DemandTec, Inc.
Form 10-Q
January 09, 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 November 30, 2008

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 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 o	Non-accelerated filer þ	Smaller reporting company o

(Do not check if a smaller reporting company)

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 December 29, 2008 was: 27,831,629.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	As of November 30, 2008 (unaudited)	As of February 29, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 28,483	$ 43,257
Marketable securities	48,369	30,547
Accounts receivable, net of allowances of $120 and $160 as of November 30, 2008 and February 29, 2008, respectively	12,361	18,227
Other current assets	4,311	4,161
Total current assets	93,524	96,192
Marketable securities, non-current	8,848	2,085
Property, equipment and leasehold improvements, net	5,235	5,139
Restricted cash		200
Other assets, net	10,081	10,180
Total assets	$ 117,688	$ 113,796
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 10,876	$ 6,969
Deferred revenue	45,579	44,006
Other current liabilities	451	478
Total current liabilities	56,906	51,453
Deferred revenue, non-current	4,525	11,369
Other long-term liabilities	516	677
Commitments and contingencies (see Note 3)		
Stockholders equity:		
Common stock, $0.001 par value 175,000 shares authorized as of November 30, 2008 and February 29, 2008; 27,787 and 26,452 shares issued and outstanding, respectively, excluding 10 and 31 shares subject to repurchase, respectively, as of November 30, 2008 and February 29, 2008	28	26
Additional paid-in capital	130,891	122,699
Accumulated other comprehensive income	660	
Accumulated deficit	(75,838)	(72,428)
Total stockholders equity	55,741	50,297

Total liabilities and stockholders equity	$ 117,688	$ 113,796

See Notes to Consolidated Financial Statements.

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DemandTec, Inc.
Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2008	**2007**	**2008**	**2007**
Revenue	$ 18,989	$ 15,945	$ 55,675	$ 43,866
Cost of revenue(1)(2)	5,834	5,560	17,335	14,898
Gross profit	13,155	10,385	38,340	28,968
Operating expenses:				
Research and development(2)	6,659	5,598	19,772	15,736
Sales and marketing(2)	4,839	4,697	15,250	12,316
General and administrative(2)	2,662	1,956	7,333	4,354
Amortization of acquired intangible assets	331	89	751	271
Total operating expenses	14,491	12,340	43,106	32,677
Loss from operations	(1,336)	(1,955)	(4,766)	(3,709)
Interest income	431	878	1,436	1,658
Interest expense	(31)		(54)	(1,216)
Other income (expense), net	37	291	(25)	266
Loss before provision (benefit) for income taxes	(899)	(786)	(3,409)	(3,001)
Provision (benefit) for income taxes	(91)	181	1	319
Net loss	$ (808)	$ (967)	$ (3,410)	$ (3,320)
Net loss per common share, basic and diluted	$ (0.03)	$ (0.04)	$ (0.13)	$ (0.23)
Shares used in computing net loss per common share, basic and diluted	27,681	26,167	27,192	14,705
(1) Includes amortization of acquired intangible assets	$ 152	$ 154	$ 457	$ 456
(2) Includes stock-based compensation expense as follows:				
Cost of revenue	$ 389	$ 539	$ 1,243	$ 839
Research and development	509	580	1,681	827
Sales and marketing	488	605	1,699	830
General and administrative	424	340	1,222	569
Total stock-based compensation expense	$ 1,810	$ 2,064	$ 5,845	$ 3,065

See Notes to Consolidated Financial Statements.

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DemandTec, Inc
Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Nine Months Ended November 30,	
	2008	**2007**
Operating activities:		
Net loss	$ (3,410)	$ (3,320)
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation	2,149	1,390
Stock-based compensation expense	5,845	3,065
Amortization and revaluation to fair value of warrants issued in conjunction with debt		183
Amortization of acquired intangible assets	1,208	727
Amortization of financing costs	12	93
Charge on early extinguishment of debt		504
Other	167	19
Changes in operating assets and liabilities:		
Accounts receivable	5,955	(3,269)
Prepaid expenses and other current assets	(115)	(661)
Deferred commissions	844	(114)
Other assets	(366)	(30)
Accounts payable and accrued expenses	3,372	(1,841)
Accrued compensation	403	1,056
Deferred revenue	(5,274)	10,426
Net cash provided by operating activities	10,790	8,228
Investing activities:		
Purchases of property, equipment and leasehold improvements	(2,294)	(2,976)
Purchases of marketable securities	(69,805)	(56,652)
Maturities of marketable securities	45,220	15,750
Acquisition of TradePoint, net of cash received		(1,325)
Purchase of intangible assets	(1,000)	
Removal of cash restriction	200	
Net cash used in investing activities	(27,679)	(45,203)
Financing activities:		
Proceeds from issuance of common stock, net of repurchases	2,319	284
Net cash proceeds from initial public offering		57,611
Increase in liability associated with offering costs		166
Payments on line of credit		(3,000)
Payments on notes payable	(8)	(10,400)
Net cash provided by financing activities	2,311	44,661
Effect of exchange rate changes on cash and cash equivalents	(196)	40

Net increase (decrease) in cash and cash equivalents	(14,774)	7,726
Cash and cash equivalents at beginning of period	43,257	21,036
Cash and cash equivalents at end of period	$ 28,483	$ 28,762
Supplemental information:		
Cash paid for interest	$ 9	$ 956
Cash paid for income taxes	$ 208	$ 200
Reclassification of preferred stock warrant from liability to additional paid-in capital	$	$ 712
Conversion of preferred stock to common stock and additional paid-in capital	$	$ 51,144

See Notes to Consolidated Financial Statements.

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DemandTec, Inc.
Notes to Consolidated Financial Statements

1. Business Summary and Significant Accounting Policies

Business Summary

DemandTec, Inc. was incorporated in Delaware on November 1, 1999. We are a leading provider of Consumer Demand Management, or CDM, solutions. CDM is a software category based on quantifying, predicting and shaping consumer demand. Our software services enable retailers and consumer products, or CP, companies to define strategies based on a scientific understanding of consumer behavior and make actionable pricing, promotion and other merchandising and marketing decisions 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 and marketing needs. We are headquartered in San Carlos, California, with additional offices in North America, Europe and Japan.

Initial Public Offering

In August 2007, we completed our initial public offering, or IPO, in which we sold and issued 6,000,000 shares of our common stock at an issue price of $11.00 per share. We raised a total of $66.0 million in gross proceeds from the IPO, or approximately $57.6 million in net proceeds after deducting underwriting discounts and commissions of $4.6 million and other offering costs of $3.8 million. Upon the closing of the IPO, all shares of convertible preferred stock outstanding automatically converted into 13,511,107 shares of common stock, and all outstanding warrants to purchase shares of convertible preferred stock automatically converted to warrants to purchase 181,747 shares of common stock.

Fiscal Year

Our fiscal year ends on the last day in February. References to fiscal 2008, for example, refer to our fiscal year ended February 29, 2008 and references to fiscal 2009 refer to our fiscal year ending February 28, 2009.

Reclassifications

Certain amounts previously reported in our consolidated balance sheet at February 29, 2008, in our consolidated statement of operations for the nine months ended November 30, 2007, and within operating activities in our consolidated statement of cash flows for the nine months ended November 30, 2007, were combined with other line items to conform to the current period presentation. We combined these line items in order to improve the presentation of our financial statements.

Significant Accounting Policies

Basis of Presentation

Our consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The accompanying consolidated balance sheet as of November 30, 2008, the consolidated statements of operations for the three and nine months ended November 30, 2008 and 2007, and the consolidated statements of cash flows for the nine months ended November 30, 2008 and 2007 are unaudited. The consolidated balance sheet data as of February 29, 2008 was derived from the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended February 29, 2008 (the Form 10-K) filed with the Securities and Exchange Commission, or SEC, on April 25, 2008. 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 consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP, pursuant to the rules and regulations of the SEC. They do not include all of the financial information and footnotes required by GAAP. The unaudited 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 nine months ended November 30, 2008 are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending February 28, 2009.

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Use of Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. 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 the 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 probability of attainment of service and performance conditions established related to performance-based awards, and the fair value of acquired intangible assets and the recoverability of long-lived assets. 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 integration 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 the 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 billings or payments received in advance of revenue recognition. For arrangements with terms of over one year, we generally invoice our customers in annual installments, although certain multi-year agreements have had certain fees for all years invoiced and paid upfront. 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 deferred revenue, non-current.

Foreign Currency Translation

The denomination of the majority of our sales arrangements and the functional currency of our international operations is the United States dollar. Our international operations financial statements are remeasured into United States dollars with adjustments recorded as foreign currency gains (losses) in our consolidated statements of operations. All monetary assets and liabilities are remeasured at the current exchange rate at the end of the period, non-monetary assets and liabilities are remeasured at historical exchange rates, and revenue and expenses are remeasured at average exchange rates in effect during the period. We recognized foreign currency gains (losses) of approximately $37,000 and $297,000 in the three months ended November 30, 2008 and 2007, respectively, and ($20,000) and $388,000 in the nine months ended November 30, 2008 and 2007, respectively, in other income (expense), net.

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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 November 30, 2008 and February 29, 2008, long-lived assets located outside the United States were not significant. As of November 30, 2008, two customers accounted for 33% and 14%, respectively, of our accounts receivable balance. As of February 29, 2008, three customers accounted for 23%, 18% and 10%, respectively, of our accounts receivable balance.

In the three and nine months ended November 30, 2008, one customer accounted for 17% and 14% of total revenue, respectively. In the three months ended November 30, 2007, two customers accounted for 14% and 10%, respectively, of total revenue, and in the nine months ended November 30, 2007, one customer accounted for 12% of total revenue. Revenue by geographic region, based on the billing address of the customer, was as follows (in thousands):

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2008	**2007**	**2008**	**2007**
United States	$ 16,528	$ 14,011	$ 48,028	$ 38,595
International	2,461	1,934	7,647	5,271
Total revenue	$ 18,989	$ 15,945	$ 55,675	$ 43,866

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.

Deferred Commissions

We capitalize certain commission costs directly related to the acquisition of a customer agreement in accordance with Financial Accounting Standards Board, or FASB, Technical Bulletin 90-1, *Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts*. Our commission payments are paid shortly after our receipt of the related customer payment. The commissions are deferred and amortized to sales and marketing expense over the revenue recognition term of the related non-cancelable customer agreement. The deferred commission amounts are recoverable through their accompanying future revenue streams under non-cancellable customer agreements. We believe this is the appropriate method of accounting as the commission charges are so closely related to the revenue from the customer contracts that they should be recorded as an asset and charged to expense over the same period that the related revenue is recognized. Commission costs amortized to sales and marketing expense were approximately $829,000 and $2.4 million in the three and nine months ended November 30, 2008, respectively, and were $710,000 and $2.0 million in the three and nine months ended November 30, 2007, respectively. At November 30, 2008 and February 29, 2008, total deferred commission costs were $1.8 million and $2.6 million, respectively.

Goodwill and Intangible Assets

We record as goodwill the excess of the acquisition purchase price over the fair value of the tangible and identifiable intangible assets acquired. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, or SFAS No. 142, we do not amortize goodwill, but perform an annual impairment review of our goodwill during our third quarter, or more frequently if indicators of potential impairment arise. We evaluated our goodwill in November 2008 and observed no indication of any impairment. Following the criteria of SFAS No. 131 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 record acquired intangible assets at their respective estimated fair values at the date of acquisition. Acquired intangible assets are being amortized using the straight-line method over their remaining estimated useful lives, which currently range

from approximately eleven months to eight years. 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 in the three months ended November 30, 2008.

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Impairment of Long-Lived Assets

We evaluate the recoverability of our long-lived assets, including acquired intangible assets and property and equipment, in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. We review long-lived assets for possible impairment whenever events or circumstances indicate that the carrying amount of these assets may not be recoverable. We measure recoverability of assets by comparison of their carrying amount to the future undiscounted cash flows we expect the assets to generate. If we consider assets to be impaired, we measure the amount of any impairment as the difference between the carrying amount and the fair value of the impaired assets. We observed no impairment indicators through November 30, 2008.

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. 123R, 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 generally vest over four years. Annual stock option grants to members of our board of directors vest over one year. Performance-based awards, or PSUs, vest over an individual s service period pursuant to certain performance and time-based vesting criteria set by our Compensation Committee, which has generally been between one and two years. 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 number of shares to be issued is not known until the end of the performance period, the compensation expense related to these awards could differ significantly from our estimates. Restricted stock units, or RSUs, vest over and individual s service period solely pursuant to time-based vesting criteria set by our Compensation Committee. We measure the value of the 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.

Options and warrants granted to consultants and other non-employees are accounted for in accordance with EITF Issue No. 96-18, *Accounting for Equity Investments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*, or EITF No. 96-18, and are valued using the Black-Scholes model prescribed by SFAS No. 123R. These options are subject to periodic revaluation over their vesting terms and are charged to expense over the vesting term using the graded method.

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. Diluted net loss per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options or warrants or upon the settlement of PSUs or RSUs, shares subject to issuance under our 2007 Employee Stock Purchase Program (ESPP), unvested common shares subject to repurchase or cancellation and convertible preferred stock. The dilutive effect of outstanding stock options, PSUs and RSUs, shares subject to issuance under the ESPP, and warrants is reflected in diluted loss per share by application of the treasury stock method. When dilutive, warrants and convertible preferred stock are reflected on an if-converted basis from the date of issuance.

Because the company has been in a loss position in all periods shown, basic and diluted net loss per common share were the same for the three and nine months ended November 30, 2008 and 2007, as the impact of all potentially dilutive securities outstanding would be anti-dilutive.

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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 November 30,		Nine Months Ended November 30,	
	2008	2007	2008	2007
Net loss	$ (808)	$ (967)	$ (3,410)	$ (3,320)
Weighted average number of common shares outstanding	27,694	26,274	27,211	14,844
Less: Weighted average number of common shares subject to repurchase	(13)	(107)	(19)	(139)
Shares used in computing net loss per common share, basic and diluted	27,681	26,167	27,192	14,705
Net loss per common share, basic and diluted	$ (0.03)	$ (0.04)	$ (0.13)	$ (0.23)

The following weighted average outstanding shares subject to options to purchase common stock, PSUs and RSUs, shares subject to issuance under the ESPP, common stock subject to repurchase, convertible preferred stock and shares subject to warrants to purchase common stock 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 November 30,		Nine Months Ended November 30,	
	2008	2007	2008	2007
Shares subject to options to purchase common stock, PSUs and RSUs, and shares subject to issuance under the ESPP	4,073	6,027	4,467	5,101
Shares subject to warrants to purchase common stock		105		172
Common stock subject to repurchase	13	107	19	139
Convertible preferred stock (if-converted basis until initial public offering)				7,881
Total	4,086	6,239	4,486	13,293

Recent Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, or SFAS No. 161. SFAS No. 161 requires companies with derivative instruments to disclose information that should enable financial statement users to understand how and why a company uses derivative instruments and related hedging activities and how they affect a company s financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Early application is encouraged and accordingly, we adopted SFAS No. 161 in August 2008.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*, or SFAS No. 141R, 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. 141R 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. 141R is effective for fiscal years beginning after December 15, 2008, and we will adopt it beginning in the first quarter of fiscal 2010.

In April 2008, the FASB issued FASB Staff Position (FSP) FAS 142-3, *Determination of the Useful Life of Intangible Assets*, or FSP FAS 142-3. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008 and early adoption is prohibited. We are currently evaluating the impact of the pending adoption of FSP FAS 142-3 on our consolidated financial statements.

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2. Balance Sheet Accounts

Marketable Securities

Marketable securities, at amortized cost, consisted of the following as of the dates indicated (in thousands):

	As of November 30, 2008	As of February 29, 2008
Commercial paper	$ 7,273	$ 6,946
Corporate bonds	12,358	4,721
U.S. agency bonds	25,628	20,766
U.S. treasury securities	11,958	
Asset-backed securities		199
	$ 57,217	$ 32,632

All investments are held to maturity, and thus, there were no recognized gains or losses during the periods presented. 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 November 30, 2008. At November 30, 2008, we held no auction rate or asset-backed securities and all of our marketable securities had maturities of less than two years.

Other Assets, Net

Other assets, net consisted of the following as of the dates indicated (in thousands):

	As of November 30, 2008	As of February 29, 2008
Purchased intangible assets, net of accumulated amortization of $2,498 and $1,289, respectively	$ 4,002	$ 3,761
Goodwill	5,290	5,290
Other	789	1,129
Total other assets, net	$ 10,081	$ 10,180

Accounts Payable and Accrued Expenses

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

	As of November 30, 2008	As of February 29, 2008
Accounts payable	$ 4,012	$ 1,304
Accrued professional services	934	569
Income taxes payable	53	158
Accrued compensation	5,051	4,648
Other accrued liabilities	826	290
Total accounts payable and accrued expenses	$ 10,876	$ 6,969

3. Commitments and Contingencies

Commitments

In May 2008, we entered into a royalty-free, perpetual, worldwide agreement with a research and consulting firm pursuant to which we acquired rights to develop our own products based upon the firm s assortment optimization technology and to integrate these into our software service offering for sale initially to the retail industry. In consideration, we committed to pay an aggregate of $1,450,000 in installments through January 2009. Upon delivery of the source code, the technology and intangible assets were recorded as intangible assets and are being amortized into operating expenses over an estimated life of approximately 18 months. At November 30, 2008, $450,000 remained payable under this agreement.

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At November 30, 2008, we had an outstanding irrevocable letter of credit in connection with a noncancelable operating lease commitment which we issued in favor of our landlord, for an aggregate amount of $200,000 that will automatically renew until the lease expires in February 2010. We secured the letter of credit using our existing line of credit, as described in Note 4.

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.

4. Debt

In connection with our acquisition of TradePoint Solutions, Inc. (TradePoint) in November 2006, we issued a $1.8 million non-interest bearing promissory note to former TradePoint shareholders. At November 30, 2008, $434,000 remained outstanding and payable thereunder, awaiting instructions by the former TradePoint shareholders on how to allocate and distribute the proceeds.

In April 2008, we entered into a new revolving line of credit with a total borrowing capacity of $15.0 million and terminated our existing $5.0 million credit facility. Amounts borrowed will bear interest, at our election, at a rate equal to either (i) the financial institution s prime rate at the time of the borrowing or (ii) the LIBOR rate plus 2.0%. 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 April 2008, the available balance was reduced by $200,000, to $14.8 million, to secure a non-cancelable operating lease commitment. Throughout the nine month period ended November 30, 2008, we were in compliance with all loan covenants and at November 30, 2008 we had no outstanding balance under the line of credit.

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5. Stockholders Equity

Equity Incentive Plans and Employee Stock Purchase Plan

1999 Equity Incentive Plan

In December 1999, our Board of Directors adopted the 1999 Equity Incentive Plan (the 1999 Plan). The 1999 Plan, which expired on August 8, 2007 upon our IPO, 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 November 30, 2008, options to purchase 5,611,322 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.

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 shall automatically increase 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. As of November 30, 2008, a total of 763,811 shares were available for issuance and options to purchase 2,137,475 shares were outstanding under the 2007 Plan.

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. Performance stock units are awards under our 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. We measure the value of the PSUs 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. We amortize the fair value, net of estimated forfeitures, as stock-based compensation expense on a straight-line basis over the vesting period of the award (or, if applicable, over the vesting period of the tranche, viewing each tranche as a separate award). SFAS No. 123R requires compensation expense to be recognized on the PSUs if it is probable that the performance and service conditions will be achieved.

On August 17, 2007, our Compensation Committee granted 1,000,000 PSUs to certain of our executive officers and other key employees. These awards had a grant date fair value of approximately $10.0 million, which is to be recognized over the vesting lives of the awards. These PSU grants are divided into two tranches. The first tranche consists of 30% of each grant, and relates to fiscal 2008 company performance and subsequent individual service requirements. The second tranche consists of the remaining 70% of each grant, and relates to fiscal year 2009 company performance and subsequent individual service requirements. These PSUs may vest over a period of up to 29 months. As of November 30, 2008, there were 626,875 shares subject to outstanding PSUs granted on August 17, 2007.

On March 4, 2008, our Compensation Committee granted 160,000 PSUs to an executive officer. This PSU grant consists of a single tranche, and relates to company performance metrics for fiscal 2009 and subsequent individual service requirements. At the measurement date, the fair value of the PSUs granted on March 4, 2008 was approximately $1.7 million.

Restricted Stock Units. Restricted stock units are awards under our 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. We measure the value of the 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. We amortize the fair value, net of estimated forfeitures, as stock-based compensation expense on a straight-line basis over the vesting period. SFAS No. 123R requires compensation expense to be recognized with respect to the RSUs if it is probable that the service condition will be achieved.

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In March and April 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. At the measurement date, the fair value of the RSUs was approximately $5.7 million. As of November 30, 2008, there were 502,850 shares subject to outstanding RSUs.

2007 Employee Stock Purchase Plan

In May 2007 our Board of Directors adopted, and in July 2007 our stockholders approved, the 2007 Employee Stock Purchase Plan (the ESPP). 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 November 30, 2008, a total of 612,011 shares were available for issuance under the ESPP.

Stock-Based Compensation Expense Associated with Awards to Employees

Stock-based compensation expense related to stock-based awards to employees is based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R and is recognized over the respective vesting periods of the applicable awards on a straight-line basis. In the three months ended November 30, 2008, we issued employee stock-based awards in the form of stock options and shares subject to the ESPP. In the nine months ended November 30, 2008, we issued employee stock-based awards in the form of stock options, PSUs, RSUs and shares subject to the ESPP.

We use the Black-Scholes pricing model to determine the fair value of our stock options, awards 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 awards, actual and projected employee stock option exercise behaviors, risk-free interest rates and expected dividends. The estimated grant date fair values of the employee and non-employee director stock options, PSUs, RSUs and ESPP shares were calculated using the Black-Scholes option pricing model, based on the following assumptions:

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2008 (1)	**2007 (2)**	**2008**	**2007 (3)**
Stock options:				
Weighted average expected term (in years)	4.1	4.0	4.2	3.7
Expected stock price volatility	57%	38%	51%	36%
Risk-free interest rate	2.3%	3.1%	2.7%	4.1%
Expected dividend yield	0%	0%	0%	0%
Weighted average per share fair value of stock options granted during the period	$ 4.10	$ 4.53	$ 3.88	$ 3.34
Performance stock units:				
Weighted average per share fair value of performance stock units granted during the period			$ 10.37	$ 9.97
Restricted stock units:				
Weighted average per share fair value of restricted stock units granted during the period			$ 10.40	
Employee Stock Purchase Plan:				

Weighted average expected term (in months)	6	6	8
Expected stock price volatility	72%	57%	32%
Risk-free interest rate	0.9%	1.5%	4.2%
Expected dividend yield	0%	0%	0%

(1) No PSUs or RSUs were issued in the three months ended November 30, 2008.

(2) No PSUs, RSUs or ESPP shares were issued in the three months ended November 30, 2007.

(3) No RSUs were issued in the nine months ended November 30, 2007.

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The aggregate intrinsic value of options exercised in the three and nine months ended November 30, 2008 was $1.2 million and $7.6 million, respectively. The aggregate intrinsic value of options exercised was calculated as the difference between the exercise price of the underlying stock option awards and the closing market value of our common stock on the date of exercise.

We estimate forfeitures for our stock options, PSUs, and RSUs at the time of grant, and at the end of each reporting period we revise those estimates based on actual results and on service and performance criteria, taking into account cancellations related to terminations, as applicable to each award. The estimation of whether the performance targets and service periods will be achieved requires judgment. When our revised estimates result in a change to the number of awards expected to vest, we record a cumulative effect adjustment to unvested shares in the current period. When our revised estimates result in a change to the recognition period, we record the effect prospectively. In each of the three month periods ended May 31, 2008, August 31, 2008 and November 30, 2008, we recorded cumulative effect adjustments which resulted in a decrease to stock-based compensation expense of approximately $940,000, $253,000 and $224,000, respectively.

As of November 30, 2008, we had $10.5 million of gross unrecognized stock-based compensation expense, excluding estimated forfeitures, related to unvested stock options granted after March 1, 2006. This amount is expected to be recognized over a weighted average period of approximately 2.9 years.

As of November 30, 2008, we had $3.8 million of gross unrecognized stock-based compensation expense, excluding estimated forfeitures, related to PSUs. This amount is expected to be recognized over a weighted average period of approximately 0.8 years.

As of November 30, 2008, we had $3.7 million of gross unrecognized stock-based compensation expense, excluding estimated forfeitures, related to RSUs. This amount is expected to be recognized over a weighted average period of approximately 1.4 years.

Total stock-based compensation expense of approximately $228,000 related to the current ESPP purchase period is being recognized on a straight-line basis from October 16, 2008 through April 15, 2009, the end of the purchase period.

Stock-Based Compensation Expense Associated with Awards to Non-Employees

Stock-based compensation expense related to stock options granted to non-employees is recognized as the stock options vest. We believe that the fair value of the stock options granted is more reliably measurable than the fair value of the services received. The fair value of the stock options granted is calculated at each reporting date using the Black-Scholes option pricing model as prescribed by SFAS No. 123R.

Stock-based compensation expense in the three and nine months ended November 30, 2008 related to options granted to non-employees was approximately ($6,000) and $24,000, respectively, and in the three and nine months ended November 30, 2007 was approximately $226,000 and $454,000, respectively.

6. Income Taxes

In the three and nine months ended November 30, 2008, we recorded an income tax (benefit) expense of ($91,000) and $1,000, respectively, compared to expense of $181,000 and $319,000, respectively, in the corresponding periods of the prior year. The effective tax rate for the nine months ended November 30, 2008 was 4% based on our estimated taxable income for the year, less certain discrete items. The discrete items were recorded as a result of the enactment of the Housing and Economic Recovery Act of 2008 and changes in our prior year estimated tax liability based on actual tax payments made with tax returns filed during our third quarter. Under the Housing and Economic Recovery Act, corporations otherwise eligible for bonus first-year depreciation may instead elect to claim a refund for R&D tax credits generated prior to 2006. Our estimate of the refundable credit under this Act is $83,000. Excluding the tax impact of the discrete items, we would have recorded a tax expense primarily for federal alternative minimum income taxes, state income taxes in states where we do not have net operating loss carryforwards, 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.

We recorded liabilities related to uncertain tax positions in accordance with the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of SFAS No. 109, *Accounting for Income Taxes* (FIN 48). For the nine months ended November 30, 2008, our unrecognized

tax benefits were approximately $16,000 which had been reduced by $34,000 based on the tax returns filed during our third quarter. FIN No. 48 specifies that tax positions for which the

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timing of the ultimate resolution is uncertain should be recognized as long-term liabilities. We made no reclassifications between current taxes payable and long-term taxes payable. We do not expect to have significant changes to the unrecognized tax benefits over the next twelve months. Because of our history of operating losses, all years remain open to audit.

7. Derivative Financial Instruments

We maintain a foreign currency risk management strategy, which includes the use of derivative financial instruments, that is 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.

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. One of our forward contracts matures in 6 months and the other matures in 18 months. As of November 30, 2008, the fair value of our forward contracts was approximately $636,000 and was included in other current assets and other assets, net on our consolidated balance sheet.

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 effective spot-to-spot changes in these cash flow hedges in accumulated other comprehensive income (loss) until the hedged transaction takes place. We evaluate hedge effectiveness prospectively and retrospectively and record any ineffective portion of the hedging instruments to other income (expense), net in the consolidated statements of operations. Implicit interest of approximately $85,000 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 (loss). Implicit interest recorded for the three and nine months ended November 30, 2008 totaled approximately $16,000 and $24,000, respectively. We did not incur any hedge ineffectiveness on our forward contracts in the three or nine months ended November 30, 2008 and we had no forward contracts or other derivatives in the corresponding periods of the prior year.

8. 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. Our foreign currency forward contracts are classified within Level 2 as the valuation inputs are based on quoted prices of similar instruments in inactive markets and do not involve management judgment.

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The following table summarizes the amounts measured at fair value as of November 30, 2008 (in thousands):

Description	Total	Significant Other Observable Inputs (Level 2)
Assets:		
Foreign currency forward contracts(1)	$636	$ 636

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

9. Comprehensive Loss

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

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2008	2007	2008	2007
Net loss	$ (808)	$ (967)	$ (3,410)	$ (3,320)
Change in net unrealized gain on cash flow hedges and implicit interest	$ 411	$	$ 660	$
Comprehensive loss	$ (397)	$ (967)	$ (2,750)	$ (3,320)

The following table summarizes the components of accumulated other comprehensive income, net of taxes (in thousands):

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2008	2007	2008	2007
Net unrealized gain on cash flow hedges and implicit interest	$ 411	$	$ 660	$
Accumulated other comprehensive income	$ 411	$	$ 660	$

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 29, 2008. 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 operation appearing in our Annual Report on Form 10-K for the fiscal year ended February 29, 2008.

Overview

We are a leading provider of Consumer Demand Management, or CDM, solutions. CDM is a software category based on quantifying, predicting and shaping consumer demand. Our software services enable retailers and consumer products, or CP, companies to define strategies based on a scientific understanding of consumer behavior and make actionable pricing, promotion and other merchandising and marketing decisions 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 and marketing needs.

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Our CDM solutions consist of one or more software services and complementary analytical services. We offer our solutions individually or as a suite of integrated applications. Our software services are configurable to accommodate individual customer needs. Our solutions for the retail industry include DemandTec Lifecycle Price Optimization , DemandTec End-to-End Promotion Management , DemandTec Assortment & Space , and DemandTec Targeted Marketing . Our solution for the CP industry is DemandTec Trade Effectiveness . The DemandTec Platform underlies all of our solutions for the retail and CP industries and the DemandTec TradePoint Network connects the two industries for online collaboration. 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 $61.3 million in fiscal 2008, and was $55.7 million in the nine months ended November 30, 2008. Our operating expenses have also increased significantly during these same periods. We have incurred losses to date and had an accumulated deficit of approximately $75.8 million at November 30, 2008.

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 and renewing agreements with and selling add-ons 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 agreements with retailers are large contracts that generally are two to three years in length. The annual contract value for each retail customer agreement is largely related to the size of the retailer. Therefore, the aggregate annual contract value in a given period can fluctuate from period to period. Our agreements with CP companies are principally one year in length and a significant majority are smaller in annual and aggregate contract value than our retail customer contracts. Historically, the customer agreements we have signed in our fiscal first quarter have generally had an aggregate annual contract value that is the lowest of any of our fiscal quarters during a given fiscal year and less than the aggregate annual contract value of the agreements signed in the preceding fiscal fourth quarter. In addition, 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, Europe and Japan. We sell our software through our direct sales force and receive some customer prospect introductions through third-parties such as systems integrators and a data syndication company. In the nine months ended November 30, 2008, approximately 86% of our revenue was attributable to sales of our software to companies located in the United States. In the future, we expect to derive an increasing percentage of total revenue from international customers by expanding our operations, professional services and direct sales force abroad, thereby incurring additional operating expenses and capital expenditures. Our ability to achieve profitability will also be affected by our revenue growth as well as the operating expenses associated with supporting that growth. Our largest category of operating expenses is research and development expenses, and the largest component of our operating expenses is personnel costs.

In August 2007, we completed our initial public offering, or IPO, in which we sold and issued 6,000,000 shares of our common stock at an issue price of $11.00 per share. We raised a total of $66.0 million in gross proceeds from the IPO, or approximately $57.6 million in net proceeds after deducting underwriting discounts and commissions of $4.6 million and other offering costs of $3.8 million. Upon the closing of the IPO, all shares of convertible preferred stock outstanding automatically converted into 13,511,107 shares of common stock, and all outstanding warrants to purchase shares of convertible preferred stock automatically converted to warrants to purchase 181,747 shares of common stock.

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

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Deferred Commissions

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.

In the three months ended November 30, 2008, 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 November 30, 2008, we changed our estimate of the number of shares expected to vest utilized in calculating stock-based compensation expense. Please refer to Note 5 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 29, 2008 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 generally are 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 and for services other than implementation and training services. We generally provide implementation services on a time and materials basis and invoice our customers monthly in arrears. We also invoice in arrears for our training classes on implementing and using our software on a per person, per class basis. Our payment terms typically require our customers to pay us within 30 days of the invoice date. We include amounts invoiced in accounts receivable until collected and in deferred revenue until recognized as revenue.

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2008	2007	2008	2007
	(in thousands)			
Revenue	$18,989	$15,945	$ 55,675	$ 43,866

Three and Nine Months Ended November 30, 2008 Compared to the Three and Nine Months Ended November 30, 2007. Revenue for the three and nine months ended November 30, 2008 increased approximately $3.0 million, or 19.1%, and $11.8 million, or 26.9%, respectively, compared to the corresponding periods of the prior year.

Revenue from new customers increased $1.1 million and $2.7 million, respectively, in the three and nine months ended November 30, 2008 compared to the corresponding periods of the prior year. New customers are those that did not contribute any revenue in the respective three or nine month periods ended November 30, 2007. Revenue from existing customers increased $2.0 million and $9.0 million, respectively, compared to the corresponding periods of the prior year, primarily as a result of add-on sales to our installed base. Existing customers are those that contributed revenue in each of the periods presented.

In the three and nine months ended November 30, 2008, revenue from customers located outside the United States represented 13% and 14%, respectively, of revenue compared to 12% 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 each of the three and nine month periods ended November 30, 2008, revenue from retail customers represented 86% of revenue compared to 92% and 93%, respectively, in the corresponding periods of the prior year. In each of the three and nine months ended

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November 30, 2008, revenue from CP companies represented 14% of revenue, compared to 8% and 7%, respectively, in the corresponding periods of the prior year. We expect that, in the future, 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 center costs, depreciation expenses associated with computer equipment and software, compensation and related expenses of operations, technical customer support and professional services personnel, amortization of acquired 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 acquired intangible assets relates to developed technology acquired in the TradePoint acquisition and to our acquisition of rights to develop acquired assortment optimization technology. We are amortizing these intangible assets over a remaining life of approximately eleven months to eight years. 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 November 30,		Nine Months Ended November 30,	
	2008	2007	2008	2007
	(dollars in thousands)			
Revenue	$ 18,989	$ 15,945	$ 55,675	$ 43,866
Cost of revenue	5,834	5,560	17,335	14,898
Gross profit	13,155	10,385	38,340	28,968
Gross margin	69.3%	65.1%	68.9%	66.0%

Three and Nine Months Ended November 30, 2008 Compared to the Three and Nine Months Ended November 30, 2007. Cost of revenue in the three and nine months ended November 30, 2008 increased approximately $274,000 and $2.4 million, or 4.9% and 16.4%, respectively, compared to the corresponding periods of the prior year. The increase was due primarily to increased personnel costs, equipment maintenance and depreciation expense offset by a decrease in third-party contractor and consulting costs.

Personnel costs increased primarily as a result of increased headcount in the three and nine months ended November 30, 2008. Consulting services, support services, and production operations headcount increased to 94 at November 30, 2008 from 80 at November 30, 2007. Personnel costs increased approximately $144,000 and $1.8 million, respectively, in the three and nine months ended November 30, 2008 compared to the corresponding periods of the prior year. Personnel costs include all compensation, benefits and hiring costs. Stock-based compensation expense included in cost of revenue, which is a component of personnel costs, was approximately $389,000 and $1.2 million, respectively, in the three and nine months ended November 30, 2008 compared to $539,000 and $839,000, respectively, in the corresponding periods of the prior year. Equipment maintenance and depreciation expense increased in the three and nine months ended November 30, 2008 by approximately $269,000 and $803,000, respectively, compared to the corresponding periods of the prior year, as a result of capital expenditures, predominantly related to equipment in the third-party data centers, to support customer growth. Third-party contractor and consulting expense decreased approximately $243,000 and $514,000 in the three and nine months ended November 30, 2008, respectively, compared to the corresponding periods of the prior year due to increased use of DemandTec personnel to support customers as opposed to third-party consulting firms.

Our gross margin increased to 69.3% and 68.9%, respectively, in the three and nine months ended November 30, 2008 compared to 65.1% and 66.0%, respectively, in the corresponding periods of the prior year as we spread our data infrastructure costs over a larger customer base and utilized DemandTec personnel to implement and support customers. We expect that our cost of revenue will decrease as a percentage of revenue and our gross margin will increase in the future as we grow our customer base. In addition, we are amortizing acquired intangible assets over

three to ten years on a straight-line basis, which, absent any impairment, will result in quarterly amortization expense of approximately $150,000 in cost of revenue through the three months ended August 31, 2009 and declining amounts thereafter. We expect that stock-based compensation charges included in cost of revenue will vary over the long term depending on the timing and magnitude of equity incentive grants during each quarter.

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Research and Development Expenses

Research and development expenses include compensation and related expenses 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 November 30,		Nine Months Ended November 30,	
	2008	2007	2008	2007
	(dollars in thousands)			
Research and development	$6,659	$5,598	$ 19,772	$ 15,736
Percent of revenue	35.1%	35.1%	35.5%	35.9%

Three and Nine Months Ended November 30, 2008 Compared to the Three and Nine Months Ended November 30, 2007. Research and development expenses in the three and nine months ended November 30, 2008 increased approximately $1.1 million and $4.0 million, or 19.0% and 25.6%, respectively, compared to the corresponding periods of the prior year, primarily due to increased personnel costs, third-party contractor and consulting costs, and equipment maintenance and depreciation expense.

Personnel costs increased approximately $585,000 and $3.0 million, respectively, in the three and nine months ended November 30, 2008 compared to the corresponding periods of the prior year, primarily as a result of increased headcount. Research and development headcount increased to 101 at November 30, 2008 from 90 at November 30, 2007. Personnel costs include all compensation, benefits and hiring costs. Stock-based compensation expense included in research and development expenses, which is a component of personnel costs, was $509,000 and $1.7 million, respectively, in the three and nine months ended November 30, 2008 as compared to $580,000 and $827,000, respectively, in the three and nine months ended November 30, 2007. Third-party contractor and consulting expense increased approximately $159,000 and $416,000 in the three and nine months ended November 30, 2008, respectively, compared to the corresponding periods of the prior year, as a result of a new development process methodology initiated in May 2008. Equipment maintenance and depreciation expense increased in the three and nine months ended November 30, 2008 by approximately $144,000 and $382,000, respectively, compared to the corresponding periods of the prior year, as a result of capital expenditures to support our research and development labs and infrastructure and increased headcount.

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. We expect that, in the future, 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 compensation and related expenses 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 November 30,		Nine Months Ended November 30,	
	2008	2007	2008	2007
	(dollars in thousands)			
Sales and marketing	$4,839	$4,697	$ 15,250	$ 12,316
Percent of revenue	25.5%	29.5%	27.4%	28.1%

Three and Nine Months Ended November 30, 2008 Compared to the Three and Nine Months Ended November 30, 2007. Sales and marketing expenses in the three and nine months ended November 30, 2008 increased approximately $142,000 and $2.9 million, or 3.0% and 23.8%, respectively, compared to the corresponding periods of the prior year primarily as a result of increased personnel costs and marketing related costs.

Personnel costs increased approximately $209,000 and $2.3 million, respectively, in the three and nine months ended November 30, 2008 compared to the corresponding periods of the prior year. The increase for the three months ended November 30, 2008 was primarily due to an increase in commissions expense. The increase for the nine months ended November 30, 2008 was primarily due to an increase in commissions expense and stock-based compensation expense. Sales and marketing headcount increased to 37 at

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November 30, 2008 from 36 at November 30, 2007. Personnel costs include all compensation, benefits and hiring costs. Commission expense increased $141,000 and $543,000 in the three and nine months ended November 30, 2008 compared to the corresponding periods of the prior year. Stock-based compensation expense, which is a component of personnel costs and is included in sales and marketing expenses, was $488,000 and $1.7 million, respectively, in the three and nine months ended November 30, 2008 as compared to $605,000 and $830,000, respectively, in the corresponding periods of the prior year. Marketing-related costs increased $384,000 in the nine months ended November 30, 2008 compared to the corresponding period of the prior year, primarily related to tradeshows, events and advertising.

We expect that, in the future, 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.

General and Administrative Expenses

General and administrative expenses include compensation and related expenses 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 November 30,		Nine Months Ended November 30,	
	2008	2007	2008	2007
	(dollars in thousands)			
General and administrative	$2,662	$1,956	$ 7,333	$ 4,354
Percent of revenue	14.0%	12.3%	13.2%	9.9%

Three and Nine Months Ended November 30, 2008 Compared to the Three and Nine Months Ended November 30, 2007. General and administrative expenses in the three and nine months ended November 30, 2008 increased approximately $706,000 and $3.0 million, respectively, or 36.1% and 68.4%, respectively, over the corresponding periods of the prior year. The increase was primarily due to increased personnel costs, increased third-party professional services, principally for legal, and accounting and auditing expenses associated with being a public company. Personnel costs increased approximately $254,000 and $1.3 million, respectively, in the three and nine months ended November 30, 2008 compared to the corresponding periods of the prior year, primarily as a result of headcount increases and stock-based compensation expense. Personnel costs include all compensation, benefits and hiring costs. General and administrative headcount increased to 41 at November 30, 2008 from 34 at November 30, 2007. Stock-based compensation expense included in general and administrative expenses, which is included in personnel costs, was $424,000 and $1.2 million, respectively, in the three and nine months ended November 30, 2008 compared to $340,000 and $569,000, respectively, in the corresponding periods of the prior year. Third-party professional services costs increased approximately $189,000 and $1.1 million, respectively, in the three and nine months ended November 30, 2008 compared to the corresponding periods of the prior year, primarily due to costs associated with being a public company related to Sarbanes-Oxley compliance and audit expenses.

We expect that, in the future, general and administrative expenses will increase in absolute dollars but remain relatively constant or decrease slightly as a percentage of revenue. 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.

Amortization of Acquired Intangible Assets

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2008	2007	2008	2007

	(dollars in thousands)			
Amortization of acquired intangible assets	$331	$ 89	$ 751	$ 271
Percent of revenue	1.7%	0.6%	1.3%	0.6%

Three and Nine Months Ended November 30, 2008 Compared to the Three and Nine Months Ended November 30, 2007. Amortization of acquired intangible assets increased approximately $242,000 and $480,000 in the three and nine months ended November 30, 2008, respectively, compared to the corresponding periods of the prior year as a result of our May 2008 acquisition of rights to develop acquired assortment optimization technology. In June 2008 we began amortizing intangible assets associated with those rights. We are amortizing all acquired intangible assets over a remaining life of approximately eleven months to eight years on a

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straight-line basis, which, absent any impairment, will result in quarterly amortization expense of approximately $330,000 in operating expenses and $150,000 in cost of revenue through the three months ending August 31, 2009 and declining amounts thereafter.

Other Income (Expense), Net

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2008	2007	2008	2007
			(in thousands)	
Interest income	$ 431	$ 878	$ 1,436	$ 1,658
Interest expense	(31)		(54)	(1,216)
Other income (expense)	37	291	(25)	279
Other income (expense), net	$ 437	$ 1,169	$ 1,357	$ 721

Three and Nine Months Ended November 30, 2008 Compared to the Three and Nine Months Ended November 30, 2007. Other income (expense), net decreased $732,000 and increased $636,000, respectively, in the three and nine months ended November 30, 2008 compared to the corresponding periods of the prior year. The decrease in the three months ended November 30, 2008 was primarily due to decreased interest income resulting from lower interest rates on invested cash balances. The increase in the nine months ended November 30, 2008 was primarily due to a decrease in interest expense resulting from the payoff of interest-bearing debt in August 2007.

Interest income decreased $447,000 and $222,000, respectively, in the three and nine months ended November 30, 2008 compared to the corresponding periods of the prior year, primarily due to lower interest rates on invested cash balances.

Interest expense decreased $1.2 million in the nine months ended November 30, 2008 compared to the corresponding period of the prior year as we paid off approximately $13.0 million in interest-bearing debt with proceeds from our IPO in August 2007.

Other income (expense) decreased $254,000 and $304,000, respectively, in the three and nine months ended November 30, 2008 compared to the corresponding periods of the prior year. Other income (expense) for the three and nine months ended November 30, 2008 was primarily due to foreign exchange gains of $37,000 and losses of ($20,000), respectively, compared to foreign exchange gains of $297,000 and $388,000, respectively, in the corresponding periods of the prior year.

Provision (Benefit) for Income Taxes

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2008	2007	2008	2007
			(in thousands)	
Provision (benefit) for income taxes	$(91)	$181	$ 1	$ 319

Three and Nine months Ended November 30, 2008 Compared to the Three and Nine Months Ended November 30, 2007. In the three and nine months ended November 30, 2008, we recorded an income tax (benefit) expense of ($91,000) and $1,000, respectively, compared to expense of $181,000 and $319,000, respectively, in the corresponding periods of the prior year. The effective tax rate for the nine months ended November 30, 2008 was 4% based on our estimated taxable income for the year, less certain discrete items. The discrete items were recorded as a result of the enactment of the Housing and Economic Recovery Act of 2008 and changes in our prior year estimated tax liability based on actual tax payments made with tax returns filed during our third quarter. Under the Housing and Economic Recovery Act, corporations otherwise eligible for bonus first-year depreciation may instead elect to claim a refund for R&D tax credits generated prior to 2006. Our estimate of the refundable credit under this Act is $83,000.

Excluding the tax impact of the discrete items, we would have recorded a tax expense primarily for federal alternative minimum income taxes, state income taxes in states where we do not have net operating loss carryforwards, 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.

Our effective tax rate differs from our statutory rate in the three and nine month periods ended November 30, 2008 and 2007 primarily due to the utilization of our net operating loss carryforwards to offset taxes payable for federal purposes and for certain states.

Since inception, we have incurred a cumulative operating loss and, accordingly, have recorded a provision for income taxes primarily for federal alternative minimum income taxes, state income taxes principally in states where we have no net operating loss

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carryforwards and foreign taxes. At February 29, 2008, we had federal and state net operating loss carryforwards of approximately $54.1 million and $35.3 million, respectively, to offset future taxable income.

Stock-Based Compensation Expense

Total stock-based compensation expense decreased $254,000 and increased $2.8 million, respectively, in the three and nine months ended November 30, 2008 compared to the corresponding periods of the prior year. The decrease in the three months ended November 30, 2008 was primarily due to our revisions of the number of awards (primarily PSUs) expected to vest, a reduction in the number of unvested PSUs outstanding as some shares vested in July 2008, and a decrease in non-employee stock-based compensation expense due to a decrease in the number of unvested shares outstanding, partially offset by an increase in stock-based compensation expense of $1.1 million related to options and awards granted to new and existing employees subsequent to November 30, 2007. The increase in the nine months ended November 30, 2008 was primarily due to options granted to new and existing employees subsequent to November 30, 2007 and the award of PSUs and RSUs, partially offset by a decrease of $1.4 million of stock-based compensation expense resulting from our revisions of our estimate of the number of awards (primarily PSUs) expected to vest and lower PSU expense as some shares vested in July 2008. See Note 5 of Notes to our 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 of equity incentive grants and our revisions of our estimate of the number of shares expected to vest.

Liquidity and Capital Resources

At November 30, 2008, our principal sources of liquidity consisted of cash, cash equivalents, and marketable securities of $85.7 million, net accounts receivable of $12.4 million, and available borrowing capacity under our credit facility of $14.8 million.

In August 2007, we completed our IPO, in which we raised approximately $57.6 million in net proceeds after deducting underwriting discounts and commissions of $4.6 million and other offering costs of $3.8 million. Prior to our IPO, we historically funded our operations primarily through private sales of our convertible preferred stock, customer payments for our software services and borrowings from our bank loans and lines of credit.

In April 2008 we entered into a new revolving line of credit with a total borrowing capacity of $15.0 million, which was reduced by an outstanding letter of credit in the amount of $200,000 associated with an operating lease, and terminated our existing $5.0 million credit facility. Our new $15.0 million 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 lender 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.

	Nine Months Ended November 30,	
	2008	2007
	(in thousands)	
Net cash provided by operating activities	$ 10,790	$ 8,228
Net cash used in investing activities	(27,679)	(45,203)
Net cash provided by financing activities	2,311	44,661

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 lease payments for our facilities and data centers. 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 nine months ended November 30, 2008, we generated $10.8 million of net cash from operating activities, principally due to $9.2 million of non-cash charges for stock-based compensation expense, depreciation, and amortization of intangible assets, increased

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collection efforts which resulted in a $6.0 million decrease in accounts receivable, and a $4.4 million increase in accounts payable and accrued expenses due to the timing of payments due to certain vendors as well as the seasonality of certain compensation-related payments, offset by a $5.3 million decrease in deferred revenue associated with the fact that we increasingly bill customers on an annual basis rather than billing multiple years in advance, and a $3.4 million net loss. In the nine months ended November 30, 2007, we generated $8.2 million of net cash from operating activities, principally due to customer cash collections that resulted in an increase in deferred revenue of $10.4 million, partially offset by an increase in accounts receivable of $3.3 million. In addition, we used $1.8 million of cash to pay down accounts payable balances. This was largely offset by a $1.1 million increase in accrued compensation due to the timing of variable bonus payments and increased overall variable pay due to growth in headcount.

Investing Activities

Our primary investing activities have been capital expenditures on equipment located in our third-party data center and net purchases of marketable securities and payments for an acquisition.

In the nine months ended November 30, 2008, we used $27.7 million of net cash in investing activities related to the net purchases of marketable securities of $24.6 million, capital expenditures of $2.3 million and the purchase of intangible assets of $1.0 million. In the nine months ended November 30, 2007, we used $45.2 million of net cash in investing activities. We used $56.7 million of cash for net purchases of marketable securities as we invested cash raised from our IPO and received $15.8 million on maturities of marketable securities. We used $3.0 million for capital expenditures largely for our data centers and infrastructure to support the company s growth. We used $1.3 million to pay down notes payable to former TradePoint shareholders.

Financing Activities

Our primary financing activities have been issuances of common stock related to our IPO, exercises of stock options, and borrowings and repayments under our credit facilities.

In the nine months ended November 30, 2008, our primary financing activities were related to the issuance of common stock upon the exercise of stock options, net of repurchases and the issuance of common stock under our ESPP, which totaled $2.3 million. In the nine months ended November 30, 2007, our primary financing activities were $57.6 million of net cash proceeds from our IPO in August 2007 and the payoff of our $10.0 million term loan and our $3.0 million revolving line of credit balance.

We believe that cash provided by operating activities, together with our cash, cash equivalents, and marketable securities balances at November 30, 2008, 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 and data centers and a note payable to a former TradePoint shareholder. Our lease agreements generally do not provide us with the option to renew. Our future operating lease obligations will change if we enter into new lease agreements upon the expiration of our existing lease agreements and if we enter into new lease agreements to expand our operations.

In May 2008, we entered into a royalty-free, perpetual, worldwide agreement with a research and consulting firm pursuant to which we acquired rights to develop our own products based upon the firm s assortment optimization technology and to integrate these into our software service offering for sale initially to the retail industry. In consideration, we committed to pay an aggregate of $1,450,000 in installments through January 2009. Upon delivery of the source code, this technology and other intangible assets conveyed have been recorded as intangible assets and are being amortized into operating expenses over an estimated life of approximately 18 months.

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At November 30, 2008, the future minimum payments under these commitments as well as payments due under our note 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	$ 1,887	$ 1,464	$ 423	$	$
Note payable to former TradePoint shareholders	434	434			
Acquisition of rights to assortment optimization	450	450			
Total contractual obligations	$ 2,771	$ 2,348	$ 423	$	$

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 purpose 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

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, or SFAS No. 161. SFAS No. 161 requires companies with derivative instruments to disclose information that should enable financial statement users to understand how and why a company uses derivative instruments and related hedging activities and how they affect a company s financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Early application is encouraged and accordingly, we adopted SFAS No. 161 in August 2008.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*, or SFAS No. 141R, 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. 141R 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. 141R is effective for fiscal years beginning after December 15, 2008, and we will adopt it beginning in the first quarter of fiscal 2010.

In April 2008, the FASB issued FASB Staff Position (FSP) FAS 142-3, *Determination of the Useful Life of Intangible Assets*, or FSP FAS 142-3. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008 and early adoption is prohibited. We are currently evaluating the impact of the pending adoption of FSP FAS 142-3 on our consolidated financial statements.

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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 is 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-United States 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 November 30, 2008, we had two outstanding forward foreign exchange contracts to sell Euros for U.S. dollars in six months and 18 months, respectively, with a notional principal of 1.2 million (or approximately $1.5 million) each. 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. Foreign currency losses were ($20,000) in the nine months ended November 30, 2008.

Interest Rate Sensitivity

We had cash and cash equivalents totaling $28.5 million and marketable securities totaling $57.2 million at November 30, 2008. These amounts were invested primarily in government securities and corporate notes and bonds, with credit ratings of at least single A or better, and money market funds 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 are held for working capital purposes 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 considered the historical volatility of short-term interest rates and determined that it was reasonably possible that an adverse change of 100 basis-points could be experienced in the near term. A hypothetical increase in interest rates of 100 basis-points could result in a $330,000 decrease in the fair values of our marketable securities at November 30, 2008 and $170,000 at February 29, 2008.

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 November 30, 2008, 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

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concluded that as of November 30, 2008, 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 DemandTec, Inc. 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 the CEO and CFO, do 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 in the three months ended November 30, 2008 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.

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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 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 $4.5 million, $1.5 million and $2.7 million in fiscal 2008, fiscal 2007 and fiscal 2006, respectively, and a net loss of $3.4 million in the nine months ended November 30, 2008. At November 30, 2008, we had an accumulated deficit of $75.8 million. We may continue to incur net losses in the future. In addition, we expect our cost of revenue and operating expenses to continue to increase as we implement initiatives to continue to grow our business. We also expect to incur additional general and administrative expenses associated with being a public company. 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.

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

The recent 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 product industries have been and may continue to be especially hard hit by these economic developments. For example, 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 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 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:

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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;

changes in our pricing policies or those of our competitors;

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. Such variations in our sales, or delays in signing or a failure to sign 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.

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 86% of our revenue in the nine months ended November 30, 2008 and 90% of our revenue in fiscal 2008. In the nine months ended November 30, 2008, our two largest customers accounted for approximately 24% of our revenue, and in fiscal 2008 our three largest customers accounted for approximately 29% 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 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 continue to negatively impact the retail market segment, it could reduce the amount that these customers spend on information technology, and in particular CDM software, or could possibly result in the failure of one or more of our significant customers, 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.

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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 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 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 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 the past, some customers have elected not to renew their agreements with us or have renewed on less favorable terms. For instance, Sainsbury plc, which accounted for 21.2% of our fiscal 2006 revenue, did not renew its agreement when its term expired in the fourth quarter of fiscal 2006. 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 operating results 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 in 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 generally not be reflected in any significant manner in our revenue for that quarter, but it will negatively affect revenue in future quarters.

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 exceeding twelve 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 consumer demand management 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

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development or acquisition of such software. 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.

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 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 data or we are unable to obtain POS 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.

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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 154 employees at February 28, 2006 to 251 employees at February 29, 2008, and to 273 employees at November 30, 2008. This increase included an increase in research and development headcount from 58 employees at February 28, 2006 to 99 employees at February 29, 2008, and to 101 employees at November 30, 2008. In addition, our revenue grew from $32.5 million in fiscal 2006 to $43.5 million in fiscal 2007, and to $61.3 million in fiscal 2008. In the nine months ended November 30, 2008 our revenue was $55.7 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.

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 nine months ended November 30, 2008 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 approximately 90% of our revenue from sales to retail customers and approximately 10% from sales to CP companies, compared to 94% and 6%, respectively, in fiscal 2007. 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 Nielsen 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 CDM 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.

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.

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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 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.

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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 pay 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 increasingly will be susceptible to risks associated with international operations.

As part of our strategy, we intend to expand our international operations. We have limited experience operating in international jurisdictions. In the nine months ended November 30, 2008, in fiscal 2008 and in fiscal 2007, 14%, 12% and 6%, respectively, of our revenue was attributable to sales to companies located outside the United States. Our limited experience 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.

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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 November 30, 2008, in addition to our 129 employees in our production operations, support services, science, product management and engineering groups located in the United States, an additional 61 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, in fiscal 2009, we must perform 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. 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 will require 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 a timely manner, 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 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. Our independent registered public accounting firm identified two material weaknesses in internal controls with respect to the historical financial statements of TradePoint Solutions, Inc. (TradePoint) relating to revenue recognition and the availability of supporting documentation for its

financial statements. After we acquired TradePoint, we integrated the accounting processes associated with TradePoint into our financial and accounting systems. 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.

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

Our business strategy may include acquiring complementary software, technologies or businesses. An acquisition 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, especially if the key personnel of the acquired company choose not to work for us, and we may have difficulty retaining the customers of any acquired business due to changes in management and ownership. 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 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 $321,000 and $968,000 of amortization of acquired intangible assets in fiscal 2007 and fiscal 2008, respectively, and will result in amortization of approximately $970,000 in fiscal 2009 and declining amounts in the following eight years.

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, during its November 13, 2008 meeting, the EITF reached a

consensus-for-exposure on Issue No. 08-1, *Revenue Arrangements with Multiple Deliverables*, agreeing to modify the objective-and-reliable-evidence-of-fair-value threshold in Issue 00-21, "*Revenue Arrangements with Multiple Deliverables*. The modification would allow the use of an estimated selling price for undelivered elements for purposes of separating elements included in multiple-element arrangements and allocating arrangement consideration when neither VSOE nor acceptable third-party evidence of the selling price of the undelivered element are available. If this standard is enacted, it could alter the timing of how we record revenue for future arrangements. As the standard is not final, we cannot currently predict what the impact of these changes could be on our future results.

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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 April 2008, we secured a $15.0 million revolving credit line with a financial institution that replaced our prior $5.0 million credit line in order to increase our access to available capital. 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 that could affect the trading price of our common stock, many of which are beyond our control, 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;

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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 experiences a loss of investor confidence, 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 November 30, 2008, our directors, executive officers and other affiliates beneficially owned, in the aggregate, approximately 47.9% 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:

authorize the issuance of blank check preferred stock that could be issued by our board of directors to thwart a takeover attempt;

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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.

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. 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.

As of November 30, 2008, approximately $44.4 million of aggregate net proceeds remained invested in interest-bearing obligations, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of the United States government or in operating cash accounts.

There were no material differences in the actual use of proceeds from our IPO as 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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
9/1/08 - 9/30/08	228	$ 1.30		
10/1/08 - 10/31/08		$		
11/1/08 - 11/30/08	365	$ 1.30		
Total	593			

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(1) Under our 1999 Equity Incentive Plan we granted options to purchase common stock that permit the optionee to exercise the option before vesting, with us retaining a right to repurchase any unvested shares at the optionee s original cost in the event of the optionee s cessation of service. We ceased to grant further options with this repurchase feature after December 2, 2005. This table shows the shares acquired by us upon our repurchase of unvested shares upon employees terminations during the quarter ended November 30, 2008.

Item 3. Defaults Upon Senior Securities

None.

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

The first annual meeting of stockholders of DemandTec, Inc. was held on September 2, 2008. 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 2011 annual meeting of stockholders of the Company or until such persons successors have been duly elected and qualified.

	Votes For	**Withheld**

Ronald R. Baker	21,760,857	578,145
Linda Fayne Levinson	21,760,857	578,145

Directors Ronald E.F. Codd, Daniel R. Fishback, Victor L. Lund, Joshua W.R. Pickus and Charles J. Robel., in addition to Mr. Baker and Ms. Fayne Levinson, 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, 2009.

Votes for	22,322,340
Votes against	13,414
Abstain	3,248
Broker Non-Vote	0

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit No.	Description
10.1*	DemandTec, Inc. Non-Employee Director Compensation Policy, effective as of September 2, 2008 (incorporated herein by reference to our Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on October 3, 2008)
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

* Represents a management agreement or compensatory plan.

The certification attached as Exhibit 32.1 that accompanies this Quarterly Report on Form 10-Q 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.

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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: January 9, 2009

DemandTec, Inc.

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

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