

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

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

For the quarterly period ended September 30, 2009

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

Geeknet, Inc.

(Exact name of Registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

77-0399299

*(I.R.S. Employer
Identification No.)*

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

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

(650) 694-2100

(Registrant's telephone number, including area code)

SourceForge, Inc.

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$0.001 par value

(Title of Class)

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title Of Class

Outstanding At October 30, 2009

Common Stock, \$0.001 par value

60,475,493

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PART I**GEEKNET, INC. (FORMERLY SOURCEFORGE, INC.)****CONDENSED CONSOLIDATED BALANCE SHEETS**
(In thousands, unaudited)

	September 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 25,128	\$ 40,511
Short-term investments	9,472	563
Accounts receivable, net of allowance of \$51 and \$0, respectively	3,091	4,418
Inventories	4,868	3,264
Prepaid expenses and other current assets	4,079	1,841
Restricted cash	1,000	-
Total current assets	47,638	50,597
Property and equipment, net	2,736	4,748
Long-term investments	-	8,947
Restricted cash, non-current	-	1,000
Other long-term assets	5,053	8,874
Total assets	<u>\$ 55,427</u>	<u>\$ 74,166</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,012	\$ 4,021
Accrued restructuring liabilities	2,027	2,862
Deferred revenue	770	591
Accrued liabilities and other	2,326	2,702
Total current liabilities	9,135	10,176
Other long-term liabilities	197	1,423
Total liabilities	9,332	11,599
Commitments and contingencies (Notes 12 and 13)		
Stockholders' equity:		
Common stock	61	65
Treasury stock	(492)	(331)
Additional paid-in capital	798,275	799,037
Accumulated other comprehensive income	13	9
Accumulated deficit	(751,762)	(736,213)
Total stockholders' equity	46,095	62,567
Total liabilities and stockholders' equity	<u>\$ 55,427</u>	<u>\$ 74,166</u>

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

GEEKNET, INC. (FORMERLY SOURCEFORGE, INC.)**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
(In thousands, except per share amounts, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenue:				
Online Media revenue, including \$145, \$200, \$545 and \$600 of related party revenue, respectively	\$ 3,683	\$ 5,055	\$ 11,801	\$ 14,658
E-commerce revenue	7,104	6,417	21,142	20,000
Revenue	10,787	11,472	32,943	34,658
Cost of revenue:				
Online Media cost of revenue	1,630	2,140	5,255	6,061
E-commerce cost of revenue	6,053	5,104	17,815	16,084
Cost of revenue	7,683	7,244	23,070	22,145
Gross margin	3,104	4,228	9,873	12,513
Operating expenses:				
Sales and marketing	3,201	2,304	7,468	6,518
Research and development	2,144	1,472	5,816	3,854
General and administrative	2,238	2,977	6,587	9,018
Amortization of intangible assets	83	-	110	-
Restructuring costs	-	-	-	765
Total operating expenses	7,666	6,753	19,981	20,155
Loss from operations	(4,562)	(2,525)	(10,108)	(7,642)
Interest and other income (expense), net	18	(277)	(5,543)	197
Loss before income taxes	(4,544)	(2,802)	(15,651)	(7,445)
Benefit for income taxes	(7)	(138)	(102)	(112)
Net loss	<u>\$ (4,537)</u>	<u>\$ (2,664)</u>	<u>\$ (15,549)</u>	<u>\$ (7,333)</u>
Net loss per share:				
Basic and diluted	<u>\$ (0.08)</u>	<u>\$ (0.04)</u>	<u>\$ (0.25)</u>	<u>\$ (0.11)</u>
Shares used in per share calculations:				
Basic and diluted	<u>59,909</u>	<u>67,670</u>	<u>61,042</u>	<u>67,548</u>

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

GEEKNET, INC. (FORMERLY SOURCEFORGE, INC.)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, unaudited)

	Nine Months Ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net loss	\$ (15,549)	\$ (7,333)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,637	1,500
Stock-based compensation expense	2,009	2,981
Provision for bad debts	97	80
Provision for excess and obsolete inventory	34	103
Loss on disposal of assets	1,020	3
Loss on sale of investments	-	308
Impairment of investments	4,585	108
Non-cash restructuring expense	-	765
Changes in assets and liabilities:		
Accounts receivable	1,235	(743)
Inventories	(1,638)	(598)
Prepaid expenses and other assets	(841)	(1,336)
Accounts payable	(16)	(1,819)
Accrued restructuring liabilities	(2,089)	(2,150)
Deferred revenue	179	(89)
Accrued liabilities and other	(412)	35
Other long-term liabilities	28	14
Net cash used in operating activities	<u>(9,721)</u>	<u>(8,171)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(738)	(1,902)
Purchase of marketable securities	-	(26,441)
Maturities or sale of marketable securities	559	49,926
Acquisition of a business, net of cash acquired	(2,613)	-
Proceeds from sales of intangible assets, net	172	-
Purchase of intangible assets	(106)	-
Net cash (used in) provided by investing activities	<u>(2,726)</u>	<u>21,583</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock	259	18
Repurchase of common stock	(3,195)	(242)
Net cash used in financing activities	<u>(2,936)</u>	<u>(224)</u>
Cash flows from discontinued operations:		
Net cash provided by operating activities	-	42
Net cash provided by discontinued operations	-	42
Net increase (decrease) in cash and cash equivalents	(15,383)	13,230
Cash and cash equivalents, beginning of period	40,511	25,037
Cash and cash equivalents, end of period	<u>\$ 25,128</u>	<u>\$ 38,267</u>

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

GEEKNET, INC. (FORMERLY SOURCEFORGE, INC.)**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
(unaudited)**1. Basis of Presentation*****Overview***

Geeknet, Inc. ("Geeknet" or the "Company"), previously known as SourceForge, Inc, owns and operates a network of media web properties serving the technology professional and enthusiast, and the software development and open source communities. The Company's wholly-owned subsidiary, ThinkGeek, Inc., provides online sales of a variety of retail products of interest to these communities. The Company's network of web properties includes: SourceForge, Slashdot, ThinkGeek, Ohloh and freshmeat. Combining user-developed content and e-commerce, Geeknet is the global geek community's nexus for information exchange, merchandise, and open source software distribution. Our corporate web site is geek.net.

The Company 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 Online Media, E-commerce, Software and Online Images businesses. In December 2005, the Company sold its Online Images business to WebMediaBrands Inc. and in April 2007, the Company sold its Software business to CollabNet, Inc. ("CollabNet"). On May 24, 2007 the Company changed its name to SourceForge, Inc. In September 2009, the Company acquired Ohloh Corporation ("Ohloh"), a directory of open source projects and developers, and in November 2009 the Company changed its name to Geeknet to project a more accurate reflection of its business, primarily to the advertising community.

The interim financial information presented in this Form 10-Q is not audited and is not necessarily indicative of the Company's future consolidated financial position, results of operations or cash flows. The accompanying condensed consolidated balance sheet as of December 31, 2008 has been derived from unaudited transition financial statements included on Form 10-Q, and the interim unaudited condensed consolidated financial statements contained in this Form 10-Q have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and on the same basis as the annual financial statements. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted in accordance with such rules and regulations. In the opinion of management, all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position as of September 30, 2009, its results of operations for the three and nine months ended September 30, 2009 and September 30, 2008 and its cash flows for the nine months ended September 30, 2009 and September 30, 2008 have been made. These financial statements and notes should be read in conjunction with the Company's audited financial statements and notes thereto for the fiscal year ended July 31, 2008, included in the Company's Annual Report on Form 10-K filed with the SEC and the Company's unaudited financial information and notes thereto for the five month transition period ended December 31, 2008, included in the Company's transition report on Form 10-Q filed with the SEC.

2. Summary of Significant Accounting Policies

Except as discussed below, there have been no significant changes to the Company's critical accounting estimates during the three and nine months ended September 30, 2009 as compared to what was previously disclosed in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended July 31, 2008.

Adopted Accounting Pronouncements

Effective July 1, 2009, the Company adopted the "Financial Accounting Standards Board ("FASB") Accounting Standards Codification" and the Hierarchy of Generally Accepted Accounting Principles (ASC 105). ASC 105 establishes the FASB Accounting Standards Codification (the "Codification" or "ASC") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with Accounting Standards Generally Accepted in the United States ("U.S. GAAP"). Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority. The Codification superseded all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification is non-authoritative. The FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates ("ASUs"). The FASB will not consider ASUs as authoritative in their own right. ASUs will serve only to update the Codification, provide background information about the guidance and provide the bases for conclusions on the change(s) in the Codification. References made to FASB guidance throughout this document have been updated for the Codification. The adoption of ASC 105 did not have an impact on the Company's financial position or results of operations.

Effective August 1, 2008, the Company adopted FASB ASC 820-10, “Fair Value Measurements and Disclosures— Overall” (“ASC 820-10”) and FASB ASC 825-10, “The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Codification Topic 320” (“ASC 825-10”). The Company has elected the fair value option for its Auction Rate Securities, also classified as Municipal Bonds, as of August 1, 2008. In conjunction with the adoption of ASC 825-10, the Company reduced accumulated other comprehensive loss by \$0.6 million and accounted for this as a cumulative effect of a change in accounting principle which was recorded as an increase in its Accumulated Deficit.

Effective April 1, 2009, the Company adopted a new accounting standard for subsequent events, as codified in ASC 855-10. The update modifies the names of the two types of subsequent events either as recognized subsequent events (previously referred to in practice as Type I subsequent events) or non-recognized subsequent events (previously referred to in practice as Type II subsequent events). In addition, the standard modifies the definition of subsequent events to refer to events or transactions that occur after the balance sheet date, but before the financial statements are issued (for public entities) or available to be issued (for nonpublic entities). It also requires the disclosure of the date through which subsequent events have been evaluated. The update did not result in significant changes in the practice of subsequent event disclosures, and therefore the adoption did not have any impact on the Company’s consolidated financial statements.

Recent Accounting Pronouncements

In September 2009, the FASB issued Update No. 2009-13, “Multiple-Deliverable Revenue Arrangements—a consensus of the FASB Emerging Issues Task Force” (ASU 2009-13). It updates the existing multiple-element revenue arrangements guidance currently included under ASC 605-25, which originated primarily from the guidance in EITF Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables” (EITF 00-21). The revised guidance primarily provides two significant changes: 1) eliminates the need for objective and reliable evidence of the fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting, and 2) eliminates the residual method to allocate the arrangement consideration. In addition, the guidance also expands the disclosure requirements for revenue recognition. ASU 2009-13 will be effective for the first annual reporting period beginning on or after June 15, 2010, with early adoption permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. The Company is currently assessing the impact of this new accounting update on its consolidated financial statements.

In August 2009, the FASB issued Update No. 2009-05, “Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value” (“ASU 2009-05”). ASU 2009-05 amends ASC 820, Fair Value Measurements and Disclosures to provide further guidance on how to measure the fair value of a liability, an area where practitioners have been seeking further guidance. It primarily does three things: 1) sets forth the types of valuation techniques to be used to value a liability when a quoted price in an active market for the identical liability is not available, 2) clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability and 3) clarifies that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. This standard is effective beginning fourth quarter of 2009 for the Company. The adoption of this standard update is not expected to impact the Company’s consolidated financial statements.

In June 2009, the FASB issued ASC 810-10 “Consolidation of Variable Interest entities” ASC 810-10 requires an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. This statement requires an ongoing reassessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. ASC 810-10 is effective for year beginning January 1, 2010. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

Use of Estimates in Preparation of Consolidated Financial Statements

The preparation of the Company’s consolidated financial statements and related notes requires the Company to make estimates, which include judgments and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. The Company has based its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances and the Company evaluates its estimates on a regular basis and makes changes accordingly. Historically, the Company’s estimates relative to its critical accounting estimates have not differed materially from actual results, however actual results may differ from these estimates under different conditions.

A critical accounting estimate is based on judgments and assumptions about matters that are highly uncertain at the time the estimate is made. Different estimates that reasonably could have been used, or changes in accounting estimates, could materially impact the financial statements.

Principles of Consolidation

The interim financial information presented in this Quarterly Report on Form 10-Q includes the accounts of Geeknet and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. At September 30, 2009, the Company owned 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 CollabNet and does not otherwise exercise significant influence over them, the investment is accounted for under the cost method. CollabNet is a developer of software used in collaborative software development.

Related-party revenue associated with CollabNet was \$0.1 million and \$0.2 million for the three months ended September 30, 2009 and September 30, 2008, respectively. Related-party revenue associated with CollabNet was \$0.5 million and \$0.6 million for the nine months ended September 30, 2009 and September 30, 2008, respectively.

Foreign Currency Translation

The Company has a wholly-owned foreign subsidiary, SourceForge Europe, which is located in Belgium. The functional currency of SourceForge Europe is the Euro, which is Belgium's local currency. For the periods presented, no revenue or expenses resulted from this entity. At September 30, 2009 the Company had a foreign cash balance of \$0.02 million. 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 September 30, 2009, the Company did not hold any foreign currency derivative instruments.

Segment and Geographic Information

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 about how to allocate resources and assess performance. The Company's chief decision-making group is 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 Online Media products in the United States through its direct sales force and with respect to international Online Media sales, through representatives in the United Kingdom, Europe and Australia. The Company markets its E-commerce products through its web site. Revenue for the three and nine months ended September 30, 2009 and September 30, 2008, respectively, was generated primarily from sales to customers in the United States.

Cash and Cash Equivalents

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 as well as treasury bills.

Investments

Investments in highly-liquid financial instruments with remaining maturities greater than three months and 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.

Marketable securities classified as available-for-sale are reported at market value, with net unrealized gains or losses recorded in accumulated other comprehensive income (loss), a separate component of stockholders' equity, until realized. Realized gains and losses on investments are computed based upon specific identification and are included in interest and other income (expense), net. Investments designated as trading securities are stated at fair value, with gains or losses resulting from changes in fair value recognized currently in earnings. Non-marketable equity securities are accounted for at historical cost.

Other-Than-Temporary Impairment.

All of the Company's available-for-sale investments and non-marketable equity securities are subject to a periodic impairment review. Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. This determination requires significant judgment. For publicly-traded investments, impairment is determined based upon the specific facts and circumstances present at the time, including a review of the closing price over the previous six months, general market conditions and the Company's intent and ability to hold the investment for a period of time sufficient to allow for recovery. For non-marketable equity securities, the impairment analysis requires the identification of events or circumstances that would likely have a significant adverse effect on the fair value of the investment, including revenue and earnings trends, overall business prospects and general market conditions in the investees' industry or geographic area. Investments identified as having an indicator of impairment are subject to further analysis to determine if the investment is other-than-temporarily impaired, in which case the investment is written down to its impaired value. In March 2009, the Company recorded an impairment loss of \$4.6 million related to its investment in CollabNet, which is included in interest and other income (expense), net.

Revenue Recognition

The Company recognizes revenue as follows:

Online Media Revenue

Online Media revenue is primarily derived from sales of advertising on the Company's various web properties. The Company recognizes Online Media revenue as advertising is delivered 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.

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 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 grants customers a 30-day right to return products and records a reserve for returns, if material. Returns have been immaterial for the periods presented. At September 30, 2009, there was no reserve for returns and at December 31, 2008 a \$0.2 million returns reserve was included in accrued liabilities.

The Company's E-commerce business is highly seasonal, reflecting the general pattern associated with the retail industry of peak sales and earnings during the calendar year-end holiday shopping season. In the past several years, a substantial portion of the Company's E-commerce revenue has occurred in the Company's fourth calendar quarter which begins on October 1 and ends on December 31. As is typical in the retail industry, the Company generally experiences lower monthly E-commerce revenue during the first nine months of the year. The Company's E-commerce revenue in a particular period is not necessarily indicative of future E-commerce revenue for a subsequent quarter or its full year.

Software Development Costs

Costs related to the planning and post-implementation phases of internal use software products are recorded as an operating expense. Direct costs incurred in the development phase are capitalized and amortized over the product's estimated useful life as charges to cost of revenue.

No internal use software costs were capitalized for the three and nine months ended September 30, 2009 and the three and nine months ended September 30, 2008.

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.

Goodwill and Intangibles

Intangible assets are amortized on a straight-line basis over their estimated lives of three to five years. 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. When events or circumstances indicate that the goodwill and intangible assets should be evaluated for possible impairment, the Company uses an estimate of the related business segment's undiscounted net income over the remaining useful life of the intangible assets in measuring whether they are recoverable. No events or circumstances occurred that would indicate a possible impairment in the carrying value of intangible assets at September 30, 2009.

Goodwill and intangible assets are as follows (in thousands):

	September 30, 2009			December 31, 2008		
	Gross asset	Accumulated amortization	Net asset	Gross asset	Accumulated amortization	Net asset
Goodwill	\$ 62,032	\$ (60,362)	\$ 1,670	\$ 60,362	\$ (60,362)	\$ -
Identified intangible assets:						
Domain and trade names	6,043	(5,936)	107	5,933	(5,933)	-
Purchased technology	3,492	(2,641)	851	2,534	(2,534)	-
	9,535	(8,577)	958	8,467	(8,467)	-
Total goodwill and identified intangible assets	\$ 71,567	\$ (68,939)	\$ 2,628	\$ 68,829	\$ (68,829)	\$ -

The future amortization expense of identified intangibles is as follows (in thousands):

Year ending December 31,	Amount
2009	\$ 98
2010	353
2011	353
2012	154
	\$ 958

Inventories

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

Concentrations of Credit Risk and Significant Customers

The Company's investments are held with two reputable financial institutions; both institutions are headquartered in the United States. The Company's investment policy limits the amount of risk exposure. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and 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 September 30, 2009, one advertising agency accounted for more than 12.1% of the Company's gross accounts receivable.

For the three months ended September 30, 2009, no one customer represented more than 10% of revenue and for the nine months ended September 30, 2009, Google Inc. represented 10% of revenue. For the three and nine months ended September 30, 2008, Google Inc. represented 12.3% and 13.6%, respectively, of revenue.

3. Composition of Certain Balance Sheet Components

Property and equipment, net consist of the following (in thousands):

	September 30, 2009	December 31, 2008
Computer and office equipment (useful lives of 2 to 4 years)	\$ 5,397	\$ 5,846
Furniture and fixtures (useful lives of 2 to 4 years)	201	92
Leasehold improvements (useful lives of lesser of estimated life or lease term)	82	58
Software (useful lives of 2 to 5 years)	378	2,778
Total property and equipment	6,058	8,774
Less: Accumulated depreciation and amortization	(3,322)	(4,026)
Property and equipment, net	\$ 2,736	\$ 4,748

In June 2009, the Company disposed of internally developed software, with the resulting loss of \$1.2 million included in Interest income and other income (expense), net.

Other long-term assets consist of the following (in thousands):

	September 30, 2009	December 31, 2008
Equity investment	\$ 1,979	\$ 6,564
Goodwill	1,670	-
Intangible assets, net	958	-
ARS Right	-	1,903
Other	446	407
Other long-term assets	\$ 5,053	\$ 8,874

Other long-term liabilities consist of the following (in thousands):

	September 30, 2009	December 31, 2008
Accrued restructuring liabilities, net of current portion	\$ -	\$ 1,254
Other long-term liabilities	197	169
Other long-term liabilities	\$ 197	\$ 1,423

4. Investments

The Company classifies its investments as available-for-sale or trading at the time they are acquired and reports them at fair value with net unrealized gains or losses reported, net of tax, using the specific identification method as other income in the statement of operations or other comprehensive gain or loss in stockholders' equity. See Note 5 – Fair Value Measurements.

The Company's cash, cash equivalents and investments consist of the following (in thousands):

	September 30, 2009			December 31, 2008		
	Adjusted Cost	Gross Unrealized Losses	Estimated Fair Value	Adjusted Cost	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:						
Cash	\$ 1,327	\$ -	\$ 1,327	\$ 4,898	\$ -	\$ 4,898
Money market funds	23,801	-	23,801	35,613	-	35,613
Total cash and cash equivalents	25,128	-	25,128	40,511	-	40,511
Short-term investments:						
Corporate securities	8	-	8	567	(4)	563
Government securities	10,850	(1,386)	9,464	-	-	-
Total short-term investments	\$ 10,858	\$ (1,386)	\$ 9,472	\$ 567	\$ (4)	\$ 563
Long-term investments:						
Government securities	-	-	-	10,850	(1,903)	8,947
Total long-term investments	\$ -	\$ -	\$ -	\$ 10,850	\$ (1,903)	\$ 8,947
Restricted cash	\$ 1,000	\$ -	\$ 1,000	\$ -	\$ -	\$ -
Restricted cash, non current	\$ -	\$ -	\$ -	\$ 1,000	\$ -	\$ 1,000

At September 30, 2009, the Company has recorded its government securities as short-term investments based on its right to require UBS AG ("UBS") to repurchase these investments on June 30, 2010.

5. Fair Value Measurements

The following table represents the Company's fair value hierarchy for its financial assets (cash equivalents and investments) measured at fair value on a recurring basis as of September 30, 2009 (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Level 1	Level 2	Level 3	Total
Money market fund deposits	\$ 23,801	\$ -	\$ -	\$ 23,801
Corporate debt	-	-	8	8
Municipal bonds	-	-	9,464	9,464
ARS Right	-	-	1,386	1,386
Total	\$ 23,801	\$ -	\$ 10,858	\$ 34,659
Amounts included in:				
Cash and cash equivalents	\$ 23,801	\$ -	\$ -	\$ 23,801
Short-term investments	-	-	9,472	9,472
Other current assets	-	-	1,386	1,386
Total	\$ 23,801	\$ -	\$ 10,858	\$ 34,659

Level 3 assets include municipal bonds with an auction reset feature ("auction-rate securities" or "ARS") whose underlying assets are student loans which are substantially backed by the federal government. Auction-rate securities are long-term floating rate bonds tied to short-term interest rates. In February 2008, auctions began to fail for these securities and each auction since then has failed. Consequently, the investments are not currently liquid. At September 30, 2009, all of the Company's ARS were rated AAA, the highest credit rating, by at least one rating agency. The Company has a right to sell at par value (the "ARS Right"), auction-rate securities originally at \$10.8 million to UBS, its investment advisor, at any time during a two-year period beginning June 30, 2010. The Company has valued the ARS Right as the difference between the par value and the fair value of its ARS, as adjusted for any bearer risk associated with UBS's financial ability to repurchase the ARS beginning June 30, 2010.

The ARS were valued utilizing a discounted cash flow approach. The assumptions used in preparing the discounted cash flow model are based on data available as of September 30, 2009 and include estimates of interest rates, timing and amount of cash flows, credit and liquidity premiums, and expected holding periods of the ARS. These assumptions are volatile and subject to change as the underlying sources of these assumptions and market conditions change.

In conjunction with the adoption of FASB ASC 825-10, the Company elected the fair value option for its ARS and the ARS Right. Since the ARS Right is directly related to the ARS investments, the Company elected the fair value option for these financial assets. Upon adoption of FASB ASC 825-10, the Company reduced its Accumulated Other Comprehensive Loss by \$0.6 million and accounted for this as a cumulative effect of a change in accounting principle which was recorded as an increase in its Accumulated Deficit. The following table provides a reconciliation of the beginning and ending balances for the assets measured at fair value using significant unobservable inputs (Level 3) (in thousands):

**Fair Value Measurements at
Reporting Date Using
significant Unobservable
Inputs (Level 3) Financial
Assets**

Balance at December 31, 2008	\$ 10,858
Loss on other assets	(517)
Gain on investments	517
	<u>10,858</u>
Balance at September 30, 2009	<u>\$ 10,858</u>

6. Restructuring Costs

In October 2007, the Company relocated its corporate headquarters to Mountain View, California. In conjunction with this relocation, the Company recorded total restructuring charge of \$2.2 million for the remaining facility space and leasehold improvements at its former corporate headquarters located in Fremont, California. In conjunction with the sale of its Software business in April 2007, the Company accrued a restructuring charge of \$0.6 million for the excess facility space formerly used by its Software business, which was included in the gain on disposal of discontinued operations. During the fiscal years ended July 31, 2001 and 2002, the Company adopted plans to exit its hardware systems and hardware-related software engineering and professional services businesses, as well as to exit a sublease agreement and to reduce its general and administrative overhead costs. The Company exited these businesses to pursue its current Online Media and E-commerce businesses and reduce its operating losses to improve cash flow. The restructuring liability of \$2.0 million as of September 30, 2009 represents the remaining accrual from non-cancelable lease payments, which continue through May 2010, less estimated sublease rent. This accrual is subject to change should actual circumstances change. The Company will continue to evaluate and update, if applicable, these accruals on an annual basis.

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

	<u>Balance at Beginning of Period</u>	<u>Cash Payments</u>	<u>Other</u>	<u>Balance at End of Period</u>
For the nine months ended September 30, 2009	\$ 4,116	\$ (2,145)	\$ 56	\$ 2,027

7. Computation of Per Share Amounts

Basic earnings per common share is computed using the weighted-average number of common shares outstanding (adjusted for treasury stock and common stock subject to repurchase activity) during the period. Diluted earnings per common share is computed using the weighted-average number of common and dilutive common equivalent shares outstanding during the period. Common equivalent shares are anti-dilutive when their conversion would increase earnings per share. Dilutive common equivalent shares consist primarily of stock options and restricted stock awards.

Employee equity share options, nonvested shares, and similar equity instruments granted by the Company are treated as potential common shares outstanding in computing diluted earnings per share. Diluted shares outstanding would include the dilutive effect of in-the-money options, calculated based on the average share price for each period using the treasury stock method, had there been any during the period. Under the treasury stock method, the amount the employee (or purchaser of the written call options) must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of tax benefits that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares. Additionally, under the treasury stock method the amount the purchaser of the written call options must pay for exercising stock options is assumed to be used to repurchase shares.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net loss	\$ (4,537)	\$ (2,664)	\$ (15,549)	\$ (7,333)
Weighted average shares - basic and diluted	59,909	67,670	61,042	67,548
Net loss per share:				
Basic and diluted	\$ (0.08)	\$ (0.04)	\$ (0.25)	\$ (0.11)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Anti-dilutive securities:				
Options to purchase common stock	6,512	5,880	6,411	5,633
Unvested restricted stock purchase rights	147	919	356	851
Total	6,659	6,799	6,767	6,484

8. Comprehensive Loss

Comprehensive loss is comprised of net loss and other non-owner changes in stockholders' equity, including foreign currency translation gains or losses and unrealized gains or losses on available-for-sale marketable securities. The following table presents the components of comprehensive loss (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net loss	\$ (4,537)	\$ (2,664)	\$ (15,549)	\$ (7,333)
Unrealized gain (loss) on marketable securities and investments	-	(461)	4	(997)
Comprehensive loss	\$ (4,537)	\$ (3,125)	\$ (15,545)	\$ (8,330)

9. Stockholders' Equity and Stock-Based Compensation

Stock Repurchase Program

In October 2008, the Company's Board of Directors authorized a stock repurchase program authorizing the Company to repurchase up to \$10 million of its common stock over a 12-month period. Repurchased shares are cancelled and retired. There was no stock repurchase activity during the three months ended September 30, 2009. As of September 30, 2009 the Company had repurchased and retired 8.2 million shares of common stock at a weighted-average price of \$0.76 per share for an aggregate purchase price of \$6.2 million under this program.

Stock option plans

In December 2007, the Company's stockholders approved the 2007 Equity Incentive Plan ("2007 Plan"). The 2007 Plan replaced the Company's 1998 Stock Plan (the "1998 Plan") and the 1999 Director Option Plan (the "Directors' Plan"), which are collectively referred to as the "Equity Plans". The Equity Plans will continue to govern awards previously granted under each respective plan. There were initially 5,250,000 shares of common stock reserved for issuance under the 2007 Plan, subject to increase for stock options or awards previously issued under the Equity Plans which expire or are cancelled. At September 30, 2009, a total of 2,813,451 shares of common stock were available for issuance under the 2007 Plan. The 2007 Plan provides that each share award granted with an exercise price less than the fair market value on the date of grant will be counted as two shares towards the shares reserved and each such share award forfeited or repurchased by the Company will increase the shares reserved by two shares.

Under the 2007 Plan, the Board of Directors may grant to employees, consultants and directors an option to purchase shares of the Company's Common Stock and/or awards of the Company's common stock at terms and prices determined by the Board of Directors. The Compensation Committee of the Board of Directors also approved that each non-employee director who has been a member of the Board of Directors for at least nine months prior to the date of the annual stockholders' meeting will be granted a right to purchase 10,000 restricted shares at \$0.001 per share at such annual stockholders' meeting. The restricted shares will vest 50 percent immediately and the remaining 50 percent on the one year anniversary of the grant.

The 2007 Plan will terminate in 2017. Options granted under the 2007 Plan must be issued at a price equal to at least the fair market value of the Company's common stock at the date of grant. All vested options granted under the 2007 Plan may be exercised at any time within 10 years of the date of grant or within 90 days of termination of employment, or such other 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 2007 Plan.

The following table summarizes option and restricted stock purchase rights activities from July 31, 2008 through September 30, 2009:

	Available for Grant	Restricted Stock Purchase Rights Outstanding	Stock Options Outstanding			
			Number Outstanding	Weighted- Average Exercise Price per Share	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value (\$ 000's)
Balance at July 31, 2008	4,277,372	1,284,580	6,207,196	\$ 3.85		
Granted	(2,790,500)	90,000	2,610,500	\$ 0.72		
Restricted stock released	-	(304,583)	-	\$ -		
Restricted stock repurchased	253,333	(203,333)	-	\$ -		
Cancelled	165,520	-	(166,875)	\$ 3.80		
Balance at December 31, 2008	1,905,725	866,664	8,650,821	\$ 2.91		
Granted	(1,746,550)	-	1,746,550	\$ 1.22		
Exercised	-	-	(205,196)	\$ 1.26		
Restricted stock released	-	(390,005)	-	\$ -		
Restricted stock repurchased	153,332	(76,666)	-	\$ -		
Cancelled	2,500,944	-	(2,509,326)	\$ 3.62		
Balance at September 30, 2009	2,813,451	399,993	7,682,849	\$ 2.34	7.54	\$ 1,522
Exercisable at September 30, 2009			2,939,649	\$ 4.22	4.96	\$ 17

The aggregate intrinsic value in the above table is calculated as the excess of the September 30, 2009 official closing price of the Company's stock of \$1.26 per share as reported by the NASDAQ Global Market over the exercise price of the shares. The total number of in-the-money options exercisable as of September 30, 2009 was insignificant.

As of September 30, 2009, total compensation cost related to nonvested stock options not yet recognized was \$3.1 million, which is expected to be recognized over the next 38 months on a weighted-average basis. The total intrinsic value of options exercised for the three and nine months ended September 30, 2009 and September 30, 2008 was insignificant. The Company issues new shares upon the exercise of options.

As of September 30, 2009, 399,993 shares have been issued pursuant to restricted stock purchase agreements at \$0.001 per share. As of September 30, 2009, total compensation cost related to stock purchase rights not yet recognized was \$0.7 million which is expected to be recognized over the next 16 months on a weighted-average basis.

The options outstanding and currently exercisable by exercise price at September 30, 2009 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			
\$	0.63	-	\$	0.63	2,250	9.18	\$	0.63	-	\$	-
\$	0.67	-	\$	1.06	119	6.38	0.98	50	0.98		
\$	1.19	-	\$	1.26	1,120	9.77	1.20	42	1.19		
\$	1.26	-	\$	1.36	703	8.86	1.31	134	1.30		
\$	1.36	-	\$	1.77	784	8.02	1.55	368	1.60		
\$	1.79	-	\$	2.64	790	3.63	2.38	732	2.38		
\$	2.68	-	\$	3.98	768	4.75	3.39	686	3.34		
\$	4.02	-	\$	4.25	798	6.62	4.11	611	4.11		
\$	4.33	-	\$	5.20	178	6.37	4.90	144	4.90		
\$	5.20	-	\$	64.12	173	0.82	24.93	173	24.93		
\$	0.63	-	\$	64.12	7,683	7.54	\$	2.34	2,940	\$	4.22

Stock Based Compensation Expense

The following table summarizes employee stock-based compensation expense resulting from stock options and stock purchase rights (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Included in cost of revenue:				
Online Media cost of revenue	\$ 73	\$ 56	\$ 191	\$ 159
E-commerce cost of revenue	19	15	55	46
Total included in cost of revenue	92	71	246	205
Included in operating expenses:				
Sales and marketing	109	87	370	350
Research and development	103	72	267	208
General and administrative	397	359	1,126	2,218
Total included in operating expenses	609	518	1,763	2,776
Total stock-based compensation expense	\$ 701	\$ 589	\$ 2,009	\$ 2,981

The fair value of the option grants has been calculated on the date of grant using the Black-Scholes option pricing model. The expected life for the three and nine months ended September 30, 2009 and September 30, 2008 was based on historical settlement patterns. Expected volatility was based on historical implied volatility in the Company's stock. The interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant. The following table summarizes the weighted-average assumptions for stock options granted:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Expected life (years)	5.84	5.22	5.82	4.83
Risk-free interest rate	2.84%	3.00%	2.86%	3.15%
Volatility	0.65%	0.60%	0.66%	0.60%
Dividend yield	None	None	None	None
Weighted-average fair value at grant date	\$ 0.72	\$ 0.75	\$ 0.74	\$ 0.78

As stock-based compensation expense recognized in the Consolidated Statement of Operations for the three and nine months ended September 30, 2009 and September 30, 2008 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures based on historical experience.

10. Acquisition

In June 2009, the Company acquired 100% of Ohloh Corporation (“Ohloh”) for \$2.6 million in cash. Visitors to Ohloh's web site, Ohloh.net, supply data regarding open source projects and developers. Ohloh augments this user-contributed data with data gleaned from its web-crawling technology. The Company intends to utilize Ohloh's database of open source software and developers to enhance its understanding of the Open Source Software (“OSS”) community and generate additional revenue from advertisers who utilize Ohloh's data to reach their desired audience. The acquisition of Ohloh enhances the Company's position in and reach into the OSS community.

The Company has allocated the purchase price to the tangible and intangible assets acquired and liabilities assumed, based on their estimated fair values. The excess purchase price over those fair values is recorded as goodwill. The acquisition provided the Company with a web crawling technology, including the data collected, its team of engineers and equipment to operate the business. The Company believes the data gathered by Ohloh will enhance its position as a leading OSS company and provide valuable insights into the markets its customers are targeting. The Company also believes that there is a market to sell the data generated by the technology. These opportunities were significant contributing factors to the establishment of the purchase price.

The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management estimates and assumptions, including third-party valuations that utilize established valuation techniques appropriate for the high-technology industry. The fair value of the developed technology was estimated by applying the income approach and a market approach. This fair value measurement is based on significant inputs that are not observable in the market and thus represents a Level 3 measurement. Key assumptions include the expected cash flows to be generated from this developed technology over its remaining life and the discount rate of 35 percent. The Company will test goodwill for impairment on December 31, the last day of the Company's fiscal year. The purchase price has been allocated as follows (in thousands):

Financial assets	\$ 5
Equipment	23
Identified intangible assets	958
Financial liabilities	(43)
Total identifiable net assets	943
Goodwill	1,670
	<u>\$2,613</u>

A summary of the allocation of identified intangible assets is as follows (in thousands):

	Useful life	Fair Value
Developed technology	3 years	\$ 958
Total intangible assets		<u>\$ 958</u>

The amounts of Ohloh's revenue and earnings included in the Company's consolidated statement of operations for the year ended December 31, 2009, and the revenue and net loss of the combined entity had the acquisition date been January 1, 2008 or January 1, 2009 are as follows (in thousands):

	<u>Revenue</u>	<u>Net loss</u>
Actual from June 4, 2009 to September 30, 2009	\$ 58	\$ (56)
Supplemental pro forma:		
January 1, 2009 to September 30, 2009	33,000	(15,842)
January 1, 2008 to December 31, 2008	59,491	(5,315)

11. 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.

The Company's Online Media segment consists of Internet websites 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 websites that comprise the Online Media segment include: SourceForge.net, Slashdot, Ohloh.net and freshmeat.net. 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".

(in thousands)	<u>Online Media</u>	<u>E-commerce</u>	<u>Other</u>	<u>Total Company</u>
Three Months Ended September 30, 2009				
Revenue from external customers	\$ 3,683	\$ 7,104	\$ -	\$ 10,787
Cost of revenue	\$ 1,630	\$ 6,053	\$ -	\$ 7,683
Gross margin	\$ 2,053	\$ 1,051	\$ -	\$ 3,104
Loss from operations	\$ (4,155)	\$ (407)	\$ -	\$ (4,562)
Depreciation and amortization	\$ 968	\$ 34	\$ (523)	\$ 479
Three Months Ended September 30, 2008				
Revenue from external customers	\$ 5,055	\$ 6,417	\$ -	\$ 11,472
Cost of revenue	\$ 2,140	\$ 5,104	\$ -	\$ 7,244
Gross margin	\$ 2,915	\$ 1,313	\$ -	\$ 4,228
Loss from operations	\$ (2,365)	\$ (160)	\$ -	\$ (2,525)
Depreciation and amortization	\$ 537	\$ 23	\$ -	\$ 560
Nine Months Ended September 30, 2009				
Revenue from external customers	\$ 11,801	\$ 21,142	\$ -	\$ 32,943
Cost of revenue	\$ 5,255	\$ 17,815	\$ -	\$ 23,070
Gross margin	\$ 6,546	\$ 3,327	\$ -	\$ 9,873
Loss from operations	\$ (9,587)	\$ (521)	\$ -	\$ (10,108)
Depreciation and amortization	\$ 2,062	\$ 98	\$ (523)	\$ 1,637
Nine Months Ended September 30, 2008				
Revenue from external customers	\$ 14,658	\$ 20,000	\$ -	\$ 34,658
Cost of revenue	\$ 6,061	\$ 16,084	\$ -	\$ 22,145
Gross margin	\$ 8,597	\$ 3,916	\$ -	\$ 12,513
Loss from operations	\$ (6,581)	\$ (296)	\$ (765)	\$ (7,642)
Depreciation and amortization	\$ 1,436	\$ 64	\$ -	\$ 1,500

During the time periods covered by the table above, the Company marketed its Online Media products in the United States through its direct sales force and its E-commerce products through its online web site.

12. Litigation

In January 2001, the Company, two of its former officers, and Credit Suisse First Boston, the lead underwriter in the Company's initial public offering ("IPO"), were named as defendants in a shareholder lawsuit filed in the United States District Court for the Southern District of New York, later consolidated and captioned *In re VA Software Corp. Initial Public Offering Securities Litigation*, 01-CV-0242. The plaintiffs' class action suit seeks unspecified damages on behalf of a purported class of purchasers of the Company's common stock from the time of the Company's initial public offering in December 1999 through December 2000.

Among other things, this complaint alleged that the prospectus pursuant to which shares of common stock were sold in the Company's initial public offering contained certain false and misleading statements or omissions regarding the practices of the Underwriters with respect to their allocation of shares of common stock in these offerings and their receipt of commissions from customers related to such allocations. Various plaintiffs have filed actions asserting similar allegations concerning the initial public offerings of approximately 300 other issuers. These various cases pending in the Southern District of New York have been coordinated for pretrial proceedings as *In re Initial Public Offering Securities Litigation*, 21 MC 92.

In April 2002, plaintiffs filed a consolidated amended complaint in the action against the Company, alleging violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. Defendants in the coordinated proceeding filed motions to dismiss. In October 2002, the Company's officers were dismissed from the case without prejudice pursuant to a stipulation. On February 19, 2003, the Court granted in part and denied in part the motion to dismiss, but declined to dismiss the claims against the Company.

In June 2004, a stipulation of settlement and release of claims against the issuer defendants, including the Company, was submitted to the Court for approval. On August 31, 2005, the Court preliminarily approved the settlement. In December 2006, the appellate court overturned the certification of classes in the six test cases, which included the Company's case, that were selected by the underwriter defendants and 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 filed amended master allegations and amended complaints and moved for class certification in the six focus cases. Defendants moved to dismiss the amended complaints and opposed class certification. On March 26, 2008, the Court denied the defendants' motion to dismiss the amended complaints.

The parties have reached a global settlement of the litigation. On October 5, 2009, the Court entered an order certifying a settlement class and granting final approval of the settlement. Under the settlement, the insurers will pay the full amount of settlement share allocated to the Company, and the Company will bear no financial liability. The Company, as well as the officer and director defendants who were previously dismissed from the action pursuant to a stipulation, will receive complete dismissals from the case. A group of objectors has filed a petition requesting permission to appeal the Court's October 5, 2009 order certifying the settlement class. If for any reason the settlement does not become effective and litigation resumes, we believe the Company has meritorious defenses to plaintiffs' claims and intends to defend the action vigorously.

On October 3, 2007, a purported Geeknet shareholder filed a complaint for violation of Section 16(b) of the Securities Exchange Act of 1934, which prohibits short-swing trading, against the Company's IPO underwriters. The complaint, *Vanessa Simmonds v. Credit Suisse Group, et al.*, Case No. C07-1583, in District Court for the Western District of Washington, seeks the recovery of short-swing profits. The Company is named as a nominal defendant. No recovery is sought from the Company. The plaintiff, Vanessa Simmonds, has filed similar lawsuits in the District Court for the Western District of Washington alleging short-swing trading in the stock of 54 other companies. On July 25, 2008, a majority of the named issuer companies, including Geeknet, jointly filed a motion to dismiss plaintiff's claims. On March 12, 2009, the Court issued an order granting the motion to dismiss and a judgment in the favor of the moving issuers. On April 10, 2009, Ms. Simmonds appealed the order and judgment dismissing her claims to the United States Court of Appeal for the Ninth Circuit. The appeal is pending.

In September 2007, the 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 seeking monetary damages and injunctive relief. On May 14, 2008, the Company filed a motion to dismiss for lack of jurisdiction, which such motion was denied on October 15, 2008. The Company appealed such denial and on January 6, 2009, the Company filed a writ of summons for summary proceedings (the "Writ of Summons") seeking the withdrawal of two orders dated April 3, 2007 and June 19, 2007 (the "Orders") by which the Court assigned, at the request of the SPPF, a legal Bailiff to collect evidence in the case. The Court conducted hearings regarding the Writ of Summons on January 28, 2009 and February 11, 2009, and, on March 4, 2009, the Court withdrew the Orders and voided the Bailiff's reports based thereon (such order of withdrawal, the "March 4th Order"). Although the plaintiffs initially appealed the March 4th Order, they subsequently withdrew their appeal, and the case was dismissed.

The Company is subject to various claims and legal actions arising in the ordinary course of business. The Company reviews all claims and accrues a liability for those matters where it believes that the likelihood that a loss will occur is probable and the amount of loss is reasonably estimable.

13. Guarantees and Indemnifications

The following is a summary of the Company's agreements, 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, the Company has not recorded any liabilities for these agreements as of September 30, 2009.

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 September 30, 2009.

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 September 30, 2009.

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

Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. Words such as "may," "could," "anticipate," "potential," "intend," "expect," "believe," "in our view," and variations of such words and similar expressions, are intended to identify such forward-looking statements, which include, but are not limited to, statements regarding our expectations and beliefs regarding future revenue growth; and sources of revenue; gross margins; financial performance and results of operations; technological trends in, and demand for online advertising; management's strategy, plans and objectives for future operations; employee relations and our ability to attract and retain highly qualified personnel; ; our intent to continue to invest in establishing our brand identity and developing of our web properties; competition, competitors and our ability to compete; liquidity and capital resources; changes in foreign currency exchange rates; the outcome of any litigation to which we are a party; our accounting policies; and sufficiency of our cash resources and investments to meet our operating and working capital requirements and to make any share repurchases. Actual results may differ materially from those expressed or implied in such forward-looking statements due to various factors, including those set forth in the Risk Factors contained in the section of this Quarterly Report on Form 10-Q entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." We undertake no obligation to update the forward-looking statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q.

Critical Accounting Estimates

The following are the significant changes in our critical accounting estimates during the three and nine months ended September 30, 2009 as compared to what was previously disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended July 31, 2008.

Effective August 1, 2008, we adopted FASB ASC Topic 820-10, "Fair Value Measurements and Disclosures— Overall ("ASC 820-10") and FASB ASC Topic 825-10, "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Codification Topic 320" ("ASC 825-10"). As permitted by ASC 825-10, we have elected the fair value option for our Auction Rate Securities, also classified as Municipal Bonds, as of August 1, 2008. In conjunction with the adoption of ASC 825-10, we reduced accumulated other comprehensive loss by \$0.6 million and accounted for this as a cumulative effect of a change in accounting principle which was recorded as an increase in its Accumulated Deficit.

Overview

In November 2009 we changed our name to Geeknet to project a more accurate reflection of our business, primarily to the advertising community. We own and operate a network of media web properties, serving the technology professional and enthusiast, software development and open source communities. Through our ThinkGeek, Inc. subsidiary, we also provide online sales of a variety of retail products of interest to these communities. We serve a global online audience and provide the tech-obsessed with content, connections and commerce. Our network of web properties include: SourceForge, Slashdot, ThinkGeek, Ohloh, and freshmeat.

We were incorporated in California in January 1995 and reincorporated in Delaware in December 1999. From the date of our incorporation through October 2001, we sold Linux-based hardware systems and services under the name VA Linux Systems, Inc. In December 2001, we changed our name to VA Software Corporation to reflect our decision to pursue Online Media, E-commerce, Software and Online Images businesses. In December 2005, we sold our Online Images business to WebMediaBrands Inc. and in April 2007, we sold our Software business to CollabNet, Inc. ("CollabNet"). On May 24, 2007 we changed our name to SourceForge, Inc. In June 2009, we acquired Ohloh Corporation, a directory of open source projects and developers and in November 2009, we changed our name to Geeknet, Inc. to project a more accurate reflection of our business, both to our user and advertising communities.

Our business consists of two operating segments: Online Media and E-commerce. Our Online Media segment provides web properties that serve as platforms for the creation, review and distribution of online peer produced content. Our audience of technology professionals and enthusiasts relies on our web properties SourceForge, Slashdot, Ohloh, and freshmeat to create, improve, compare and distribute Open Source software and to debate and discuss current issues facing, and innovation in, the technology marketplace. Our E-commerce segment sells technology themed retail products for technology enthusiasts through our ThinkGeek.com web site.

The strategy for our Online Media business is to increase our awareness, improve our sites and capture, analyze and draw insights from our data. We are investing in awareness by targeting the media community, who are the primary buyers for our advertising services. We believe this investment will improve our brand recognition in the marketing and advertising communities. Our data strategy is designed to enable better targeting for advertisers, allowing for strategic insights to clients and partners, and ultimately to consumers. We have recently completed the acquisition of Ohloh Corporation, which further enhances this strategy by providing insights into the entire open source ecosystem. We are also investing in our web properties, primarily SourceForge.net where we launched a more modern platform in July 2009.

We currently use the following key metrics which are derived from data provided by Google Analytics to measure our Online Media business:

	Three Months Ended	
	September 30, 2009	September 30, 2008
Unique Visitors per Month (in thousands) ⁽¹⁾⁽²⁾	35,422	35,495
Visits per Unique Visitor per Month	1.8	1.8
Visits per Month (in thousands) ⁽²⁾	62,076	64,481
Pages per Visit	2.2	2.4
Page Views per Month (in thousands) ⁽²⁾	136,332	152,879
Revenue per Thousand Pages (RPM)	\$ 9.00	\$ 11.02
Revenue per User (RPU) ⁽³⁾	\$ 0.42	\$ 0.57

- (1) – Unique Visitor is the aggregate average unique visitors for all Online Media sites during the period presented. This does not consider possible duplicate visitors who may visit more than one of our web sites during the month.
- (2) – Per month amounts are the average calculated as the total amount for the period divided by the months in the period.
- (3) – Revenue per User (“RPU”) is an annualized amount based on revenue and unique users during the period presented.

A key element of our growth plans is to increase engagement. Our metrics around engagement per user are an important measure, and we are focused on both growing the number of unique visitors and deepening the average levels of engagement.

Media companies have historically reported page views as a metric seeking to measure users’ level of engagement. Since the introduction of a new web technology, known as asynchronous JavaScript and XML (“AJAX”) which allows users to browse web sites without loading a new page, page views have generally declined for the same, or even higher, level of activity. We have begun to implement this technology, and as we increase our adoption and change our sites to continue to make them easier to use and more accessible, we may experience associated fluctuations in page views. As the measures of engagement utilized by media companies evolve to include elements such as time spent per visit or number of visits per month in addition to or in lieu of page views, we expect that our reported metrics may also evolve. In addition, as we modernize and insert more intelligence into our web properties to enhance the user experience, we remove pages from the user flow which decreases page views.

Our E-commerce business strategy is to increase revenue by expanding the range of new and innovative products we sell, including products developed by us, and by attracting increased traffic to our site. We attract traffic to our sites using a variety of traditional online and direct retail marketing channels, direct mail and email to our customers and followers. We also publish and communicate with our customers and followers using Twitter (twitter.com/thinkgeek) and Facebook (facebook.com/thinkgeek). In addition, we launched a site redesign on ThinkGeek’s 10 year anniversary in August 2009.

Our E-commerce sales continue to be primarily attributable to customers located in the United States of America.

Results of Operations

The application of accounting standards is central to a company's reported financial position, results of operations and cash flows. We review our annual and quarterly results, along with key accounting policies, with our audit committee prior to the release of financial results. We do not use off-balance-sheet arrangements with unconsolidated related parties, nor do we use other forms of off-balance-sheet arrangements such as research and development arrangements.

The following table sets forth our operating results for the periods indicated as a percentage of revenue, represented by selected items from the unaudited condensed consolidated statements of operations. This table should be read in conjunction with the condensed consolidated financial statements and the accompanying notes included in this Quarterly Report on Form 10-Q.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Consolidated Statements of Operations Data:				
Online Media revenue	34.1%	44.1%	35.8%	42.3%
E-commerce revenue	65.9	55.9	64.2	57.7
Revenue	100.0%	100.0%	100.0%	100.0%
Online Media cost of revenue	15.1	18.7	16.0	17.5
E-commerce cost of revenue	56.1	44.4	54.0	46.4
Cost of revenue	71.2	63.1	70.0	63.9
Gross margin	28.8	36.9	30.0	36.1
Operating expenses:				
Sales and marketing	29.7	20.1	22.7	18.8
Research and development	19.9	12.8	17.7	11.1
General and administrative	20.7	26.0	20.0	26.0
Amortization of intangible assets	0.8	-	0.3	-
Restructuring costs	-	-	-	2.2
Total operating expenses	71.1	58.9	60.7	58.1
Loss from operations	(42.3)	(22.0)	(30.7)	(22.0)
Interest and other income (expense), net	0.2	(2.4)	(16.8)	0.6
Loss before income taxes	(42.1)	(24.4)	(47.5)	(21.4)
Benefit for income taxes	-	(1.2)	(0.3)	(0.3)
Net loss	(42.1)%	(23.2)%	(47.2)%	(21.1)%

Revenue

The following table summarizes our revenue by business segment:

	Three Months Ended		Nine Months Ended		% Change	% Change
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008	Three Months	Nine Months
(\$ in thousands)						
Online Media revenue	\$ 3,683	\$ 5,055	\$ 11,801	\$ 14,658	(27)%	(19)%
E-commerce revenue	7,104	6,417	21,142	20,000	11%	6%
Revenue	\$ 10,787	\$ 11,472	\$ 32,943	\$ 34,658	(6)%	(5)%

Sales for the three and nine months ended September 30, 2009 and September 30, 2008 were primarily to customers located in the United States of America.

For the three months ended September 30, 2009, no customer represented more than 10% of revenue and for the nine months ended September 30, 2009, Google Inc. represented 10% of revenue. For the three and nine months ended September 30, 2008, Google Inc. represented 12.3% and 13.6%, respectively, of revenue.

Revenue by Segment*Online Media Revenue*

	Three Months Ended		Nine Months Ended		% Change	% Change
	September 30,	September 30,	September 30,	September 30,	Three	Nine
	2009	2008	2009	2008	Months	Months
(\$ in thousands)						
Direct sales	\$ 2,721	\$ 3,432	\$ 7,976	\$ 10,798	(21)%	(26)%
Ad Networks	875	1,355	3,309	3,141	(35)%	5%
Other	87	268	516	719	(68)%	(28)%
Online Media revenue	<u>\$ 3,683</u>	<u>\$ 5,055</u>	<u>\$ 11,801</u>	<u>\$ 14,658</u>	<u>(27)%</u>	<u>(19)%</u>

Our Online Media revenue is derived primarily from advertising products delivered on our web properties. Direct sales revenue is generated from orders received by our United States based sales team, which may also include advertisements to be delivered globally. Ad Networks revenue represents revenue from our Ad Network partners who sell our inventory globally to customers through automated systems and includes revenue from international resellers who use automated systems. Other represents orders received from our international resellers, sales of reports on data underlying the open source community as well as referral fees and revenue earned from subscriptions to our web properties.

Direct sales revenue for the three months ended September 30, 2009 decreased \$0.8 million as compared with the three months ended September 30, 2008. The decrease was primarily due to a \$1.7 million decrease in revenue from advertisers whose campaigns were not renewed or who chose to advertise at lower levels during the three months ended September 30, 2009, offset in part by increases in revenue of \$0.5 million from customers who did not advertise in the three months ended September 30, 2008 and \$0.5 million from customers who increased their advertising levels during the three months ended September 30, 2009 as compared with the three months ended September 30, 2008. The decrease in Ad Networks revenue for the three months ended September 30, 2009 as compared to the three months ended September 30, 2008 was due to decreased revenue from Google primarily due to a decrease in the number of ad units we made available to Google. Since we obtain higher prices for direct sales revenue, we allocate our available ad units first to direct sales campaigns and then to ad networks. To the extent that direct sales campaigns decline, we would allocate additional ad units to ad networks, which would increase revenue from ad networks. The decrease in other revenue during the three months ended September 30, 2009 as compared to the three months ended September 30, 2008 was primarily due to a decrease in revenue from our international resellers.

Direct sales revenue for the nine months ended September 30, 2009 decreased \$2.9 million as compared with the nine months ended September 30, 2008. The decrease was primarily due to a \$5.6 million decrease in revenue from advertisers whose campaigns were not renewed or who chose to advertise at lower levels during the nine months ended September 30, 2009, offset in part by increases in revenue of \$1.2 million from customers who did not advertise in the nine months ended September 30, 2008 and \$1.5 million from customers who increased their advertising levels during the nine months ended September 30, 2009 as compared with the nine months ended September 30, 2008. The increase in Ad Networks revenue for the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008 was due to increased revenue from Google as we optimized our web properties to increase yields from Google and other Ad Networks. Other revenue did not change significantly during the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008. More recently, we have allocated a lower number of ad units to Ad Networks and we expect that, in the short-term, revenue from Ad Networks may decline when compared to the prior year.

Recently, the demand for traditional online advertising, which are those advertising units defined by The Interactive Advertising Bureau, has declined. In anticipation of this decline, we began to introduce higher-priced premium advertising products in the first quarter of calendar 2008. Although revenue from these premium advertising products accounted for more than one-third of our revenue in the nine months ended September 30, 2009, this revenue has not grown sufficiently to offset the declines in traditional online advertising. We believe that traditional online advertising will continue to decline and in order to grow revenue, we must continue to focus on creating new and innovative advertising products.

E-commerce Revenue

	Three Months Ended		Nine Months Ended		% Change	% Change
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008	Three Months	Nine Months
E-commerce revenue (in thousands)	\$ 7,104	\$ 6,417	\$ 21,142	\$ 20,000	11%	6%
Percentage of total revenue	66%	56%	64%	58%		
Number of orders shipped	110,149	88,361	350,711	282,566	25%	24%
Avg. size of order received	\$ 68	\$ 74	\$ 62	\$ 72	(8)%	(14)%

E-commerce revenue is derived from the online sale of consumer goods, including shipping, net of any returns and allowances. The increase in E-commerce revenue during the three months ended September 30, 2009, as compared to the three months ended September 30, 2008, was primarily due to a 24% increase in the number of shipments year-over-year, offset in part by a 10% decrease in the average value per shipment. The increase in E-commerce revenue during the nine months ended September 30, 2009, as compared to the nine months ended September 30, 2008, was primarily due to a 24% increase in the number of shipments year-over-year, offset in part by a 15% decrease in the average value per shipment. The decrease in average shipment value was due to lower mix of price points of products purchased due to a customer preference for lower priced products. The increase in the number of shipments was primarily driven by increased demand for ThinkGeek's innovative products.

Cost of Revenue/Gross Margin

(\$ in thousands)	Three Months Ended		Nine Months Ended		% Change	% Change
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008	Three Months	Nine Months
Cost of revenue	\$ 7,683	\$ 7,244	\$ 23,070	\$ 22,145	6%	4%
Gross margin	3,104	4,228	9,873	12,513	(27)%	(21)%
Gross margin %	29%	37%	30%	36%		

Cost of revenue consists of personnel costs and related overhead associated with developing and delivering external content for our media sites, cost of equipment and co-location costs to deliver external media content and product and operating costs associated with our E-commerce business.

Gross margins decreased for the three and nine months ended September 30, 2009 as compared with the three and nine months ended September 30, 2008, due primarily to decreases in our Online Media revenue and increases in our E-commerce costs of revenue.

*Cost of Revenue/Gross Margin by Segment**Online Media Cost of Revenue/Gross Margin*

(\$ in thousands)	Three Months Ended		Nine Months Ended		% Change	% Change
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008	Three Months	Nine Months
Online Media cost of revenue	\$ 1,630	\$ 2,140	\$ 5,255	\$ 6,061	(24)%	(13)%
Online Media gross margin	2,053	2,915	6,546	8,597	(30)%	(24)%
Online Media gross margin %	56%	58%	55%	59%		
Headcount	19	21	19	21		

Online Media cost of revenue consists of personnel costs and related overhead associated with maintaining and supporting the sites, delivering advertising campaigns and developing the editorial content of the sites, co-location and depreciation costs for delivering site

content, and the costs of serving and running advertising campaigns.

The decrease in Online Media gross margin percentages for the three months ended September 30, 2009, as compared to the three months ended September 30, 2008, was primarily driven by decreased Online Media revenue, offset in part by lower cost of revenue due to lower personnel related costs of \$0.2 million, lower amortization cost of \$0.2 million and lower co-location costs of \$0.1 million.

The decrease in Online Media gross margin percentages for the nine months ended September 30, 2009, as compared to the nine months ended September 30, 2008, was primarily driven by the \$2.8 million decrease in Online Media revenue, offset in part by lower cost of revenue of \$0.8 million primarily due to lower personnel and consulting costs, lower amortization expense and lower co-location costs. The decrease in personnel and consulting costs is due to lower headcount and our discontinued use of outside editors for our web-sites, the decrease in amortization expense is due primarily to the depreciation of our Marketplace platform and the decrease in co-location costs is primarily the result of the transition to our new data center and lower rates charged by our co-location provider.

E-commerce Cost of Revenue/Gross Margin

(\$ in thousands)	Three Months Ended		Nine Months Ended		% Change Three Months	% Change Nine Months
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008		
E-commerce cost of revenue	\$ 6,053	\$ 5,104	\$ 17,815	\$ 16,084	19%	11%
E-commerce gross margin	1,051	1,313	3,327	3,916	(20)%	(15)%
E-commerce gross margin %	15%	20%	16%	20%		
Headcount	25	21	25	21		

E-commerce cost of revenue consists of product costs, shipping and fulfillment costs and operating costs, and includes personnel costs associated with the E-commerce operations and merchandising functions.

The increase in E-commerce cost of revenue during the three months ended September 30, 2009, as compared to the three months ended September 30, 2008, was primarily due to an increase in product costs of \$0.5 million and an increase in operating costs of \$0.4 million. The increase in product costs was due to an increase in revenue as well as the mix of products ordered by customers. The increase in operating expenses was primarily due to additional headcount and related costs to provide customer service and to identify and source new products.

The increase in E-commerce cost of revenue during the nine months ended September 30, 2009, as compared to the nine months ended September 30, 2008, was primarily due to increases in product costs of \$1.0 million and operating costs of \$0.8 million, offset in part by a decrease in shipping costs of \$0.1 million. The increase in product costs was primarily due to an increase in revenue as well as the mix of products ordered by customers. The increase in operating expenses was primarily due to additional headcount and related costs to provide customer service and to identify and source new products. The decrease in shipping costs is a result of favorable shipping rates negotiated with third party shippers.

We expect E-commerce cost of revenue in absolute dollars to grow as E-commerce operating costs increase in the future, while E-commerce gross margin percentages may decline as we incur additional operating costs to support our strategy of increasing revenue.

Operating Expenses

Sales and Marketing Expenses

Sales and marketing ("S&M") expenses consist primarily of personnel and related overhead expenses, including sales commission, for personnel engaged in sales, marketing and sales support functions, and includes costs associated with market research, promotional activities, events and trade show attendance.

(\$ in thousands)	Three Months Ended		Nine Months Ended		% Change Three Months	% Change Nine Months
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008		
Sales and marketing	\$ 3,201	\$ 2,304	\$ 7,468	\$ 6,518	39%	15%
Percentage of total revenue	30%	20%	23%	19%		
Headcount	30	27	30	27		

The increase in S&M expenses in the three months ended September 30, 2009, as compared to the three months ended September 30, 2008, was primarily due to an increase in discretionary marketing expenses of \$0.7 million and an increase in headcount and related expenses of \$0.2 million. The increase in discretionary expenses was due to expenses associated with our name branding, events and trade show attendance.

The increase in S&M expenses in the nine months ended September 30, 2009, as compared to the nine months ended September 30, 2008 was primarily due to an increase in discretionary marketing expenses of \$0.7 million and an increase in headcount and related expenses of \$0.3 million. The increase in discretionary expenses was due to expenses associated with our name branding, events and trade show attendance.

We expect future S&M expenses to increase in absolute dollars as we continue to expand our discretionary marketing, programs, including our name and brand recognition campaigns. In addition, credit card processing expenses for our E-commerce business will increase due to increased revenue in their seasonal fourth quarter.

Research and Development Expenses

Research and development (“R&D”) expenses consist primarily of personnel and related overhead expenses for software engineers involved in our Online Media segment. We expense all of our R&D costs as they are incurred.

(\$ in thousands)	Three Months Ended		Nine Months Ended		% Change Three Months	% Change Nine Months
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008		
Online Media	\$ 1,934	\$ 1,339	\$ 5,350	\$ 3,528	44%	52%
E-commerce	210	133	466	326	58%	43%
Research and development	\$ 2,144	\$ 1,472	\$ 5,816	\$ 3,854	46%	51%
Percentage of total revenue	20%	13%	18%	11%		
Headcount	44	34	44	34		

R&D expense increased by \$0.6 million in the three months ended September 30, 2009, as compared to the three months ended September 30, 2008. The increase in R&D expenses primarily was due to increases in headcount and related costs of \$0.6 million. The increase in headcount is primarily due to an increase in Online Media headcount as we continue to modernize and improve our web properties.

R&D expense increased by \$1.8 million in the nine months ended September 30, 2009, as compared to the nine months ended September 30, 2008. The increase in R&D expenses primarily was due to increases in headcount and related costs. The increase in headcount is primarily due to an increase in Online Media E-Commerce headcount as we continue to modernize and improve our web properties.

General and Administrative Expenses

General and administrative (“G&A”) expenses consist of salaries and related expenses for finance and accounting, human resources and legal personnel, professional fees for accounting and legal services as well as insurance and other public company related costs.

(\$ in thousands)	Three Months Ended		Nine Months Ended		% Change Three Months	% Change Nine Months
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008		
General and administrative	\$ 2,238	\$ 2,977	\$ 6,587	\$ 9,018	(25)%	(27)%
Percentage of total revenue	21%	26%	20%	26%		
Headcount	21	22	21	22		

G&A expenses decreased by \$0.7 million during the three months ended September 30, 2009 as compared to the three months ended September 30, 2008. The decrease is due to a decrease in other professional fees of \$0.4 million, primarily related to the resolution of a legal matter in the three months ended September 30, 2008 and a decrease in consulting fees, including recruiting fees and board of directors fees of \$0.4 million, offset in part by an increase in stock based compensation of \$0.1 million.

G&A expenses decreased by \$2.4 million during the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008. The decrease is due to a decrease in personnel related expenses of \$1.8 million, a decrease in consulting fees, including recruiting fees and board of directors fees of \$0.4 million and a decrease in other professional fees of \$0.3 million. The decrease in personnel related expenses is primarily due to the severance and stock based compensation expense related to the termination of our former chief executive officer in June 2008 and the decrease in other professional fees is primarily related to the resolution of a legal matter in 2008.

G&A expenses are expected to increase in absolute dollars in the future due to professional fees related to Sarbanes-Oxley compliance and personnel and related costs in the fourth calendar quarter.

Restructuring Costs

In October 2007, we relocated our corporate headquarters to Mountain View, California. During fiscal year 2008, which ended on July 31, 2008 under our prior fiscal calendar, we recorded a restructuring charge of \$2.2 million for the remaining facility space and leasehold improvements at our former corporate headquarters located in Fremont, California. In conjunction with the sale of our Software business in April 2007, we accrued a restructuring charge of \$0.6 million for the excess facility space used in the operation of our Software business, which was included in the gain on disposal of discontinued operations. In fiscal 2001 and 2002, we adopted plans to exit our hardware systems and hardware-related software engineering and professional services businesses, as well as exit a sublease agreement and to reduce our general and administrative overhead costs. The restructuring liability of \$2.0 million as of September 30, 2009 represents the remaining accrual from non-cancelable lease payments, which continue through May 2010, less estimated sublease rent. This accrual is subject to change should actual circumstances change. We will continue to evaluate and update, if applicable, these accruals on an annual basis.

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

	Balance at Beginning of Period	Cash Payments	Other	Balance at End of Period
For the nine months ended September 30, 2009	\$ 4,116	\$ (2,145)	\$ 56	\$ 2,027

Interest and other income, net

Below is a summary of Interest and other income, net (in thousands):

	Three Months Ended		Nine Months Ended		% Change	% Change
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008	Three Months	Nine Months
Interest income	\$ 34	\$ 243	\$ 122	\$ 1,176	(86)%	(90)%
Interest expense	(15)	(26)	(56)	(133)	(42)%	(58)%
Other than temporary impairment of non-marketable equity securities	-	-	(4,585)	-	*	*
Loss on disposal of asset	-	-	(1,246)	-	*	
Other income (expense), net	(1)	(494)	222	(846)	*	*
Interest and other income (expense), net	\$ 18	\$ (277)	\$ (5,543)	\$ 197	*	*

* – Not meaningful

The significant decrease in interest income for the three months and nine months ended September 30, 2009, as compared to the three and nine months ended September 30, 2008, was primarily due to reduced yields on our investments resulting from lower interest rates on our investments which are primarily comprised of short-term treasuries, which generally have significantly lower yields.

Interest expense for the three and nine months ended September 30, 2009 results primarily from accretion of our accrued restructuring charge, while interest expense for the three and nine months ended September 30, 2008 was primarily due to interest expense on a legal settlement which was paid in January 2008.

The other-than-temporary impairment of non-marketable equity securities relates to our investment in CollabNet, Inc. ("CollabNet"). In March 2009, we determined an impairment indicator existed for this investment and as a result we performed a fair value analysis of this investment. In determining whether a decline in value of our investment in CollabNet had occurred and was other than temporary, we considered available evidence, including the general market conditions, CollabNet's financial condition, near-term prospects, market comparables and future financing requirements. The valuation also takes into account CollabNet's capital structure, liquidation preferences for its capital and other economic variables, which require management's judgment to evaluate. Based on the results, we determined that the estimated fair value of our investment in CollabNet was \$2.0 million and accordingly, we recognized an other-than-temporary impairment charge of \$4.6 million.

Loss on disposal of asset is due to our depreciation of the Marketplace platform from the SourceForge.net platform.

Other income (expense), net for the three months and nine months ended September 30, 2008 is primarily comprised of impairment charges on our investment in Cheyne Finance PLC. Other income (expense) net for the nine months ended September 30, 2009 is primarily due to the \$0.2 million gain on our sale of the Linux.com domain name to The Linux Foundation.

Income Taxes

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>		<u>% Change</u>	<u>% Change</u>
	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>Three</u>	<u>Nine</u>
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>Months</u>	<u>Months</u>
(\$ in thousands)						
Benefit for income taxes	\$ (7)	\$ (138)	\$ (102)	\$ (112)	(95)%	(9)%
* – Not meaningful						

Income taxes consist primarily of state income taxes relating to a jurisdiction in which our E-commerce business operates and where we are unable to file a consolidated tax return. The decrease in the provision for income taxes for the three months ended September 30, 2009, as compared to the three months ended September 30, 2008, was due to the decrease in pre-tax income. As of September 30, 2009, we had federal and state net operating loss carry-forwards for tax reporting purposes available to offset future taxable income. A valuation allowance has been recorded for the total deferred tax assets as a result of uncertainties regarding realization of the assets based on the lack of consistent profitability to date and the uncertainty of future profitability. The federal and state net operating loss carry-forwards expire at various dates through 2026 and 2016, respectively, to the extent that they are not utilized.

Liquidity and Capital Resources

	<u>Nine Months Ended September 30,</u>	
	<u>2009</u>	<u>2008</u>
(\$ in thousands)		
Net cash provided by (used in):		
Continuing operations:		
Operating activities	\$ (9,721)	\$ (8,171)
Investing activities	(2,726)	21,583
Financing activities	(2,936)	(224)
Discontinued operations	-	42
Net increase (decrease) in cash and cash equivalents	<u>\$ (15,383)</u>	<u>\$ 13,230</u>

Our principal sources of cash as of September 30, 2009 are our existing cash, cash equivalents and investments of \$34.6 million, which excludes restricted cash of \$1.0 million. Cash and cash equivalents decreased by \$15.4 million at September 30, 2009 when compared to December 31, 2008. This total decrease was primarily due to cash used to fund net operating losses and working capital requirements during the nine months ended September 30, 2009.

Operating Activities

Net cash used in operating activities was \$9.7 million for the nine months ended September 30, 2009. Net cash used in operating activities was primarily due to our net operating loss of \$6.3 million after the effects of non-cash charges, including an impairment charge of \$4.6 million, stock-based compensation expense of \$2.0 million, depreciation expense of \$1.6 million, a loss on disposal of assets of \$1.2 million, related to the depreciation of the Marketplace platform from the SourceForge.net platform and a gain on our sale of the Linux.com domain name to The Linux Foundation of \$0.2 million. Additionally, changes in operating assets and liabilities included cash used for accrued restructuring liabilities of \$2.1 million, increases in inventory of 1.6 million and increases in prepaid expenses and other assets of \$0.8 million, offset partially by cash provided by decreases in accounts receivable of \$1.2 million. The increase in inventory due to purchases of inventory by our E-Commerce business in anticipation of their seasonal fourth quarter, and the increase in prepaid and other assets are primarily related to inventory prepayments to vendors. The decrease in accounts receivable is primarily due to the decline of Online Media revenue.

Net cash used in operating activities was \$8.2 million for the nine months ended September 30, 2008. Net cash used in operating activities was primarily due to net operating loss of \$1.7 million after the effects of stock-based compensation of \$3.0 million, depreciation expense of \$1.5 million, restructuring expense of \$0.8 million and the loss on sale of investments of \$0.3 million. Additionally, changes in operating assets and liabilities had a negligible offsetting effect to operating cash flows.

Investing Activities

Our investing activities primarily include purchases and sales of marketable securities, and purchases of property and equipment.

Cash usage for the nine months ended September 30, 2009 included \$2.6 million for the acquisition of Ohloh and \$0.7 million for the purchase of property and equipment, offset in part by proceeds from the sale of Linux.com of \$0.2 million and maturities of marketable securities of \$0.6 million.

Cash provided by investing activities of \$21.6 million for the nine months ended September 30, 2008 related to the net proceeds from sale or maturities of marketable securities resulting in net cash provided of \$23.5 million, which was partially offset by purchases of property and equipment of \$1.9 million. The decrease in marketable securities was a result of the Company's preference to convert its investments to cash equivalents during the nine months ended September 30, 2008.

Financing Activities

Our financing activities during the nine months ended September 30, 2009 and September 30, 2008 are primarily comprised of cash used to repurchase shares of our common stock under the repurchase program approved by our Board of Directors in November 2008 offset in part by proceeds from the sale of our common stock through equity incentive plans.

Discontinued Operations

The cash provided by discontinued operations during 2008 was due to collection of residual accounts receivable from our discontinued Software business during the nine months ended September 30, 2008. Since the year ended December 31, 2007, we no longer have operations in this segment and the cash flows during the nine months ended September 30, 2008 are solely the result of the collection of outstanding accounts receivable related to the discontinued Software business.

Restricted Cash

As of September 30, 2009 and December 31, 2008, we had an outstanding letter of credit issued under a line of credit of \$1.0 million, related to our former Fremont facility lease. The amount related to this letter of credit is recorded as restricted cash, in the condensed consolidated balance sheet. The \$1.0 million letter of credit will expire upon completion of the lease in May 2010.

Auction Rate Securities and ARS Right

At September 30, 2009, we have \$9.5 million of municipal bond investments with an auction reset feature (“auction-rate securities” or “ARS”). The underlying assets of these auction-rate securities are student loans which are substantially backed by the Federal government. Since February 2008, auctions for ARS have failed and the investments are not currently liquid; however, UBS AG (“UBS”), our investment advisor has agreed to purchase our ARS at their par value of \$10.8 million anytime during the two-year period beginning June 30, 2010 (“ARS Right”). Consequently, we have classified these ARS as short-term investments. UBS has also established a program which allows us to establish a no net cost line of credit and borrow up to 75 percent of the market value of the ARS at interest rates equal to the return we receive on the underlying ARS securities. At September 30, 2009, all of our ARS were rated AAA by at least one credit rating agency.

We valued the ARS using a discounted cash flow approach. The assumptions used in preparing the discounted cash flow model were based on data available as of September 30, 2009 and include estimates of interest rates, timing and amount of cash flows, credit and liquidity premiums, and expected holding periods of the ARS. These assumptions are volatile and subject to change as the underlying sources of these assumptions and market conditions change.

Stock Repurchase Program

In October 2008, our Board of Directors approved a stock repurchase program authorizing the repurchase of up to \$10 million of our common stock over a 12-month period. Repurchased shares are cancelled and retired. There was no stock repurchase activity during the three months ended September 30, 2009. As of September 30, 2009 we have repurchased and retired 8.2 million shares of common stock at a weighted-average price of \$0.76 per share for an aggregate purchase price of \$6.2 million under this program.

Liquidity

Our liquidity and capital requirements depend on numerous factors, including market acceptance of our products, the resources we devote to developing, marketing, selling and supporting our products, the timing and expense associated with expanding our distribution channels, capital projects to expand our support systems and infrastructure, our repurchase of common stock, potential acquisitions and other factors.

We expect to devote capital resources to continue our research and development efforts, to invest in our sales, support, marketing and product development organizations, to enhance and introduce marketing programs, to invest in capital projects, to continue to support our operations and related support systems and infrastructure, to repurchase of common stock, to fund strategic acquisitions and for other general corporate activities. We believe that our existing cash balances will be sufficient to fund our operations during the next 12 months under our current business strategy. See “Risks Related to our Financial Results” in the Risk Factors section of this Quarterly Report on Form 10-Q.

Contractual Obligations

The contractual obligations presented in the table below represent our estimates of future payments under fixed contractual obligations and commitments. Changes in our business needs, cancellation provisions and other factors may result in actual payments differing from the estimates. We cannot provide certainty regarding the timing and amounts of payments. The following table summarizes our fixed contractual obligations and commitments as of September 30, 2009 (in thousands):

	Total	Years ending December 31,		
		2009	2010 and 2011	2012 and 2013
Gross Operating Lease Obligations	\$ 5,906	\$ 1,038	\$ 3,559	\$ 1,309
Sublease Income	(1,366)	(277)	(922)	(167)
Net Operating Lease Obligations	4,540	761	2,637	1,142
Purchase Obligations	10,374	10,374	-	-
Total Obligations	<u>\$ 14,914</u>	<u>\$ 11,135</u>	<u>\$ 2,637</u>	<u>\$ 1,142</u>

Financial Risk Management

As a primarily U.S.-centric company, we face limited exposure to adverse movements in foreign currency exchange rates and we do not engage in hedging activity. We do not anticipate significant currency gains or losses in the near term. These exposures may change over time as business practices evolve and could have a material adverse impact on our financial results.

We maintain investment portfolio holdings of various issuers, types and maturities. These securities are classified as available-for-sale or trading. These securities are not leveraged.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive from our investments without significantly increasing risk. Some of the securities that we have invested in may be subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the principal amount of our investment will probably decline. To minimize this risk, we maintain a portfolio of cash equivalents, short-term investments and long-term investments in limited category of securities, primarily treasury money market funds and government debt securities. In general, money market funds are not subject to market risk because the interest paid on such funds fluctuates with the prevailing interest rate.

At September 30, 2009, we had \$9.5 million of investments with a weighted average interest rate of 1.41 percent.

We have operated primarily in the United States, and virtually all sales have been made in U.S. dollars. Accordingly, we have not had any material exposure to foreign currency rate fluctuations.

We do not currently hold any derivative instruments and do not engage in hedging activities.

Item 4. Controls and Procedures

a) Evaluation of disclosure controls and procedures.

The Company's management evaluated, with the participation of its Chief Executive Officer (CEO) and its Chief Financial Officer (CFO), the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934 (the "'34 Act'")) as of the end of the period covered by this report.

Disclosure controls and procedures are designed with the objective of ensuring that (i) information required to be disclosed in the Company's reports filed under the '34 Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) information is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Internal control procedures, which are designed with the objective of providing reasonable assurance that the Company's transactions are properly authorized, its assets are safeguarded against unauthorized or improper use and its transactions are properly recorded and reported, all to permit the preparation of the Company's financial statements in conformity with generally accepted accounting principles. To the extent that elements of our internal control over financial reporting are included within our disclosure controls and procedures, they are included in the scope of our quarterly controls evaluation.

Based on that evaluation, the CEO and CFO concluded that as of the end of the period covered by this report, the disclosure controls and procedures were effective.

b) Changes in internal controls over financial reporting.

There were no changes in the Company's internal controls over financial reporting (as defined in Rule 13a-15(f) of the '34 Act) as of the date of this report that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

PART II

Item 1. Legal Proceedings

In January 2001, the Company, two of its former officers, and Credit Suisse First Boston, the lead underwriter in the Company's initial public offering ("IPO"), were named as defendants in a shareholder lawsuit filed in the United States District Court for the Southern District of New York, later consolidated and captioned *In re VA Software Corp. Initial Public Offering Securities Litigation*, 01-CV-0242. The plaintiffs' class action suit seeks unspecified damages on behalf of a purported class of purchasers of the Company's common stock from the time of the Company's initial public offering in December 1999 through December 2000.

Among other things, this complaint alleged that the prospectus pursuant to which shares of common stock were sold in the Company's initial public offering contained certain false and misleading statements or omissions regarding the practices of the Underwriters with respect to their allocation of shares of common stock in these offerings and their receipt of commissions from customers related to such allocations. Various plaintiffs have filed actions asserting similar allegations concerning the initial public offerings of approximately 300 other issuers. These various cases pending in the Southern District of New York have been coordinated for pretrial proceedings as *In re Initial Public Offering Securities Litigation*, 21 MC 92.

In April 2002, plaintiffs filed a consolidated amended complaint in the action against the Company, alleging violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. Defendants in the coordinated proceeding filed motions to dismiss. In October 2002, the Company's officers were dismissed from the case without prejudice pursuant to a stipulation. On February 19, 2003, the Court granted in part and denied in part the motion to dismiss, but declined to dismiss the claims against the Company.

In June 2004, a stipulation of settlement and release of claims against the issuer defendants, including the Company, was submitted to the Court for approval. On August 31, 2005, the Court preliminarily approved the settlement. In December 2006, the appellate court overturned the certification of classes in the six test cases, which included the Company's case, that were selected by the underwriter defendants and 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 filed amended master allegations and amended complaints and moved for class certification in the six focus cases. Defendants moved to dismiss the amended complaints and opposed class certification. On March 26, 2008, the Court denied the defendants' motion to dismiss the amended complaints.

The parties have reached a global settlement of the litigation. On October 5, 2009, the Court entered an order certifying a settlement class and granting final approval of the settlement. Under the settlement, the insurers will pay the full amount of settlement share allocated to the Company, and the Company will bear no financial liability. The Company, as well as the officer and director defendants who were previously dismissed from the action pursuant to a stipulation, will receive complete dismissals from the case. A group of objectors has filed a petition requesting permission to appeal the Court's October 5, 2009 order certifying the settlement class. If for any reason the settlement does not become effective and litigation resumes, we believe the Company has meritorious defenses to plaintiffs' claims and intends to defend the action vigorously.

On October 3, 2007, a purported Geeknet shareholder filed a complaint for violation of Section 16(b) of the Securities Exchange Act of 1934, which prohibits short-swing trading, against the Company's IPO underwriters. The complaint, *Vanessa Simmonds v. Credit Suisse Group, et al.*, Case No. C07-1583, in District Court for the Western District of Washington, seeks the recovery of short-swing profits. The Company is named as a nominal defendant. No recovery is sought from the Company. The plaintiff, Vanessa Simmonds, has filed similar lawsuits in the District Court for the Western District of Washington alleging short-swing trading in the stock of 54 other companies. On July 25, 2008, a majority of the named issuer companies, including Geeknet, jointly filed a motion to dismiss plaintiff's claims. On March 12, 2009, the Court issued an order granting the motion to dismiss and a judgment in the favor of the moving issuers. On April 10, 2009, Ms. Simmonds appealed the order and judgment dismissing her claims to the United States Court of Appeal for the Ninth Circuit. The appeal is pending.

In September 2007, the 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 seeking monetary damages and injunctive relief. On May 14, 2008, the Company filed a motion to dismiss for lack of jurisdiction, which such motion was denied on October 15, 2008. The Company appealed such denial and, on January 6, 2009, the Company filed a writ of summons for summary proceedings (the "Writ of Summons") seeking the withdrawal of two orders dated April 3, 2007 and June 19, 2007 (the "Orders") by which the Court assigned, at the request of the SPPF, a legal Bailiff to collect evidence in the case. The Court conducted hearings regarding the Writ of Summons on January 28, 2009 and February 11, 2009, and, on March 4, 2009,

the Court withdrew the Orders and voided the Bailiff's reports based thereon (such order of withdrawal, the "March 4th Order"). Although the plaintiffs initially appealed the March 4th Order, they subsequently withdrew their appeal, and the case was dismissed.

The Company is subject to various claims and legal actions arising in the ordinary course of business. The Company reviews all claims and accrues a liability for those matters where it believes that the likelihood that a loss will occur is probable and the amount of loss is reasonably estimable.

Item 1A. Risk Factors

CURRENT AND PROSPECTIVE INVESTORS IN GEEKNET SECURITIES SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW BEFORE MAKING AN INVESTMENT DECISION. IN ADDITION, THESE RISKS ARE NOT THE ONLY ONES FACING OUR COMPANY. ADDITIONAL RISKS OF WHICH WE ARE NOT PRESENTLY AWARE OR THAT WE CURRENTLY BELIEVE ARE IMMATERIAL MAY ALSO IMPAIR OUR BUSINESS OPERATIONS. OUR BUSINESS COULD BE HARMED BY ANY OF THESE RISKS. THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE DUE TO ANY OF THESE RISKS, AND INVESTORS MAY LOSE ALL OR PART OF THEIR INVESTMENT.

Risks Related To Our Online Media Business

If our Online Media business fails to attract and retain users, particularly users who create and post original content on our web properties, our financial results will be adversely affected.

Our reliance upon user-generated content requires that we develop and maintain tools and services designed to facilitate:

- creation of user-generated content,
- participation in discussion surrounding such user-generated content,
- evaluation of user-generated content, and
- distribution of user-generated content.

If our development efforts fail to facilitate such activities on our web properties, the level of user engagement and interaction will not increase and may decline. Even if we succeed in facilitating such activities on our sites, we cannot assure that such improvements will be deployed in a timely or cost-effective manner.

If we fail to increase user engagement and interaction on our web properties, we will not attract and retain a loyal user base that is desirable to advertisers, which will adversely affect our Online Media business and our ability to maintain or grow our revenue.

We may continue to expand our offerings in international markets in which we have limited experience and rely on business partners.

We have signed agreements with representatives to sell our international inventory in Europe and Australia and may enter into agreements with additional firms to sell our international advertising impressions. As we expand into these new international markets, we have limited experience in marketing our products and services in such markets. We rely on the efforts and abilities of our international representatives in such markets. Certain international markets may be slower than domestic markets in the development and adoption of online advertising programs and as a result our offerings in international markets may not develop at a rate that supports our level of investment.

If our Online Media business fails to deliver innovative programs and products, we may not be able to attract and retain advertisers, which will adversely affect our financial results.

The significant increase in available inventory for traditional online advertising products, which are those advertising units defined by the Interactive Advertising Bureau, and the resultant commoditization of these products has had a significant adverse effect on our direct sales revenue. In order to grow our direct sales revenue, we will need to introduce new and innovative advertising products and programs. The successful development and production of such advertising products or programs is subject to numerous uncertainties, including our ability to:

- enable advertisers to showcase products, services and/or brands to their intended audience and to generate revenue from such audiences;
- anticipate and successfully respond to emerging trends in online advertising; and
- attract and retain qualified marketing and technical personnel.

We cannot assure that our programs and products will appeal to our advertisers or enable us to attract and retain advertisers and generate revenue consistent with our estimates or sufficient to sustain operations. In addition, we cannot assure that any new marketing programs and products will be developed in a timely or cost-effective manner. If we are unable to deliver innovative marketing programs and products that allow us to expand our advertiser base, we may not be able to generate sufficient revenue to grow our Online Media business.

New technologies could block our advertisements, which would harm our operating results.

Technologies have been developed and are likely to continue to be developed that can block the display of our advertisements. Our Online Media revenues are derived from fees paid to us by advertisers in connection with the display of advertisements on web pages. As a result, advertisement blocking technology could reduce the number of advertisements that we are able to deliver and, in turn, our advertising revenues and operating results may also be reduced.

Decreases or delays in advertising spending could harm our ability to generate advertising revenue, which would adversely affect our financial results.

Our advertisers can generally terminate their contracts with us at any time. Our advertisers' spending patterns tend to be cyclical, reflecting overall macroeconomic conditions, seasonality and company-specific budgeting and buying patterns. Our advertisers are also concentrated in the technology sector and the economic conditions in this sector also impact their spending decisions. Because we derive a large part of our Online Media revenue from these advertisers, decreases in or delays of advertising spending could reduce our revenue or negatively impact our ability to grow our revenue.

The market in which SourceForge.net participates is becoming more competitive, and if we do not compete effectively, our Online Media business could be harmed.

Our SourceForge.net platform hosts Open Source software projects, and we derive revenue through advertising campaigns. Because the cost to develop and host websites has declined over time, an increasing number of companies, organizations and individuals have begun hosting Open Source code and offering Open Source software development-related services. In addition, Google Inc. ("Google") offers Open Source code hosting capabilities that may be viewed as competitive to SourceForge.net's offering. Because Google enjoys substantial competitive advantages in the online space generally, including powerful brand identity, established marketing relationships, larger visitor base, and greater financial, technical, and other resources, we may be unable to compete effectively with Google's offering. Our competitors may be able to respond more quickly and effectively than we can to new or changing Open Source software opportunities, technologies, standards, or user requirements. Because of competitors' advantages, even if our services are more effective than those of our competitors, users might accept the services of our competitors in lieu of ours. If we fail to compete effectively, our Online Media business could be negatively impacted.

If we fail to execute our direct sales strategy, our revenue may be adversely affected.

Our direct sales force is increasingly focused on selling our premium advertising products to a select group of advertisers. If we fail to achieve increased spending levels from these advertisers, we may not meet our revenue goals. Additionally, we will be referring other advertisers to our ad network partners. If such advertisers do not utilize our ad network partners to advertise on our sites, our revenue will be adversely impacted.

We face competition from traditional media companies, and we may not be included in the advertising budgets of advertisers, which could harm our operating results.

We face competition from companies that have better brand awareness and long term relationships with current and potential advertisers. Advertisers with fixed budgets may allocate only a portion of their budgets to Internet advertising. If we fail to convince these advertisers and their advertising agencies to spend their advertising budgets with us, or if our existing advertisers reduce the amount they spend on our programs, our operating results would be harmed.

We have made and continue to make significant investments in our web properties and services offered thereon, which may fail to become profitable endeavors.

We have made and will continue to make significant investments in research, development and marketing for our web properties and services offered thereon. Investments in new technology are inherently speculative. We continue to focus on initiatives to accelerate the pace of improvements to our web properties. These efforts require substantial investments of our time and resources and may be hindered by unforeseen delays and expenses. Our efforts may not be successful in achieving our desired objective, and even if we achieve the desired objective, our audience or our advertisers may not respond positively to these improvements. Failure to grow revenue sufficiently to offset the significant investments will materially and adversely affect our business and operating results.

Unplanned system interruptions and capacity constraints and failure to effect efficient transmission of user communications and data over the Internet could harm our business and reputation.

The success of our Online Media business largely depends on the efficient and uninterrupted operation of the computer and communications hardware and network systems that power our web properties. We do not currently have a formal disaster recovery plan and substantially all of our computer and communications systems are located in a single data center near Chicago, Illinois. Our systems and operations remain vulnerable to damage or interruption from fire, power loss, telecommunications failure and similar events.

We experience unplanned service interruptions with all our online sites. Service interruptions may be caused by a variety of factors, including capacity constraints, single points of hardware failure, software design flaws and bugs, and third party denial of service attacks. Although we continue to work to improve the performance and uptime of our web properties, and have taken steps to mitigate these risks, we expect that service interruptions will continue to occur from time to time. If our web properties experience frequent or lengthy service interruptions, our business and reputation will be seriously harmed.

Risks Related To Our E-commerce Business

We are exposed to significant inventory risks as a result of seasonality, new product launches, rapid changes in product cycles and changes in consumer tastes with respect to our products offered at our ThinkGeek E-commerce web site.

In order to be successful, we must accurately predict our customers' tastes and avoid over-stocking or under-stocking products. Demand for products can change significantly between the time inventory is ordered and the date of sale. In addition, when we begin selling a new product, it is particularly difficult to forecast product demand accurately. The acquisition of certain types of inventory, especially inventory of custom manufactured products, or inventory from certain sources, may require significant lead-time and prepayment, and such inventory may not be returnable. We carry a broad selection and significant inventory levels of certain products and we may be unable to sell products in sufficient quantities or during the relevant selling seasons. Failure to properly assess our inventory needs will adversely affect our financial results.

We cannot predict our E-commerce customers' preferences with certainty and such preferences may change rapidly.

Our E-commerce offerings on our ThinkGeek.com web site are designed to appeal to technology professionals and enthusiasts and other consumers. Misjudging either the market for our products or our customers' purchasing habits will cause our sales to decline, our inventories to increase and/or require us to sell our products at lower prices, all of which would have a negative effect on our gross margins and our results of operations. Failure to accurately assess and predict our E-commerce customers' preferences will adversely impact our financial results. Our E-commerce business also relies heavily on consumer purchases. The recent economic downturn may impact consumer spending, and have a significant reduction on E-commerce revenue and adversely impact our results of operations.

We are subject to risks as a result of our reliance on foreign sources of production for certain products.

In order to offer cost effective and innovative products, we are increasingly relying on manufacturers located outside of the United States, most of which are located in Asia (primarily China), to supply us with these products in sufficient quantities — based on our forecasted customer demand — and to deliver these products in a timely manner.

Our arrangements with these manufacturers are generally limited to purchase orders tied to specific lots of goods. We are subject to the risks of relying on products manufactured outside the United States, including political unrest, trade restrictions, customs and tariffs, local business practice and political issues. Additionally, significant reliance on foreign sources of productions increases the risk of issues relating to compliance with domestic or international labor standards, compliance with domestic or international manufacturing and product safety standards, currency fluctuations, restrictions on the transfer of funds, work stoppages or slowdowns and other labor issues, economic uncertainties including inflation and government regulations, availability and costs of raw materials, potentially adverse tax consequences and other uncertainties. China, in particular, has recently experienced rapid social, political and economic change, and further changes may adversely affect our ability to procure our products from Chinese suppliers.

Our ability to obtain goods on a cost effective basis is also subject to our ability to maintain relationships with our suppliers and our ability to negotiate and maintain supply arrangements on favorable terms. There is increasing political pressure on China to permit the exchange rate of its currency, the Chinese Yuan (“CNY”), to float against the U.S. Dollar (“USD”). Although substantially all of our purchase orders are denominated in USD, our suppliers could attempt to renegotiate these contracts and increase costs to us if the CNY/USD exchange rate were to change in a manner adverse to the USD. In addition, because our purchases are usually on a case by case basis, we are subject to the risk of unexpected changes in pricing or supply from these suppliers. We may also be unable to develop beneficial relationships with new vendors in the future.

Increased focus on sales and use tax could subject us to liability for past sales and cause our future sales to decrease.

We do not collect sales or other taxes on shipments of most of our goods into most states in the United States or internationally. The relocation of our fulfillment center or customer service centers or any future expansion of them, along with other aspects of our business, may result in additional sales and other tax obligations. We do not collect consumption tax (including value added tax, goods and services tax, and provincial sales tax) as applicable on goods and services sold that are delivered outside of the United States. One or more states or foreign countries may seek to impose sales or other tax collection obligations on out-of-jurisdiction E-commerce companies. A successful assertion by one or more states or foreign countries that we should collect sales or other taxes on the sale of merchandise or services could result in substantial tax liabilities for past sales, decrease our ability to compete with traditional retailers, and otherwise harm our business.

Currently, U.S. Supreme Court decisions restrict the imposition of obligations to collect state and local sales and use taxes with respect to sales made over the Internet. However, a number of states, as well as the U.S. Congress, have been considering initiatives that could limit or supersede the Supreme Court’s position regarding sales and use taxes on Internet sales. If any of these initiatives are successful, we could be required to collect sales and use taxes in additional states. The imposition by state and local governments of various taxes upon Internet commerce could create administrative burdens for us, put us at a competitive disadvantage if they do not impose similar obligations on all of our online competitors and decrease our future sales.

We may be subject to product liability claims if people or property are harmed by the products we sell on our E-commerce web site, which could be costly to defend and subject us to significant damage claims.

Some of the products we offer for sale on our E-commerce web site, such as consumer electronics, toys, computers and peripherals, toiletries, beverages, food items and clothing, may expose us to product liability claims relating to personal injury, death or property damage caused by such products, and may require us to take actions such as product recalls. Although we maintain liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. In addition, some of our vendor agreements with our suppliers do not indemnify us from product liability, and even if some agreements provide for indemnification, it may be prohibitively costly to avail ourselves of the benefits of the protection.

If we do not maintain sufficient E-commerce inventory levels, or if we are unable to deliver our E-commerce products to our customers in sufficient quantities, our E-commerce business operating results will be adversely affected.

We must be able to deliver our merchandise in sufficient quantities to meet the demands of our customers and deliver this merchandise to customers in a timely manner. We must be able to maintain sufficient inventory levels, particularly during the peak holiday selling seasons. If we fail to achieve these goals, we may be unable to meet customer demand, and our financial results will be adversely affected.

Our ThinkGeek E-commerce web site is dependent upon a single third party fulfillment and warehouse provider. The satisfaction of our E-commerce customers is highly dependent upon fulfillment of orders in a professional and timely manner, so any decrease in the quality of service offered by our fulfillment and warehouse provider will adversely affect our reputation and the growth of our E-commerce business.

Our ThinkGeek E-commerce web site's ability to receive inbound inventory and ship completed orders efficiently to our customers is substantially dependent on a third-party contract fulfillment and warehouse provider. We currently utilize the services of Dotcom Distribution, Inc. ("Dotcom Distribution"), located in Edison, New Jersey. If Dotcom Distribution fails to meet our future distribution and fulfillment needs, our relationship with and reputation among our E-commerce customers will suffer and this will adversely affect our E-commerce growth. Additionally, if Dotcom Distribution cannot meet our distribution and fulfillment needs, particularly during the peak holiday selling seasons, or our contract with Dotcom Distribution terminates, we may fail to secure a suitable replacement or second-source distribution and fulfillment provider on comparable terms, which would adversely affect our E-commerce financial results.

Unplanned system interruptions and capacity constraints could harm our revenue and reputation.

Our E-commerce business is dependent on the uninterrupted and highly available operation of our web site. We experience service interruptions with our E-commerce web site. Service interruptions may be caused by a variety of factors, including capacity constraints, software design flaws and bugs, and third party denial of service attacks. If we fail to provide customers with such access to our web site at the speed and performance which they require, our E-commerce sales would be adversely affected and our business reputation may be seriously harmed.

We do not currently have a formal disaster recovery plan and our E-commerce related computer and communications systems are located in a single data center near Chicago, Illinois. Our systems and operations remain vulnerable to damage or interruption from fire, power loss, telecommunications failure and similar events. If our ThinkGeek.com web site experiences frequent or lengthy service interruptions, our business and reputation will be seriously harmed.

Risks Related To Our Financial Results

Certain factors specific to our businesses over which we have limited or no control may nonetheless adversely impact our total revenue and financial results.

The primary factors over which we have limited or no control that may adversely impact our total revenue and financial results include the following:

- specific economic conditions relating to online advertising and/or E-commerce spending;
- the discretionary nature of our online media customers' purchase and budget cycles;
- the spending habits of our e-commerce customers;
- the size and timing of online media customer orders;
- long online media sales cycles;
- our ability to retain skilled engineering, marketing and sales personnel;
- our ability to demonstrate and maintain attractive online user demographics;
- the addition or loss of specific online advertisers or sponsors, and the size and timing of advertising or sponsorship purchases by individual customers; and
- our ability to keep our web properties operational at a reasonable cost.

If our revenue and operating results fall below our expectations, the expectations of securities analysts or the expectations of investors, the trading price of our common stock will likely be materially and adversely affected. You should not rely on the results of our business in any past periods as an indication of our future financial performance.

Disruptions and liquidity issues in the credit market may unfavorably impact our financial condition and results of operations.

We invest excess funds in specific instruments and issuers approved for inclusion in our cash and short-term investments accounts pursuant to a written investment policy established by our Board of Directors and overseen by the Audit Committee of our Board of Directors. Our investment criteria are to invest only in top tier quality investments or federally sponsored investments. Top tier quality investments are determined by our investment advisors in conjunction with ratings of those investments provided by outside ratings agencies as well as our investment advisors' internal credit specialists. Our cash is invested in overnight investments and investments that will mature within ninety days after the end of our reporting period. Our investment portfolio consists of instruments that mature between ninety-one days and 36 years after the end of our reporting period.

We may be impacted by the following risks:

- our investment portfolio contains auction rate securities, which have recently experienced liquidity issues due to the failure of auctions;
- we have experienced and may continue to experience temporary or permanent declines in the value of certain investments which would be reflected in our financial statements;
- we may not be able to reasonably value or assess our investments if there is not a liquid resale market for those investments.

We report changes in the market value of investments as gains or losses. In the event any investments do not mature as scheduled, we may be required to recognize additional losses on the investment and our results of operations would be adversely affected.

We face possible delisting from the Nasdaq Global Market, which could result in a limited public market for our common stock and make obtaining future equity financing more difficult for us.

The Nasdaq requires companies to maintain a minimum closing bid price of \$1.00 and a specified minimum market value. Although our common stock has recently traded above \$1.00, we have also recently experienced periods where our stock traded below the \$1.00 minimum closing bid price. If we are unable to satisfy Nasdaq's requirements for continued listing on the Nasdaq Global Market, our securities may be delisted from the Nasdaq Global Market. There can be no assurances that we will satisfy the standards to regain compliance. The delisting of our common stock from the Nasdaq Global Market may have a material adverse effect on us by, among other things, reducing:

- the liquidity of our common stock; the market price of our common stock; the number of institutional and other investors that will consider investing in our common stock;
- the number of market makers in our common stock;
- the availability of information concerning the trading prices and volume of our common stock;
- the availability of information concerning the trading prices and volume of our common stock;
- the number of broker-dealers willing to execute trades in shares of our common stock; and
- our ability to obtain equity financing for the continuation of our operations.

Future changes in financial accounting standards, including pronouncements and interpretations of accounting pronouncements on revenue recognition, share-based payments, fair value measurements and financial instruments, may cause adverse unexpected revenue fluctuations and/or affect our reported results of operations.

From time to time, the Financial Accounting Standards Board (“FASB”) may issue updates to the FASB Accounting Standards Codification. A change in an accounting policy can have a significant effect on our reported results and may even affect our reporting of transactions completed before a change is announced. Accounting policies affecting our business, including rules relating to fair value accounting, revenue recognition, share-based payments and financial instruments have recently been revised or are under review. The SEC has announced that they will issue a proposed a roadmap regarding the potential use of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board (“IASB”). Under the proposed roadmap, we could be required in 2014 to prepare financial statements in accordance with IFRS, and the SEC will make a determination in 2011 regarding the mandatory adoption of IFRS. Required changes in our application of accounting pronouncements could cause changes in our reported results of operations and our financial condition.

If we fail to adequately monitor and minimize our use of existing cash, we may need additional capital to fund continued operations beyond the next 12 months.

We used \$9.7 million of cash for operating activities, \$2.6 million of cash for an acquisition and \$3.2 million of cash for the repurchase of common stock during the nine months ended September 30, 2009. Unless we monitor and minimize the level of use of our existing cash, cash equivalents and marketable securities, we may require additional capital to fund continued operations beyond the next 12 months. In addition, our existing marketable securities may not provide us with adequate liquidity when needed. While we believe we will not require additional capital to fund continued operations for the next 12 months, we may require additional funding within this time frame, and this additional funding, if needed, may not be available on terms acceptable to us, or at all. A slowdown in online advertising and/or E-commerce spending, as well as other factors that may arise, could affect our future capital requirements and the adequacy of our available funds. As a result, we may be required to raise additional funds through private or public financing facilities, strategic relationships or other arrangements. Any additional equity financing would likely be dilutive to our stockholders. Debt financing, if available, may involve restrictive covenants on our operations and financial condition. Our inability to raise capital when needed could seriously harm our business.

We have a history of losses and may incur net losses in the foreseeable future. Failure to attain consistent profitability may materially and adversely affect the market price of our common stock and our ability to raise capital and continue operations.

We generated a net loss of \$15.5 million during the nine months ended September 30, 2009, and we have an accumulated deficit of \$751.8 million as of September 30, 2009. Additionally, we expect to incur net losses during the remainder of the year ending December 31, 2009. Failure to attain profitability on a sustained basis may materially and adversely affect the market price of our common stock and our ability to raise capital and continue operations beyond the next 12 months.

Risks Related To Competition

Our competition is intense. Our failure to compete successfully could adversely affect our revenue and financial results.

The market for Internet content and services is intensely competitive and rapidly evolving. It is not difficult to enter this market and current and new competitors can launch new Internet sites at relatively low cost. We compete with various media businesses for advertising revenue, including newspaper, radio, magazine and Internet media companies.

We also derive revenue from E-commerce, for which we compete with other E-commerce companies as well as traditional, “brick and mortar” retailers. Recent increases in shipping costs and taxation of Internet commerce may make our products uncompetitive when compared with traditional “brick and mortar” retailers. We may fail to compete successfully with current or future competitors. Moreover, increased competition could result in price reductions, reduced margins or loss of market share, any of which could have a material adverse effect on our future revenue and financial results. If we do not compete successfully for new users and advertisers, our financial results may be materially and adversely affected.

Risks Related To Intellectual Property

We are vulnerable to claims that our web properties infringe third-party intellectual property rights. Any resulting claims against us could be costly to defend or subject us to significant damages.

We expect that our web properties will increasingly be subject to infringement claims as the number of competitors in our industry segment grows and the functionality of web properties in different Internet industry segments overlap. The scope of United States patent protection for software is not well defined and will evolve as the United States Patent and Trademark Office grants additional patents. Because patent applications in the United States are not publicly disclosed until the patent is issued, applications may have been filed that would relate to our products. In addition, we may receive patent infringement claims as companies increasingly seek to patent their software. Our developers may fail to perform patent searches and may therefore unwittingly infringe on third-party patent rights. We cannot prevent current or future patent holders or other owners of intellectual property from suing us and others seeking monetary damages or an injunction against our web offerings. A patent holder may deny us a license or force us to pay royalties. In either event, our operating results could be seriously harmed. In addition, employees hired from competitors might utilize proprietary and trade secret information from their former employers without our knowledge, even though our employment agreements and policies clearly prohibit such practices.

Any litigation regarding our intellectual property, with or without merit, could be costly and time consuming to defend, divert the attention of our management and key personnel from our business operations and cause interruption in our web offerings. Claims of intellectual property infringement may require us to enter into royalty and licensing agreements that may not be available on terms acceptable to us, or at all. In addition, parties making claims against us may be able to obtain injunctive or other equitable relief that could effectively block our ability to offer one or more of our web sites, or services thereon in the United States and abroad and could result in an award of substantial damages against us. Defense of any lawsuit or failure to obtain any required license could delay release of our products and increase our costs. If a successful claim is made against us and we fail to develop or license a substitute technology, our business, results of operations, financial condition or cash flows could be immediately and materially adversely affected.

If we fail to adequately protect our intellectual property rights, competitors may use our technology and trademarks, which could weaken our competitive position, reduce our revenue, and increase our costs.

We rely on a combination of copyright, trademark and trade secret laws, employee and third-party nondisclosure agreements, and other arrangements to protect our proprietary rights. Despite these precautions, it may be possible for unauthorized third parties to copy our web sites, or products and services offered thereon or obtain and use information that we regard as proprietary to create sites that compete against ours. Some license provisions protecting against unauthorized use, copying, transfer, and disclosure of our licensed programs may be unenforceable under the laws of certain jurisdictions and foreign countries.

In addition, the laws of some countries do not protect proprietary rights to the same extent as do the laws of the United States. To the extent that we increase our international activities, our exposure to unauthorized copying and use of our web properties and proprietary information will increase.

Our collection of trademarks is important to our business. The protective steps we take or have taken may be inadequate to deter misappropriation of our trademark rights. We have filed applications for registration of and registered some of our trademarks in the United States and internationally. Effective trademark protection may not be available in every country in which we offer or intend to offer our products and services. Failure to protect our trademark rights adequately could damage our brand identity and impair our ability to compete effectively. Furthermore, defending or enforcing our trademark rights could result in the expenditure of significant financial and managerial resources.

Our success depends significantly upon our proprietary technology and information. Despite our efforts to protect our proprietary technology and information, it may be possible for unauthorized third parties to copy certain portions of our offerings or to reverse engineer or otherwise obtain and use our proprietary technology or information. In our E-commerce business, we periodically discover products that are counterfeit reproductions of our products or designs, or that otherwise infringe our intellectual property rights. The actions we take to establish and protect our intellectual property rights may not be adequate to prevent imitation of our offerings by others or prevent others from seeking to block sales of our offerings as violations of proprietary rights. Existing copyright laws afford only limited protection, and the laws of certain foreign countries may not protect intellectual property rights to the same extent as do United States laws. Litigation may be necessary to protect our proprietary technology and information. Such litigation may be costly and time-consuming and if we are unsuccessful in challenging a party on the basis of intellectual property infringement, our sales and intellectual property rights could adversely be affected and result in a shift of customer preference away from our offerings.

In addition, we cannot be certain that others will not develop substantially equivalent or superseding proprietary technology, or that equivalent offerings will not be marketed in competition with our offerings, thereby substantially reducing the value of our proprietary rights. Currently, we do not have any software, utility, or design patents and we cannot assure that we will develop proprietary offerings or technologies that are patentable, that any patent, if issued, would provide us with any competitive advantages or would not be challenged by third parties, or that the patents of others will not adversely affect our ability to do business.

Other Risks Related To Our Overall Business

We are exposed to risks associated with worldwide economic slowdowns and related uncertainties.

We are subject to macroeconomic fluctuations in the U.S. economy and elsewhere. Concerns about consumer and investor confidence, volatile corporate profits and reduced capital spending, international conflicts, terrorist and military activity, civil unrest and pandemic illness could cause a slowdown in sales revenue. In addition, political and social turmoil related to international conflicts and terrorist acts may put further pressure on economic conditions in the United States and abroad.

Recent macroeconomic issues involving the broader financial markets, including the housing and credit system and general liquidity issues in the securities markets, have negatively impacted the economy and may negatively affect our business. In addition, weak economic conditions and declines in consumer spending and consumption may harm our operating results. Purchases of our online advertising and E-commerce products are discretionary. If the economic climate deteriorates, customers or potential customers could delay, reduce or forego their purchases of our products and services, which could impact our business in a number of ways, including lower prices for our products and services and reduced or delayed sales. There could be a number of follow-on effects from the current financial crisis on our business, including insolvency of key suppliers resulting in product delays; delays in customer payments of outstanding accounts receivable and/or customer insolvencies; counterparty failures negatively impacting our operations; and increased expense or inability to obtain future financing.

If the negative macroeconomic conditions persist, or if the economy enters a prolonged period of decelerating growth, our results of operations may be harmed.

We may be subject to claims as a result of information published on, posted on or accessible from our Internet sites, which could be costly to defend and subject us to significant damage claims.

We may be subject to claims of defamation, negligence, copyright or trademark infringement (including contributory infringement) or other claims relating to the information contained on our Internet sites, whether written by third parties or us.

Claims of defamation have been brought against online services in the past and can be costly to defend regardless of the merit of the lawsuit. Although federal legislation protects online services from some claims when third parties write the material, this protection is limited. Furthermore, the law in this area remains in flux and varies from state to state. We receive notification from time to time of potential claims, but have not been named as a party to litigation involving such claims. While no formal defamation complaints have been filed against us to date, our business could be seriously harmed if one were asserted.

Claims of infringement or other violations of intellectual property rights are common among Internet, media and technology companies because such companies often own large numbers of patents, copyrights, trademarks and trade secrets. Such claims often result in litigation, which is time consuming and can be costly to litigate, regardless of the merits of the claim or the eventual outcome of the claim. In addition, any time one of our online services links to or hosts material in which others allegedly own copyrights, we face the risk of being sued for copyright infringement or related claims. Because hosting of third party content comprises the majority of the online services that we offer, the risk of harm from such lawsuits could be substantial. Intellectual property claims are often time-consuming and may also be expensive to litigate or settle.

In addition to substantial defense costs, to the extent claims against us are successful, we may have to pay substantial monetary damages or discontinue one or more of our services or practices that are found to be in violation of another party's rights. We may also acquire licenses or pay royalties in order to continue such practices, which may increase our operating expenses and have an adverse impact on our results of operations.

We may not detect weaknesses in our internal control over financial reporting in a timely manner, or at all.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404"), we are required to evaluate the effectiveness of our internal control over financial reporting as well as our disclosure controls and procedures each fiscal year. As of September 30, 2009 management has concluded that our internal control over financial reporting and our disclosure controls and procedures were effective. We will need to continue to evaluate, upgrade and enhance our internal controls. Because of inherent limitations, our internal control over financial reporting may not prevent or detect misstatements, errors or omissions, and any projections of any evaluation of effectiveness of internal controls to future periods are subject to the risk that the controls may become inadequate because of changes in conditions or that the degree of compliance with our policies or procedures may deteriorate. We cannot be certain in future periods that other control deficiencies that may constitute one or more "significant deficiencies" (as defined by the relevant auditing standards) or material weaknesses in our internal control over financial reporting will not be identified. If we fail to maintain the adequacy of our internal controls, including any failure to implement or difficulty in implementing required or new or improved controls, our business and results of operations could be harmed, the results of operations we report could be subject to adjustments, we may not be able to provide reasonable assurance as to our financial results or the effectiveness of our internal controls and/or we may not be able to meet our reporting obligations.

If we are unable to implement appropriate systems, procedures and controls, we may not be able to successfully offer our services and grow our business.

Our ability to successfully offer our services and grow our business requires an effective planning and management process. We periodically update our operations and financial systems, procedures and controls, however; we still rely on manual processes and procedures that may not scale commensurately with our business growth. Our systems will continue to require automation, modifications and improvements to respond to current and future changes in our business. If we cannot grow our businesses, and manage that growth effectively, or if we fail to implement in a timely manner appropriate internal systems, procedures, controls and necessary automation and improvements to these systems, our businesses will suffer.

If we lose key personnel or fail to integrate replacement personnel successfully, our ability to manage our business could be impaired.

Our future success depends upon the continued service of our key management, technical, sales, and other critical personnel. Our officers and other key personnel are employees-at-will, and we cannot assure that we will be able to retain them. Key personnel have left our company in the past and there likely will be additional departures of key personnel from time to time in the future. The loss of any key employee could result in significant disruptions to our operations, including adversely affecting the timeliness of product releases, the successful implementation and completion of company initiatives, and the results of our operations. Competition for these individuals is intense, and we may not be able to attract, assimilate or retain highly qualified personnel. Competition for qualified personnel in our industry and the San Francisco Bay Area, as well as other geographic markets, in which we recruit, is intense. In the Internet and high technology industries, qualified candidates often consider equity awards in compensation arrangements and fluctuations in our stock price may make it difficult to recruit, retain, and motivate employees. In addition, the integration of replacement personnel could be time consuming, may cause additional disruptions to our operations, and may be unsuccessful.

Our stock price has been volatile historically and may continue to be volatile.

The trading price of our common stock has been and may continue to be subject to wide fluctuations. During the second quarter ended September 30, 2009, the closing sale prices of our common stock on the NASDAQ Global Market ranged from \$1.07 to \$1.46 per share and the closing sale price on September 30, 2009, the last trading day of the quarter, was \$1.26 per share. Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating results, announcements of technological innovations or new products and media properties by us or our competitors, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors may deem comparable to us, and news reports relating to trends in our markets or general economic conditions.

In addition, the stock market in general, and the market prices for Internet-related companies in particular, have experienced volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the price of our stock, regardless of our operating performance. Additionally, volatility or a lack of positive performance in our stock price may adversely affect our ability to retain key employees, all of whom have been granted stock options.

Sales of our common stock a significant stockholder may cause the price of our common stock to decrease.

Several of our stockholders own significant portions of our common stock. If these stockholders were to sell substantial amounts of their holdings of our common stock, then the market price of our common stock could be negatively impacted. The effect of such sales, or of significant portions of our stock being offered or made available for sale, could result in strong downward pressure on our stock price. Investors should be aware that they could experience significant short-term volatility in our stock if such stockholders decide to sell a substantial amount of their holdings of our common stock at once or within a short period of time.

Our networks may be vulnerable to unauthorized persons accessing our systems, which could disrupt our operations and result in the theft of our proprietary information.

A party who is able to circumvent our security measures could misappropriate proprietary information or cause interruptions or malfunctions in our Internet operations. We may be required to expend significant capital and resources to protect against the threat of security breaches or to alleviate problems caused by breaches in security.

Increasing regulation of the Internet or imposition of sales and other taxes on products or services sold or distributed over the Internet could harm our business.

The E-commerce market on the Internet is relatively new and rapidly evolving. While this is an evolving area of the law in the United States and overseas, currently there are relatively few laws or regulations that directly apply to commerce on the Internet. Changes in laws or regulations governing the Internet and E-commerce, including, without limitation, those governing an individual's privacy rights, pricing, content, encryption, security, acceptable payment methods and quality of products or services could have a material adverse effect on our business, operating results and financial condition. Taxation of Internet commerce, or other charges imposed by government agencies or by private organizations, may also be imposed. Recently New York State has adopted legislation which attempts to impose sales tax collection and reporting obligation on Internet companies. Any of these regulations could have an adverse effect on our future sales and revenue growth.

Business disruptions could affect our future operating results.

Our operating results and financial condition could be materially and adversely affected in the event of a major earthquake, fire or other catastrophic event. Our corporate headquarters and certain other critical business operations are located in California, near major earthquake faults. A catastrophic event that results in the destruction of any of our critical business or information technology systems could severely affect our ability to conduct normal business operations and as a result our future operating results could be adversely affected.

System disruptions could adversely affect our future operating results.

Our ability to attract and maintain relationships with users, advertisers, merchants and strategic partners will depend on the satisfactory performance, reliability and availability of our Internet channels and network infrastructure. Our Internet advertising revenue relates directly to the number of advertisements delivered to our users. System interruptions or delays that result in the unavailability of Internet pages or slower response times for users would reduce the number of advertisements delivered to such users and reduce the attractiveness of our web properties to users, strategic partners and advertisers or reduce the number of impressions delivered and thereby reduce revenue. In the past year, all of our web properties have experienced unplanned service interruptions. We will continue to suffer future interruptions from time to time whether due to capacity constraints, natural disasters, telecommunications failures, other system failures, rolling blackouts, viruses, hacking or other events. System interruptions or slower response times could have a material adverse effect on our revenue and financial condition.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002.

SIGNATURES

Pursuant to the requirements 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.

GEEKNET, INC.

By: /s/ SCOTT L. KAUFFMAN

Scott L. Kauffman
President and Chief Executive Officer

By: /s/ PATRICIA S. MORRIS

Patricia S. Morris
Senior Vice President and Chief Financial Officer

Date: November 9, 2009

EXHIBIT INDEX

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