11.4 million of goodwill, $4.7 million of identifiable intangible assets, $2.7 million of net liabilities, and $150,000 of in-process research and development. Although we believe the purchase price allocation is substantially complete, the finalization of certain reorganization costs or the settlement of tax-related issues, for example, could result in an adjustment to the allocation. In the six months ended August 31, 2009, we increased goodwill by $170,000 as a result of an increase in the estimated effort required to complete obligations under purchased in-progress customer contracts. The results of operations related to this acquisition are included in our consolidated financial statements from the date of acquisition. Pro forma results of the acquired business have not been presented as they were not material to our consolidated financial statements for all periods presented.

3. Balance Sheet Components

Marketable Securities

Marketable securities consisted of the following as of the dates indicated (in thousands):

	As of August 31, 2009
	Gross

	Amortized Cost Basis	Unrecognized Holding Gains	Aggregate Fair Value
Commercial paper	$ 1,499	$	$ 1,499
Corporate bonds	5,695	33	5,728
Obligations of Government-Sponsored Enterprises (GSEs)	35,508	54	35,562
	$ 42,702	$ 87	$ 42,789

Table of Contents

	As of February 28, 2009			
	Amortized Cost Basis	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	Aggregate Fair Value
Commercial paper	$ 6,291	$ 2	$	$ 6,293
Corporate bonds	12,314	41	(10)	12,345
Obligations of GSEs	23,724	102	(10)	23,816
Treasury bills	11,983	14		11,997
	$ 54,312	$ 159	$ (20)	$ 54,451

Historically, all investments have been held to maturity, and thus, there were no gains or losses recognized during the periods presented. At August 31, 2009 and February 28, 2009, we held no auction rate or asset-backed securities and all securities mature within one year. We have the ability and intent to hold these investments to maturity and do not believe any of the marketable securities are impaired based on our evaluation of available evidence as of August 31, 2009 and through the time of filing of this Quarterly Report on Form 10-Q. We expect to receive all principal and interest on all of our investment securities.

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following as of the date indicated (in thousands):

	As of August 31, 2009	As of February 28, 2009
Accounts payable	$ 2,959	$ 2,822
Accrued professional services	828	640
Income taxes payable	39	50
Other accrued liabilities	1,797	1,837
Accrued compensation	6,541	7,613
Total accounts payable and accrued expenses	$ 12,164	$ 12,962

4. Goodwill and Purchased Intangible Assets

Goodwill

We record goodwill as the excess of the acquisition purchase price over the fair value of the tangible and identifiable intangible assets acquired. At August 31, 2009 and February 28, 2009, we had $16.7 million and $16.5 million, respectively, of goodwill from our acquisitions of Connect3 in February 2009 and TradePoint Solutions, Inc., or TradePoint, in November 2006. In accordance with SFAS No. 142, we do not amortize goodwill, but perform an annual impairment review during our third fiscal quarter, or more frequently if indicators of potential impairment arise. Following the criteria of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, and SFAS No. 142, we have a single operating segment and consequently evaluate goodwill for impairment based on an evaluation of the fair value of our company as a whole. We evaluated our goodwill in November 2008 and recognized no impairment charges as a result of the review. We observed no impairment indicators through August 31, 2009.

Purchased Intangible Assets

We record purchased intangible assets at their respective estimated fair values at the date of acquisition. Intangible assets are being amortized on a straight-line basis over a remaining weighted average period of 2.3 years.

Amortization expense related to the purchased intangible assets was approximately $1.1 million and $2.1 million in the three and six months ended August 31, 2009, respectively, and approximately $484,000 and $725,000 in the three and six months ended August 31, 2008, respectively. We evaluate the remaining useful lives of intangible assets on a periodic basis to determine whether events or circumstances warrant a revision to the remaining estimated amortization period. We observed no impairment indicators through August 31, 2009.

5. Commitments and Contingencies

Commitments

At August 31, 2009, we had a $200,000 irrevocable letter of credit outstanding in connection with a non-cancelable operating lease commitment to our landlord that automatically renews until the lease expires in February 2010. We secured the letter of credit using our existing revolving line of credit, as described in Note 6. In September 2009, an additional irrevocable letter of credit in the amount of approximately $917,000 was issued in connection with a new operating lease agreement. See Note 13.

Legal Proceedings

We are from time to time involved in legal matters that arise in the normal course of business. Based on information currently available, we do not believe that the ultimate resolution of any current matters, individually or in the aggregate, will have a material adverse effect on our business, financial condition or results of operations.

6. Debt

In connection with our acquisition of TradePoint in November 2006, we issued a $1.8 million promissory note to former TradePoint shareholders. At August 31, 2009, $434,000 remained outstanding and payable thereunder, awaiting instructions by the former TradePoint shareholders as to how to allocate and distribute the proceeds.

In May 2009, we amended our revolving line of credit that we had entered in April 2008 with a financial institution to, among other things, extend the maturity date of the loan agreement and to increase the revolving line of credit from $15.0 million to $20.0 million. The amended revolving line of credit can be used to (a) borrow revolving loans, (b) issue letters of credit, and (c) enter into foreign exchange contracts. Revolving loans may be borrowed, repaid, and reborrowed until May 2012. Amounts borrowed will bear interest, at our option at the time of borrowing, at either (1) a floating per annum rate equal to the financial institution s prime rate, or (2) the greater of (A) the LIBOR rate plus 250 basis points or (B) a per annum rate equal to 4.0%. A default interest rate shall apply during an event of default at a rate per annum equal to 500 basis points above the otherwise applicable interest rate. The line of credit is collateralized by substantially all of our assets and requires us to comply with working capital, net worth, and other non-financial covenants, including limitations on indebtedness and restrictions on dividend distributions, among others. In May 2009, the available balance was reduced by $200,000 to $19.8 million to secure a non-cancelable operating lease commitment. In September 2009, the available balance was further reduced by approximately $917,000 to approximately $18.9 million to secure a new operating lease commitment. Throughout the period ended August 31, 2009, we were in compliance with all loan covenants and we had no outstanding borrowings under the line of credit.

7. Stock-Based Compensation

Equity Incentive Plans

1999 Equity Incentive Plan

In December 1999, our Board of Directors adopted the 1999 Equity Incentive Plan (the 1999 Plan). We ceased issuing awards under the 1999 Plan upon the completion of our Initial Public Offering, or IPO, in August 2007. The 1999 Plan provided for incentive or nonstatutory stock options, stock bonuses, and rights to acquire restricted stock to be granted to employees, outside directors, and consultants. As of August 31, 2009, options to purchase 4,972,685 shares were outstanding under the 1999 Plan. Such options are exercisable as specified in each option agreement, generally vest over four years, and expire no more than ten years from the date of grant. If options awarded under the 1999 Plan are forfeited or repurchased, then shares underlying those options will no longer be available for awards.

2007 Equity Incentive Plan

In May 2007, our Board of Directors adopted, and in July 2007 our stockholders approved, the 2007 Equity Incentive Plan (the 2007 Plan). The 2007 Plan became effective upon our IPO. The 2007 Plan, which is administered by the Compensation Committee of our Board of Directors, provides for stock options, stock units, restricted shares, and stock appreciation rights to be granted to employees, non-employee directors and consultants. We initially reserved 3.0 million shares of our common stock for issuance under the 2007 Plan. In addition, on the first day of each fiscal year commencing with fiscal year 2009, the aggregate number of shares reserved for issuance under the 2007 Plan automatically increases by a number equal to the lowest of a) 5% of the total number of shares of common stock then outstanding, b) 3,750,000 shares, or c) a number determined by our Board of Directors.

Stock Options

Options granted under the 2007 Plan may be either incentive stock options or nonstatutory stock options and are exercisable as determined by the Compensation Committee and as specified in each option agreement. Options vest over a period of time as determined by the Compensation Committee, generally four years, and generally expire seven years (but in any event no more than ten years) from the date of grant. The exercise price of any stock option granted under the 2007 Plan may not be less than the fair market value of our common stock on the date of grant. The term of the 2007 Plan is ten years.

Performance Stock Units (PSUs)

PSUs are awards under the 2007 Plan that entitle the recipient to receive shares of our common stock upon vesting and settlement of the awards pursuant to certain performance and time-based vesting criteria set by our Compensation Committee.

In August 2007, our Compensation Committee granted 1,000,000 PSUs to certain of our executive officers and other key employees. These PSU grants are divided into two tranches. The first tranche consisted of 30% of each grant, and related to fiscal 2008 company performance and subsequent individual service requirements. The second tranche consisted of the remaining 70% of each grant, and related to fiscal 2009 company performance and subsequent individual service requirements. These PSUs may vest over a period of up to 29 months ending on January 15, 2010. As of August 31, 2009, there were 167,792 shares subject to outstanding PSUs from the August 2007 grant.

In March 2008, our Compensation Committee granted 160,000 PSUs to our chief executive officer. This PSU grant consisted of a single tranche and related to fiscal 2009 company performance metrics and subsequent individual service requirements. As of August 31, 2009, there were 52,000 shares subject to outstanding PSUs from the March 2008 grant.

In May and June 2009, our Compensation Committee granted 901,000 and 25,000 PSUs, respectively, to certain of our executive officers and other employees. These PSU grants consisted of a single tranche and related to fiscal 2010 company performance objectives and subsequent individual service requirements over a period of up to 23 months, subject to each grantee s continued service. As of August 31, 2009, there were 924,500 shares subject to outstanding PSUs from the May and June 2009 grants.

Restricted Stock Units (RSUs)

RSUs are awards under the 2007 Plan that entitle the recipient to receive shares of our common stock upon vesting and settlement of the awards pursuant to time-based vesting criteria set by our Compensation Committee. In the fiscal quarter ended May 31, 2008, our Compensation Committee granted 545,900 RSUs to our executive officers and certain other employees. All of these RSUs will vest on April 15, 2010, subject to each grantee s continued service. As of August 31, 2009, there were 491,850 shares subject to outstanding RSUs.

A summary of the activity for the six months ended August 31, 2009 under our 1999 Plan and 2007 Plan follows:

	Shares Available for Grant	**Shares Subject to Options Outstanding**	**Weighted Average Option Exercise Price per Share**
		(Shares in thousands)	
Balance at February 28, 2009	604	7,732	$ 5.20
Additional shares authorized	1,403		
Options granted	(383)	383	8.06
Performance stock units granted	(926)		
Options exercised		(404)	2.10
1999 Plan options cancelled/forfeited (1)		(61)	6.83
2007 Plan options cancelled/forfeited	122	(122)	9.61
Performance and restricted stock units cancelled/forfeited	248		

Balance at August 31, 2009	1,068	7,528	5.43

(1) Under the terms of the 1999 Plan, shares underlying cancelled or forfeited options are no longer available for awards.

13

Table of Contents

Employee Stock Purchase Plan (ESPP)

In May 2007 our Board of Directors adopted, and in July 2007 our stockholders approved, the 2007 Employee Stock Purchase Plan. Under the ESPP, eligible employees may purchase shares of common stock at a price per share equal to 85% of the lesser of the fair market values of our common stock at the beginning or end of the applicable offering period. The initial offering period commenced on August 8, 2007 and ended on April 15, 2008. Each subsequent offering period lasts for six months. We initially reserved 500,000 shares of our common stock for issuance under the ESPP. In addition, on the first day of each fiscal year commencing with fiscal year 2009, the aggregate number of shares reserved for issuance under the ESPP shall automatically increase by a number equal to the lowest of a) 1% of the total number of shares of common stock then outstanding, b) 375,000 shares, or c) a number determined by our Board of Directors. As of August 31, 2009, a total of 807,118 shares were available for issuance under the ESPP.

Stock-Based Compensation Expense Associated with Awards to Employees

We have issued employee stock-based awards in the form of stock options, PSUs, RSUs, and shares subject to the ESPP. We measure the value of stock options and shares subject to the ESPP based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). We measure the value of the PSUs and RSUs at fair value on the measurement date, based on the number of units granted and the market value of our common stock on that date. The fair value of the PSUs granted in August 2007, March 2008, May 2009, and June 2009 was approximately $10.0 million, $1.7 million, $6.8 million, and $239,000, respectively, and the total fair value of the RSUs granted in the six months ended August 31, 2009 was approximately $5.7 million.

We amortize the fair value, net of estimated forfeitures, as stock-based compensation expense on a straight-line basis over the vesting period. In the three months ended August 31, 2009 and 2008, we recognized total stock-based compensation expenses of approximately $2.8 million and $2.2 million, respectively. In the six months ended August 31, 2009 and 2008, we recognized total stock-based compensation expenses of approximately $5.3 million and $4.0 million, respectively. We estimate forfeitures for our stock options, PSUs, and RSUs at the time of grant. At the end of each reporting period, we evaluate the probability of the service condition being met and revise those estimates based on actual results, taking into account cancellations related to terminations, as applicable to each award. In addition, for PSUs granted, we evaluate the probability of meeting the performance criteria at the end of each reporting period to determine how much compensation expense to record. The estimation of whether the performance targets and service periods will be achieved requires judgment. To the extent actual results or updated estimates differ from our current estimates, either (a) the cumulative effect on current and prior periods of those changes will be recorded in the period those estimates are revised, or (b) the change in estimate will be applied prospectively. In each of the three months ended May 31, 2008 and August 31, 2008, we recorded cumulative effect adjustments that resulted in a decrease to stock-based compensation expense of approximately $940,000 and $253,000, respectively. In the three months ended August 31, 2009, we recorded cumulative effect adjustments which resulted in a decrease to stock-based compensation expense of approximately $80,000. There was no such adjustment in the three months ended May 31, 2009.

We use the Black-Scholes pricing model to determine the fair value of our stock options and ESPP shares. The determination of the fair value of stock-based awards on the date of grant using this pricing model is affected by our stock price as well as by assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the options and awards, actual and projected employee stock option exercise behaviors, risk-free interest rates, and expected dividends. The grant date fair value of PSUs and RSUs, and the estimated grant date fair values of the employee and non-employee director stock options and ESPP shares, as well as the assumptions used to calculate them, are set forth in the table below:

	Weighted Average Expected	**Expected Stock**	**Risk-free**	**Expected**	**Weighted Average per Share Fair Value of Options/FMV of**

	Term (in years)	Price Volatility	Interest Rate	Dividend Yield	Awards Granted During the Period
***Three months ended August 31, 2009* (1)**					
Stock options	4.3	66%	2.1%	0%	$ 4.60
PSUs	n/a	n/a	n/a	n/a	$ 9.55
***Three months ended August 31, 2008* (1)(2)**					
Stock options	4.2	53%	2.8%	0%	$ 4.03
***Six months ended August 31, 2009* (2)**					
Stock options	4.3	65%	1.9%	0%	$ 4.10
PSUs	n/a	n/a	n/a	n/a	$ 7.64
ESPP	0.5	95%	0.3%	0%	$ 3.08
Six months ended August 31, 2008					
Stock options	4.2	46%	3.0%	0%	$ 3.73
PSUs	n/a	n/a	n/a	n/a	$ 10.37
RSUs	n/a	n/a	n/a	n/a	$ 10.40
ESPP	0.5	43%	2.0%	0%	$ 1.94

(1) No ESPP shares were issued in the three months ended August 31, 2009 and 2008.

(2) No RSUs were granted in the six months ended August 31, 2009, and no RSUs and PSUs were granted in the three months ended August 31, 2008.

The following table summarizes gross unrecognized stock-based compensation expenses as of August 31, 2009, excluding estimated forfeitures, related to unvested stock options granted after March 1, 2006, PSUs, and RSUs:

	Unrecognized Stock-Based Compensation (in millions)	Remaining Weighted Average Recognition Period (in years)
Stock options granted after March 1, 2006	$ 10.0	2.4
PSUs	3.6	1.1
RSUs	1.7	0.6
	$ 15.3	1.9

As of August 31, 2009, approximately $80,000 of unrecognized compensation expense related to our ESPP offering period that began April 16, 2009 was expected to be recognized through the end of the offering period ending October 15, 2009.

8. Income Taxes

In the three and six months ended August 31, 2009, we recorded income tax expense of approximately $8,000 and $27,000, respectively, compared to $12,000 and $92,000 in the corresponding periods of the prior year. The effective tax rate for the three and six months ended August 31, 2009 was less than 1% based on our estimated taxable income for the year. We recorded tax expense primarily for state minimum taxes and foreign taxes. The income tax expense in the corresponding period of the prior year was for federal alternative minimum income taxes, state income taxes in states where we have no net operating loss carryforwards, and foreign taxes.

We record liabilities related to uncertain tax positions in accordance with the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of SFAS No. 109, *Accounting for Income Taxes*. There were no material changes to our unrecognized tax benefits in the three and six months ended August 31, 2009 and we do not expect to have any significant changes to unrecognized tax benefits over the next twelve months.

Because of our history of operating losses, all years remain open to audit.

9. Derivative Financial Instruments

We maintain a foreign currency risk management strategy that includes the use of derivative financial instruments designed to protect our economic value from the possible adverse effects of currency fluctuations. We do not enter into derivative financial instruments for speculative or trading purposes. To receive hedge accounting treatment under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, or SFAS No. 133, our hedging relationships are formally documented at the inception of the hedge, and the hedges must be highly effective in offsetting changes to future cash flows on hedged transactions both at the inception of the hedge and on an ongoing basis. We record the ineffective portion of the hedging instruments, if any, to other income (expense), net in the condensed consolidated statements of operations.

In July 2008, we entered into two foreign currency forward contracts (forward contracts) to reduce our exposure in Euro denominated accounts receivable. We designated these forward contracts as cash flow hedges of foreign currency denominated firm commitments. Our objective in purchasing these forward contracts was to negate the impact of currency exchange rate movements on our operating results. We record effective spot-to-spot changes in these cash flow hedges in accumulated other comprehensive income until the hedged transaction takes place. One of our forward contracts matured and was settled in May 2009 (the May 2009 Forward Contract); the other matures in May 2010 (the May 2010 Forward Contract). The May 2010 Forward Contract has a notional principal of 1.2 million (or approximately $1.8 million). As of August 31, 2009, the fair value of the May 2010 Forward Contract

Table of Contents

was approximately $118,000 and was included in other current assets, net on our condensed consolidated balance sheet. As of February 28, 2009, the fair value of our forward contracts was approximately $642,000, of which $335,000 and $307,000 was included in other current assets and other assets, net on our consolidated balance sheet, respectively.

The following table sets forth the change in the accumulated other comprehensive income associated with our forward contracts for the six months ended August 31, 2009 (in thousands):

	Net Unrealized Gain on Forward Contracts	Cumulative Implied Interest on Forward Contracts	Gain Reclassified from Accumulated Other Comprehensive Income Into Revenue	Accumulated Other Comprehensive Income
Balance at February 28, 2009	$ 642	$ 40	$	$ 682
Gain reclassified from accumulated comprehensive income into revenue			(34)	(34)
Change in net unrealized gain and cumulative implied interest on forward contracts	(284)	23		(261)
Balance at August 31, 2009	$ 358	$ 63	$ (34)	$ 387

In the three months ended August 31 2009, we reclassified $34,000 of the cumulative net unrealized gain associated with the May 2009 Forward Contract from accumulated other comprehensive income into revenue. We expect to reclassify approximately $237,000 remaining net unrealized gains associated with the May 2009 Forward Contract from accumulated other comprehensive income ratably into revenue over the next 21 months.

Combined implied interest of approximately $85,000 on both forward contracts was excluded from effectiveness testing, in accordance with SFAS No. 133, and is being recorded using the straight line method over the terms of the forward contracts to interest expense and accumulated other comprehensive income. We did not incur any hedge ineffectiveness on our forward contracts in the three and six months ended August 31, 2009.

10. Fair Value Measurements

Effective March 1, 2008, we adopted SFAS No. 157, *Fair Value Measurements*, or SFAS No. 157, which clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, SFAS No. 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

In accordance with SFAS No. 157, we measure our foreign currency forward contracts at fair value using Level 2 inputs, as the valuation inputs are based on quoted prices of similar instruments in active markets and do not involve management judgment.

The following table summarizes the amounts measured at fair value as of August 31, 2009 (in thousands):

Description	Total	Significant Other Observable Inputs (Level 2)
Assets:		
Foreign currency forward contracts(1)	$118	$ 118

(1) Included in other current assets, net on our condensed consolidated balance sheet.

Table of Contents

11. Comprehensive Loss

The following table summarizes the calculation and components of comprehensive loss, net of taxes (in thousands):

	Three Months Ended August 31,		Six Months Ended August 31,	
	2009	2008	2009	2008
Net loss	$ (3,145)	$ (1,568)	$ (6,867)	$ (2,602)
Gain reclassified from accumulated comprehensive income into revenue	(34)		(34)	
Change in net unrealized gain and cumulative implied interest on forward contracts	(17)	249	(261)	249
Total comprehensive loss	$ (3,196)	$ (1,319)	$ (7,162)	$ (2,353)

12. Restructuring Charges

In the six months ended August 31, 2009, we recorded approximately $278,000 of expenses associated with the reduction of our workforce as a result of synergies gained through the acquisition of Connect3 and an office closure. Expenses associated with these actions were primarily for severance payments, outplacement services, and the remaining office lease obligation. All of the expenses associated with the restructuring have been paid as of August 31, 2009.

13. Subsequent Events

In September 2009, we entered into a lease agreement for office space in San Mateo, California that we intend to use as our new corporate headquarters. The term of the lease runs from December 1, 2009 through November 30, 2017, subject to our right to terminate the lease upon payment of certain termination fees effective as of November 30, 2014. The aggregate minimum lease commitment under the lease is approximately $10.1 million. We have provided the lessor a $223,000 cash security deposit and a $917,000 letter of credit to secure our obligations under the lease. The lessor has provided us with a tenant improvement allowance up to $265,000, and has agreed to assume approximately $200,000 of our remaining payment obligations under the existing sublease for our current corporate headquarters in San Carlos, California.

In addition, in September 2009, we entered into equipment and facility operating leases associated with our new data center in Mesa, Arizona. The aggregate future minimum lease payments are approximately $1.5 million.

We have evaluated subsequent events through the time of filing this Quarterly Report on Form 10-Q. Other than as described above, we are not aware of any significant events that occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on our condensed consolidated financial statements, or that required recognition or disclosure in our condensed consolidated financial statements.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. In addition, we may make other written and oral communications from time to time that contain such statements. Forward-looking statements include statements as to industry trends and future expectations of ours and other matters that do not relate strictly to historical facts. These statements are often identified by the use of words such as may, will, expect, believe, anticipate, intend, could, estimate, or continue, and similar expressions or variations. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. These forward-looking statements include statements in this Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled Risk Factors included elsewhere in this

Form 10-Q and in our other Securities and Exchange Commission filings, including our Annual Report on Form 10-K for the fiscal year ended February 28, 2009. Furthermore, such forward-looking statements speak only as of the date of this report. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes thereto appearing elsewhere in this Form 10-Q and with the consolidated financial statements and notes thereto and management s discussion and analysis of financial condition and results of operations appearing in our Annual Report on Form 10-K for the fiscal year ended February 28, 2009.

Table of Contents

Overview

We are a leading provider of on-demand optimization solutions to retailers and consumer products, or CP, companies. Our software services enable retailers and CP companies to define category, brand, and customer strategies based on a scientific understanding of consumer behavior and make actionable pricing, promotion, assortment, space and other merchandising and marketing recommendations to achieve their revenue, profitability and sales volume objectives. We deliver our applications by means of a software-as-a-service, or SaaS, model, which allows us to capture and analyze the most recent retailer and market-level data and enhance our software services rapidly to address our customers ever-changing merchandising, sales, and marketing needs.

Our solutions consist of software services and complementary analytical services, and analytical insights derived from the same platform that supports our software services. We offer our solutions individually or as a suite of integrated software services. Our solutions for the retail and CP industries include DemandTec Lifecycle Price Optimization(TM), DemandTec End-to-End Promotion Management(TM), DemandTec Assortment & Space(TM), DemandTec Targeted Marketing(TM) and DemandTec Trade Effectiveness(TM). The DemandTec TradePoint Network(TM) connects our solutions for the retail and CP industries. We were incorporated in November 1999 and began selling our software in fiscal 2001. Our revenue has grown from $9.5 million in fiscal 2004 to $75.0 million in fiscal 2009, and was $39.3 million for the six months ended August 31, 2009. Our operating expenses have also increased significantly during these same periods. We have incurred losses to date and had an accumulated deficit of approximately $84.2 million at August 31, 2009.

We sell our software to retailers and CP companies under agreements with initial terms that generally are one to three years in length and provide a variety of services associated with our customers use of our software. We recognize the revenue we generate from each agreement ratably over the term of the agreement. Our revenue growth depends on our attracting new customers, renewing existing agreements, and selling add-on software services to existing customers. Our ability to maintain or increase our rate of growth will be directly affected by the continued acceptance of our software in the marketplace, as well as the timing, size and term length of our customer agreements.

Our software service agreements with retailers and CP companies are often large contracts that generally are one to three years in length. The annual contract value for each retail and CP company customer agreement is largely related to the size of the customer, and therefore, the average contract value can fluctuate from period to period. These retail and CP customer agreements can create significant variability in the aggregate annual contract value of customer agreements signed in any given fiscal quarter. Our Advanced Deal Management agreements with CP companies that leverage the DemandTec TradePoint Network are principally one year in length and much smaller in annual and aggregate contract value than our other CP company customer software services contracts and our retail contracts. In many of our prior fiscal years, the agreements we have signed in the first fiscal quarter of such fiscal year have had an aggregate annual contract value less than that of the agreements signed in the preceding fiscal fourth quarter. In addition, the aggregate contract value of agreements signed can fluctuate significantly on a quarterly basis within any given fiscal year. A significant percentage of our new customer agreements are entered into during the last month, weeks, or even days of each quarter-end**.**

We are headquartered in San Carlos, California, and have sales and marketing offices in North America and Europe. In September 2009, we entered into a lease agreement for office space in San Mateo, California that we intend to use as our new corporate headquarters. We sell our software through our direct sales force and receive a number of customer prospect introductions through third-parties such as systems integrators and a data syndication company. In the six months ended August 31, 2009, approximately 86% of our revenue was attributable to sales of our software to companies located in the United States. Our ability to achieve profitability will be affected by our revenue as well as our other operating expenses associated with growing our business. Our largest category of operating expenses is research and development expenses, and the largest component of our operating expenses is personnel costs.

During fiscal 2009 and the first half of fiscal 2010, the economic environment has deteriorated compared to prior periods and has resulted in the signing of some new and renewal customer contracts taking longer, some customers or potential customers not entering into new or renewal contracts, and some customers renewing at lower prices. We have not seen any noticeable improvement in sales cycles, although there are indications from customers and prospects that interest in our products and services remains high. We currently have little evidence to suggest that the macro environment will improve in the near term. The magnitude of the economic downturn s impact on our future revenue growth rates is currently unknown. Accordingly, our cash flow generation will continue to remain challenging and unpredictable.

In February 2009, we acquired Connect3 Systems, Inc., a provider of advertising planning and execution software. The Connect3 product suite, which Connect3 offered on an installed, behind-the-firewall basis, is being replatformed into the DemandTec End-to-End Promotion Management(TM) solution, which supports retailers end-to-end promotion planning process. The aggregate purchase price was approximately $13.5 million, of which $12.5 million was paid during the six months ended August 31, 2009. In addition, we paid off approximately $1.3 million of notes payable held by a former Connect3 officer. We will amortize intangible assets associated with the Connect3 acquisition over one to two and a half years on a straight-line basis, which, absent any impairment, will result in amortization expense of approximately $2.3 million, $1.8 million, and $626,000 in fiscal 2010, 2011, and 2012, respectively.

In the six months ended August 31, 2009, we announced the planned introduction of our nextGEN strategy, which combines category, brand and shopper insights to provide customers a unified understanding of shopper behavior and the ability to leverage those insights to make better business decisions on pricing, promotion, assortment and collaboration with their vendors.

In the six months ended August 31, 2009, we recorded approximately $278,000 of expense associated with the reduction of our workforce as a result of synergies gained through the acquisition of Connect3 and an office closure. We expect to incur additional restructuring costs associated with an office consolidation in the remainder of fiscal 2010.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States. These accounting principles require us to make certain estimates and judgments that can affect the reported amounts of assets and liabilities as of the date of our consolidated financial statements, as well as the reported amounts of revenue and expenses during the periods presented. We believe that our estimates and judgments were reasonable based upon information available to us at the time that these estimates and judgments were made. On an ongoing basis, we evaluate our estimates and judgments. To the extent that there are material differences between these estimates and actual results, our consolidated financial statements could be adversely affected. The accounting policies that we believe reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Revenue Recognition

Stock-Based Compensation

Goodwill and Intangible Assets

Impairment of Long-Lived Assets

In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management s judgment in its application. There are also areas in which management s judgment in selecting among available accounting policy alternatives would not produce a materially different result.

During the three and six months ended August 31, 2009, there were no significant changes in our critical accounting policies. During each of the three month periods ended May 31, 2008, August 31, 2008 and August 31, 2009, we changed our estimate of the number of shares expected to vest in calculating stock-based compensation expense. Please refer to Note 7 of Notes to Consolidated Financial Statements included herein for a more complete discussion of the changes in estimates. Also, please refer to Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the fiscal year ended February 28, 2009 and Note 1 of Notes to Consolidated Financial Statements included herein for a more complete discussion of our critical accounting policies and estimates.

Results of Operations

Revenue

We derive all of our revenue from customer agreements that cover the use of our software and various services associated with our customers use of our software. We recognize all revenue ratably over the term of the agreement. Our agreements are generally non-cancelable, but customers typically have the right to terminate their agreement for cause if we materially breach our obligations under the agreement and, in certain situations, may have the ability to extend the duration of their agreement on pre-negotiated terms. We invoice our customers in accordance with contractual terms, which generally provide that our customers are invoiced in advance for annual use of our software.

We generally provide certain implementation services on a fixed fee basis and invoice our customers in advance. In addition, we also provide implementation and training services on a time and materials basis and invoice our customers monthly in arrears. Our payment terms typically require our customers to pay us within 30 days of the invoice date.

	Three Months Ended August 31,		**Six Months Ended August 31,**	
	2009	**2008**	**2009**	**2008**
	(in thousands)			
Revenue	$19,796	$18,632	$39,341	$36,686

Table of Contents

Three and Six Months Ended August 31, 2009 Compared to the Three and Six Months Ended August 31, 2008. Revenue for the three and six months ended August 31, 2009 increased approximately $1.2 million and $2.7 million, or 6.2% and 7.2%, respectively, over the corresponding periods of the prior year.

Revenue from new customers was approximately $1.0 million and $1.9 million in the three and six months ended August 31, 2009, respectively, and revenue from existing customers increased approximately $180,000 and $791,000 in the three and six months ended August 31, 2009 over the corresponding periods of the prior year. New customers are those that did not contribute any revenue in the three and six months ended August 31, 2008. Existing customers are those that contributed revenue in each of the periods presented. Our revenue growth depends on our ability to attract new customers and to retain the existing revenues from our current customers over time. During fiscal 2009 and the first half of fiscal 2010, the economic environment has deteriorated compared to prior periods and has resulted in the signing of some new and renewal customer contracts taking longer, some customers or potential customers not entering into new or renewal contracts, and some customers renewing at lower prices. The deteriorating economic environment has had an adverse impact on our revenue growth rates. The magnitude of its impact on our future revenue growth rates and/or upon the revenue contribution between our existing and new customers is currently unknown.

In the three and six months ended August 31, 2009, revenue from customers located outside the United States represented 13% and 14%, respectively, of revenue compared to 14% in each of the corresponding periods of the prior year. We expect that, in the future, revenue from customers outside the United States will increase as a percentage of total revenue on an annual basis.

In both of the three and six months periods ended August 31, 2009, revenue from retail customers represented 82% of revenue and revenue from CP companies represented 18% of revenue. In the three and six months ended August 31, 2008, revenue from retail customers represented 85% and 86%, respectively, of revenue and revenue from CP companies represented 15% and 14%, respectively, of revenue. In the future, we expect that revenue from CP companies will increase as a percentage of total revenue on an annual basis.

Cost of Revenue

Cost of revenue includes expenses related to data centers, depreciation expenses associated with computer equipment and software, compensation and related expenses of operations, technical customer support, production operations and professional services personnel, amortization of purchased intangible assets, and allocated overhead expenses. We have contracts with two third parties for the use of their data center facilities, and our data center costs principally consist of the amounts we pay to these third parties for rack space, power and similar items. Amortization of purchased intangible assets principally relates to developed technology acquired in the Connect3 and TradePoint acquisitions. We allocate overhead costs, such as rent and occupancy costs, employee benefits, information management costs, and legal and other costs, to all departments predominantly based on headcount. As a result, we include allocated overhead expenses in cost of revenue and each operating expense category.

	Three Months Ended August 31,		**Six Months Ended August 31,**	
	2009	**2008**	**2009**	**2008**
	(dollars in thousands)			
Revenue	$19,796	$18,632	$39,341	$36,686
Cost of revenue	6,300	5,846	13,004	11,501
Gross profit	13,496	12,786	26,337	25,185
Gross margin	68.2%	68.6%	66.9%	68.7%

Three and Six Months Ended August 31, 2009 Compared to the Three and Six Months Ended August 31, 2008. Cost of revenue in the three and six months ended August 31, 2009 increased approximately $454,000 and $1.5 million, or 7.8% and 13.1%, respectively, over the corresponding periods of the prior year. The increase was primarily due to increased personnel costs and amortization of purchased intangible assets.

Personnel costs include all compensation, employee benefits, and stock-based compensation expenses. Personnel costs increased approximately $286,000 and $911,000 in the three and six months ended August 31, 2009 over the corresponding periods of the prior year, mainly due to an increase in headcount during the 12 months ended August 31, 2009. Headcount in consulting and support services, and production operations increased from 89 at August 31, 2008 to 100 at February 28, 2009, primarily due to the acquisition of Connect3, and then declined to 89 at August 31, 2009 as a result of our restructuring activities. In addition, expense associated with the amortization of purchased intangible assets increased $312,000 and $626,000 in the three and six months ended August 31, 2009, respectively, over the corresponding periods of the prior year due to the acquisition of Connect3 in February 2009. The increase in personnel costs and amortization of intangible assets was partially offset by a decrease of $230,000 and $371,000 in travel-related costs in the three and six months ended August 31, 2009, respectively, primarily due to efforts to control travel costs such as by reducing or eliminating conferences, offsite events, and non-billable travel.

Our gross margin decreased to 68.2% and 66.9% in the three and six months ended August 31, 2009 compared to the corresponding periods of the prior year, as our revenue increase was offset by higher personnel costs and the amortization of purchased intangible assets, primarily resulting from our acquisition of Connect3. In the future, we expect that our gross margin will increase as we continue to grow our customer base and gain economies of scale.

Research and Development Expenses

Research and development expenses include personnel costs for our research, product management and software development personnel, and allocated overhead expenses. We devote substantial resources to extending our existing software applications as well as to developing new software.

	Three Months Ended August 31,		Six Months Ended August 31,	
	2009	2008	2009	2008
	(dollars in thousands)			
Research and development	$7,997	$6,610	$16,153	$13,113
Percent of revenue	40.4%	35.5%	41.1%	35.7%

Three and Six Months Ended August 31, 2009 Compared to the Three and Six Months Ended August 31, 2008. Research and development expenses in the three and six months ended August 31, 2009 increased approximately $1.4 million and $3.0 million, or 21.0% and 23.2%, respectively, over the corresponding periods of the prior year, primarily due to increased personnel costs and allocated overhead costs.

Personnel costs increased approximately $1.2 million and $2.5 million, respectively, in the three and six months ended August 31, 2009 over the corresponding periods of the prior year, mainly due to an increase in headcount to 140 at August 31, 2009 from 98 at August 31, 2008, primarily as a result of the acquisition of Connect3 in February 2009. Research and development related stock-based compensation expense, which is a component of personnel costs, was $948,000 and $1.8 million, respectively, in the three and six months ended August 31, 2009 compared to $580,000 and $1.2 million, respectively, in the three and six months ended August 31, 2008. The increase in stock-based compensation expense was primarily associated with equity awards granted since September 2008. Allocated overhead expenses increased $264,000 and $520,000, respectively, in the three and six months ended August 31, 2009 over the corresponding periods of the prior year, primarily due to the headcount increases. The increase in personnel costs and allocated overhead costs in the three and six months ended August 31, 2009 was partially offset by a decrease in third-party contractor and consulting expenses of approximately $98,000 and $104,000, respectively, as a result of negotiating lower contract rates on recurring services.

We intend to continue to invest significantly in our research and development efforts because we believe these efforts are essential to maintaining our competitive position. In addition, we expect that stock-based compensation charges included in research and development expenses will vary over the long term depending on the timing and magnitude of equity incentive grants during each quarter and revisions to our estimates of the number of shares expected to vest. In the short term, we expect that research and development expenses will increase in absolute dollars and as a percentage of revenue. In the future, we expect that research and development expenses will increase in absolute dollars, but decrease as a percentage of revenue.

Sales and Marketing Expenses

Sales and marketing expenses include personnel costs for our sales and marketing personnel, including commissions and incentives, travel and entertainment expenses, marketing programs such as product marketing, events, corporate communications and other brand building expenses, and allocated overhead expenses.

	Three Months Ended August 31,		Six Months Ended August 31,	
	2009	2008	2009	2008
	(dollars in thousands)			
Sales and marketing	$5,414	$5,239	$10,845	$10,411
Percent of revenue	27.3%	28.1%	27.6%	28.4%

Table of Contents

Three and Six Months Ended August 31, 2009 Compared to the Three and Six Months Ended August 31, 2008. Sales and marketing expenses in the three and six months ended August 31, 2009 increased approximately $175,000 and $434,000, or 3.3% and 4.2%, respectively, over the corresponding periods of the prior year mainly due to increased consulting and marketing program costs, offset by a decrease in personnel costs.

Marketing program and consulting costs increased approximately $379,000 and $504,000 in the three and six months ended August 31, 2009 over the corresponding periods of the prior year, primarily due to new service introductions, increased online marketing activities, and branding initiatives. Personnel costs decreased approximately $232,000 and $133,000 in the three and six months ended August 31, 2009 over the corresponding periods of the prior year, primarily due to decreased recruiting and commission expenses associated with reduced revenue growth.

In the future, we expect that sales and marketing expenses will increase in absolute dollars as we hire additional personnel and spend more on marketing programs, but remain relatively constant or decrease slightly as a percentage of revenue. In addition, we expect that stock-based compensation charges included in sales and marketing expenses will vary over the long term depending on the timing and magnitude of equity incentive grants during each quarter and revisions to our estimates of the number of shares expected to vest.

General and Administrative Expenses

General and administrative expenses include personnel costs for our executive, finance and accounting, human resources, legal and information management personnel, third-party professional services, travel and entertainment expenses, other corporate expenses and overhead not allocated to cost of revenue, research and development expenses, or sales and marketing expenses. Third-party professional services primarily include outside legal, audit and tax related consulting costs.

	Three Months Ended August 31,		Six Months Ended August 31,	
	2009	2008	2009	2008
	(dollars in thousands)			
General and administrative	$2,786	$2,497	$5,160	$4,671
Percent of revenue	14.1%	13.4%	13.1%	12.7%

Three and Six Months Ended August 31, 2009 Compared to the Three and Six Months Ended August 31, 2008. General and administrative expenses in the three and six months ended August 31, 2009 increased approximately $289,000 and $489,000, or 11.6% and 10.5%, respectively, over the corresponding periods of the prior year. The increases were primarily due to increased personnel costs and sales tax reserves, partially offset by decreased third-party professional service expenses.

Personnel costs increased approximately $481,000 and $755,000 in the three and six months ended August 31, 2009 over the corresponding periods of the prior year, primarily due to an increase in headcount to 45 at August 31, 2009 from 37 at August 31, 2008, and stock-based compensation expense. General and administrative related stock-based compensation expense, which is a component of personnel costs, was $719,000 and $1.2 million respectively, in the three and six months ended August 31, 2009 compared to $430,000 and $798,000, respectively, in the three and six months ended August 31, 2008. The increase in stock-based compensation expense was primarily associated with equity awards granted since September 2008. Sales tax expenses increased $129,000 and $207,000 in the three and six months ended August 31, 2009 over the corresponding periods of the prior year as a result of increased sales tax exposure in certain states. Third party professional services expense decreased approximately $467,000 and $649,000 in the three and six months ended August 31, 2009, respectively, over the corresponding periods of the prior year, primarily due to lower Sarbanes-Oxley and audit related costs.

In the future, we expect that general and administrative expenses will increase in absolute dollars as we continue to grow, but decrease slightly as a percentage of revenue. In addition, we expect that stock-based compensation charges included in general and administrative expenses will vary over the long term depending on the timing and magnitude of equity incentive grants during each quarter and revisions to our estimates of the number of shares expected to vest.

Amortization of Purchased Intangible Assets

	Three Months Ended August 31,		Six Months Ended August 31,	
	2009	2008	2009	2008
	(dollars in thousands)			
Amortization of purchased intangible assets	$588	$331	$ 1,177	$ 420
Percent of revenue	3.0%	1.8%	3.0%	1.1%

22

Table of Contents

Three and Six Months Ended August 31, 2009 Compared to the Three and Six Months Ended August 31, 2008. Amortization of purchased intangible assets increased approximately $257,000 and $757,000, respectively, in the three and six months ended August 31, 2009 over the corresponding periods of the prior year. The increase was primarily due to our acquisition of Connect3 in February 2009 and our purchase of rights to develop assortment optimization technology in May 2008. Intangible assets associated with the Connect3 acquisition are being amortized over one to two and a half years starting from March 2009. The estimated average quarterly amortization expense for fiscal 2010, absent any impairment, is approximately $1.1 million, of which approximately $465,000 is attributed to cost of revenue. The quarterly amortization expense of all existing purchased intangible assets will decline significantly in fiscal 2011 and thereafter.

Other Income, Net

	Three Months Ended August 31,		Six Months Ended August 31,	
	2009	2008	2009	2008
	(in thousands)			
Interest income	$ 162	$ 472	$ 391	$ 1,006
Interest expense	(31)	(20)	(62)	(23)
Other income (expense)	21	(117)	107	(63)
Other income, net	$ 152	$ 335	$ 436	$ 920

Three and Six Months Ended August 31, 2009 Compared to the Three and Six Months Ended August 31, 2008. Other income, net decreased $183,000 and $484,000, respectively, in the three and six months ended August 31, 2009 over the corresponding periods of the prior year, primarily due to decreased interest income as a result of lower interest rates on invested cash balances and marketable securities. Offsetting the decline in interest income were exchange rate-related gains on our foreign currency denominated accounts receivable primarily due to the strengthening of the Euro against the U.S. dollar in the three and six months ended August 31, 2009. Such exchange-related gains are included in other income (expense).

Provision for Income Taxes

	Three Months Ended August 31,		Six Months Ended August 31,	
	2009	2008	2009	2008
	(in thousands)			
Provision for income taxes	$8	$12	$ 27	$ 92

Three and Six Months Ended August 31, 2009 Compared to the Three and Six and Months Ended August 31, 2008. In the three and six months ended August 31, 2009, we recorded income tax expense of approximately $8,000 and $27,000 compared to $12,000 and $92,000 in the corresponding periods of the prior year. The effective tax rate for the three and six months ended August 31, 2009 was less than 1% based on our estimated taxable income for the year. We recorded tax expenses primarily for state minimum taxes and foreign taxes. The income tax expense in the corresponding periods of the prior year was for federal alternative minimum income taxes, state income taxes in states where we have no net operating loss carryforwards, and foreign taxes.

Since inception, we have incurred annual operating losses and, accordingly, have recorded a provision for income taxes primarily for federal minimum income taxes, state income taxes principally in states where we have no net operating loss carryforwards, and foreign taxes. At February 28, 2009, we had federal and state net operating loss carryforwards of approximately $56.4 million and $34.9 million, respectively, to cover future taxable income.

Stock-Based Compensation Expense

Total stock-based compensation expense increased by approximately $596,000 and $1.2 million, respectively, in the three and six months ended August 31, 2009 over the corresponding periods of the prior year, mainly due to options granted to new and existing employees subsequent to August 31, 2008, PSUs granted in May and June 2009, and shares subject to our ESPP. The increase in each of the three and six months ended August 31, 2009 was partially offset by decreases in stock-based compensation expenses associated with the PSUs granted in August 2007 and March 2008, as most of these PSU awards were vested in prior periods and we revised our estimate of the number of awards expected to vest. See Note 7 of Notes to our Condensed Consolidated Financial Statements contained herein for further explanation of how we derive and account for these estimates. We expect that stock-based compensation expense will vary in the future depending upon the magnitude and timing of equity incentive grants and revisions to our estimates of the number of shares expected to vest.

Liquidity and Capital Resources

At August 31, 2009, our principal sources of liquidity consisted of cash, cash equivalents, and marketable securities of $76.4 million, accounts receivable (net of allowance) of $4.6 million, and available borrowing capacity under our credit facility of $19.8 million, which was further reduced by approximately $917,000 as a result of a letter of credit issued in September 2009. At August 31, 2009, our marketable securities consisted of commercial paper, corporate bonds and obligations of government-sponsored enterprises and we had no auction rate securities and no investments in asset-backed securities.

In May 2009, we amended our revolving line of credit that we had entered in April 2008 to, among other things, extend the maturity date of the loan agreement and to increase the revolving line of credit from $15.0 million to $20.0 million. The amended revolving line of credit includes a number of covenants and restrictions with which we must comply. For example, our ability to incur debt, grant liens, make investments, enter into mergers and acquisitions, pay dividends, repurchase our outstanding common stock, change our business, enter into transactions with affiliates, and dispose of assets is limited. To secure the line of credit, we have granted our lenders a first priority security interest in substantially all of our assets. At the filing date of this Form 10-Q, we were in compliance with all loan covenants and had no outstanding debt under the line of credit, and the available credit amount was approximately $18.9 million.

	Six Months Ended August 31,	
	2009	**2008**
	(in thousands)	
Net cash provided by operating activities	$ 1,375	$ 7,658
Net cash used in investing activities	(1,415)	(6,818)
Net cash provided by financing activities	101	1,588

Operating Activities

Our cash flows from operating activities in any period are significantly influenced by the number of customers using our software, the number and size of new customer contracts, the timing of renewals of existing customer contracts, and the timing of payments by these customers. Our largest source of operating cash flows is cash collections from our customers, which results in decreases to accounts receivable. Our primary uses of cash in operating activities are for personnel-related expenditures and rent payments. Our cash flows from operating activities in any period will continue to be significantly affected by the extent to which we add new customers, renew existing customers, collect payments from our customers and increase personnel to grow our business.

In the six months ended August 31, 2009, we generated approximately $1.4 million of net cash from operating activities compared to $7.7 million in the corresponding period of the prior year. As a result of current economic conditions, the signing of new and renewal customer contracts has been taking longer, and some customers have not renewed or have renewed existing agreements at lower prices. These conditions have resulted in lower deferred revenue and accounts receivable balances, and consequently decreased cash from operations by approximately $1.6 million compared to the corresponding period of the prior year. Further, our acquisition of Connect3 in February 2009 has increased headcount and related expenses in the six months ended August 31, 2009, resulting in higher net losses, after adjusting for non-cash related expenses, that were approximately $1.6 million higher than the corresponding period of the prior year. In addition, a reduction in accrued compensation resulted in a decrease of approximately $2.1 in cash from operations in the six months ended August 31, 2009 compared to the corresponding period of the prior year, as payments associated with our bonus program increased by approximately $1.2 million compared to the corresponding period of the prior year. Other working capital items decreased cash from operations in the six months ended August 31, 2009 by approximately $900,000 compared to the corresponding period of the prior year, primarily due to the timing of payments to vendors, which resulted in lower accounts payable balances.

We anticipate that the economic environment will not improve in the near term, and as a result, signing of customer contracts and the collection of cash will continue to remain challenging and unpredictable, thereby impacting our cash flow generation.

Investing Activities

Our primary investing activities have been capital expenditures on equipment for our data centers, net purchases of marketable securities, and payments for the acquisition of businesses.

In the six months ended August 31, 2009, we used $1.4 million of net cash in investing activities compared to $6.8 million in the corresponding period of the prior year, primarily due to $12.5 million cash payments associated with the Connect3 acquisition and $481,000 capital expenditures, offset by approximately $11.6 million of net cash inflow from maturities of marketable securities.

Financing Activities

Our primary financing activities have been issuances of common stock related to our IPO, the exercise of stock options, the sale of shares pursuant to our ESPP, and borrowings and repayments under our credit facilities.

In the six months ended August 31, 2009, we received approximately $101,000 of net cash from financing activities, as the result of $1.4 million of cash proceeds from the issuance of common stock under our equity incentive plans, offset by the payment in full of approximately $1.3 million of notes payable held by a former Connect3 officer and principal shareholder.

We believe that our cash, cash equivalents, and marketable securities balances at August 31, 2009, will be sufficient to fund our projected operating requirements for at least the next twelve months. We may need to raise additional capital or incur additional indebtedness to continue to fund our operations over the long term. Our future capital requirements will depend on many factors, including our rate of revenue growth, our rate of expansion of our workforce, the timing and extent of our expansion into new markets, the timing of introductions of new functionality and enhancements to our software, the timing and size of any acquisitions of other companies or assets and the continuing market acceptance of our software. We may enter into arrangements for potential acquisitions of complementary businesses, services or technologies, which also could require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

Contractual Obligations

Our principal commitments consist of obligations under operating leases for office space in the United States and abroad, merger consideration payable, and notes payable to former TradePoint and Connect3 shareholders.

At August 31, 2009, the future minimum payments under these commitments, as well as payments due under our notes payable, were as follows:

		Payments Due by Period			
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
			(In thousands)		
Operating leases (1)	$ 12,265	$ 2,063	$ 4,546	$ 5,061	$ 595
Merger consideration payable to former Connect3 shareholders	1,000	1,000			
Notes payable to former TradePoint shareholders	434	434			
Total contractual obligations	$ 13,699	$ 3,497	$ 4,546	$ 5,061	$ 595

(1) Includes approximately $10.1 million in future minimum lease payments associated with our new headquarters

facility in San Mateo, California, and approximately $1.5 million in future minimum lease payments for equipment and facility operating leases associated with our new data center in Mesa, Arizona, all entered into in September 2009. See Note 13 of Notes to Condensed Consolidated Financial Statements.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purposes of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes, nor do we have any undisclosed material transactions or commitments involving related persons or entities.

Recent Accounting Pronouncements

For information with respect to recent accounting pronouncements and the impact of these pronouncements on our condensed consolidated financial statements, see Note 1 of Notes to Condensed Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Risk

As we fund our international operations, our cash and cash equivalents could be affected by changes in exchange rates. To date, the foreign currency exchange rate effect on our cash and cash equivalents has not been significant.

We operate internationally and generally our international sales agreements are denominated in the country of origin currency, and therefore our revenue and receivables are subject to foreign currency risk. Also, some of our operating expenses and cash flows are denominated in foreign currency and, thus, are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the exchange rates for the British Pound and the Euro. We periodically enter into foreign exchange forward contracts to reduce exposure in non-U.S. dollar denominated receivables. We formally assess, both at a hedge s inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in negating currency risk. As of August 31, 2009, we had one outstanding forward foreign exchange contract to sell Euros for U.S. dollars in May 2010, with a notional principal of 1.2 million (or approximately $1.8 million). We do not enter into derivative financial instruments for speculative or trading purposes.

We apply SFAS No. 52, *Foreign Currency Translation*, with respect to our international operations, which are primarily sales and marketing support entities. We have remeasured our accounts denominated in non-U.S. currencies using the U.S. dollar as the functional currency and recorded the resulting gains (losses) within other income (expense), net for the period. We remeasure all monetary assets and liabilities at the current exchange rate at the end of the period, non-monetary assets and liabilities at historical exchange rates, and revenue and expenses at average exchange rates in effect during the period. Our foreign currency gain was approximately $107,000 and $116,000 in the six months ended August 31, 2009 and 2008, respectively

Interest Rate Sensitivity

We had cash and cash equivalents totaling $33.7 million and marketable securities totaling $42.7 million at August 31, 2009. These amounts were invested primarily in government securities and corporate notes and bonds with credit ratings of at least A-1 or better, money market funds registered with the SEC under rule 2a-7 of the Investment Company Act of 1940, and interest-bearing demand deposit accounts. By policy, we limit the amount of credit exposure to any one issuer and we do not enter into investments for trading or speculative purposes. Our cash and cash equivalents and marketable securities are held and invested with capital preservation as the primary objective.

Our cash equivalents and marketable securities are subject to market risk due to changes in interest rates. Fixed-rate interest securities may have their market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. However, because we classify our marketable securities as held-to-maturity, no gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity or declines in fair value are determined to be other-than-temporary. We believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Declines in interest rates, however, will reduce future investment income, if any. For instance, a fluctuation in interest rates of 1.0% at August 31, 2009 would result in a change of approximately $700,000 in annual interest income.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of August 31, 2009, the end of the period covered by this Quarterly Report on Form 10-Q. This evaluation (the controls evaluation) was done under the supervision and with the participation of management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Disclosure controls and procedures means controls and other procedures that are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Securities and Exchange Act of 1934, as amended (the Exchange Act), such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed such that information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Based on the controls evaluation, our CEO and CFO have concluded that as of August 31, 2009, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC and to ensure that material information relating to the Company and our consolidated subsidiaries is made known to management, including the CEO and CFO, particularly during the period when our periodic reports are being prepared.

Our management, including our CEO and CFO, believe that our disclosure controls and procedures are effective at the reasonable assurance level. However, our management, including the CEO and CFO, does not expect that our disclosure controls and procedures will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Internal control over financial reporting means a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are from time to time involved in legal matters that arise in the normal course of business. Based on information currently available, we do not believe that the ultimate resolution of any current matters, individually or in the aggregate, will have a material adverse effect on our business, financial condition or results of operations.

Item 1A. Risk Factors

Set forth below and elsewhere in this Quarterly Report on Form 10-Q, and in other documents we file with the Securities and Exchange Commission, or SEC, are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this Quarterly Report on Form 10-Q and in other written and oral communications from time to time. Because of the following factors, as well as other variables affecting our operating results, past financial performance should not be considered as a reliable indicator of future performance and investors should not use historical trends to anticipate results or trends in future periods.

Risks Related to Our Business and Industry

We may experience significant quarterly fluctuations in our operating results due to a number of factors, which makes our future operating results difficult to predict and could cause our operating results to fall below expectations.

Our quarterly operating results may fluctuate significantly due to a variety of factors, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on our past results as an indication of our future performance. If our operating results fall below the expectations of investors or securities analysts or below the guidance, if any, we provide to the market, the price of our common stock could decline substantially.

Factors that may affect our operating results include:

- our ability to increase sales to existing customers and to renew agreements with our existing customers, particularly larger retail customers;
- our ability to attract new customers, particularly larger retail customers and consumer products customers;
- our ability to achieve success with our recently-announced nextGEN strategy;
- changes in our pricing policies or those of our competitors, or pricing pressure on our software services;
- outages and capacity constraints with our hosting partners;
- fluctuations in demand for our software;
- volatility in the sales of our solutions on a quarterly basis;
- reductions in customers budgets for information technology purchases and delays in their purchasing cycles, particularly in light of recent deteriorating economic conditions;
- our ability to develop and implement in a timely manner new software and enhancements that meet customer requirements;
- our ability to hire, train and retain key personnel;
- any significant changes in the competitive dynamics of our market, including new entrants or substantial discounting of products;

our ability to control costs, including our operating expenses;

any significant change in our facilities-related costs;

the timing of hiring personnel and of large expenses such as those for trade shows and third-party professional services;

general economic conditions in the retail and CP markets; and

the impact of a recession or any other adverse economic conditions on our business, including a delay in signing or a failure to sign significant customer agreements.

We have in the past experienced, and we may continue to experience, significant variations in our level of sales on a quarterly basis. In recent periods, several of our customers have delayed or failed to renew their agreements with us upon expiration, or have renewed at lower prices. Such variations in our sales, or delays in signing or a failure to sign or renew significant customer agreements, may lead to significant fluctuations in our cash flows and deferred revenue on a quarterly basis. If we experience a delay in signing or a failure to sign a significant customer agreement in any particular quarter, then our operating results for such quarter and for subsequent quarters may be below the expectations of securities analysts or investors, which may result in a decline in our stock price.

In September 2009, we entered into a lease agreement for office space in San Mateo, California that we intend to use as our new corporate headquarters, replacing our existing corporate headquarters in San Carlos, California. The lease has an eight-year term commencing December 1, 2009 (subject to our right to terminate the lease after five years upon payment of certain termination fees), and has an aggregate minimum lease commitment of approximately $10.1 million. Upon commencement of this lease, we anticipate that our monthly rent payments will increase significantly both immediately and in the long term over our current monthly rent payments for our existing space, and that the quarterly real estate-related operating expenses that we incur will increase by approximately $275,000. If our revenue does not increase or our operating expenses do not decrease to offset this increase in real estate-related operating expenses, or if we are unable to find suitable tenants to sublease a significant portion of this space in the event we are unable to sufficiently grow our business in the future, then our results of operations and financial position will be materially adversely impacted.

In addition, in the past, certain of our customers have filed for bankruptcy protection. For example, in March 2009, one of our customers, Bi-Lo LLC, filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. While we do not believe that any such bankruptcy filing to date has had a material impact on our results of operations in fiscal 2009 or in the six months ended August 31, 2009, it is possible that in the future any customers or potential customers seeking bankruptcy protection could seek to cancel their agreements with us, or could elect not to purchase new or additional services or renew such services with us, or could fail to pay us according to our contractual terms, any of which would negatively impact our results of operations or financial position in the future.

The effects of the ongoing global economic crisis may adversely impact our business, operating results or financial condition.

The ongoing global economic crisis has caused a general tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy, extreme volatility in credit, equity and fixed income markets, and a growing economic contraction. The retail and consumer products industries have been and may continue to be especially hard hit by these economic developments, which in recent periods has resulted in some customers delaying or not entering into new agreements or renewing their existing agreements with us. In addition, current or potential customers may not have funds to enter into or renew their agreements for our software and services, which could cause them to delay, decrease or cancel purchases of our software and services, to renew at lower prices, or to not pay us or to delay paying us for previously purchased software and services. Financial institution failures may cause us to incur increased expenses or make it more difficult either to utilize our existing debt capacity or otherwise obtain financing for our operations, investing activities (including the financing of any future acquisitions), or financing activities. Finally, our investment portfolio, which includes short-term debt securities, is subject to general credit, liquidity, counterparty, market and interest rate risks that may be exacerbated by the recent global financial crisis. If the banking system or the fixed income, credit or equity markets continue to deteriorate or remain volatile, our investment portfolio may be impacted and the values and liquidity of our investments could be adversely affected.

We have a history of losses and we may not achieve or sustain profitability in the future.

We have a history of losses and have not achieved profitability in any fiscal year. We experienced net losses of $5.0 million, $4.5 million and $1.5 million in fiscal 2009, fiscal 2008 and fiscal 2007, respectively, and a net loss of $6.9 million in the six months ended August 31, 2009. At August 31, 2009, we had an accumulated deficit of $84.2 million. We may continue to incur net losses in the future. In addition, our cost of revenue and operating expenses may increase in future periods as we implement initiatives to continue to grow our business. If our revenue does not increase to offset these expected increases in cost of revenue and operating expenses, we will not be profitable. You should not consider our revenue growth in recent periods as indicative of our future performance. In fact, in future periods our revenue could decline. Accordingly, we cannot assure you that we will be able to achieve or maintain profitability in the future.

We depend on a small number of customers, which are primarily large retailers, and our growth, if any, depends upon our ability to add new and retain existing large customers.

We derive a significant percentage of our revenue from a relatively small number of customers, and the loss of any one or more of those customers could decrease our revenue and harm our current and future operating results. Our retail customers accounted for 82% of our revenue in the six months ended August 31, 2009, and 86% of our revenue in fiscal 2009. In the six months ended August 31, 2009, our largest customer accounted for approximately 15% of our revenue, and in fiscal 2009 our three largest customers accounted for approximately 33% of our revenue. Although our largest customers may vary from period to period, we anticipate that we will continue to depend on revenue from a relatively small number of our retail customers. Further, our ability to grow revenue depends on our ability to increase sales to existing customers, to renew agreements with our existing customers and to attract new customers. If economic factors, including the recent global economic crisis, were to have a continued or increasingly negative impact on the retail market segment, it could reduce the amount that these customers spend on information technology, which would adversely affect our revenue and results of operations.

Our business depends substantially on customers renewing their agreements for our software. Any decline in our customer renewals would harm our operating results.

To maintain and grow our revenue, we must achieve and maintain high levels of customer renewals. We sell our software pursuant to agreements with initial terms that are generally from one to three years in length. Our customers have no obligation to renew their agreements after the expiration of their term, and we cannot assure you that these agreements will be renewed on favorable terms, renewed timely, or at all. The fees we charge for our solutions vary based on a number of factors, including the software, service and hosting components provided, the size of the customer, and the duration of the agreement term. Our initial agreements with customers may include fees for software, services or hosting components that may not be needed upon renewal. As a consequence, upon renewal of these agreements, if any, we may receive lower total fees. In addition, if an agreement is renewed for a term longer than the preceding term, we may receive total fees in excess of total fees received in the initial agreement but a smaller average annual fee because we generally charge lower annual fees in connection with agreements with longer terms. In any of these situations, we would need to sell additional software, services or hosting in order to maintain the same level of annual fees from that customer. There can be no assurance that we will be able to renew these agreements, sell additional software or services or sell to new customers. In recent periods certain of our customers have elected not to renew their agreements with us or have renewed on less favorable terms. We have limited historical data with respect to customer renewals, so we may not be able to predict future customer renewal rates and amounts accurately. Our customers renewal rates may decline or fluctuate as a result of a number of factors, including their satisfaction or dissatisfaction with our software, the price of our software, the prices of competing products and services, consolidation within our customer base or reductions in our customers information technology spending levels. If our customers do not renew their agreements for our software for any reason or if they renew on less favorable terms, our revenue will decline.

Because we recognize revenue ratably over the terms of our customer agreements, the lack of renewals or the failure to enter into new agreements will not immediately be reflected in our statement of operations in any significant manner but will negatively affect revenue in future quarters.

We recognize revenue ratably over the terms of our customer agreements, which typically range from one to three years. As a result, most of our quarterly revenue results from agreements entered into during previous quarters. Consequently, a decline in new or renewed agreements in a particular quarter, as well as any renewals at reduced annual dollar amounts, will not be reflected in any significant manner in our revenue for that quarter, but it will negatively affect revenue in future quarters.

We may expand through acquisitions of other companies, which may divert our management s attention and result in unexpected operating and technology integration difficulties, increased costs and dilution to our

stockholders.

Our business strategy may include acquiring complementary software, technologies, or businesses. For instance, in February 2009, we acquired Connect3, a provider of advertising planning and execution software. Acquisitions may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties in assimilating or integrating the businesses, technologies, services, products, personnel or operations of the acquired companies (including those of Connect3), especially if the key personnel of the acquired company choose not to work for us, and we may have difficulty retaining the existing customers or signing new customers of any acquired business or migrating them to a software-as-a-service model. For instance, we are currently integrating Connect3 s technology, which was offered solely on an installed, behind-the-firewall basis, into our DemandTec End-to-End Promotion Management solution, and we may not be successful in completing this integration on a timely basis or at all. Acquisitions may also disrupt our ongoing business, divert our resources and require significant management attention that would otherwise be available for ongoing development of our current business. We also may be required to use a substantial amount of our cash or issue equity securities to complete an acquisition, which could deplete our cash reserves and dilute our existing stockholders and could adversely affect the market price of our common stock. Moreover, we cannot assure you that the anticipated benefits of any acquisition, including our revenue or return on investment assumptions, would be realized or that we would not be exposed to unknown liabilities.

In addition, an acquisition may negatively impact our results of operations because we may incur additional expenses relating to one-time charges, write-downs or tax-related expenses. For example, our acquisition of TradePoint in November 2006 resulted in approximately $970,000 of amortization of purchased intangible assets in each of fiscal 2009 and 2008, and $321,000 in fiscal 2007, and will result in amortization of approximately $911,000 in fiscal 2010 with declining amounts for seven years thereafter. Our acquisition of Connect3 resulted in the write-off of $150,000 of in-process research and development costs in fiscal 2009, and will result in amortization of purchased intangible assets of approximately $2.3 million, $1.8 million, and $626,000 in fiscal 2010, 2011, and 2012, respectively.

Our sales cycles are long and unpredictable, and our sales efforts require considerable time and expense.

We market our software to large retailers and CP companies, and sales to these customers are complex efforts that involve educating our customers about the use and benefits of our software, including its technical capabilities. Customers typically undertake a significant evaluation process that can result in a lengthy sales cycle, in some cases over 12 months. We spend substantial time, effort and money in our sales efforts without any assurance that our efforts will generate long-term agreements. In addition, customer sales decisions are frequently influenced by macroeconomic factors, budget constraints, multiple approvals, and unplanned administrative, processing and other delays. If sales expected from a specific customer are not realized, our revenue and, thus, our future operating results could be adversely impacted.

Our business will be adversely affected if the retail and CP industries do not widely adopt technology solutions incorporating scientific techniques to understand and predict consumer demand to make pricing and other merchandising decisions.

Our software addresses the new and emerging market of applying econometric modeling and optimization techniques in software to enable retailers and CP companies to understand and predict consumer demand in order to improve their pricing, promotion, and other merchandising and marketing decisions. These decisions are fundamental to retailers and CP companies; accordingly, our target customers may be hesitant to accept the risk inherent in applying and relying on new technologies or methodologies to supplant traditional methods. Our business will not be successful if retailers and CP companies do not accept the use of software to enable more strategic pricing and other merchandising decisions.

If we are unable to continue to enhance our current software or to develop or acquire new software to address changing business requirements, we may not be able to attract or retain customers.

Our ability to attract new customers, renew agreements with existing customers and maintain or increase revenue from existing customers will depend in large part on our ability to anticipate the changing needs of the retail and CP industries, to enhance existing software and to introduce new software that meet those needs. Any new software may not be introduced in a timely or cost-effective manner and may not achieve market acceptance, meet customer expectations, or generate revenue sufficient to recoup the cost of development or acquisition of such software. For example, we have not yet completed development or achieved market acceptance of certain components of our solutions underlying our recently announced nextGEN strategy. If we are unable to successfully develop or acquire new software and enhance our existing applications to meet customer requirements, we may not be able to attract or retain customers.

Understanding and predicting consumer behavior is dependent upon the continued availability of accurate and relevant data from retailers and third-party data aggregators. If we are unable to obtain access to relevant data, or if we do not enhance our core science and econometric modeling methodologies to adjust for changing consumer behavior, our software may become less competitive or obsolete.

Table of Contents

The ability of our econometric models to forecast consumer demand depends upon the assumptions we make in designing the models and in the quality of the data we use to build them. Our models rely on point of sale, or POS, data, and in some cases transaction log or loyalty program data provided to us directly by our retail customers and by third-party data aggregators. Consumer behavior is affected by many factors, including evolving consumer needs and preferences, new competitive product offerings, more targeted merchandising and marketing, emerging industry standards, and changing technology. Data adequately representing all of these factors may not be readily available in certain geographies or in certain markets. In addition, the relative importance of the variables that influence demand will change over time, particularly with the continued growth of the Internet as a viable retail alternative and the emergence of non-traditional marketing channels. If our retail customers are unable to collect POS, transaction log or loyalty program data or we are unable to obtain such data from them or from third-party data aggregators, or if we fail to enhance our core science and modeling methodologies to adjust for changes in consumer behavior, customers may delay or decide against purchases or renewals of our software.

We rely on our management team and will need additional personnel to grow our business, and the loss of one or more key employees or our inability to attract and retain qualified personnel could harm our business.

Our success depends to a significant degree on our ability to attract, retain and motivate our management team and our other key personnel. Our professional services organization and other customer-facing groups, in particular, play an instrumental role in ensuring our customers satisfaction. In addition, our science, engineering and modeling team requires experts in econometrics and advanced mathematics, and there are a limited number of individuals with the education and training necessary to fill these roles should we experience employee departures. All of our employees work for us on an at-will basis, and there is no assurance that any employee will remain with us. Our competitors may be successful in recruiting and hiring members of our executive management team or other key employees, and it may be difficult for us to find suitable replacements on a timely basis. Many of the members of our management team and key employees are substantially vested in their shares of our common stock or options to purchase shares of our common stock, and therefore retention of these employees may be difficult in the highly competitive market and geography in which we operate our business.

We have derived most of our revenue from sales to our retail customers. If our software is not widely accepted by CP companies, our ability to grow our revenue and achieve our strategic objectives will be harmed.

To date, we have derived most of our revenue from retail customers. In the six months ended August 31, 2009, we generated approximately 82% of our revenue from sales to retail customers, while we generated approximately 18% of our revenue from sales to CP companies. During fiscal 2009, we generated approximately 86% of our revenue from sales to retail customers while we generated approximately 14% of our revenue from sales to CP companies. In fiscal 2008 we generated 92% of our revenue from sales to retail customers while we generated 8% of our revenue from sales to CP companies. In order to grow our revenue and to achieve our long-term strategic objectives, it is important for us to expand our sales to derive a more significant portion of our revenue from new and existing CP customers. If CP companies do not widely accept our software, our revenue growth and business will be harmed.

We face intense competition that could prevent us from increasing our revenue and prevent us from becoming profitable.

The market for our software is highly competitive and we expect competition to intensify in the future. Competitors vary in size and in the scope and breadth of the products and services they offer. Currently, we face competition from traditional enterprise software application vendors such as Oracle Corporation and SAP AG, niche retail software vendors targeting smaller retailers such as KSS Group, and statistical tool vendors such as SAS, Inc. To a lesser extent, we also compete or potentially compete with marketing information providers for the CP industry such as ACNielsen, Inc. and Information Resources, Inc., as well as business consulting firms such as McKinsey & Company, Inc., Deloitte & Touche LLP and Accenture LLP, which offer merchandising consulting services and analyses. Because the market for our solutions is relatively new, we expect to face additional competition from other established and emerging companies and, potentially, from internally-developed applications. This competition could result in increased pricing pressure, reduced profit margins, increased sales and marketing expenses and a failure to increase, or the loss of, market share.

Competitive offerings may have better performance, lower prices and broader acceptance than our software. Many of our current or potential competitors have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical, sales, research and development, marketing and other resources than we have. As a result, our competition may be able to offer more effective software or may opt to include software competitive to our software as part of broader, enterprise software solutions at little or no charge.

Table of Contents

We may not be able to maintain or improve our competitive position against our current or future competitors, and our failure to do so could seriously harm our business.

We rely on two third-party service providers to host our software, and any interruptions or delays in services from these third parties could impair the delivery of our software as a service.

We deliver our software to customers over the Internet. The software is hosted in two third-party data centers located in California. We do not control the operation of either of these facilities, and we rely on these service providers to provide all power, connectivity and physical security. These facilities could be vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures and similar events. They are also subject to break-ins, computer viruses, sabotage, intentional acts of vandalism and other misconduct. The occurrence of a natural disaster or intentional misconduct, a decision to close these facilities without adequate notice or other unanticipated problems could result in lengthy interruptions in our services. Additionally, because we currently rely upon disk and tape bond back-up procedures, but do not operate or maintain a fully-redundant back-up site, there is an increased risk of service interruption.

If our security measures are breached and unauthorized access is obtained to our customers data, our operations may be perceived as not being secure, customers may curtail or stop using our software and we may incur significant liabilities.

Our operations involve the storage and transmission of our customers confidential information, and security breaches could expose us to a risk of loss of this information, litigation and possible liability. If our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, and, as a result, someone obtains unauthorized access to our customers data, our reputation will be damaged, our business may suffer and we could incur significant liability. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose potential sales and existing customers.

If we fail to respond to rapidly changing technological developments or evolving industry standards, our software may become less competitive or obsolete.

Because our software is designed to operate on a variety of network, hardware and software platforms using standard Internet tools and protocols, we will need to modify and enhance our software continuously to keep pace with changes in Internet-related hardware, software, communication, browser and database technologies. Furthermore, uncertainties about the timing and nature of new network platforms or technologies, or modifications to existing platforms or technologies, could increase our research and development expenses. If we are unable to respond in a timely manner to these rapid technological developments, our software may become less marketable and less competitive or obsolete.

Our use of open source software and third-party technology could impose limitations on our ability to commercialize our software.

We incorporate open source software into our software. Although we monitor our use of open source software closely, the terms of many open source licenses have not been interpreted by United States courts, and there is a risk that these licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to commercialize our software. In that event, we could be required to seek licenses from third parties in order to continue offering our software, to re-engineer our technology or to discontinue offering our software in the event re-engineering cannot be accomplished on a timely basis, any of which could adversely affect our business, operating results and financial condition. We also incorporate certain third-party technologies, including software programs and algorithms, into our software and may desire to incorporate additional third-party technologies in the future. Licenses to new third-party technologies may not be available to us on commercially reasonable terms, or at all.

If we are unable to protect our intellectual property rights, our competitive position could be harmed and we could be required to incur significant expenses in order to enforce our rights.

To protect our proprietary technology, including our core statistical and mathematic models and our software, we rely on trade secret, patent, copyright, service mark, trademark and other proprietary rights laws and confidentiality agreements with employees and third parties, all of which offer only limited protection. Despite our efforts, the steps we have taken to protect our proprietary rights may not be adequate to preclude misappropriation of our proprietary information or infringement of our intellectual property rights, and our ability to police that misappropriation or infringement is uncertain, particularly in countries outside of the United States, including China where a third party conducts a portion of our development activity for us. Further, we do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims. Our current patents and any future patents that may be issued may be contested, circumvented or invalidated. Moreover, the rights granted under any issued patents may not provide us with proprietary protection or competitive advantages, and, as with any technology, competitors may be able to develop technologies similar or superior to our own now or in the future.

Protecting against the unauthorized use of our trade secrets, patents, copyrights, service marks, trademarks and other proprietary rights is expensive, difficult and not always possible. Litigation may be necessary in the future to enforce or defend our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. This litigation could be costly and divert management resources, either of which could harm our business, operating results and financial condition. Furthermore, many of our current and potential competitors have the ability to dedicate substantially greater resources to enforcing their intellectual property rights than we do. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property.

We cannot be certain that the steps we have taken will prevent the unauthorized use or the reverse engineering of our technology. Moreover, others may independently develop technologies that are competitive to ours or infringe our intellectual property. The enforcement of our intellectual property rights also depends on our legal actions against these infringers being successful, but we cannot be sure these actions will be successful, even when our rights have been infringed. Furthermore, effective patent, trademark, service mark, copyright and trade secret protection may not be available in every country in which our services are available or where we have development work performed. In addition, the legal standards relating to the validity, enforceability and scope of protection of intellectual property rights in Internet-related industries are uncertain and still evolving.

Material defects or errors in our software could harm our reputation, result in significant expense to us and impair our ability to sell our software.

Our software is inherently complex and may contain material defects or errors that may cause it to fail to perform in accordance with customer expectations. Any defects that cause interruptions to the availability of our software could result in lost or delayed market acceptance and sales, require us to provide sales credits or issue refunds to our customers, cause existing customers not to renew their agreements and prospective customers not to purchase our software, divert development resources, hurt our reputation and expose us to claims for liability. After the release of our software, defects or errors may also be identified from time to time by our internal team and by our customers. The costs incurred in correcting any material defects or errors in our software may be substantial.

Because our long-term success depends, in part, on our ability to expand sales of our software to customers located outside of the United States, our business will be increasingly susceptible to risks associated with international operations.

We have limited experience operating in international jurisdictions. In the six months ended August 31, 2009, in fiscal 2009 and in fiscal 2008, 14%, 14% and 12%, respectively, of our revenue was attributable to sales to companies located outside the United States. Our inexperience in operating our business outside of the United States increases the risk that any international expansion efforts that we may undertake will not be successful. In addition, conducting international operations subjects us to new risks that we have not generally faced in the United States. These include:

- fluctuations in currency exchange rates;
- unexpected changes in foreign regulatory requirements;
- localization of our software, including translation of the interface of our software into foreign languages and creation of localized agreements;
- longer accounts receivable payment cycles and difficulties in collecting accounts receivable;

tariffs and trade barriers and other regulatory or contractual limitations on our ability to sell or develop our software in certain international markets;

difficulties in managing and staffing international operations;

potentially adverse tax consequences, including the complexities of international value added tax systems and restrictions on the repatriation of earnings;

the burdens of complying with a wide variety of international laws and different legal standards, including local data privacy laws and local consumer protection laws that could regulate retailers permitted pricing and promotion practices;

political, social and economic instability abroad, terrorist attacks and security concerns in general; and

reduced or varied protection of intellectual property rights in some countries.

The occurrence of any of these risks could negatively affect our international business and, consequently, our results of operations.

Because portions of our software development, sustaining engineering, quality assurance and testing, operations and customer support are provided by a third party in China, our business will be susceptible to risks associated with having substantial operations overseas.

Portions of our software development, sustaining engineering, quality assurance and testing, operations and customer support are provided by Sonata Services Limited, or Sonata, a third party located in Shanghai, China. As of August 31, 2009, in addition to our 169 employees in our operations, customer support, science, product management and engineering groups located in the United States, an additional 65 Sonata personnel were dedicated to our projects. Remotely coordinating a third party in China requires significant management attention and substantial resources, and there can be no assurance that we will be successful in coordinating these activities. Furthermore, if there is a disruption to these operations in China, it will require that substantial management attention and time be devoted to achieving resolution. If Sonata were to stop providing these services or if there was widespread departure of trained Sonata personnel, this could cause a disruption in our product development process, quality assurance and product release cycles and customer support organizations and require us to incur additional costs to replace and train new personnel.

Enforcement of intellectual property rights and contractual rights may be more difficult in China. China has not developed a fully integrated legal system, and the array of new laws and regulations may not be sufficient to cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. Accordingly, the enforcement of our contractual arrangements with Sonata, our confidentiality agreements with each Sonata employee dedicated to our work, and the interpretation of the laws governing this relationship are subject to uncertainty.

If we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements could be impaired, which could adversely affect our operating results, our ability to operate our business and investors views of us.

Ensuring that we have internal financial and accounting controls and procedures adequate to produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. The Sarbanes-Oxley Act requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. In particular, we are required to perform annual system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. In the future, our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 requires that we incur substantial accounting expense and expend significant management time on compliance-related issues. Moreover, if we are not able to comply with the requirements of Section 404 in the future, or if we or our independent registered public accounting firm identifies deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our common stock could decline and we could be subject to sanctions or investigations by the NASDAQ Stock Market, the Securities and Exchange Commission, or SEC, or other regulatory authorities, which would require additional financial and management resources.

Furthermore, implementing any appropriate future changes to our internal control over financial reporting may entail substantial costs in order to modify our existing accounting systems, may take a significant period of time to complete and may distract our officers, directors and employees from the operation of our business. These changes, however, may not be effective in maintaining the adequacy of our internal control over financial reporting, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and could materially impair our ability to operate our business. In addition, investors perceptions that our internal control over financial reporting is inadequate or that we are unable to produce accurate financial statements may adversely affect our stock price. While neither we nor our independent registered public accounting firm has identified deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, there can be no assurance that material weaknesses will not be subsequently identified.

If one or more of our key strategic relationships were to become impaired or if these third parties were to align with our competitors, our business could be harmed.

We have relationships with a number of third parties whose products, technologies and services complement our software. Many of these third parties also compete with us or work with our competitors. If we are unable to maintain our relationships with the key third parties that currently recommend our software or that provide consulting services on our software implementations or if these third parties were to begin to recommend our competitors products and services, our business could be harmed.

Claims by others that we infringe their proprietary technology could harm our business.

Third parties could claim that our software infringes their proprietary rights. In recent years, there has been significant litigation involving patents and other intellectual property rights, and we expect that infringement claims may increase as the number of products and competitors in our market increases and overlaps occur. In addition, to the extent that we gain greater visibility and market exposure as a public company, we will face a higher risk of being the subject of intellectual property infringement claims. Any claims of infringement by a third party, even those without merit, could cause us to incur substantial defense costs and could distract our management from our business. Furthermore, a party making such a claim, if successful, could secure a judgment that requires us to pay substantial damages. A judgment could also include an injunction or other court order that could prevent us from offering our software. In addition, we might be required to seek a license for the use of the infringed intellectual property, which may not be available on commercially reasonable terms or at all. Alternatively, we might be required to develop non-infringing technology, which could require significant effort and expense and might ultimately not be successful.

Third parties may also assert infringement claims relating to our software against our customers. Any of these claims might require us to initiate or defend potentially protracted and costly litigation on their behalf, regardless of the merits of these claims, because in certain situations we agree to indemnify our customers from claims of infringement of proprietary rights of third parties. If any of these claims succeeds, we might be forced to pay damages on behalf of our customers, which could materially adversely affect our business.

Changes in financial accounting standards or practices may cause adverse, unexpected financial reporting fluctuations and affect our reported results of operations.

A change in accounting standards or practices could have a significant effect on our reported results and might affect our reporting of transactions completed before the change is effective. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred in the past and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business. For example, on March 1, 2006 we adopted SFAS No. 123(R), *Share-Based Payment,* which requires that employee stock-based compensation be measured based on its fair value on the grant date and treated as an expense that is reflected in the financial statements over the related service period. As a result, our operating results for fiscal 2007, fiscal 2008 and fiscal 2009, and for the six months ended August 31, 2009, include expenses that are not reflected in prior periods, increasing our net loss and making it more difficult for investors to evaluate our results of operations for fiscal 2007, 2008, 2009, and for the six months ended August 31, 2009 relative to prior periods.

We have experienced growth in recent periods. If we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of customer service or address competitive challenges adequately.

We have substantially expanded our overall business, headcount and operations in recent periods. For instance, our headcount grew from 198 employees at February 28, 2007 to 313 employees at August 31, 2009. Headcount in research and development increased from 99 employees at February 28, 2007 to 140 employees at August 31, 2009. In addition, our revenue grew from $43.5 million in fiscal 2007 to $75.0 million in fiscal 2009. In the six months ended August 31, 2009, our revenue was $39.3 million. We will need to continue to expand our operations in order to increase our customer base and to develop additional software. Increases in our customer base could create challenges in our ability to implement our software and support our customers. In addition, we will be required to continue to improve our operational, financial and management controls and our reporting procedures. As a result, we may be unable to manage our business effectively in the future, which may negatively impact our operating results.

Table of Contents

We might require additional capital to support our business growth, and this capital might not be available on acceptable terms, or at all.

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new software or enhance our existing software, enhance our operating infrastructure and acquire complementary businesses and technologies. In May 2009, we amended our loan agreement that we had entered in April 2008 with a financial institution to, among other things, extend the maturity date to May 7, 2012 and increase our revolving line of credit from $15.0 million to $20.0 million. However, we may need to engage in equity or debt financings or enter into additional credit agreements to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital-raising activities and other financial and operational matters that make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

Evolving regulation of the Internet may affect us adversely.

As Internet commerce continues to evolve, increasing regulation by federal, state or foreign agencies becomes more likely. For example, we believe increased regulation is likely in the area of data privacy, and laws and regulations applying to the solicitation, collection, processing or use of personal or consumer information could affect our customers ability to use and share data, potentially reducing demand for our software and restricting our ability to store and process data for our customers. In addition, taxation of software provided over the Internet or other charges imposed by government agencies or by private organizations for accessing the Internet may also be imposed. Any regulation imposing greater fees for Internet use or restricting information exchange over the Internet could result in a decline in the use of the Internet and the viability of Internet-based software, which could harm our business, financial condition and operating results.

We incur significantly increased costs as a result of operating as a public company, and our management is required to devote substantial time to compliance efforts.

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act and rules subsequently implemented by the SEC and the NASDAQ Global Market impose additional requirements on public companies, including enhanced corporate governance practices. For example, the listing requirements for the NASDAQ Global Market provide that listed companies satisfy certain corporate governance requirements relating to independent directors, audit committees, distribution of annual and interim reports, stockholder meetings, stockholder approvals, solicitation of proxies, conflicts of interest, stockholder voting rights and codes of business conduct. Our management and other personnel need to devote a substantial amount of time to complying with these requirements. Moreover, these rules and regulations have increased our legal and financial compliance costs and make some activities more time-consuming and costly. These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors and board committees or as executive officers and more expensive for us to obtain or maintain director and officer liability insurance.

Risks Related to Ownership of Our Common Stock

The trading price of our common stock has been volatile in the past, may continue to be volatile, and may decline.

The trading price of our common stock has fluctuated widely in the past and may do so in the future. Further, our common stock has limited trading history. Factors affecting the trading price of our common stock, many of which are beyond our control, could include:

- variations in our operating results;
- announcements of technological innovations, new products and services, acquisitions, strategic alliances or significant agreements by us or by our competitors;
- recruitment or departure of key personnel;

- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- changes in the estimates of our operating results or changes in recommendations by any securities analysts that elect to follow our common stock;
- market conditions in our industry, the retail industry and the economy as a whole;
- price and volume fluctuations in the overall stock market;
- lawsuits threatened or filed against us;
- adoption or modification of regulations, policies, procedures or programs applicable to our business; and
- the volume of trading in our common stock, including sales upon exercise of outstanding options.

In addition, if the market for technology stocks or the stock market in general continues to experience loss of investor confidence as has happened in recent periods, the trading price of our common stock could decline for reasons unrelated to our business, operating results, or financial condition. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us. Some companies that have had volatile market prices for their securities have had securities class actions filed against them. A suit filed against us, regardless of its merits or outcome, could cause us to incur substantial costs and could divert management s attention.

Future sales of shares by existing stockholders, or the perception that such sales may occur, could cause our stock price to decline.

If our existing stockholders, particularly our directors and executive officers and the venture capital funds affiliated with our former directors, sell substantial amounts of our common stock in the public market, or are perceived by the public market as intending to sell, the trading price of our common stock could decline.

If securities analysts do not publish research or publish unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities analysts publish about us or our business. We have limited research coverage by securities analysts. If we do not obtain further securities analyst coverage, or if one or more of the analysts who cover us downgrade our stock or publish unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

Insiders and other affiliates have substantial control over us and will be able to influence corporate matters.

At August 31, 2009, our directors, executive officers and other affiliates beneficially owned, in the aggregate, approximately 45.8% of our outstanding common stock. As a result, these stockholders will be able to exercise significant influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could limit your ability to influence corporate matters and may have the effect of delaying or preventing a third party from acquiring control over us.

Anti-takeover provisions in our charter documents and Delaware law could discourage, delay or prevent a change in control of our company and may affect the trading price of our common stock.

We are a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law may discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change in control would be beneficial to our existing stockholders. In addition, our restated certificate of incorporation and amended and restated bylaws may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. Our restated certificate of incorporation and amended and restated bylaws:

Table of Contents

- authorize the issuance of blank check preferred stock that could be issued by our board of directors to thwart a takeover attempt;
- establish a classified board of directors, as a result of which the successors to the directors whose terms have expired will be elected to serve from the time of election and qualification until the third annual meeting following their election;
- require that directors only be removed from office for cause and only upon a majority stockholder vote;
- provide that vacancies on our board of directors, including newly created directorships, may be filled only by a majority vote of directors then in office;
- limit who may call special meetings of stockholders;
- prohibit stockholder action by written consent, thus requiring all actions to be taken at a meeting of the stockholders;
- require supermajority stockholder voting to effect certain amendments to our restated certificate of incorporation and amended and restated bylaws; and
- require advance notification of stockholder nominations and proposals.

Table of Contents

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Sales of Unregistered Securities

None.

(b) Use of *Proceeds from Public Offering of Common Stock*

In August 2007, we completed our initial public offering, or IPO, pursuant to a registration statement on Form S-1 (Registration No. 333-143248) which the U.S. Securities and Exchange Commission declared effective on August 8, 2007. Under the registration statement, we registered the offering and sale of an aggregate of up to 6,900,000 shares of our common stock. Of the registered shares, 6,000,000 of the shares of common stock issued pursuant to the registration statement were sold at a price to the public of $11.00 per share. As a result of the IPO, we raised a total of $57.6 million in net proceeds after deducting underwriting discounts and commissions and expenses.

On August 14, 2007, we used $3.0 million of our proceeds to settle our credit facility. On August 16, 2007, we used $10.2 million of our proceeds to settle our term loan with Silicon Valley Bank and Gold Hill Venture Lending 03, LP. As of February 28, 2009, approximately $44.4 million of aggregate net proceeds remained invested in short-term interest-bearing obligations, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of the United States government or in operating cash accounts.

In the six months ended August 31, 2009, we used $12.3 million of our proceeds to pay Connect3 s former shareholders in connection with our February 2009 acquisition of Connect3, and $1.3 million cash to pay off short-term notes payable held by a former Connect3 officer and principal shareholder.

We have used and intend to continue to use the remaining net proceeds from the offering for working capital and other general corporate purposes, including to finance our growth, develop new software and fund capital expenditures. Additionally, we may choose to expand our current business through acquisitions of other complementary businesses, products, services or technologies. Pending such uses, we plan to invest the net proceeds in short-term, interest-bearing, investment grade securities.

There were no material differences in the actual use of proceeds from our IPO compared to the planned use of proceeds as described in the final prospectus filed with the Securities and Exchange Commission pursuant to Rule 424(b).

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

The 2009 annual meeting of stockholders of DemandTec, Inc. was held on August 5, 2009. The results of the voting on the matters submitted to the stockholders were as follows:

1. To elect two (2) members of the Board of Directors to serve until the 2012 annual meeting of stockholders of the Company or until such persons successors have been duly elected and qualified.

	Votes For	Withheld
Victor L. Lund	24,456,965	1,969,554
Joshua W.R. Pickus	26,358,633	67,886

Directors Ronald R. Baker, Ronald E.F. Codd, Daniel R. Fishback, Linda Fayne Levinson and Charles J. Robel, in addition to Mr. Lund and Mr. Pickus, will continue to serve as members of the Board of Directors until the expiration of their respective terms or until their respective successors have been duly elected and qualified.

2. To ratify the appointment by the Audit Committee of the Board of Directors of Ernst & Young LLP as the independent registered public accounting firm of the Company for its fiscal year ending February 28, 2010.

Votes for	26,376,335
Votes against	21,415
Abstain	28,769
Broker Non-Vote	0

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

Exhibit No.	Description
10.1	Lease dated as of September 21, 2009 between DemandTec, Inc. and Franklin Templeton Companies, LLC (incorporated herein by reference to our Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2009)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* This certification is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of DemandTec, Inc. under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

Table of Contents

SIGNATURES

Pursuant to the requirements of Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: October 2, 2009

DemandTec, Inc.

By: /s/ Mark A. Culhane
Mark A. Culhane
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Table of Contents

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