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

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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.

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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.

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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.

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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.

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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.

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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.

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):

	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

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	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