SECURITIES AND EXCHANGE COMMISSION

FORM 10-K/A

Annual report pursuant to section 13 and 15(d) [amend]

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FILER

SourceForge, Inc

CIK:**1096199**| IRS No.: **770399299** | State of Incorp.:**DE** | Fiscal Year End: **1231**
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SIC: **7370** Computer programming, data processing, etc.

Mailing Address
650 CASTRO STREET, SUITE 450
MOUNTAIN VIEW CA 94041

Business Address
650 CASTRO STREET, SUITE 450
MOUNTAIN VIEW CA 94041
6506942100

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

Amendment No. 2

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

For the fiscal year ended July 31, 2007

Or

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

For the transition period from______to______.

Commission File Number: 000-28369

SourceForge, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**77-0399299**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

650 Castro Street, Suite 450, Mountain View, CA 94041

(Address, including zip code, of principal executive offices)

(650) 694-2100

(Registrant' s telephone number, including area code)

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.001 par value
(Title of Class)

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

As of September 28, 2007, there were 68,468,573 shares of the Registrant's Common Stock outstanding. The aggregate market value of the Common Stock held by non-affiliates of the Registrant as of January 31, 2007 (based on the closing price for the Common Stock on the NASDAQ Global Market for such date) was approximately $282.0 million. Shares of common stock held by each of our officers and directors and by each person or group who owns 5% or more of our outstanding common stock have been excluded in that such persons or groups may be deemed to be our affiliate. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

EXPLANATORY NOTE

This Amendment No. 2 (the "Amendment") to the Annual Report on Form 10-K, as amended by Amendment No. 1 to Form 10-K filed on October 17, 2007 (collectively, the "Prior Report"), is being filed solely to correct a mathematical error in the Consolidated Statements of Operations and Comprehensive Income (Loss), which appears in Item 8 of Part II of the Form 10-K. The mathematical error was the incorrect calculation of Comprehensive income (loss), which is the addition of Net income (loss) and Other comprehensive income (loss). This Amendment contains the complete text of Item 8 of Part II with the correct information.

Except as described above, no other changes have been made to the Prior Report, and this Amendment does not amend, update or change any other financial statements, Items or disclosures in the Prior Report. This Amendment does not reflect events occurring after the filing of the Prior Report or modify or update those disclosures, including any exhibits to the Prior Report affected by subsequent events. Information not affected by the changes described above is unchanged and reflects the disclosures made at the time of the Prior Report.

Item 8 is hereby amended and restated in its entirety to read as follows:

Item 8. ***Consolidated Financial Statements and Supplementary Data***

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All other schedules are omitted because they are not applicable, not required, or because the required information is included in the consolidated financial statements or notes thereto.

REPORT OF STONEFIELD JOSEPHSON, INC.
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Stockholders of SourceForge, Inc.:

We have audited the accompanying consolidated balance sheet of SourceForge, Inc. (the "Company") as of July 31, 2007 and July 31, 2006, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for the two years in the period ended July 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedule are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SourceForge, Inc. as of July 31, 2007 and July 31, 2006, and the results of its operations and its cash flows for the two years in the period ended July 31, 2007, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the financial statement schedule as of July 31, 2007 and July 31, 2006 for the two years in the period ended July 31, 2007, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the SourceForge, Inc.'s internal control over financial reporting as of July 31, 2007, based on criteria established in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated October 8, 2007 expressed an unqualified opinions on management's assessment of internal control over financial reporting and an unqualified opinion on the effectiveness of internal control over financial reporting.

We have also audited the adjustments to the July 31, 2005 consolidated financial statements to retrospectively apply the change in accounting, as described in Note 11. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2005 financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2005 financial statements taken as a whole.

/s/ Stonefield Josephson, Inc.

San Francisco, California
October 8, 2007

REPORT OF STONEFIELD JOSEPHSON, INC.
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of SourceForge, Inc.:

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We have audited management' s assessment, included in the accompanying "Management' s Report on Internal Control over Financial Reporting", that SourceForge, Inc. maintained effective internal control over financial reporting as of July 31, 2007, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). SourceForge, Inc.' s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management' s assessment and an opinion on the effectiveness of the company' s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management' s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company' s internal control over financial reporting is 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. A company' s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company' s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management' s assessment that SourceForge, Inc. maintained effective internal control over financial reporting as of July 31, 2007, is fairly stated, in all material respects, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, SourceForge, Inc. maintained, in all material respects, effective internal control over financial reporting as of July 31, 2007, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet and the related statements of operations and comprehensive income (loss), stockholders' equity and cash flows of SourceForge, Inc. as of July 31, 2007 and July 31, 2006 and our report dated October 8, 2007 expressed an unqualified opinion thereon.

/s/ Stonefield Josephson, Inc.

San Francisco, California
October 8, 2007

REPORT OF BDO SEIDMAN, LLP
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Stockholders of SourceForge, Inc. (formerly known as VA Software Corporation):

We have audited, before the effects of the adjustments to retrospectively account for the software business as a discontinued operation as described in Notes 1 and 11, the accompanying consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows of SourceForge, Inc. (formerly known as VA Software Corporation) (the "Company") for the year ended July 31, 2005. We have also audited the financial statement schedule listed in the Index at Item 15(a) as of and for the year ended July 31, 2005. The 2005 financial statements and schedule before the effects of the adjustments discussed in Notes 1 and 11 are not presented herein. These financial statements and schedule are the responsibility of the Company' s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedule are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, before the effects of the adjustments to retrospectively account for the software business as a discontinued operation as described in Notes 1 and 11, present fairly, in all material respects, the results of operations and cash flows of SourceForge, Inc. (formerly known as VA Software Corporation) for the year ended July 31, 2005, in conformity with accounting principles generally accepted in the United States.

Also, in our opinion, the financial statement schedule as of and for the year ended July 31, 2005, before the effects of the adjustments to retrospectively account for the software business as a discontinued operation as described in Notes 1 and 11, presents fairly in all material respects the information set forth therein.

We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively account for the software business as a discontinued operation as described in Notes 1 and 11 and, accordingly, we do not express an opinion or any other form of assurance about whether the adjustments are appropriate and have been properly applied. Those adjustments were audited by Stonefield Josephson, Inc.

/s/ BDO Seidman, LLP

San Jose, California
October 31, 2005

SOURCEFORGE, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share information)

	July 31, 2007	July 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,357	$ 14,753
Short-term investments	34,412	37,138
Accounts receivable, net of allowance of $76 and $122, respectively	5,288	2,822
Related party receivables	21	21
Inventories	2,052	1,091
Prepaid expenses and other current assets	1,529	863
Current assets of discontinued operations	92	2,718
Total current assets	51,751	59,406
Property and equipment, net	2,640	546
Long-term investments	13,871	1,152
Restricted cash, non-current	1,000	1,000
Other assets	7,601	1,027
Other assets of discontinued operations	–	81
Total assets	$ 76,863	$ 63,212
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,348	$ 1,096
Accrued restructuring liabilities, current portion	1,781	1,592
Deferred revenue (including $14 and $14 related party deferred revenue,		

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respectively)	733	293
Accrued liabilities and other	2,786	2,378
Current liabilities of discontinued operations	–	2,782
Total current liabilities	7,648	8,141
Accrued restructuring liabilities, net of current portion	3,267	4,515
Other long-term liabilities	854	1,114
Non-current liabilities of discontinued operations	–	64
Total liabilities	11,769	13,834
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Common stock , $0.001 par value; authorized -- 250,000; issued and outstanding -- 69,160 shares in 2007 and 64,997 shares in 2006	69	65
Treasury stock -- 490 shares in 2007 and 2006	(4)	(4)
Additional paid-in capital	797,422	790,437
Accumulated other comprehensive loss	(26)	(25)
Accumulated deficit	(732,367)	(741,095)
Total stockholders' equity	65,094	49,378
Total liabilities and stockholders' equity	$ 76,863	$ 63,212

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

SOURCEFORGE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(In thousands, except per share amounts)

	Year Ended July 31,		
	2007	**2006**	**2005**
Net revenue:			
Online Media revenue, including $361, $64 and $86 of related party revenue, respectively	$17,496	$13,242	$8,130
E-commerce revenue	28,103	20,416	14,918
Total net revenue	45,599	33,658	23,048
Cost of revenue:			
Online Media cost of revenue	4,733	3,732	3,320
E-commerce cost of revenue	21,200	15,605	11,591
Total cost of revenue	25,933	19,337	14,911
Gross margin	19,666	14,321	8,137
Operating expenses:			
Sales and marketing	6,108	4,426	3,523
Research and development	3,771	3,013	2,034
General and administrative	6,439	4,502	3,797
Impairment of long lived assets	–	–	87
Restructuring costs and other special charges	–	–	(101)
Amortization of intangible assets	4	4	12
Total operating expenses	16,322	11,945	9,352
Income (loss) from operations	3,344	2,376	(1,215)
Interest income	2,898	1,784	914
Interest expense	(4)	(10)	(39)
Other income (expense), net	2	(135)	83
Income (loss) from continuing operations before income taxes	6,240	4,015	(257)

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Provision for income taxes	285	92	–
Income (loss) from continuing operations	5,955	3,923	(257)
Discontinued operations:			
Loss from operations, net of taxes	(2,801)	(2,278)	(4,437)
Gain on sale, net of taxes	5,574	9,317	–
Income (loss) from discontinued operations	2,773	7,039	(4,437)
Net income (loss)	$8,728	$10,962	$(4,694)
Other comprehensive income (loss):			
Unrealized gain (loss) on marketable securities and investments	(1)	104	9
Foreign currency translation (loss) gain	–	102	(69)
Comprehensive income (loss)	$8,727	$11,168	$(4,754)
Income per share from continuing operations:			
Basic	$0.09	$0.06	$–
Diluted	$0.09	$0.06	$–
Income (loss) per share from discontinued operations:			
Basic	$0.04	$0.11	$(0.07)
Diluted	$0.04	$0.11	$(0.07)
Net income (loss) per share:			
Basic	$0.13	$0.18	$(0.08)
Diluted	$0.13	$0.17	$(0.08)
Shares used in per share calculations:			
Basic	66,254	62,328	61,454
Diluted	68,489	64,704	61,454

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

SOURCEFORGE, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock		Treasury	Additional Paid-in	Accumulated Other Comprehensive	Accumulated	Total Stockholders'
	Shares	Amount	Stock	Capital	Income (Loss)	Deficit	Equity
BALANCE AT JULY 31, 2004	61,185	$62	$(4)	$783,246	$ (171)	$ (747,363)	$ 35,770
Issuance of common stock	474	–	–	595	–	–	595
Issuance costs associated with Private Placement	–	–	–	(14)	–	–	(14)
Acceleration of stock options related to terminations	–	–	–	68	–	–	68
Foreign currency translation adjustment and unrealized gain or loss on marketable securities	–	–	–	–	(60)	–	(60)
Net loss	–	–	–	–	–	(4,694)	(4,694)
BALANCE AT JULY 31, 2005	61,659	62	(4)	783,895	(231)	(752,057)	31,665
Issuance of common stock	2,848	3	–	5,696	–	–	5,699
Stock based compensation	–	–	–	740	–	–	740
Tax benefits associated with exercise of stock options	–	–	–	106	–	–	106
Foreign currency translation adjustment and unrealized gain or loss on marketable securities	–	–	–	–	206	–	206
Net income	–	–	–	–	–	10,962	10,962

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BALANCE AT JULY 31, 2006	64,507	65	(4)	790,437	(25)	(741,095)	49,378
Issuance of common stock	4,163	4	–	4,214	–	–	4,218
Stock based compensation	–	–	–	2,558	–	–	2,558
Tax benefits associated with exercise of stock options	–	–	–	213	–	–	213
Unrealized gain (loss) on marketable securities	–	–	–	–	(1)	–	(1)
Net income	–	–	–	–	–	8,728	8,728
BALANCE AT JULY 31, 2007	68,670	$69	$(4)	$797,422	$ (26)	$ (732,367)	$ 65,094

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

SOURCEFORGE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended July 31,		
	2007	**2006**	**2005**
		(Revised) (1)	**(Revised) (1)**
Cash flows from operating activities from continuing operations:			
Net income (loss)	$8,728	$ 10,962	$ (4,694)
Income/(loss) from discontinued operations	2,773	7,039	(4,437)
Income (loss) from continuing operations	5,955	3,923	(257)
Adjustments to reconcile net income from continuing operations to net cash used in operating activities:			
Depreciation and amortization of intangibles	574	423	822
Stock-based compensation expense	1,443	435	68
Tax benefit from employee option plan	213	106	–
Provision for bad debts	27	138	36
Provision for excess and obsolete inventory	(33)	58	57
Loss on sale of assets	42	125	9
Non-cash restructuring expense	–	–	(101)
Impairment of long-lived assets	–	–	87
Changes in assets and liabilities, net of disposition:			
Accounts receivable	(2,493)	(514)	(438)
Inventories	(928)	(399)	239
Prepaid expenses and other assets	(679)	(44)	20
Accounts payable	1,252	(393)	(133)
Accrued restructuring liabilities	(1,640)	(1,749)	(3,327)
Deferred revenue	440	10	(127)
Accrued liabilities and other	300	7	854
Other long-term liabilities	(260)	(157)	(72)
Net cash provided by (used in) operating activities from continuing operations	4,213	1,969	(2,263)
Cash flows from investing activities from continuing operations:			
Change in restricted cash	–	–	450
Purchase of property and equipment	(2,626)	(506)	(334)
Sale of property and equipment	–	–	49
Purchase of marketable securities	(81,331)	(55,307)	(25,622)
Sale of marketable securities	71,337	53,040	22,788
Other, net	–	(2)	(4)
Net cash used in investing activities from continuing operations	(12,620)	(2,775)	(2,673)
Cash flows from financing activities from continuing operations:			
Payments on notes payable	–	(11)	(29)

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Proceeds from issuance of common stock, net	4,219	5,699	581
Net cash provided by financing activities from continuing operations	4,219	5,688	552
Effect of exchange rate changes on cash and cash equivalents	–	(16)	(69)
Cash flows from discontinued operations:			
Net cash used in operating activities	(1,550)	(1,643)	(3,872)
Net cash provided by (used in) investing activities	(658)	64	(141)
Proceeds from sale of Online Images business, net	–	8,968	–
Net cash provided by (used in) discontinued operations	(2,208)	7,389	(4,013)
Net increase (decrease) in cash and cash equivalents	(6,396)	12,255	(8,466)
Cash and cash equivalents, beginning of year	14,753	2,498	10,964
Cash and cash equivalents, end of year	$8,357	$ 14,753	$ 2,498

(1) Revised for discontinued operations. See Note 11 – Discontinued Operations.

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

SOURCEFORGE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Operations of the Company:

Overview

SourceForge, Inc. (“SourceForge” or the “Company”), formerly VA Software Corporation, owns and operates a network of media web sites, serving the IT management and IT professional, software development and open source communities and other consumers. Through its ThinkGeek, Inc. subsidiary, SourceForge also provides online sales of a variety of retail products of interest to these communities. The Company’ s network of web sites includes: SourceForge.net, Slashdot.org, ThinkGeek.com, Linux.com, freshmeat.net, ITManagersJournal.com and NewsForge.com. Combining user-developed content, online marketplaces and e-commerce, SourceForge provides the global technology community a nexus for information exchange, open source software distribution and services and goods for geeks.

SourceForge was incorporated in California in January 1995 and reincorporated in Delaware in December 1999. From the date of its incorporation through October 2001, the Company sold Linux-based hardware systems and services under the name VA Linux Systems, Inc. In December 2001, the Company changed its name to VA Software Corporation to reflect its decision to pursue its Online Media, E-commerce, Software and Online Images businesses. In December 2005, the Company sold its Online Images business to Jupitermedia Corporation (“Jupitermedia”) and in April 2007, the Company sold its Software business to CollabNet, Inc. (“CollabNet”). On May 24, 2007, reflecting the Company’ s strategic decision to focus on its network of media and e-commerce web sites, the Company changed its name to SourceForge, Inc. and merged with and into its wholly-owned subsidiary, OSTG, Inc.

As a result of the sale of the Company’ s Software business to CollabNet and the sale of its Online Images business to Jupitermedia, the Company no longer has operations in these segments. These dispositions meet the criteria in Statement of Financial Standards (“SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” to be presented as discontinued operations. Accordingly, all financial information related to the Software and Online Images businesses have been presented as discontinued operations in the accompanying condensed consolidated financial statements. See Note 11 − Discontinued Operations.

2. Summary of Significant Accounting Policies:

Use of Estimates in Preparation of Consolidated Financial Statements

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The preparation of consolidated financial statements in conformity with accounting principles generally accepted by the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of such financial statements, as well as the reported amounts of revenue and expenses during the periods indicated. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation. These reclassifications have no impact on previously reported net loss or cash flows.

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Related Party Transactions

As of July 31, 2007, the Company owned approximately 14% of VA Linux Systems Japan, K.K.' s ("VA Linux Japan") outstanding common stock and approximately 9% of CollabNet, Inc. ("CollabNet") consisting of CollabNet' s Series C-1 preferred stock. As the Company holds less than 20% of the voting stock of these companies and does

not otherwise exercise significant influence, these investments are accounted for under the cost method. VA Linux Japan is a reseller of the Company' s former Software business in Japan and also, resyndicates certain Media business web sites for the Japanese market. CollabNet is a developer of software used in collaborative software development. In April 2007, CollabNet acquired our Software business, see Note 11 Discontinued Operations. There are $0.02 million and $0.02 million of related-party receivables and $0.01 million and $0.01million of related-party deferred revenue associated with related parties as of July 31, 2007 and 2006, respectively, that are included in trade receivables and deferred revenue in the accompanying Consolidated Balance Sheets. There were $0.4 million, $0.1 million and $0.1 million of related-party revenue associated with VA Linux Japan and CollabNet for the years ended July 31, 2007, July 31, 2006 and July 31, 2005, respectively.

Foreign Currency Translation

The functional currency of all the Company' s foreign subsidiaries is the country' s local currency. Operations related to all of the Company' s wholly-owned foreign subsidiaries were discontinued in 2001 and were included in the fiscal 2001 restructuring plan. At July 31, 2007, the only remaining foreign subsidiary is the Company' s Belgium subsidiary. No revenue was generated from these entities for any of the periods presented and the expenses were administrative in nature and were immaterial to the consolidated results of operations for all periods presented. A minimal cash balance is maintained in the Company' s Belgian subsidiary for legal purposes. Remaining balance sheet accounts are translated into U.S. dollars at exchange rates prevailing at balance sheet dates. Expenses are translated into U.S. dollars at average rates for the period. Gains and losses resulting from translation are charged or credited in other comprehensive income as a component of stockholders' equity. As of July 31, 2007 the Company did not hold any foreign currency derivative instruments.

Segment and Geographic Information

Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. SFAS No. 131 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision-maker, or decision-making group, in making decisions how to allocate resources and assess performance. The Company' s chief decision-making group, as defined under SFAS No. 131, are the Chief Executive Officer and the executive team. The Company currently operates as two reportable business segments: Online Media and E-commerce.

The Company markets its products in the United States through its direct sales force and its online web site. Revenue for each of the years ended July 31, 2007, July 31, 2006 and July 31, 2005 were primarily generated from sales to end users in the United States.

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Cash, Cash Equivalents, Short-Term Investments and Long-Term Investments

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist principally of cash deposited in money market and checking accounts.

The Company accounts for its investments under the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Investments in highly liquid financial instruments with remaining maturities greater than three months and maturities of less than one year are classified as short-term investments. Financial instruments with remaining maturities greater than one year are classified as long-term investments. Investments in related party companies are included in "Other Assets" in the Consolidated Balance Sheets. All investments are classified as available-for-sale and are reported at fair value with net unrealized gains (losses) reported, net of tax, using the specific identification method as other comprehensive gain/(loss) in stockholders' equity. The cost of the investments was not significantly different than the fair value for the fiscal years presented. The fair value of the Company' s available-for-sale securities are based on quoted market prices at the balance sheet dates.

Cash, cash equivalents and investments consist of the following (in thousands) at market value:

	July 31, 2007	July 31, 2006
Cash and cash equivalents:		
Cash	$ 3,799	$ 2,774
Money market funds	1,736	2,615
Corporate securities	2,822	9,364
Total cash and cash equivalents	$ 8,357	$ 14,753
Short-term investments:		
Government securities	$ 9,394	$ 23,483
Corporate securities	10,950	3,245
Asset backed securities	7,534	3,742
Money market securities	6,534	6,668
Total short-term investments	$ 34,412	$ 37,138
Long-term investments:		
Asset backed securities	$ 3,798	$ –
Government securities	3,000	752
Corporate securities	7,073	400
Total long-term investments	$ 13,871	$ 1,152

The contractual maturities of debt securities classified as available-for-sale at July 31, 2007 are as follows (in thousands):

Maturing 90 days or less from purchase	$2,822
Maturing between 90 days and one year from purchase	34,412
Maturing more than one year from purchase	13,871
Total available-for-sale debt securities	$ 51,105

Restricted Cash

The Company had an outstanding letter of credit of $1.0 million at July 31, 2007 and 2006, which is used to collateralize its Fremont headquarters building lease. The Company has a restricted cash balance with its bank to support this letter of credit.

Trade Accounts Receivable

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Trade accounts receivable are recorded at the invoiced amount and are not interest bearing. The Company maintains an allowance for doubtful accounts to reserve for potentially uncollectible trade receivables. The Company also reviews its trade receivables by aging category to identify specific customers with known disputes or collectibility issues. The Company exercises judgment when determining the adequacy of these reserves and evaluates historical bad debt trends, general economic conditions in the United States and internationally, and changes in customer financial conditions.

Inventories

Inventories related to the Company' s E-commerce segment consist solely of finished goods that are valued using the average cost method. Provisions, when required, are made to reduce excess and obsolete inventories to their estimated net realizable values.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the estimated useful lives or the corresponding lease term. Property and equipment consist of the following (in thousands):

	July 31, 2007	July 31, 2006
Computer and office equipment (useful lives of 2 to 3 years)	$ 2,868	$ 3,600
Furniture and fixtures (useful lives of 2 to 4 years)	497	493
Leasehold improvements (useful lives of lesser of estimated life or lease term)	281	281
Software (useful lives of 2 to 5 years)	1,980	2,033
Total property and equipment	5,626	6,407
Less: Accumulated depreciation and amortization	(2,986)	(5,861)
Property and equipment, net	$ 2,640	$ 546

Depreciation expense for the years ended July 31, 2007, July 31, 2006, and July 31, 2005 was $0.6 million, $0.4 million, and $0.8 million, respectively.

Intangible Assets

Intangible assets are amortized on a straight-line basis over three to five years. Intangible asset amortization was insignificant during fiscal 2007, 2006 and 2005. The intangible asset at July 31, 2007 relates to domain and trade names associated with our current Online Media business. This balance has been included in "Other Assets" in the Consolidated Balance Sheets. The Company continually evaluates whether events or circumstances have occurred that indicate the remaining estimated useful lives of these intangible assets may not be recoverable. No events or circumstances occurred during fiscal year 2007 that would indicate a possible impairment in the carrying value of intangible assets at July 31, 2007.

The changes in the carrying amount of the intangible assets are as follows (in thousands):

	As of July 31, 2007		As of July 31, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Domain and trade names	$ 5,933	$ (5,931)	$ 5,933	$ (5,929)
Purchased technology	2,534	(2,534)	2,534	(2,534)
Total intangible assets	$ 8,467	$ (8,465)	$ 8,467	$ (8,463)

Impairment of Long-Lived Assets

As of July 31, 2007, the Company held investments of approximately 14% in VA Linux Systems Japan, K.K. ("VA Linux Japan") and approximately 9% of CollabNet, Inc. ("CollabNet") consisting of CollabNet' s Series C-1 preferred stock. The Company continually evaluates whether events or circumstances have occurred that indicate the remaining value of these investment may be impaired. There is no quoted price for these investments;

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accordingly, fair value was estimated by management based on the estimated fair value of the underlying net assets or an annual appraisal performed by an independent valuation firm. Based on the valuations performed during the years ended July 31, 2007 and July 31, 2006, there were no impairment of the investments. On July 31, 2005, an impairment loss of $0.1 million was included in "Impairment of long-lived assets" in the Consolidated Statements of Operations and Other Comprehensive Income/(Loss)". The Company' s investments balance is included in "Other Assets" in the Consolidated Balance Sheets and consists of the following (in thousands):

	As of July 31,	
	2007	**2006**
CollabNet, Inc.	$ 6,564	$ –
VA Linux Systems Japan, KK	387	387
Total investments	$ 6,951	$ 387

Revenue Recognition

Online Media Revenue

Online media revenue is primarily derived from cash sales of advertising space on the Company' s various web sites, as well as sponsorship and royalty related arrangements associated with advertising on these web sites. The Company recognizes Online Media revenue in accordance with SEC Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition" over the period in which the advertisements are displayed, provided that persuasive evidence of an arrangement exists, no significant obligations remain, the fee is fixed or determinable, and collection of the receivable is reasonably assured. The Company' s obligations typically include guarantees of a minimum number of "impressions" (times that an advertisement is viewed by users of our online services). To the extent that minimum guaranteed impressions are not met in the specified time frame, the Company does not recognize the corresponding revenue until the guaranteed impressions are delivered.

The Company recognizes revenue on barter transaction in accordance with SFAS 153, Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29." In accordance with SFAS 153, the Company measures these transactions based on the recorded amount of the non-monetary asset relinquished. The Company' s barter transactions generally consist of the exchange of advertising on its Online Media web sites in exchange for access and advertising at industry trade shows. Accordingly, the Company does not record any revenue as a result of these transactions. The fair value of barter revenue is insignificant.

E-commerce Revenue

E-commerce revenue is derived from the online sale of consumer goods. The Company recognizes E-commerce revenue from the sale of consumer goods in accordance with SAB 104. Under SAB 104, product revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the sale price is fixed or determinable, and collectibility is reasonably assured. In general, the Company recognizes E-commerce revenue upon the shipment of goods. The Company does grant customers a right to return E-commerce products. Such returns are recorded as incurred and have been immaterial for the periods presented.

Advertising Expenses

The Company expenses advertising costs as incurred. Total advertising expenses for continuing operations were $1.0 million, $0.5 million and $0.6 million for fiscal years ending July 31, 2007, July 31, 2006 and July 31, 2005, respectively.

Stock-Based Compensation

The Company adopted SFAS 123(R) "Share-Based Payment", a revision of SFAS 123, "Accounting for Stock-Based Compensation" and a supersession of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and its related implementation guidance on August 1, 2005. SFAS 123(R) establishes standards for the accounting for transactions where an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity' s equity instruments. The principal focus of SFAS 123(R) however, is the accounting for transactions in which an entity obtains employee services in share-based payment transactions, and where the measurement of the cost of employee services received in exchange for an award of equity instruments is based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide

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service in exchange for the award, the requisite service period, and, unless observable market prices for the same or similar instruments are available, will be estimated using option-pricing models adjusted for the unique characteristics of the instruments. If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification. During the years ended July 31, 2007 and July 31, 2006, the Company recognized $1.8 million and $0.7 million, respectively in compensation expense related to options granted to employees and directors.

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of August 1, 2005, the first day of the Company' s 2006 fiscal year. The Company' s Consolidated Financial Statements as of and for the year ended July 31, 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the Company' s Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R).

Software Development Costs

In accordance with SFAS No. 86, "Accounting for the Cost of Computer Software to be Sold, Leased, or Otherwise Marketed," development costs incurred in the research and development of new software products are expensed as incurred until technological feasibility in the form of a working model has been established at which time such costs are capitalized, subject to a net realizable value evaluation. Technological feasibility is established upon the completion of an integrated working model. To date, the Company' s software development, which related entirely to its discontinued Software business, has been completed concurrent with the establishment of technological feasibility and, accordingly, all software development costs have been charged to research and development expense in the accompanying consolidated statements of operations.

In accordance with SOP 98-1 "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use," costs incurred related to internal use software are capitalized and amortized over their useful lives. During the year ended July 31, 2007, the Company capitalized $1.8 million of internal use software costs. No costs were capitalized prior to the July 31, 2006.

Computation of Per Share Amounts

In accordance with SFAS No. 128 "Earnings Per Share," basic net loss per common share has been calculated using the weighted-average number of shares of common stock outstanding during the period, less shares subject to repurchase. For the fiscal year ended July 31, 2005, the Company has excluded all stock options and warrants from the calculation of diluted net loss per common share because all such securities are antidilutive for those periods.

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

	Year Ended July 31,		
	2007	**2006**	**2005**
Income (loss) from continuing operations	$ 5,955	$ 3,923	$ (257)
Income (loss) from discontinued operations	2,773	7,039	(4,437)
Net income (loss)	$ 8,728	$ 10,962	$ (4,694)
Weighted average shares - basic	66,254	62,328	61,454
Effect of dilutive potential common shares	2,235	2,376	–
Weighted average shares - diluted	68,489	64,704	61,454
Income per share from continuing operations:			
Basic	$ 0.09	$ 0.06	$ –
Diluted	$ 0.09	$ 0.06	$ –
Income (loss) per share from discontinued operations:			
Basic	$ 0.04	$ 0.11	$ (0.07)
Diluted	$ 0.04	$ 0.11	$ (0.07)
Net income (loss) per share:			

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Basic	$ 0.13	$ 0.18	$ (0.08)
Diluted	$ 0.13	$ 0.17	$ (0.08)

The following potential common shares have been excluded from the calculation of diluted net loss per share for all periods presented because they are anti-dilutive (in thousands):

	Year Ended July 31,		
	2007	2006	2005
Anti-dilutive securities:			
Options to purchase common stock	3,191	3,917	11,226
Warrants	–	731	731
Total	3,191	4,648	11,957

Comprehensive Loss

Comprehensive loss is comprised of net loss and other non-owner changes in stockholders' equity, including foreign currency translation gains or loss and unrealized gains or losses on available-for sale marketable securities.

Income Taxes

The Company accounts for income taxes using the liability method in accordance with SFAS No. 109, "Accounting for Income Taxes." Due to the Company' s loss position in fiscal year 2005, there was no provision for income taxes in that year. Deferred tax assets are recognized for anticipated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and their respective tax bases. A valuation allowance has been recorded for the total deferred tax assets as management believes it is more likely than not that these assets will not be realized as a result of uncertainties regarding realization of the assets based on the Company' s limited history of profitability and the uncertainty of future profitability.

Recent Accounting Pronouncements

In July 2006, the FASB issued Financial Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109," which is a change in accounting for income taxes. FIN 48 specifies how tax benefits for uncertain tax positions are to be recognized, measured, and derecognized in financial statements; requires certain disclosures of uncertain tax matters; specifies how reserves for uncertain tax positions should be classified on the balance sheet; and provides transition and interim period guidance, among other provisions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company does not expect the adoption of FIN 48 will have a material impact on its financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157 ("SFAS 157"), "Fair Value Measurements." Among other requirements, SFAS No. 157 defines fair value and establishes a framework for measuring fair value and also expands disclosure about the use of fair value to measure assets and liabilities. SFAS No. 157 is effective beginning the first fiscal year that begins after November 15, 2007. The Company does not believe that the adoption of SFAS No. 157 will have a material impact on its financial position or results of operations.

In September 2006, the SEC issued SAB No. 108 ("SAB 108"), "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements,", which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The guidance is applicable for fiscal years ending after November 15, 2006. The Company applied the provisions of SAB 108 beginning in the first quarter of fiscal 2007 and there was no impact to its financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159 ("SFAS 159"), "The Fair Value Option for Financial Assets and Financial Liabilities," SFAS No. 159 amends SFAS 115 and permits fair value measurement of financial instruments and certain other items. SFAS No. 159 is effective beginning the first fiscal year that begins after November 15, 2007. The Company is currently evaluating the impact of SFAS No. 159 on its financial position and results of operations.

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Supplier Concentration

No supplier concentration exists in the Company' s Online Media or E-commerce businesses.

Concentrations of Credit Risk and Significant Customers

The Company' s investments are managed by two reputable financial institutions; both institutions are headquartered in the United States. The Company' s investment policy, which is designed to preserve capital and maintain liquidity, limits the amount of risk exposure.

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash trade receivables. The Company provides credit, in the normal course of business, to a number of companies and performs ongoing credit evaluations of its customers. The credit risk in the Company' s trade receivables is substantially mitigated by its credit evaluation process and reasonably short collection terms. The Company maintains reserves for potential credit losses and such losses have been within management' s expectations. As of July 31, 2007 one advertising agency accounted for 20.7% of gross accounts receivables and as of July 31, 2006 another advertising agency accounted for 16.6% of gross accounts receivables.

For the fiscal years ended July 31, 2007, July 31, 2006 and July 31, 2005 no one customer represented more than 10% of net revenue. Going forward, the company does not anticipate that any one customer will represent more than 10% of net revenue.

3. Restructuring Costs and Other Special Charges

In fiscal 2001 and 2002, the Company adopted plans to exit its hardware systems and hardware-related software engineering and professional services businesses, exit a sublease agreement and reduce its general and administrative overhead costs. The Company exited these activities to pursue its Software, Online Media, E-commerce and Online Images businesses and reduce its operating losses to improve cash flow. The Company recorded restructuring charges of $168.5 million related to exiting these activities, including charges related to excess facilities from non-cancelable leases. In fiscal 2005, a credit adjustment of $0.1 million was recorded to accurately reflect the current common area maintenance fees associated with the Fremont facilities. In conjunction with the sale of the Software business in fiscal 2007 an additional reserve of $0.6 million was recorded as discontinued operations expense due to the idle space resulting from this transaction. This idle facilities charge has been included as discontinued operations in the consolidated statements of operations. The remaining accrual from non-cancelable lease payments, which continue through 2010, is based on current circumstances. These accruals are subject to change should actual circumstances change. The Company will continue to evaluate and update, if applicable, these accruals quarterly. As of July 31, 2007, the Company had an accrual of approximately $5.0 million outstanding related to these non-cancelable leases, all of which was originally included in operating expenses.

Below is a summary of the restructuring charges in operating expenses (in thousands):

	Year ended July 31,		
	2007	**2006**	**2005**
Cash provision:			
Facilities charges	$ 581	$ –	$ (101)
	$ 581	$ –	$ (101)

Below is a summary of the changes to the restructuring liability (in thousands):

	Balance at Beginning of Period	**Charged to Costs and Expenses**	**Deductions**	**Balance at End of Period**
For the year ended:				
July 31, 2005	$ 11,283	$ (101)	$ (3,327)	$7,855
July 31, 2006	$ 7,855	$ –	$ (1,748)	$6,107
July 31, 2007	$ 6,107	$ 581	$ (1,640)	$5,048

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Components of the total accrued restructuring liability are as follows (in thousands):

	Short Term	Long Term	Total Liability
As of July 31, 2005	$1,748	$6,107	$7,855
As of July 31, 2006	$1,592	$4,515	$6,107
As of July 31, 2007	$1,781	$3,267	$5,048

The Company' s restructuring liability is comprised of non-cancelable operating lease payments of $1.8 million, $1.8 million and $1.5 million for the years ending July 31, 2008, July 31, 2009 and July 31, 2010, respectively.

4. Commitments and Contingencies

The Company leases its facilities under operating leases that expire at various dates through fiscal year 2012. Future minimum lease payments under non-cancelable operating leases, net of sublease income, as of July 31, 2007 are as follows (in thousands):

	Gross Operating Leases	Sublease Income	Net Operating Leases	Included in Restructuring Liability
2008	4,137	1,064	3,073	1,781
2009	4,396	1,096	3,300	1,782
2010	3,780	938	2,842	1,485
2011	609	–	609	–
2012	627	–	627	–
Thereafter	105	–	105	–
Total minimum lease obligations	$13,654	$3,098	$10,556	$5,048

Gross rent expense for the years ended July 31, 2007, July 31, 2006 and July 31, 2005 was approximately $2.5 million, $2.6 million and $2.8 million, respectively. This rent expense was offset by sublease income of $1.5 million, $1.6 million and $1.8 million for the years ended July 31, 2007, July 31, 2006 and July 31, 2005, respectively. No rent expense as a result of idle facilities charges was recorded for the years ended July 31, 2007, July 31, 2006 and July 31, 2005. The idle facilities charge for the year ended July 31, 2007 has been included in discontinued operations in the consolidated statements of operations.

5. Litigation

The Company, two of its former officers (the "Former Officers"), and the lead underwriter in its initial public offering ("IPO") were named as defendants in a consolidated shareholder lawsuit in the United States District Court for the Southern District of New York, captioned In re VA Software Corp. Initial Public Offering Securities Litigation, 01-CV-0242. This is one of a number of actions coordinated for pretrial purposes as In re Initial Public Offering Securities Litigation, 21 MC 92 with the first action filed on January 12, 2001. Plaintiffs in the coordinated proceeding are bringing claims under the federal securities laws against numerous underwriters, companies, and individuals, alleging generally that defendant underwriters engaged in improper and undisclosed activities concerning the allocation of shares in the IPOs of more than 300 companies during late 1998 through 2000. Among other things, the plaintiffs allege that the underwriters' customers had to pay excessive brokerage commissions and purchase additional shares of stock in the aftermarket in order to receive favorable allocations of shares in an IPO. The consolidated amended complaint in the Company' s case seeks unspecified damages on behalf of a purported class of purchasers of its common stock between December 9, 1999 and December 6, 2000. Pursuant to a tolling agreement, the individual defendants were dismissed without prejudice. On February 19, 2003, the court denied the Company' s motion to dismiss the claims against it. The issuer defendants and plaintiffs negotiated a stipulation of settlement for the claims against the issuer defendants, including the Company, that was submitted to the Court for approval in June 2004. In August 2005, the Court preliminarily approved the settlement. In December 2006, the appellate court overturned the certification of classes in the six test cases that were selected by the underwriter defendants and

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plaintiffs in the coordinated proceedings. Because class certification was a condition of the settlement, it was unlikely that the settlement would receive final Court approval. On June 25, 2007, the Court entered an order terminating the proposed settlement based upon a stipulation among the parties to the settlement. Plaintiffs have filed an amended complaint and filed a motion for class certification based on their amended allegations. It is uncertain whether there will be any revised or future settlement. The Company believes that it has meritorious defenses to plaintiffs' claims and intends to defend the action vigorously.

On Nov 9, 2001, a former employee of the Company, who had worked as a sales person in the Company's former hardware business, filed a complaint captioned Okerman v. VA Linux Systems, Inc. & Larry Augustin, Civil No. 01-01825 (Norfolk Superior Court), in the Commonwealth of Massachusetts. As amended, the complaint alleges that changes made to certain commission and bonus plans during the plaintiff's tenure at the Company entitled him to recover damages for Breach of Contract, Breach of the Implied Covenant of Good Faith and Fair Dealing, violation of the Massachusetts Wage Act Statute, Promissory Estoppel, and Quantum Meruit. On June 25, 2002, the Court dismissed the Massachusetts Wage Act claim brought against the Company's former chief executive officer. On July 26, 2002, dismissal of the Wage Act claim in favor of the Company's former chief executive officer was upheld on interlocutory appeal. On July 9, 2003, the Court granted summary judgment in the Company's favor regarding claims for Breach of Contract, Promissory Estoppel, and Quantum Meruit, and granted judgment on the pleadings in favor of the Company regarding the Massachusetts Wage Act claim. On September 24, 2004, following a jury trial on the sole remaining claim for Breach of the Covenant of Good Faith and Fair Dealing, a jury awarded damages of $136,876 to the plaintiff, which have been included in accrued liabilities and other in the Company's condensed consolidated balance sheets as of April 30, 2007. The plaintiff and the Company filed their appellate briefs and the Appeals Court for the Commonwealth of Massachusetts heard oral arguments on May 17, 2007.On August 20, 2007, the Appeals Court issued its decision, vacating the Superior Court's dismissal of the Wage Act Claims and affirming all other counts. On September 17, 2007, Mr. Okerman and the Company filed petitions for rehearing and, on September 24, 2007, the Company filed an application for further appellate review with the Supreme Judicial Court regarding the Wage Act Claims. The Company believes that it has meritorious defenses to plaintiff's claims and intends to defend the action vigorously.

The Company is subject to various claims and legal actions arising in the ordinary course of business. The Company has accrued for estimated losses in the accompanying consolidated financial statements for those matters where it believes that the likelihood that a loss will occur is probable and the amount of loss is reasonably estimable.

As described in Note 12 – Subsequent Event, on September 26, 2007, Company received notification that it had been named as a defendant in a civil action filed in Paris, France.

6. Guarantees and Indemnifications

The following is a summary of our agreements that we have determined are within the scope of FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," some of which are specifically grandfathered because the guarantees were in effect prior to December 31, 2002. Accordingly, we have no liabilities recorded for these agreements as of July 31, 2007.

In conjunction with the sale of its Software business to CollabNet, the Company has agreed to indemnify CollabNet for damages arising from any misrepresentation of representations and warranties, the breach of a covenant or agreement or the failure by the Company to assume certain liabilities excluded from the sale of the business. Except in the case of fraud, the indemnification is limited to the 2,933,444 shares of CollabNet preferred stock held in escrow; however the maximum amount of the indemnification for breach of the non-competition covenant is equal to the 11,733,777 shares of CollabNet Series C-1 preferred stock, owned by the Company. CollabNet may not make an indemnification claim until their aggregate losses under the indemnification provisions exceed $0.1 million. The term of the indemnification is generally through April 24, 2008, except for certain claims for fraud or breaches of the non-competition covenant. The Company believes that it has complied with all of those items for which it has agreed to indemnify CollabNet, and the Company has not been subject to any claims or suffered any losses, and CollabNet has not made any claims pursuant to the Company's indemnification obligations. Accordingly, the Company has no liabilities recorded for this indemnification as of July 31, 2007.

In conjunction with the sale of its Online Images business to Jupitermedia, the Company agreed to indemnify Jupitermedia for losses arising from any misrepresentation of representations and warranties, the breach of a covenant or agreement or the failure by the Company to assume certain liabilities excluded from the sale of the business. The maximum amount of the indemnification is $1.4 million and no claim for indemnification may be made until aggregate losses exceed $0.08 million. The term of the indemnification was generally through June 23, 2007; however, certain items have different indemnification periods. The Company believes that it has complied with all of those items for which it has agreed to indemnify Jupitermedia, and the Company has not been subject to any claims or suffered any losses, and Jupitermedia has not made any claims pursuant to the Company's indemnification obligations. Accordingly, the Company has no liabilities recorded for this indemnification as of July 31, 2007.

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As permitted under Delaware law, the Company has agreements whereby the Company' s officers and directors are indemnified for certain events or occurrences while the officer or director is, or was, serving at the Company' s request in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has obtained director and officer liability insurance designed to limit the Company' s exposure and to enable the Company to recover a portion of any future amounts paid. As a result of the Company' s insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of July 31, 2007.

The Company enters into standard indemnification agreements in the ordinary course of business. Pursuant to these agreements, the Company indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally, the Company' s business partners, subsidiaries and/or customers, in connection with any patent, copyright or other intellectual property infringement claim by any third party with respect to the Company' s products. The term of these indemnification agreements is generally perpetual any time after execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. The Company has not incurred significant costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is insignificant. Accordingly, the Company has no liabilities recorded for these agreements as of July 31, 2007.

The Company' s former Software business warranted that its software products would perform in all material respects in accordance with the Company' s standard published specifications in effect at the time of delivery of the licensed products to the customer for a specified period, which generally did not exceed 90 days. Additionally, the Company warranted that its maintenance services performed consistently with generally accepted industry standards through the completion of the agreed upon services. In conjunction with the Company' s sale of its Software business to CollabNet, certain of these warranties were assumed by CollabNet. As a result, the Company believes the estimated fair value of these agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of July 31, 2007.

7. Retirement Savings Plan

The Company maintains an employee savings and retirement plan which is qualified under Section 401(k) of the Internal Revenue Code and is available to substantially all full-time employees of the Company. The plan provides for tax deferred salary deductions and after-tax employee contributions. Contributions include employee salary deferral contributions and discretionary employer contributions. To date, there have been no employer discretionary contributions.

8. Common Stock

Warrants

On November 6, 2003, the Company issued two warrants to purchase up to 705,883 and 25,000 shares of common stock to The Riverview Group LLC and Wharton Capital Partners Ltd., respectively in connection with a private placement of the Company' s common stock. These warrants were exercisable at exercise prices of $6.00 and $6.14 per share and the warrants expired unexercised on November 6, 2006.

Stock option plans

In fiscal year 1999, the Company adopted and the Board of Directors approved the 1998 Stock Option Plan (the "1998 Plan"). Since inception, a total of 37,824,386 shares of common stock have been reserved for issuance under the 1998 Plan, subject to an annual increase of the lesser of 4,000,000 shares or 4.9% of the then outstanding common stock or an amount to be determined by the Board of Directors. Through July 31, 2007, 50,087,162 options and stock purchase rights have been granted under the 1998 Plan. Under the 1998 Plan, the Board of Directors may grant to employees and consultants options and/or stock purchase rights to purchase the Company' s common stock at terms and prices determined by the Board of Directors. The 1998 Plan will terminate in 2008. Nonqualified options granted under the 1998 Plan must be issued at a price equal to at least 85% of the fair market value of the Company' s common stock at the date of grant. All options may be exercised at any time within 10 years of the date of grant or within one month of termination of employment, or such shorter time as may be provided in the stock option agreement, and vest over a vesting schedule determined by the Board of Directors. The Company' s policy is to issue new shares upon exercise of options under the 1998 Plan.

The Company' s 1999 Director' s Option Plan (the "Directors' Plan") was adopted by the Company' s Board of Directors in October 1999. Since inception, a total of 1,500,000 shares of common stock have been reserved for issuance under the Directors' Plan, subject to an annual increase of the lesser of 250,000 shares, or 0.5% of the then outstanding common stock or an amount determined by the Board of Directors. Through July 31, 2007, 1,210,000

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options have been granted under the Directors' Plan. Under the Directors' Plan, options are granted when a non-employee director joins the Board of Directors and at each annual meeting where the director continues to serve on the Board of Directors. The Directors' Plan establishes an automatic grant of 80,000 shares of common stock to each non-employee director who is elected. The Directors' Plan also provides that upon the date of each annual stockholders' meeting, each non-employee director who has been a member of the Board of Directors for at least six months prior to the date of the stockholders' meeting will receive automatic annual grants of options to acquire 20,000 shares of common stock. On September 5, 2007, the Compensation Committee of the Board of Directors amended the grants as further described in Note 12 - Subsequent Events. Each automatic grant has an exercise price per share equal to the fair market value of the common stock at the date of grant, vest 25% immediately upon the grant date, one thirty-sixth per month thereafter and become fully vested three years after the date of grant. Each automatic grant has a term of ten years. In the event of a merger with another corporation or the sale of substantially all of its assets, each non-employee director' s outstanding options will become fully vested and exercisable. Options granted under the Directors' Plan must be exercised within 3 months of the end of the non-employee director' s tenure as a member of the Board of Directors, or within 12 months after a non-employee director' s termination by death or disability, provided that the option does not terminate earlier under its terms earlier. Unless terminated sooner, the Directors' Plan terminates automatically in 2009. The Company' s policy is to issue new shares upon exercise of options under the Director' s Plan.

The Company has assumed certain option plans and the underlying options of companies which the Company has acquired (the "Assumed Plans"). Options under the Assumed Plans have been converted into the Company' s options and adjusted to effect the appropriate conversion ratio as specified by the applicable acquisition agreement, but are otherwise administered in accordance with the terms of the Assumed Plans. Options under the Assumed Plans generally vest over four years and expire ten years from the date of grant. No additional options will be granted under the Assumed Plans.

Restricted Stock Awards

During the fiscal year ended July 31, 2007, the Board of Directors granted executive management as well as certain other employees, 1,507,500 restricted shares at $0.001 per share. Restricted stock award grants are generally measured at fair value on the date of grant based on the number of shares granted and the quoted price of the Company' s common stock. This fair value has been reduced for estimated forfeitures based on the awards ultimately expected to vest and is recognized as an expense over the corresponding service period. The restricted stock awards have both service and performance conditions attached to them. The weighted-average grant date fair value per share was $3.90.

A total of 1,275,000 restricted shares were granted with service conditions. The service conditions have a three year vesting period. A total of 232,500 restricted shares were granted with performance conditions and vest based on the Company attaining certain performance conditions during its fiscal year ending July 31, 2007, of which 182,500 shares were outstanding at July 31, 2007. The Company did not attain these performance conditions and the shares were repurchased by the Company in August 2007.

As of July 31, 2007, the Company had reserved shares of its common stock for future issuance as follows:

1998 Stock Option Plan and Assumed Plans	14,713,523
1999 Director Option Plan	1,140,002
	15,853,525

The following table summarizes option and restricted stock activities from July 31, 2004 through July 31, 2007:

			Stock Options Outstanding		Stock Options	
	Available for Grant	Restricted Stock Outstanding (1)	Number Outstanding	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value ($ 000' s)
Balance at July 31, 2004	10,908,627	–	12,131,872	$ 3.58		
Granted	(1,552,900)	–	1,552,900	$ 2.05		
Exercised	–	–	(300,374)	$ 1.09		
Cancelled	2,152,685	–	(2,158,352)	$ 5.27		

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Balance at July 31, 2005	11,508,412	–	11,226,046	$ 3.11		
Granted	(1,902,000)	–	1,902,000	$ 3.68		
Exercised	–	–	(2,847,520)	$ 2.00		
Cancelled	1,317,974	–	(1,327,111)	$ 3.28		
Balance at July 31, 2006	10,924,386	–	8,953,415	$ 3.56		
Granted	(2,661,475)	1,507,500	1,153,975	$ 4.21		
Exercised	–		(2,820,406)	$ 1.50		
Restricted stock released	–	(25,000)	–	$ –		
Restricted stock repurchased	165,000	(165,000)	–	$ –		
Cancelled	703,989	–	(716,738)	$ 6.26		
Balance at July 31, 2007	9,131,900	1,317,500	6,570,246	$ 4.26	6.07	$4,131
Exercisable at July 31, 2007			4,760,716	$ 4.33	4.93	$3,785

(1) Restricted stock outstanding is included in common stock outstanding.

The total intrinsic value of options exercised was $8.6 million, $5.5 million and $0.3 million during the years ended July 31 2007, July 31, 2006 and July 31, 2005, respectively. The Company issues new shares upon the exercise of options. During the years ended July 31, 2007 and July 31, 2006, the Company realized tax benefits of $0.2 million and $0.1 million, respectively, from exercised options. For the year ended July 31, 2005 no tax benefit was realized from exercised options.

The value of the option grants has been calculated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Year Ended July 31,	
	2007	**2006**
Expected life (years)	6.13	6.5
Risk-free interest rate	4.8 %	4.9 %
Volatility	71 %	83 %
Dividend yield	None	None
Weighted-average fair value at grant date	2.84	2.74

The options outstanding and currently exercisable by exercise price at July 31, 2007 were as follows (in thousands, except years and per-share amounts):

	OPTIONS OUTSTANDING			**OPTIONS EXERCISABLE**	
Range of Exercise Prices	**Number Outstanding**	**Weighted Average Remaining Life (in years)**	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**
$ 0.23 - $ 1.85	668	6.60	$ 1.44	508	$ 1.36
$ 1.90 - $ 2.18	241	7.24	1.98	238	1.98
$ 2.45 - $ 2.45	889	5.50	2.45	889	2.45
$ 2.52 - $ 2.98	823	5.66	2.90	810	2.90
$ 3.00 - $ 3.70	649	4.19	3.08	617	3.05
$ 3.70 - $ 4.10	771	8.68	3.94	201	3.97
$ 4.10 - $ 4.33	621	8.52	4.15	183	4.15

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$ 4.33 - $ 4.64	543	1.21	4.57	502	4.57
$ 4.64 - $ 5.50	759	8.94	4.83	207	4.79
$ 5.50 - $64.12	606	3.36	13.57	606	13.57
$ 0.23 $64.12	6,570	6.07	$ 4.26	4,761	$ 4.33

The total intrinsic value of stock options outstanding and stock options exercisable as of July 31, 2007 was $4.1 million and $3.8 million, respectively. The intrinsic value is calculated as the difference between the market value as of July 31, 2007 and the exercise price of the shares. The market value as of July 31, 2007 was $3.71 as reported by the NASDAQ Global Market System. The weighted-average remaining contractual life of options exercisable as of July 31, 2007 was 4.93 years. The total number of in-the-money options exercisable as of July 31, 2007 was 3.1 million.

The total fair value of options vested during the years ended July 31, 2007, July 31, 2006 and July 31, 2005 were $0.3 million, $0.9 million, and $0.9 million, respectively. As of July 31, 2007, total compensation cost related to nonvested stock options not yet recognized was $4.5 million which is expected to be recognized over a weighted-average term of 3.0 years.

Valuation and Expense Information under SFAS 123(R)

On August 1, 2005, the Company adopted SFAS 123(R), which requires the measurement and recognition of compensation expense for all share-based payment awards made to the Company' s employees and directors, including employee stock options based on estimated fair values. The following table summarizes stock-based compensation expense related to employee stock options under SFAS 123(R) which was allocated as follows (in thousands):

	Year Ended July 31,	
	2007	**2006**
Online Media cost of revenue	$ 76	$ 16
E-commerce cost of revenue	25	9
Included in cost of revenue	101	25
Sales and marketing	236	32
Research and development	113	22
General and administrative	993	356
Included in operating expenses	1,342	410
Discontinued operations	434	305
Total share-based compensation expense	$ 1,877	$ 740

The table below reflects net loss and diluted net loss per share compared with the pro forma information for the year ended July 31, 2005 as follows (in thousands except per-share amounts):

	Year Ended July 31, 2005
Net loss – as reported	$ (4,694)
Add back employee stock-based compensation expense related to stock options included in reported net loss	$ 68
Stock-based compensation expense related to employee stock options	(13,335)
Net loss, including the effect of stock-based compensation expense	$ (17,961)
Basic and diluted net loss per share – as reported	$ (0.08)
Basic and diluted net loss per share, including the effect of stock-based compensation expense	$ (0.29)

The weighted-average estimated value of employee stock options granted during the year ended July 31, 2005 was $1.51 using the Black-Scholes model with the following weighted-average assumptions:

Year Ended

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	July 31, 2005
Expected life (years)	4.8
Risk-free interest rate	3.6 %
Volatility	98 %
Dividend yield	None

Upon adoption of SFAS 123(R), the Company began estimating the value of employee stock options on the date of grant using the Black-Scholes model. The Company has used the simplified method for determining the expected term of options granted during the fiscal years ending July 31, 2007 and July 31, 2006. Prior to fiscal 2006, the value of each employee stock option was estimated on the date of grant using the Black-Scholes model for the purpose of pro forma financial information in accordance with SFAS 123.

As stock-based compensation expense recognized in the Consolidated Statement of Operations for the years ended July 31, 2007 and July 31, 2006 is based on awards ultimately expected to vest; it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience. In the Company' s pro forma information required under SFAS 123 for the periods prior to August 1, 2005, the Company accounted for forfeitures as they occurred.

Employee Stock Purchase Plan

In October 1999, the Company adopted an Employee Stock Purchase Plan (“ESPP”). Under the terms of the ESPP, as authorized by the Board of Directors in September 2003, the maximum aggregate number of shares of stock that were to issued under the ESPP was 3,000,000, cumulatively increased annually by an amount equal to the lesser of (a) 1% of the then issued and outstanding shares of common stock, (b) an amount determined by the Board of Directors, or (c) 500,000 shares of common stock. During each six-month offering period, employees could choose to have up to 10% of their annual base earnings withheld to purchase the Company' s common stock. The purchase price of the common stock was 85% of the lesser of the fair value as of the beginning or ending of the offering period. A total of 173,888 shares of common stock were issued under the ESPP through July 31, 2005. The Company cancelled its Employee Stock Purchase Plan on July 28, 2005.

9. Income Taxes

The Company provides for income taxes using an asset and liability approach, under which deferred income taxes are provided based upon enacted tax laws and rates applicable to periods in which the taxes become payable.

Income (loss) from continuing operations before income taxes consists of the following components (in thousands):

	Year Ended July 31,		
	2007	2006	2005
($ in thousands)			
United States	$ 6,240	$ 1,934	$ (2,787)
Foreign	–	2,081	2,530
	$ 6,240	$ 4,015	$ (257)

The components of the provision for income taxes from continuing operations for the years ended July 31, 2007 and July 31, 2006 are as follows (in thousands):

	Year Ended July 31,	
	2007	2006
($ in thousands)		
Current:		
Federal	$ 137	$ 43
State	148	52

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Foreign	–	(3)
	$ 285	$ 92
Deferred:		
Federal	$ –	$ –
State	–	–
Foreign	–	–
	$ –	$ –
	$ 285	$ 92

A summary of total tax expense, by classification, included in the accompanying consolidated statements of income is as follows (in thousands):

	Year Ended July 31,	
	2007	**2006**
($ in thousands)		
Continuing operations	$ 285	$ 92
Discontinued operations	74	197
	$ 359	$ 289

Deferred tax assets (liabilities) consist of the following (in thousands):

	Year Ended July 31,	
	2007	**2006**
($ in thousands)		
Deferred tax assets:		
Accruals and reserves	$ 5,768	$ 6,636
Net operating loss carryforwards	90,230	93,796
Research and development credit carryforward	2,559	2,819
Gross deferred tax asset	98,557	103,251
Valuation allowance	(98,557)	(103,251)
Net deferred tax asset	$ –	$ –

Reconciliation of the statutory federal income tax to the Company' s effective tax for the years ended July 31, 2007 and July 31, 2006 are as follows:

	Year Ended July 31,	
	2007	**2006**
Tax at Federal statutory rate	34.0%	34.0%
State, net of Federal benefit	1.2%	0.8%
Meals and entertainment	0.5%	3.0%
Stock compensation	3.6%	16.4%
Fines and penalties	0.0%	0.1%
Foreign income exclusion	0.0%	(51.9%)
Research and development credit	(1.2%)	(1.5%)
Change in valuation allowance	(35.0%)	(0.9%)
Provision for taxes	3.1%	0.0%

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A reconciliation for the fiscal year ended July 31, 2005 is not presented as the Company incurred losses during the period.

Included in the July 31, 2007 valuation allowance is approximately $31.0 million related to stock options, which will be credited to stockholder' s equity when realized for tax purposes.

At July 31, 2007, management believes that, based on a number of factors, the available objective evidence creates sufficient uncertainty regarding the realizability of the deferred tax assets such that a full valuation allowance was recorded.

As of July 31, 2007, the Company has approximately $252.4 million of federal net operating losses available to offset future federal taxable income, which expire at various dates through fiscal year 2026. This amount includes approximately $12.5 million of net operating loss carryforwards from the acquisition of Andover.net in fiscal 2000. The deferred tax assets related to this of approximately $5.6 million as of June 7, 2000, may be used to reduce the tax provision if and when realized. Approximately $23.2 million of federal net operating losses usage is limited pursuant to section 382 of the Internal Revenue Code due to certain changes in the Company' s ownership which occurred between 1996 and 1999, and a change in ownership resulting from the Company' s June 2000 acquisition of Andover.net. The Company also has California net operating loss carryforwards of approximately $75.5 million to offset future California taxable income, which expire at various dates through fiscal year 2016. The net operating loss carryforwards stated above are reflective of various federal and state tax limitations.

10. Segment and Geographic Information

The Company' s operating segments are significant strategic business units that offer different products and services. The Company has two operating segments: Online Media and E-commerce. In April 2007, the Company sold its Software business to CollabNet and in December 2005, the Company completed the sale of its Online Images business to Jupitermedia and no longer has operations in these segments.

The Company' s Online Media segment consists of a network of Internet web sites serving the IT professional, software development and open source communities and the Company' s E-commerce segment provides online sales of a variety of retail products of interest to the software development and IT communities. The Company' s network of web sites that comprise the Online Media segment include: SourceForge.net, Slashdot, ThinkGeek, Linux.com, freshmeat.net, ITManagersJournal and NewsForge.com. Those corporate expenses that are not allocated to the individual operating segments and are not considered by the Company' s chief decision-making group in evaluating the performance of the operating segments are included in Other.

The accounting policies of the segments are consistent with those described in the summary of significant accounting policies. All intersegment sales have been stated separately in the table below. The Company' s chief decision-making group, as defined under SFAS No. 131, consists of the Chief Executive Officer and the executive team. The Company' s chief decision-making group excludes all intersegment sales when evaluating the performance of the segments. The Company' s assets and liabilities are not discretely allocated or reviewed by operating segment. The depreciation of the Company' s property, equipment and leasehold improvements are allocated based on headcount, unless specifically identified by operating segment.

(in thousands)	Online Media	E-commerce	Other	Eliminations	Total Company
Year Ended July 31, 2007					
Revenue from external customers	$17,496	$ 28,103	$–	$ –	$ 45,599
Revenue from intersegments	$211	$ –	$–	$ (211)	$ –
Cost of revenue	$4,733	$ 21,200	$–	$ –	$ 25,933
Gross margin	$12,974	$ 6,903	$–	$ (211)	$ 19,666
Operating income	$177	$ 3,336	$–	$ (169)	$ 3,344
Depreciation expense	$381	$ 18	$–	$ –	$ 399
Year Ended July 31, 2006					
Revenue from external customers	$13,242	$ 20,416	$–	$ –	$ 33,658
Revenue from intersegments	$60	$ –	$–	$ (60)	$ –
Cost of revenue	$3,732	$ 15,605	$–	$ –	$ 19,337
Gross margin	$9,570	$ 4,811	$–	$ (60)	$ 14,321
Operating income	$360	$ 1,999	$17	$ –	$ 2,376
Depreciation expense	$218	$ 14	$–	$ –	$ 232
Year Ended July 31, 2005					
Revenue from external customers	$8,130	$ 14,918	$–	$ –	$ 23,048

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Revenue from intersegments	$279	$ –	$–	$ (279)	$ –
Cost of revenue	$3,320	$ 11,591	$–	$ –	$ 14,911
Gross margin	$5,089	$ 3,327	$–	$ (279)	$ 8,137
Operating income (loss)	$ (1,624)	$ 673	$ (264)	$ –	$ (1,215)
Depreciation expense	$346	$ 29	$–	$ –	$ 375

During the time period covered by the table above, the Company marketed its products in the United States through its direct sales force and its online web sites. Revenue for each of the fiscal years ended July 31, 2007, July 31, 2006 and July 31, 2005 were primarily generated from sales to end users in the United States of America.

11. Discontinued Operations

In February 2007, the Company announced that it had engaged a financial advisor to explore various alternatives for its Software business in order to allow management to focus on it core Online Media and E-commerce business. In April 2007, the Company sold substantially all of the assets and certain liabilities of its Software business to CollabNet, Inc. ("CollabNet") in exchange for a minority equity interest in CollabNet, comprised of 11,733,777 shares of its Series C-1 Preferred Stock, valued at $6.6 million, which is included in "Other Assets" in the Consolidated Balance Sheets.

In conjunction with the sale, the Company has agreed to indemnify CollabNet for damages arising from any misrepresentation of representations and warranties, the breach of a covenant or agreement or the failure by the Company to assume certain liabilities excluded from the sale of the business. The indemnification is generally limited to the 2,933,444 shares of CollabNet preferred stock which are held in escrow; however the maximum amount of the indemnification for breach of the non-competition covenant is equal to the 11,733,777 shares of CollabNet Series C-1 preferred stock, owned by the Company. CollabNet may not make an indemnification claim until their aggregate losses under the indemnification provisions exceed $0.1 million. The term of the indemnification is generally through April 24, 2008, except for certain claims for fraud or breaches of the non-competition covenant. The Company believes that it has complied with all of those items for which it has agreed to indemnify CollabNet, and the Company has not been subject to any claims or suffered any losses, and CollabNet has not made any claims pursuant to the Company' s indemnification obligations. Accordingly, the Company has no liabilities recorded for this indemnification as of July 31, 2007.

As specified in the agreement, the assets sold to CollabNet consisted primarily of intellectual property and property and equipment. In conjunction with the sale, the Company terminated those employees of our Software business who were not offered employment by CollabNet and also recorded a restructuring reserve for the excess facility space formerly used by its Software business. The Company' s gain on the sale of this business is as follows (in thousands):

Proceeds from sale:	
CollabNet, Inc. Series C-1 Preferred Stock	$ 6,564
Cash	19
Total proceeds	6,583
Costs and expenses	(676)
Net proceeds	5,907
Net book value of assets and liabilities sold	1,533
Severance and benefits of terminated employees	(1,080)
Idle space restructuring charge	(581)
Other	(57)
Gain on sale, before income taxes	5,722
Provision for income taxes	148
Gain on sale, net of income taxes	$ 5,574

In December 2005, the Company sold the assets, net of deferred revenue, of its Online Images business to Jupitermedia Corporation ("Jupitermedia") for $9.4 million. The Company received $8.4 million in cash, and $0.9 million in an escrow account, which was fully paid as of July 31, 2007. As specified in the agreement, the assets sold to Jupitermedia consisted primarily of intellectual property, inventories and property and equipment.

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Income from discontinued operations consists of direct revenue and direct expenses of the Software and Online Images businesses, including cost of revenue, as well as other fixed and allocated costs. A summary of the operating results of the discontinued operations in the accompanying condensed consolidated statements of income is as follows:

	Year Ended July 31,		
	2007	2006	2005
($ in thousands)			
Revenue:			
Software	$ 5,236	$9,974	$7,555
Online Images	–	914	2,284
Revenue	$ 5,236	$10,888	$9,839
Loss from operations:			
Software	$ (2,875)	$ (2,699)	$ (5,392)
Online Images	–	340	955
Loss from operations before income taxes	(2,875)	(2,359)	(4,437)
Income taxes	(74)	(81)	–
Loss from operations, net of income taxes	$ (2,801)	$ (2,278)	$ (4,437)
Gain from sale of assets:			
Software	5,722	$–	$–
Online Images	–	9,595	–
Gain from sale of assets before income taxes	5,722	9,595	–
Income taxes	148	278	–
Gain from sale, net of income taxes	$ 5,574	$9,317	$–

12. Subsequent Events

On September 5, 2007, the Compensation Committee of the Board of Directors approved an amendment to the Directors' Plan which reduced the automatic grant of options from 80,000 shares to 70,000 shares for each newly-elected non-employee director. In addition, the annual automatic grant of options for 20,000 shares to each non-employee director who has been a member of the Board of Directors for at least six months prior to the annual stockholders' meeting was replaced by a restricted stock award of 10,000 shares at $0.001 per share at each annual stockholders' meeting.

On September 26, 2007, Company received notification that it had been named as a defendant in a civil action filed by the Societe des Producteurs de Phonogrammes Francais ("SPPF") in Paris, France. The action asserted statutory claims under the French Intellectual Property Code. The Company believes that it has meritorious defenses to the action and intends to defend itself vigorously.

Quarterly Financial Data

	For the three months ended			
(in thousands)	**October 31**	**January 31**	**April 30**	**July 31**
Fiscal Year 2007				
Net revenue	$ 8,164	$ 17,104	$ 10,252	$ 10,079
Gross margin	3,517	6,310	4,887	4,952
Operating income (loss)	(11)	2,253	1,096	6
Income from continuing operations	669	2,817	1,761	708
Net income (loss):	$ (140)	$ 1,776	$ 6,491	$ 601

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Income per share from continuing operations:				
Basic	$ 0.01	$ 0.04	$ 0.03	$ 0.01
Diluted	$ 0.01	$ 0.04	$ 0.03	$ 0.01
Net income per share:				
Basic	$ –	$ 0.03	$ 0.10	$ 0.01
Diluted	$ –	$ 0.03	$ 0.09	$ 0.01
Fiscal Year 2006				
Net revenue	$ 6,167	$ 11,756	$ 7,901	$ 7,834
Gross margin	2,462	4,290	3,797	3,772
Operating income (loss)	(127)	1,202	778	521
Income from continuing operations	142	1,436	1,172	1,173
Net income (loss):	$ (1,234)	$ 10,502	$ 997	$ 697
Income per share from continuing operations:				
Basic	$ –	$ 0.02	$ 0.02	$ 0.02
Diluted	$ –	$ 0.02	$ 0.02	$ 0.02
Net income (loss) per share:				
Basic	$ (0.02)	$ 0.17	$ 0.02	$ 0.01
Diluted	$ (0.02)	$ 0.17	$ 0.02	$ 0.01

PART IV

Item 15, "Exhibits and Financial Statement Schedules," is hereby amended to add to the content thereof the following exhibits:

23.3 – Consent of Stonefield Josephson, Inc., Independent Registered Public Accounting Firm

23.4 – Consent of BDO Seidman, LLP, Independent Registered Public Accounting Firm

24.2 – Power of Attorney (see signature page)

31.3 – Certification of Chief Executive Officer Pursuant to Section 302 of The Sarbanes-Oxley Act Of 2002

31.4 – Certification of Chief Financial Officer Pursuant to Section 302 of The Sarbanes-Oxley Act Of 2002

32.3 – Certification of Chief Executive Officer Pursuant to Section 906 of The Sarbanes-Oxley Act Of 2002

32.4 – Certification of Chief Financial Officer Pursuant to Section 906 of The Sarbanes-Oxley Act Of 2002

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOURCEFORGE, INC.

By: /s/ ALI JENAB

Ali Jenab

Chief Executive Officer and President

Date: December 7, 2007

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POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Ali Jenab and Patricia S. Morris, and each of them, his true and lawful attorneys-in-fact, each with full power of substitution, for him and all capacities, to sign any amendments to this report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission and does hereby ratify and confirm all that each of said attorneys-in-fact or their substitute or substitutes may do or cause to be done by virtue hereof.

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ ALI JENAB Ali Jenab	Chief Executive Officer, President (principle executive officer) and Director	December 7, 2007
/s/ PATRICIA S. MORRIS Patricia S. Morris	Senior Vice President and Chief Financial Officer (principle accounting officer)	December 7, 2007
* Andrew Anker	Director	December 7, 2007
* Ram Gupta	Chairman of the Board of Directors	December 7, 2007
* Scott E. Howe	Director	December 7, 2007
* Robert M. Neumeister, Jr.	Director	December 7, 2007
* Carl Redfield	Director	December 7, 2007
* David B. Wright	Director	December 7, 2007
* /s/ ALI JENAB Ali Jenab	Attorney-in-fact	

SOURCEFORGE, INC.

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

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Description	Balance Beginning of Period	Charged to Costs and Expenses	Deductions	Balance End of Period
Year Ended July 31, 2005				
Allowance for doubtful accounts	$ 71	36	7	$ 100
Allowance for excess and obsolete inventory	$ 33	57	31	$ 59
Year Ended July 31, 2006				
Allowance for doubtful accounts	$ 100	84	62	$ 122
Allowance for excess and obsolete inventory	$ 59	40	3	$ 96
Year Ended July 31, 2007				
Allowance for doubtful accounts	$ 122	7	53	$ 76
Allowance for excess and obsolete inventory	$ 96	(38)	1	$ 57

EXHIBIT INDEX

Exhibit Number		
23.3	−	Consent of Stonefield Josephson, Inc., Independent Registered Public Accounting Firm
23.4	−	Consent of BDO Seidman, LLP, Independent Registered Public Accounting Firm
24.1	−	Power of Attorney (see signature page)
31.3	−	Certification of Chief Executive Officer Pursuant to Section 302 of The Sarbanes-Oxley Act Of 2002
31.4	−	Certification of Chief Financial Officer Pursuant to Section 302 of The Sarbanes-Oxley Act Of 2002
32.3	−	Certification of Chief Executive Officer Pursuant to Section 906 of The Sarbanes-Oxley Act Of 2002
32.4	−	Certification of Chief Financial Officer Pursuant to Section 906 of The Sarbanes-Oxley Act Of 2002

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EXHIBIT 23.3

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

SourceForge, Inc.
Mountain View, California

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-92409; 333-92391; 333-38768; 333-38766; 333-38874; 333-59096; 333-71944; 333-101965; and 333-116778) of SourceForge, Inc. of our reports dated October 8, 2007, relating to the consolidated financial statements and financial statement schedule and the effects of the adjustments to the consolidated financial statements for the year ended July 31, 2005 to retrospectively apply the change as discussed in Note 11 to the consolidated financial statements, and the related financial statement schedule, and management' s assessment of the effectiveness of internal control over financial reporting and the effectiveness of SourceForge, Inc.' s internal control over financial reporting, which appears in this Annual Report on Form 10-K/A.

/s/ Stonefield Josephson, Inc.

San Francisco, California
December 6, 2007

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EXHIBIT 23.4

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

SourceForge, Inc.
Mountain View, California

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-92409; 333-92391; 333-38768; 333-38766; 333-38874; 333-59096; 333-71944; 333-101965; and 333-116778) of SourceForge, Inc. (formerly known as VA Software Corporation) of our report dated October 31, 2005, relating to the consolidated financial statements and financial statement schedule, before the effects of the adjustments to retrospectively account for the software business as a discontinued operation as described in Notes 1 and 11 (the 2005 financial statements before the effects of the adjustments described in Notes 1 and 11 are not presented separately herein), which appears in this Annual Report on Form 10-K/A.

/s/ BDO Seidman, LLP

San Jose, California
December 7, 2007

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EXHIBIT 31.3

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, Ali Jenab, certify that:

1. I have reviewed this annual report on Form 10-K/A of SourceForge, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)),for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: December 7, 2007

/s/ ALI JENAB

Ali Jenab
Chief Executive Officer and President

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EXHIBIT 31.4

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, Patricia S. Morris, certify that:

1. I have reviewed this annual report on Form 10-K/A of SourceForge, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)),for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: December 7, 2007

/s/ PATRICIA S. MORRIS
Patricia S. Morris
Chief Financial Officer and Senior Vice President

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EXHIBIT 32.3

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Ali Jenab, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of SourceForge, Inc. on Form 10-K/A for the fiscal year ended July 31, 2007 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K/A fairly presents in all material respects the financial condition and results of operations of SourceForge, Inc.

Date: December 7, 2007	By:	/s/ ALI JENAB
	Name:	Ali Jenab
	Title:	Chief Executive Officer and President

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EXHIBIT 32.4

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Patricia S. Morris, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of SourceForge, Inc. on Form 10-K/A for the fiscal year ended July 31, 2007 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K/A fairly presents in all material respects the financial condition and results of operations of SourceForge, Inc.

Date: December 7, 2007

By: /s/ PATRICIA S. MORRIS
Name: Patricia S. Morris
Title: Chief Financial Officer and Senior Vice President

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