FORM S-1 · REGISTRATION STATEMENT

Medidata Solutions Inc

IPO priced 2009-06-25 · $14.00 a share · MDSO



From S1 Directory · www.s1directory.com/s1/medidata-solutions-inc/ · Source:
https://www.sec.gov/Archives/edgar/data/1453814/000119312509010612/ds1.htm

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JANUARY 23, 2009

REGISTRATION NO. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Medidata Solutions, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**7389**	**52-2319066**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

79 FIFTH AVENUE, 8TH FLOOR

NEW YORK, NEW YORK 10003

(212) 918-1800

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

TAREK A. SHERIF, CHIEF EXECUTIVE OFFICER

79 FIFTH AVENUE, 8TH FLOOR

NEW YORK, NEW YORK 10003

(212) 918-1800

(Name, address, including zip code, and telephone number, including area code, of agent for service) ***With copies to:***

Paul Jacobs, Esq.

Warren J. Nimetz, Esq.

Fulbright & Jaworski L.L.P.

666 FIFTH AVENUE

NEW YORK, NEW YORK 10103

TELEPHONE (212) 318-3000

FAX (212) 318-3400

Christopher J. Austin, Esq.

Michael D. Beauvais, Esq.

ROPES & GRAY LLP

ONE INTERNATIONAL PLACE

BOSTON, MA 02110-2624

TELEPHONE (617) 951-7000

FAX (617) 951-7050

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. ¨ If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	**Proposed Maximum Aggregate Offering Price(1)(2)**	**Amount of Registration Fee**
Common stock, $0.01 par value per share	$86,250,000	$3,390

(1) Estimated solely for the purpose of calculating the registration fee under Rule 457(o) of the Securities Act.

(2) Includes shares of common stock that may be purchased by the underwriters to cover over-allotments, if any.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

SUBJECT TO COMPLETION, DATED JANUARY 23, 2009

The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the Registration Statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell the securities, nor is it a solicitation of an offer to buy the securities, in any state where an offer or sale of the securities is not permitted.

PROSPECTUS

Shares

Common Stock

This is an initial public offering of common stock of Medidata Solutions, Inc.

We are selling shares of our common stock in this initial public offering and will receive all of the net proceeds from the sale of our common stock.

No public market currently exists for our common stock. We intend to apply to list our common stock on the NASDAQ Global Market under the symbol "MDSO." We currently expect that the initial public offering price will be between $ and $ per share.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 8.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial public offering price		$$
Underwriting discount		$$
Proceeds, before expenses, to Medidata Solutions, Inc.		$$

We have granted the underwriters a 30-day option to purchase up to an aggregate of additional shares on the same terms and conditions as set forth above if the underwriters sell more than shares of common stock in this offering.

The underwriters expect to deliver the shares on or about , 2009.

Citi	**Credit Suisse**
Jefferies & Company	**Needham & Company, LLC**

Prospectus dated , 2009 **TABLE OF CONTENTS**

	Page
Prospectus Summary	1
Risk Factors	8
Cautionary Statement Regarding Forward-Looking Statements	22
Use of Proceeds	23
Dividend Policy	24
Capitalization	25
Dilution	27
Selected Consolidated Financial Information	29
Unaudited Pro Forma Statements of Operations	32

Management's Discussion and Analysis of Financial Condition and Results of Operations	39
Business	61
Management	75
Principal Stockholders	89
Certain Relationships and Related Transactions	92
Description of Capital Stock	94
Shares Eligible for Future Sale	98
Underwriting	100
Legal Matters	104
Experts	104
Where You Can Find More Information	104
Index to Financial Statements	F-1

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information that is different from that contained in this prospectus. This prospectus may only be used where it is legal to sell these securities. The information in this prospectus may be accurate only on the date of this prospectus regardless of the time of delivery of this prospectus.

DEALER PROSPECTUS DELIVERY OBLIGATION

Until , 2009 (the 25th calendar day after the date of this prospectus), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

INDUSTRY AND MARKET DATA

This prospectus includes market share and industry data that we obtained from internal research, publicly available information and industry publications and surveys. Our internal research is based upon management's understanding of industry conditions and has not been verified by any independent sources. Industry surveys and publications generally state that the information contained therein has been obtained from sources believed to be reliable. Neither we nor the underwriters make any representation as to the accuracy of such information.

TRADEMARKS, TRADE NAMES AND SERVICEMARKS

This prospectus includes trademarks, trade names and servicemarks of Medidata Solutions, Inc. and its subsidiaries, including Medidata®, Medidata Designer™, Medidata CRO Contractor™, Medidata Rave®, Medidata Grants Manager™ and ASP*ire* to Win®. This prospectus also refers to trademarks, trade names and servicemarks of other entities. All rights are reserved. The mention of such trademarks, trade names and servicemarks in this prospectus is made with due recognition of the rights of these entities and without any intent to misappropriate such names or marks. All other trademarks, trade names and servicemarks appearing in this prospectus are the property of their respective owners.

GENERAL

All references in this prospectus to "our company," "Medidata," "we," "us" and "our" refer to Medidata Solutions, Inc. and its consolidated subsidiaries and their predecessors.

P Rospectus S Ummary

Prospectus Summary *This summary highlights information contained elsewhere in this prospectus but might not contain all of the information that is important to you. Before investing in our common stock, you should read the entire prospectus carefully, including the "Risk Factors" section and our historical and pro forma condensed consolidated financial statements and the notes thereto included elsewhere in this prospectus.*

Unless otherwise indicated, the information contained in this prospectus assumes that the underwriters' option to purchase additional shares is not exercised.

Medidata Solutions, Inc.

Our Business

We are a leading global provider of hosted clinical development solutions that enhance the efficiency of our customers' clinical development processes and optimize their research and development investments. Our customers include pharmaceutical, biotechnology and medical device companies, academic institutions, contract research organizations, or CROs, and other organizations engaged in clinical trials to bring innovative medical products to market and explore new indications for existing medical products. Our solutions allow our customers to achieve clinical results more efficiently and effectively by streamlining the design, planning and management of key aspects of the clinical development process, including protocol development, CRO negotiation, investigator contracting, the capture and management of clinical trial data and the analysis and reporting of that data on a worldwide basis. Our customers rely on our solutions to safely accelerate the clinical development process and maximize the commercial life of their products. Our diverse and expanding customer base currently includes 21 of the top 25 global pharmaceutical companies measured by revenue and many middle-market life sciences companies, as well as CROs through our ASP*ire* to Win program. In 2007, and in the nine months ended September 30, 2008, Johnson & Johnson, AstraZeneca, Amgen, Astellas Pharma and Takeda Pharmaceutical were our largest customers measured by revenue.

Our principal offering, Medidata Rave, is a comprehensive platform that integrates electronic data capture, or EDC, with a clinical data management system, or CDMS, in a single solution that replaces traditional paper-based methods of capturing and managing clinical data. In addition, our on-demand, hosted technology platform facilitates rapid and cost-effective deployment of our solutions on a global basis. We have designed our Medidata Rave software to scale reliably and cost-effectively for clinical trials of all sizes and phases, including those involving substantial numbers of clinical sites and patients worldwide. We also offer applications that improve efficiencies in protocol development and trial planning, contracting and negotiation through Medidata Designer, Medidata Grants Manager and Medidata CRO Contractor.

We derive a majority of our revenues from Medidata Rave application services through multi-study arrangements for a pre-determined number of studies. We also offer our application services on a single-study basis that allows customers to use our solution for a limited number of studies or to evaluate it prior to committing to multi-study arrangements. We support our solutions with comprehensive service offerings, which include global consulting, implementation, technical support and training for customers and investigators. We invest heavily in training our customers, their investigators and other third parties to configure clinical trials independently. We believe this knowledge transfer accelerates customer adoption of our solutions.

For 2007, we generated $86.3 million in revenues, a 71.0% increase over 2006 revenues of $50.5 million. For the nine months ended September 30, 2008, we generated $84.8 million in revenues, a 37.6% increase over revenues of $61.6 million in the comparable period in 2007. Our business model provides us with a recurring revenue stream that we believe delivers greater revenue visibility than perpetual software licensing models.

The Opportunity for Clinical Trial Solutions

The traditional process of capturing and analyzing data in clinical trials relies on pre-printed, paper case report forms to submit data from the clinical trial sites to the clinical trial sponsor. Each case report form is manually checked for accuracy at the clinical site and subsequently entered into a computerized CDMS. Inconsistent, questionable, or missing data items are identified and must be addressed by facsimile, mail or hand-delivered document exchange. Each change in data requires documentation. These paper-based processes result in significant complexity and cost. Key limitations include:

- *Delay in clinical development process*. Manual data collection can delay interim and final data analysis, which may reduce the exclusive sales period available under patent protection.
- *Impaired data quality*. Paper-based data collection and reporting are more susceptible to transcription and other errors.
- *Limited data visibility to effect real-time decision making*. With manual data collection, sponsors cannot evaluate trial status until relatively late in the process.

Compared to traditional paper-based data collection, EDC technology provides substantial benefits at all stages of the clinical development process and has become widely accepted across the industry. However, we believe that most clinical trials are still conducted using the traditional paper-based format. We believe the total annual market opportunity for EDC solutions is in excess of $1.4 billion.

Despite the increased efficiency provided by EDC, early generation solutions have typically faced the following challenges:

- *Integration*. EDC solutions have had difficulty integrating complex, diverse and large volumes of data across multiple applications.

- *Investigator site requirements*. EDC installations can impose specific software and hardware requirements on trial sponsors and their investigator sites.
- *Complex customization*. EDC solutions often require custom programming to meet the requirements of diverse therapeutic areas across multiple phases.
- *Usability*. The user interface of EDC solutions often does not accommodate the needs and preferences of the medical researchers, limiting the pace of adoption.
- *Workflow and security limitations*. EDC solutions often have limited ability to manage multiple languages, multiple workflows and blinded data.
- *Scalability*. EDC solutions often lack the ability to scale against multiple studies in a single database, requiring increased effort and expense.

The Medidata Solution

Our solutions allow users to accurately and efficiently design clinical trials and capture, manage and report clinical trial data through an easy-to-use, Internet-enabled platform. We believe our solutions provide our customers with the following benefits:

- *Accelerated time to market*. Our on-demand platform and delivery model streamlines the clinical development process, enabling users to compress the time associated with designing and implementing clinical trials and entering, cleansing and analyzing data.
- *Improved quality and visibility of results.* Medidata Rave allows users to enhance the quality and completeness of their data earlier in the process by providing real-time data cleansing and eliminating duplicative manual entry of data.
- *Comprehensive clinical development solution*. We have designed our comprehensive solutions to provide support throughout the clinical development process, from protocol authoring to preparing data for regulatory analysis and submission. Medidata Rave can be integrated easily with auxiliary systems, making it the backbone for a complete end-to-end solution.
- *Enhanced investigator acceptance.* We have designed the user interface of our application services to meet the needs of clinicians, with intuitive, consistent point-and-click navigation and a familiar clinical data entry approach.
- *Seamless execution of global trials*. Medidata Rave provides a single data repository that can be used in multiple languages simultaneously, avoiding the need for the installation and maintenance of parallel versions of the system.
- *Lower cost of ownership*. Our product architecture scales reliably and cost-effectively across clinical trials of all sizes. Our customers can run all clinical trials on a single instance, further reducing deployment cost per study.

Our Growth Strategy

Our strategy is to become the global standard for application service solutions for EDC and complementary technologies for the clinical development process. Key elements of our strategy include:

- *Expand our global customer base*. We will continue to pursue new relationships with large global pharmaceutical and biotechnology companies, as well as to dedicate resources to small- and middle-market life sciences companies, as we believe the middle-market represents an under-penetrated opportunity for customer expansion.
- *Increase sales to our existing customers*. We intend to drive adoption of our products and services within our existing customer base by facilitating the use of our application services in new trials and converting existing single-study customers into multi-study customers.
- *Enhance our suite of products and services.* We intend to add new features to our existing offerings and add new offerings to maximize the efficiency of the clinical development process. We believe our clinical trials expertise will enable us to leverage our customers' operational data to provide metrics-driven insights and advisory services to facilitate enhanced market penetration.
- *Expand indirect sales channel initiatives.* We will continue to pursue strategic partnerships with CROs and healthcare information technology consultants to position our software solutions as the platform of choice for their outsourced clinical trial management services.

Risks Associated with Our Business

Our business is subject to a number of risks of which you should be aware before making an investment decision. Those risks are discussed in "Risk Factors" beginning on page 8.

Corporate Information

We were organized as a New York corporation in June 1999 and reincorporated in the State of Delaware in May 2000. Our principal executive offices are located at 79 Fifth Avenue, 8th Floor, New York, New York 10003, and our telephone number is (212) 918-1800. Our website is located at *www.mdsol.com*. Information contained on our website is not incorporated by reference into this prospectus, and you should not consider that information to be part of this prospectus.

The Offering

Common stock offered by us	shares (or shares if the underwriters exercise their over-allotment option in full)
Common stock to be outstanding after the offering(1)	shares (or shares if the underwriters exercise their over-allotment option in full)
Underwriters' option	We have granted the underwriters a 30-day option to purchase from us up to an aggregate of additional shares of our common stock if they sell more than shares in the offering.
Use of proceeds	We estimate that the net proceeds to us from this offering will be approximately $. We expect to use the net proceeds for general corporate purposes, including working capital, capital expenditures and potential acquisitions. We may also repay all or a portion of our $15 million senior secured credit facility, plus accrued interest and any fees relating to our prepayment, in the event that we are unable to restructure the credit facility or obtain alternative debt financing on more favorable terms. See "Use of Proceeds."
Dividend policy	We currently do not intend to pay dividends on our common stock.
Risk factors	An investment in our common stock involves a high degree of risk. You should carefully consider the risk factors set forth under "Risk Factors" beginning on page 8 and the other information contained in this prospectus prior to making an investment decision regarding our common stock.
Listing	We intend to apply to list our common stock on the NASDAQ Global Market under the symbol "MDSO."

(1) The number of shares of common stock to be outstanding after the offering is based on 7,035,100 shares of common stock outstanding as of December 31, 2008 and the issuance of 9,014,658 shares of common stock upon the automatic conversion of all of the outstanding shares of our preferred stock upon the closing of the offering. In addition, the number of shares of common stock to be outstanding after the offering assumes that accumulated accrued dividends on the convertible preferred stock of approximately $2.1 million (as of December 31, 2008) will be paid from cash on hand upon closing of the offering. The number of shares of common stock to be outstanding after the offering:

- excludes 2,431,550 shares of common stock issuable upon the exercise of stock options outstanding as December 31, 2008 at a weighted average exercise price of $6.63 per share;
- excludes shares of common stock reserved for future grants or awards from time to time under our 2009 Long-Term Incentive Plan;
- assumes no exercise by the underwriters of their option to purchase up to additional shares of common stock from us if they sell more than shares in the offering; and
- excludes shares issueable if holders of our senior preferred stock elect to receive shares of common stock valued at the initial public offering price as payment of their accumulated and accrued dividends.

Summary Consolidated Financial Information and Other Data

The summary consolidated statement of operations data presented for each of the years ended December 31, 2005, 2006 and 2007 and the summary consolidated balance sheet data as of December 31, 2006 and 2007 were derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated statements of operations data for the years ended December 31, 2003 and 2004 and the summary consolidated balance sheet data as of December 31, 2003, 2004 and 2005 were derived from our audited consolidated financial statements which are not included in this prospectus. The summary consolidated statements of operations data presented for the nine months ended September 30, 2007 and 2008 and the summary consolidated balance sheet data as of September 30, 2008 were derived from our unaudited condensed consolidated interim financial statements included elsewhere in this prospectus. The results of operations for the nine months ended September 30, 2008 are not necessarily indicative of the results to be expected for the full year ending December 31, 2008.

On March 17, 2008, we acquired Fast Track, a provider of clinical trial planning solutions, including software, proprietary contracting data and professional services. The consolidated statement of operations data for the nine months ended September 30, 2008 includes the impact of the acquisition of Fast Track beginning on the date of acquisition. The consolidated statement of operations data for the prior periods do not include the impact of the acquisition of Fast Track. The information contained in this table should also be read in

conjunction with “Use of Proceeds,” “Capitalization,” “Selected Consolidated Financial Information,” “Unaudited Pro Forma Statements of Operations,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and accompanying notes thereto, all included elsewhere in this prospectus.

Consolidated Statement of Operations Data

	Year Ended December 31,					Nine Months Ended September 30,	
	2003	2004	2005	2006	2007	2007	2008(1)
	(in thousands, except share and per share amounts)						
Revenues:							
Application services	$1,166	$3,226	$13,069	$31,953	$48,378	$34,678	$54,446
Professional services	2,899	4,304	6,759	18,508	37,896	26,957	30,353
Total revenues	4,065	7,530	19,828	50,461	86,274	61,635	84,799
Cost of revenues:(2)							
Application services(3)	174	1,074	2,059	7,288	13,170	9,318	14,590
Professional services	1,294	4,878	14,459	20,462	33,035	24,200	23,815
Total cost of revenues	1,468	5,952	16,518	27,750	46,205	33,518	38,405
Gross profit	2,597	1,578	3,310	22,711	40,069	28,117	46,394
Operating costs and expenses:(2)							
Research and development(4)	883	2,859	4,104	5,905	10,716	7,404	14,632
Sales and marketing(5)	1,819	3,829	7,733	13,379	16,485	11,785	18,095
General and administrative	2,117	4,068	4,574	8,335	13,361	8,435	20,047
Total operating costs and expenses	4,819	10,756	16,411	27,619	40,562	27,624	52,774
(Loss) income from operations	(2,222)	(9,178)	(13,101)	(4,908)	(493)	493	(6,380)
Interest and other expenses (income), net	2	31	38	195	364	23	1,182
(Loss) income before provision for income taxes	(2,224)	(9,209)	(13,139)	(5,103)	(857)	470	(7,562)
Provision for income taxes(6)	2	23	110	306	515	351	481
Net (loss) income	(2,226)	(9,232)	(13,249)	(5,409)	(1,372)	119	(8,043)
Preferred stock dividends and accretion	5	303	498	498	498	374	374
Net loss available to common stockholders	$(2,231)	$(9,535)	$(13,747)	$(5,907)	$(1,870)	$(255)	$(8,417)
Basic and diluted loss per share(7)	$(0.38)	$(1.57)	$(2.24)	$(0.94)	$(0.29)	$(0.04)	$(1.25)
Weighted average basic and diluted common shares outstanding(7)	5,800,000	6,056,422	6,135,341	6,296,830	6,384,557	6,499,012	6,712,338
Pro forma(8)							
Pro forma basic and diluted loss per share					$(0.09)		$(0.51)
Pro forma weighted average basic and diluted common shares outstanding					15,399,215		15,726,996

	Year Ended December 31,	Nine Months EndedSeptember 30,

	2003	2004	2005	2006	2007	2007	2008(1)
	(in thousands)						
Stock-based compensation							
Stock-based compensation expense included in cost of revenues and operating costs and expenses is as follows:							
Cost of revenues	$—	$—	$178	$108	$172	$125	$210
Research and development expenses	—	—	27	89	183	114	334
Sales and marketing	—	—	69	304	448	329	470
General and administrative expenses	—	—	118	218	491	242	1,221
Total stock-based compensation	$—	$—	$392	$719	$1,294	$810	$2,235
Depreciation and amortization of intangible assets included in cost of revenues and operating costs and expenses is as follows:							
Depreciation							
Cost of revenues	$—	$—	$563	$1,237	$3,605	$2,358	$4,459
Research and development expenses	—	—	136	289	463	321	494
Sales and marketing	—	—	91	202	243	165	289
General and administrative expenses	141	347	104	228	305	214	348
Total depreciation	141	347	894	1,956	4,616	3,058	5,590
Amortization of intangible assets(4)							
Cost of revenues	—	—	—	—	—	—	826
Sales and marketing	—	—	—	—	—	—	54
Total amortization of intangible assets	—	—	—	—	—	—	880
Total depreciation and amortization of intangible assets	$141	$347	$894	$1,956	$4,616	$3,058	$6,470

Consolidated Balance Sheet Data

	As of December 31,					As of
	2003	2004	2005	2006	2007	September 30,2008
	(in thousands)					
Cash and cash equivalents	$1,457	$7,595	$6,450	$7,016	$7,746	$11,479
Total current assets	2,854	13,149	13,218	18,328	27,810	37,066
Restricted cash	221	306	305	305	387	545
Total assets	3,554	14,824	16,406	24,376	42,733	68,809
Total deferred revenue	2,474	11,253	21,501	25,017	35,024	46,076
Total capital lease obligations	—	289	507	2,281	8,527	8,399
Total long-term debt	1,500	1,500	4,000	3,514	10,781	14,452
Convertible redeemable preferred stock	1,130	11,252	11,751	12,249	12,747	13,121
Convertible preferred stock	24	24	24	24	24	24
Stockholders' deficit	(2,383)	(13,706)	(27,656)	(32,614)	(39,023)	(27,854)

Notes to Summary Consolidated Financial Information and Other Data

(1) On March 17, 2008, we acquired Fast Track, a provider of clinical trial planning solutions. Our results of operations for the nine months ended September 30, 2008 include the operations of Fast Track since the date of acquisition. Please refer to "Unaudited Pro Forma Statements of Operations" for the pro forma effects of our acquisition of Fast Track.

(2) Prior to January 1, 2006, we accounted for our stock-based compensation plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, or APB No. 25, and related interpretations. Under APB No. 25, compensation expense of fixed stock options is based on the difference, if any, on the date of the grant between the fair value of our stock and the exercise price of the option. Compensation expense is recognized on a straight-line basis over the requisite service period.

On January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, or SFAS No. 123(R), requiring us to recognize expense related to the fair value of our stock-based compensation awards. We elected the modified prospective transition method as permitted by SFAS No. 123(R). Under this transition method, stock-based compensation expense for the fiscal year ended December 31, 2006, includes compensation expense for all stock based compensation awards granted prior to, but not yet vested, as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, or SFAS No. 123, and compensation expense for all stock based compensation awards granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R).

(3)	In 2006, it was claimed that certain applications offered to our customers potentially infringed on intellectual property rights held by a third party. As a result of negotiations with the third party, we entered into a license and settlement agreement in June 2007, pursuant to which we licensed the intellectual property held by the third party for use in our future sales to customers and settled all past infringement claims. We paid a settlement amount of $2.2 million to the third party in 2007. Such amount was recorded in cost of revenues under application services for the year ended December 31, 2006 and in accrued expenses on the consolidated balance sheet as of December 31, 2006.
(4)	We determined that technological feasibility had not been established for certain in-process research and development projects acquired from Fast Track. These projects were written off, resulting in $0.7 million of additional research and development expenses included in the consolidated statement of operations for the nine months ended September 30, 2008. This write-off is not included in amortization of intangible assets in our consolidated statement of operations.
(5)	In 2006, a former employee made a claim seeking compensation of approximately $1.6 million in relation to the termination of her employment. Subsequently, the claim has been reduced to approximately $1.4 million as of September 30, 2008. We recorded approximately $0.6 million in sales and marketing expenses during the year ended December 31, 2006 related to this matter. A hearing was held in November 2008 and the court rendered its decision on January 15, 2009, which awarded approximately $0.1 million to the plaintiff. While we believe this decision was favorable to us, it may be appealed by the plaintiff.
(6)	For the years ended December 31, 2003 to 2007 and the nine months ended September 30, 2008, we did not realize an income tax benefit for available net operating loss carryforwards. As of December 31, 2007, we had approximately $17.2 million of federal and $20.8 million of state net operating loss carryforwards available to offset future taxable income expiring from 2019 through 2027.
(7)	Basic and diluted net loss per share amounts and basic and diluted weighted average common shares outstanding have been adjusted to reflect a two-for-one stock split effective on August 10, 2004.
(8)	The pro forma information represents the pro forma effect of converting all outstanding shares of convertible preferred stock into common stock at the applicable conversion ratio upon the completion of this offering, as if it had occurred on January 1, 2007 for the basic and diluted net loss per share presented on the consolidated statements of operations data for the year ended December 31, 2007 and for the nine months ended September 30, 2008.

Risk Factors

RISK FACTORS An investment in our common stock involves a high degree of risk. Before making an investment in our common stock, you should carefully consider the following risks, as well as the other information contained in this prospectus, including our consolidated financial statements and the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations." The risks described below are those which we believe are the material risks we face. Any of the risk factors described below or additional risks and uncertainties not presently known to us, or that we currently deem immaterial, could have a material adverse effect on our business, financial condition and results of operations. As a result, the trading price of our common stock could decline and you may lose a part or all of your investment.

Risks Related to Our Business

We have incurred significant operating losses during our limited operating history and may not be profitable in the future.

We began providing EDC services in 2001. We have recognized operating losses in each year since 1999, and our cumulative operating loss since 1999 totaled approximately $38.0 million at September 30, 2008. We may make significant future expenditures related to the development and expansion of our business. In addition, following this offering we will incur significant legal, accounting and other expenses that we did not incur as a private company. As a result of these increased expenditures, we will have to generate and sustain increased revenue to achieve future profitability. While our revenues have grown in recent periods, this growth may not be sufficient to offset the increase in our expenses and may not be sustainable. We may incur significant losses in the future for a number of reasons, including the other risks described in this prospectus. Accordingly, we cannot give you any assurance regarding our future profitability.

Our quarterly operating results fluctuate and may continue to fluctuate in the future, and if we fail to meet the expectations of analysts or investors, our stock price and the value of your investment could decline substantially.

Our quarterly and annual revenues and operating results have varied in the past and may vary significantly in the future depending on factors such as:

- budgeting cycles of our customers;
- the length of our sales cycle;
- increased competition;
- our ability to develop innovative products;
- the timing of new product releases by us or our competitors;
- market acceptance of our products;
- changes in our and our competitors' pricing policies;
- the financial condition of our current and potential customers;
- changes in the regulatory environment;
- changes in operating expenses and personnel changes;
- our ability to hire and retain qualified personnel;
- the effect of potential acquisitions and consequent integration;
- changes in our business strategy; and
- general economic factors, including factors relating to the disruptions in the world credit and equity markets and the related impact on our customers' access to capital.

In addition, a significant portion of our operating expense is relatively fixed and planned expenditures are based in part on expectations regarding future revenues. Accordingly, unexpected revenue shortfalls may decrease our gross margins and could cause significant changes in our operating results from quarter to quarter. As a result, in future quarters our operating results could fall below the expectations of securities analysts or investors, in which event our stock price would likely decrease.

The loss of one or more major customers could materially and adversely affect our business, results of operations or financial condition.

Our top five customers accounted for approximately 47% of our revenues in the nine months ended September 30, 2008 and approximately 53% of our revenues in fiscal 2007. For the nine months ended September 30, 2008, two customers, Johnson & Johnson and AstraZeneca, accounted for approximately 14% and 11% of our total revenues, respectively. For 2007, three customers, Johnson & Johnson, AstraZeneca and Amgen, accounted for approximately 15%, 13% and 11% of our total revenues, respectively. The loss of any of our major customers could have a material adverse effect on our results of operations and financial condition. We may not be able to maintain our customer relationships, and our customers may delay performance under or fail to renew their agreements with us, which could adversely affect our business, results of operations or financial condition. Any reduction in the amount of revenues that we derive from these customers, without an offsetting increase in new sales to other customers, could have a material adverse effect on our operating results. A significant change in the liquidity or financial position of any of these customers could also have a material adverse effect on the collectability of our accounts receivables, our liquidity and our future operating results.

If our customers cancel their contracts or terminate or delay their clinical trials, we may lose or delay revenues and our business may be harmed.

Certain of our customer contracts are subject to cancellation by our customers at any time with limited notice. Customers engaged in clinical trials may terminate or delay a clinical trial for various reasons, including the failure of the tested product to satisfy safety or efficacy requirements, unexpected or undesired clinical results, decisions to de-emphasize a particular product or forego a particular clinical trial, decisions to downsize clinical development programs, insufficient patient enrollment or investigator recruitment and production problems resulting in shortages of required clinical supplies. In the case of our hosted solutions, any termination or delay in the clinical trials would likely result in a consequential delay or termination in those customers' service contracts. We have experienced

terminations and delays of our customer service contracts in the past and expect to experience additional terminations and delays in the future. The termination of a single-study arrangement could result in decreased revenues and the delay of our customers' clinical trials could result in delayed professional services revenues, which could materially harm our business.

We currently have material weaknesses in our internal controls over financial reporting. If we fail to remedy our material weaknesses or otherwise fail to maintain effective internal controls over our financial reporting, the accuracy and timing of our financial reporting may be adversely affected.

In connection with the audit of our consolidated financial statements for the years ended December 31, 2007 and 2006, we, together with our independent registered public accounting firm, identified a number of material weaknesses in our internal controls over financial reporting, as defined in rules established by the Public Company Accounting Oversight Board, or PCAOB. A "material weakness" is a deficiency, or a combination of deficiencies, in internal controls over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements would not be prevented or detected on a timely basis.

The material weaknesses were attributable to deficiencies in our revenue recognition and expense cut-off procedures, and resulted in the recording of audit adjustments over the two-year period ended December 31, 2007. While we have initiated a remediation plan to address these issues, we have had only limited operating experience with the remedial measures that have been implemented to date and cannot provide any assurance that these measures or any future measures will adequately remediate the material weaknesses. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Internal Controls over Financial Reporting." In addition, other material weaknesses or significant deficiencies in our internal controls over financial reporting may be identified in the future. If we fail to remediate the material weaknesses, or fail to implement required new or improved controls, or encounter difficulties in their implementation, it could harm our operating results, cause failure to meet our SEC reporting obligations on a timely basis or result in material misstatements in our annual or interim financial statements.

Our failure to remediate the material weaknesses identified as of December 31, 2007 or the identification of additional material weaknesses could also prohibit us from complying with the provisions of Section 404 of the Sarbanes-Oxley Act of 2002, which could apply to us as early as the filing of our annual report on Form 10-K for 2010 and which requires annual management assessments of the effectiveness of our internal controls over financial reporting as well as a report by our independent registered public accounting firm regarding the effectiveness of such internal control. If we are unable to comply with Section 404 or otherwise are unable to produce timely and accurate financial statements, our stock price may be adversely affected and we may be unable to maintain compliance with the listing requirements of the NASDAQ Global Market.

The length of our sales cycle may cause us to incur substantial expenses without realizing sales or revenues.

The sales cycle for some of our software solutions frequently takes in excess of nine months from initial customer contact to contract execution. During this period, we may expend substantial time, effort and financial resources without realizing any revenues with respect to the potential sale. In addition, it may be difficult for us to rapidly increase our revenues through additional sales in any period, as license revenues and, when applicable, related services revenues from new customers are recognized over the applicable license term, typically one to five years.

Substantially all of our computer and communications hardware is located at a single facility, the failure of which would harm our business and results of operations.

Substantially all of the computer hardware necessary to operate our hosting service, which is used by the majority of our customers, is located at our hosting facility in Houston, Texas. Our systems and operations could suffer damage or interruption from human error, fire, flood, power loss, telecommunications failure, break-ins, terrorist attacks, acts of war and similar events, and we do not presently have hosting systems in multiple locations. The occurrence of a natural disaster, an act of terrorism or other unanticipated problems at our hosting facility could result in lengthy interruptions in our service. Although we maintain back-up facilities and disaster recovery services in the event of a system failure, these may be insufficient or fail. Any failure or breach of security of our systems could damage our reputation and cause us to lose customers, which would harm our business and results of operations. Our business may be harmed if our customers and potential customers believe our service is unreliable.

Defects or errors in our software could harm our reputation, result in significant cost to us and impair our ability to market our solutions.

The software applications underlying our hosted products and services, including Medidata Rave, are inherently complex and may contain defects or errors, some of which may be material. Errors may result from our own technology or from the interface of our software with legacy systems and data which we did not develop. The risk of errors is particularly significant when a new product is first introduced or when new versions or enhancements of existing products are released.

We have from time to time found defects in our software, and material performance problems or defects may arise in the future. Material defects in our software could result in a reduction in sales, delay in market acceptance of our software or credits or refunds to our customers. In addition, such defects may lead to the loss of existing customers and difficulty in attracting new customers, diversion of development resources or harm to our reputation.

Correction of defects or errors could prove to be impossible or impracticable. The costs incurred in correcting any defects or errors or in responding to resulting claims or liability may be substantial and could adversely affect our operating results.

If we are not able to reliably meet our data storage and management requirements, or if we experience any failure or interruption in the delivery of our services over the Internet, customer satisfaction and our reputation could be harmed and customer contracts may be terminated.

As part of our current business model, we store and manage hundreds of terabytes of data for our customers, resulting in substantial information technology infrastructure and ongoing technological challenges, which we expect to continue to increase over time. If we do not reliably meet these data storage and management requirements, or if we experience any failure or interruption in the delivery of our services over the Internet, customer satisfaction and our reputation could be harmed and lead to reduced revenues and increased expenses. Our hosting services are subject to service level agreements and, in the event that we fail to meet guaranteed service or performance levels, we could be subject to customer credits or termination of these customer contracts. If the cost of meeting these data storage and management requirements increases, our results of operations could be harmed.

The failure of our Medidata Rave software solution to achieve or maintain wide acceptance would materially harm our operating results.

Continued use of our key product offering, Medidata Rave software solution, is critical to our future success and is subject to a number of significant risks, some of which are outside our control. These risks include:

- our customers and prospective customers' desire for and acceptance of our software solutions;
- our ability to meet product development and release schedules;
- Medidata Rave's ability to support large numbers of users and manage vast amounts of data;
- our ability to comply with applicable regulations and regulatory guidance;
- our customers' ability to use Medidata Rave, train their employees on its use and successfully deploy our technology in their clinical trials; and
- our ability to expand our internal resources and increase our capital and operating expenses to support the anticipated growth and expansion of Medidata Rave's functionalities.

Our failure to address, mitigate or manage these risks would seriously harm our business. The failure of Medidata Rave to achieve or maintain market acceptance would likely negatively affect sales of our other clinical trial solutions.

We may expand our business through new acquisitions that could disrupt our business, harm our financial condition and dilute current stockholders' ownership interests in our company.

We intend to pursue potential acquisitions of, and investments in, businesses, technologies, or products complementary to our business and periodically engage in discussions regarding such possible acquisitions. For example, in March 2008, we acquired Fast Track.

Acquisitions, including the Fast Track acquisition, involve numerous risks, including some or all of the following:

- difficulties in identifying and acquiring complementary products, technologies or businesses;
- substantial cash expenditures;
- incurrence of debt and contingent liabilities, some of which we may not identify at the time of acquisition;
- difficulties in assimilating the operations and personnel of the acquired companies;
- diversion of management's attention away from other business concerns;
- risk associated with entering markets in which we have limited or no direct experience;

- potential loss of key employees, customers and strategic alliances from either our current business or the target company's business; and
- delays in customer purchases due to uncertainty and the inability to maintain relationships with customers of the acquired businesses.

If we fail to properly evaluate acquisitions or investments, we may not achieve the anticipated benefits of such acquisitions, we may incur costs in excess of what we anticipate, and management resources and attention may be diverted from other necessary or valuable activities. Any acquisition, including the Fast Track acquisition, may not result in short-term or long-term benefits to us. The failure to evaluate and execute acquisitions or investments successfully or otherwise adequately address these risks could materially harm our business and financial results. We may incorrectly judge the value or worth of an acquired company or business. In addition, our future success will depend in part on our ability to manage the growth anticipated with these acquisitions.

Furthermore, the development or expansion of our business or any acquired business or companies may require a substantial capital investment by us. We may not have these necessary funds or they might not be available to us on acceptable terms or at all. We may also seek to raise funds for an acquisition by issuing equity securities or convertible debt, as a result of which our existing stockholders may be diluted or the market price of our stock may be adversely affected.

Our revenues derived from international operations are subject to risk.

Approximately 15.9%, 30.5%, 34.1% and 34.3% of our net revenues in each of the years ended December 31, 2005, 2006 and 2007, and in the nine months ended September 30, 2008, respectively, were derived from international operations. We expect that international customers will continue to account for a substantial percentage of our revenues.

International operations are subject to inherent risks. These risks include:

- the economic conditions in these various foreign countries and their trading partners, including conditions resulting from the disruptions in the world credit and equity markets;
- political instability;
- longer payment cycles;
- greater difficulty in accounts receivable collection and enforcement of agreements;
- compliance with foreign laws;
- changes in regulatory requirements;
- fewer legal protections for intellectual property and contract rights;
- tariffs or other trade barriers;
- difficulties in obtaining export licenses;
- staffing and managing foreign operations;
- exposure to currency exchange and interest rate fluctuations;
- transportation delays; and
- potentially adverse tax consequences.

Moreover, with regard to our international operations, we frequently enter into transactions in currencies other than the U.S. dollar and we incur operating expenses in currencies other than the U.S. dollar. For the year ended December 31, 2007 and the nine months ended September 30, 2008, approximately 6.0% and 7.8%, respectively, of our sales were denominated in foreign currencies. This creates a foreign currency exchange risk for us that could have a material adverse effect on our business, results of operations and financial condition.

If we fail to recruit and retain key personnel, we may not meet our goals and our business may be harmed.

Our success depends in large part upon the continued services of our executive team and many highly skilled personnel involved in management, research and development and sales and marketing and upon our ability to attract and retain additional highly qualified employees. Our employees are not subject to employment agreements and may voluntarily terminate their employment with us at any time. Competition for these individuals from a variety of employers, including our competitors and companies in computer or technology-related industries, is intense, especially for engineers with high levels of experience in designing and developing software and Internet-related services and senior sales executives. We may be unable to retain our existing personnel or attract and retain additional personnel. Volatility in the price of our stock may, therefore, adversely affect our ability to attract or retain key employees. If we fail to attract new personnel or to retain and motivate our current personnel, our business and future growth prospects could be severely harmed.

We rely on third parties for our help desk support and technology partnerships, and our business may suffer if these relationships do not continue.

We currently outsource our help desk support functions, which involve important direct interactions with users of our products. In the event that our vendor becomes unable or unwilling to provide these services to us, we are not equipped to provide the necessary range of help desk support and service functions to our customers. We also work with companies such as Integrated Clinical Systems, Inc., Business Objects SA, invivodata, Inc. and SAS Institute Inc. to allow our EDC platform to interface with their products. If we are unable to develop and maintain effective relationships with a wide variety of technology partners, if companies adopt more restrictive policies with respect to, or impose unfavorable terms and conditions on, access to their products, we may not be able to continue to provide our customers with a high degree of interoperability with their existing information technology and business infrastructure, which could reduce our sales and adversely affect our business, operating results and financial condition.

Claims that we or our technologies infringe upon the intellectual property or other proprietary rights of a third party may require us to incur significant costs, to enter into royalty or licensing agreements or to develop or license substitute technology.

We have been, and may in the future be, subject to claims that our technologies infringe upon the intellectual property or other proprietary rights of a third party. For instance, we were recently subject to a patent infringement claim by a third party as a result of which we paid $2.2 million to settle the claim. In addition, the vendors who provide us with technology that we incorporate in our product offerings could become subject to various infringement claims. The technologies used in our product offerings may infringe patents held by others or that they may do so in the future. Any future claim of infringement could cause us to incur substantial costs defending against the claim, even if the claim is without merit, and could distract our management from our business. Moreover, any settlement or adverse judgment resulting from the claim could require us to pay substantial amounts or obtain a license to continue to use the technology that is the subject of the claim, or otherwise restrict or prohibit our use of the technology. Any required licenses may not be available to us on acceptable terms, if at all. If we do not obtain any required licenses, we could encounter delays in product introductions if we attempt to design around the technology at issue or attempt to find another provider of suitable alternative technology to permit us to continue offering the applicable software solution. In addition, we generally provide in our customer agreements that we will indemnify our customers against third-party infringement claims relating to our technology provided to the customer, which could obligate us to fund significant amounts. Infringement claims asserted against us may have a material adverse effect on our business, results of operations or financial condition.

We may be unable to adequately enforce or defend our ownership and use of our intellectual property and other proprietary rights.

Our success is heavily dependent upon our intellectual property and other proprietary rights. We rely upon a combination of trademark, trade secret, copyright, patent and unfair competition laws, as well as license and access agreements and other contractual provisions, to protect our intellectual property and other proprietary rights. In addition, we attempt to protect our intellectual property and proprietary information by requiring certain of our employees and consultants to enter into confidentiality, non-competition and assignment of inventions agreements. The steps we take to protect these rights may not be adequate to prevent misappropriation of our technology by third parties or may not be adequate under the laws of some foreign countries, which may not protect our intellectual property rights to the same extent as do the laws of the United States.

Our attempts to protect our intellectual property may be challenged by others or invalidated through administrative process or litigation, and agreement terms that address non-competition are difficult to enforce in many jurisdictions and may not be enforceable in any particular case. Moreover, the degree of future protection of our intellectual property and proprietary rights is uncertain for products that are currently in the early stages of development because we cannot predict which of these products will ultimately reach the commercial market or whether the commercial versions of these products will incorporate proprietary technologies. In addition, there remains the possibility that others will “reverse engineer” our products in order to determine their method of operation and introduce competing products or that others will develop competing technology independently.

If we resort to legal proceedings to enforce our intellectual property rights or to determine the validity and scope of the intellectual property or other proprietary rights of others, the proceedings could be burdensome and expensive, even if we were to prevail. The failure to adequately protect our intellectual property and other proprietary rights may have a material adverse effect on our business, results of operations or financial condition.

We could incur substantial costs resulting from product liability claims relating to our products or services or our customers' use of our products or services.

Any failure or errors in a customer's clinical trial caused or allegedly caused by our products or services could result in a claim for substantial damages against us by our customers or the clinical trial participants, regardless of our responsibility for the failure. Although we are generally entitled to indemnification under our customer contracts against claims brought against us by third parties arising out of our customers' use of our products, we might find ourselves entangled in lawsuits against us that, even if unsuccessful, may divert our resources and energy and adversely affect our business. Further, in the event we seek indemnification from a customer, a court may not enforce our indemnification right if the customer challenges it or the customer may not be able to fund any amounts for indemnification owed to us. In addition, our existing general liability insurance coverage may not continue to be available on reasonable terms or may not be available in amounts sufficient to cover one or more large claims, or the insurer may disclaim coverage as to any future claim.

Our failure to properly protect any personal medical information we possess or are deemed to possess in connection with the conduct of clinical trials could subject us to significant liability.

Our customers use our software solutions to collect, manage and report information in connection with the conduct of clinical trials. This information may be considered personal medical information of the clinical trial participants or patients. Regulation related to the use and disclosure of personal medical information continues to expand in scope and complexity. Increased focus on individuals' rights to confidentiality of their personal information, including personal medical information, could lead to an increase of existing and future legislative or regulatory initiatives giving direct legal remedies to individuals, including rights to damages, against entities deemed responsible for not adequately securing such personal information. In addition, courts may look to regulatory standards in identifying or applying a common law theory of liability, whether or not that law affords a private right of action. Since we receive and process personal information of clinical trial participants and patients from customers utilizing our hosted solutions, there is a risk that we could be liable if there were a breach of any obligation to a protected person under contract, standard of practice or regulatory requirement. If we fail to protect personal information that is in our possession or deemed to be in our possession properly, we could be subjected to significant liability and our reputation would be harmed.

We may require additional capital to support business growth, and this capital might not be available.

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges or opportunities, including the need to develop new products and services or enhance our existing products and services, enhance our operating infrastructure or acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. Disruptions in the world credit and equity markets may limit our and our customers' access to financing. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

Failure to manage our growth effectively could harm our business.

We have experienced a period of rapid growth, which has placed a significant strain on our management and our operational and financial resources. We have also experienced rapid growth in the number of clinical trials we host and the number of customer relationships we manage. To manage our future growth effectively, we will likely need to enhance our information technology infrastructure, financial and accounting systems and controls and manage expanded operations in geographically distributed locations. We will also be required to attract, integrate, train and retain a significant number of qualified sales and marketing personnel, professional services personnel, software engineers and other management personnel. Failure to manage our growth effectively may result in weaknesses in our infrastructure, systems or controls, and the loss of productivity, business opportunities and key employees. Our growth may require significant capital expenditures, potentially diverting financial resources from other projects, such as the development of new services. If our management is unable to effectively manage our growth, our expenses may increase more than expected, our revenues could decline or may grow more slowly than expected and we may be unable to implement our business strategy.

Current and future litigation against us could be costly and time consuming to defend.

We are from time to time subject to legal proceedings and claims that arise in the ordinary course of business, such as claims brought by our customers in connection with commercial disputes and employment claims made by our current or former employees. For example, we are currently party to a lawsuit in Belgium brought by a former employee seeking approximately $1.4 million. Litigation may result in substantial costs and may divert management's attention and resources, which may seriously harm our business, overall financial condition and operating results. Insurance may not cover such claims, may not be sufficient for one or more such claims and may not continue to be available on terms acceptable to us. A claim brought against us that is uninsured or underinsured could result in unanticipated costs, thereby reducing our operating results and leading analysts or potential investors to reduce their expectations of our performance, resulting in a reduction in the trading price of our stock.

Risks Related to Our Industry

We face significant competition, which could cause us to lose business or achieve lower margins.

The market for our clinical trial solutions is intensely competitive and characterized by rapidly changing technologies, evolving industry standards and frequent new product and service introductions and enhancements that may render existing products and services obsolete. Accordingly, our market share and margins are subject to sudden declines. Some of our competitors have longer operating histories, greater financial, technical, marketing and other resources and greater name recognition than we do. These competitors may respond more quickly than we can to new and emerging technologies and changing customer and regulatory requirements, or devote greater resources to the development, promotion and sale of their solutions. We anticipate that new competitors will enter our market in the future, as barriers to entry are relatively low in our industry. Increased competition is likely to result in pricing pressures, which could negatively impact our sales, gross margins or market share. In addition, current and potential competitors have established, and may in the future establish, relationships with vendors of complementary products, technologies or services to increase the penetration of their products in the marketplace. Even if our products and services are more effective than the products or service offerings of our competitors, current or potential customers might accept competitive products and services in lieu of purchasing our software products, services and hosted solutions. Our failure to compete effectively could materially adversely affect our business, financial condition or results of operations.

If we do not continue to innovate and provide solutions that meet the needs of our customers, we may not remain competitive, and our revenues and operating results could suffer.

Our future success will depend in large part on our ability to enhance and broaden our software products and services to meet the evolving needs of our customers. As a result, we must continue to invest significant resources in research and development in order to enhance our existing offerings and introduce new high-quality solutions that will be useful to our customers. If we are unable to respond effectively to our customers' needs, technological changes and new industry standards and developments in a timely manner, demand for our solutions could suffer and our revenues and operating results could be materially adversely affected. Our operating results could also suffer if our innovations are not appropriately timed with market opportunity or not effectively brought to market.

We depend entirely on the clinical trial market, and a downturn in this market could cause our revenues to decrease.

Our business depends entirely on the clinical trials conducted or sponsored by pharmaceutical, biotechnology and medical device companies, CROs and other entities. Our revenues may decline as a result of conditions affecting these industries, including general economic downturns, increased consolidation, decreased competition or fewer products under development. Other developments that may affect these industries and harm our operating results include product liability claims, changes in government regulation, changes in governmental price controls or third-party reimbursement practices and changes in medical practices. Disruptions in the world credit and equity markets and the current global recession may also result in a global downturn in spending on research and development and clinical trials and may impact our customers' access to capital. Any decrease in research and development expenditures or in the size, scope or frequency of clinical trials could materially adversely affect our business, results of operations or financial condition.

Extensive governmental regulation of the clinical trial process and our products and services could require significant compliance costs and have a material adverse effect on the demand for our solutions.

The clinical trial process is subject to extensive and strict regulation by the U.S. Food and Drug Administration and other regulatory authorities worldwide. Our software products, services and hosted solutions are also subject to state, federal and foreign regulations. Demand for our solutions is largely a function of such government regulation, which is generally increasing at the state and federal levels in the United States and elsewhere, and subject to change at any time. Changes in the level of regulation, including a relaxation in regulatory requirements or the introduction of simplified drug approval procedures, could have a material adverse effect on the demand for our solutions. For example, proposals to place caps on drug prices could limit the profitability of existing or planned drug development programs, making investment in new drugs and therapies less attractive to pharmaceutical companies. Similarly, the requirements in the United States, the European Union and elsewhere to create a detailed registry of all clinical trials could have an impact on customers' willingness to perform certain clinical studies. Likewise, a proposal for government-funded universal health care

could subject expenditures for health care to governmental budget constraints and limits on spending. In addition, the uncertainty surrounding the possible adoption and impact on health care of any Good Clinical Practice reforms could cause our customers to delay planned research and development until some of these uncertainties are resolved.

Modifying our software products and services to comply with changes in regulations or regulatory guidance could require us to incur substantial costs. Further, changing regulatory requirements may render our solutions obsolete or make new products or services more costly or time consuming than we currently anticipate. Failure by us, our customers, or our competitors to comply with applicable regulations could result in increased regulatory scrutiny and enforcement. If our solutions fail to comply with government regulations or guidelines, we could incur significant liability or be forced to cease offering our applicable products or services. If our solutions fail to allow our customers to comply with applicable regulations or guidelines, customers may be unwilling to use our solutions and any such non-compliance could result in the termination of or additional costs arising from contracts with our customers.

Consolidation among our customers could cause us to lose customers, decrease the market for our products and result in a reduction of our revenues.

Our customer base could decline because of industry consolidation, and we may not be able to expand sales of our products and services to new customers. Consolidation in the pharmaceutical, biotechnology and medical device industries and among CROs has accelerated in recent years, and we expect this trend to continue. In addition, new companies or organizations that result from such consolidation may decide that our products and services are no longer needed because of their own internal processes or the use of alternative systems. As these entities consolidate, competition to provide products and services to industry participants will become more intense and the importance of establishing relationships with large industry participants will become greater. These industry participants may try to use their market power to negotiate price reductions for our products and services. Also, if consolidation of larger current customers occurs, the combined organization may represent a larger percentage of business for us and, as a result, we are likely to rely more significantly on the combined organization's revenues to continue to achieve growth.

Risks Related to Our Common Stock and this Offering

There is no existing market for our common stock, and a trading market that will provide you with adequate liquidity may not develop. The price of our common stock may fluctuate significantly, and you could lose all or part of your investment.

Prior to this offering, there has been no public market for our common stock. We cannot predict the extent to which investor interest will lead to the development of an active and liquid trading market in our common stock on the NASDAQ Global Market or otherwise. If an active trading market does not develop, you may have difficulty selling any of our common stock that you buy.

The initial public offering price for the shares will be determined by negotiations between us and the representatives of the underwriters and may not be indicative of the market price of the common stock that will prevail in the trading market. The market price of our common stock may decline below the initial public offering price. The market price of our common stock may also be influenced by many factors, some of which are beyond our control, including:

- our quarterly or annual earnings or those of other companies in our industry;
- announcements by us or our competitors of significant contracts or acquisitions;
- changes in accounting standards, policies, guidance, interpretations or principles;
- general economic and stock market conditions, including the disruptions in the world credit and equity markets;
- the failure of securities analysts to cover our common stock after this offering or changes in financial estimates by analysts;
- future sales of our common stock; and
- the other factors described in these "Risk Factors."

In recent years, the stock market in general, and the market for Internet-related companies in particular, has experienced extreme price and volume fluctuations. This volatility has had a significant impact on the market price of securities issued by many companies, including companies in our industry. The price of our common stock could fluctuate based upon factors that have little to do with our performance, and these fluctuations could materially reduce our stock price.

In the past, some companies that have had volatile market prices for their securities have had securities class action suits filed against them. The filing of a lawsuit against us, regardless of the outcome, could have a material adverse effect on our business, financial condition and results of operations, as it could result in substantial legal costs and a diversion of our management's attention and resources.

Future sales of shares of our common stock by existing stockholders could depress the market price of our common stock.

Upon completion of this offering, there will be shares of our common stock outstanding. The shares being sold in this offering (or shares, if the underwriters exercise their option to purchase additional shares in full) will be freely tradable immediately after this offering (except for shares purchased by affiliates). Of the shares outstanding upon the completion of this offering (assuming no exercise of the underwriters' option to purchase additional shares), shares will be freely tradeable shares saleable under Rule 144 that are not subject to a lock-up, shares will be shares saleable under Rules 144 and 701 that are not subject to a lock-up, shares will be restricted securities held for or less and shares will be permitted to be sold upon expiration of lock-up agreements 180 days after the date of this offering (subject in some cases to volume limitations). In addition, as of , we had outstanding options to purchase shares of common stock that, if exercised, will result in these additional shares becoming available for sale upon expiration of the lock-up agreements. Sales by these stockholders or optionholders of a substantial number of shares after this offering could significantly reduce the market price of our common stock. We are party to a registration rights agreement with certain holders of our senior preferred stock, which provides them with rights to register under the Securities Act of 1933, as amended (Securities Act), shares of our common stock presently held by them and shares of common stock that are issued following the conversion of their shares of convertible preferred stock upon the completion of this offering. Under this agreement, holders of preferred stock are entitled to unlimited piggyback registration rights (other than in connection with this offering), up to two demand registrations and unlimited registrations on Form S-3. In addition, we are party to a registration rights agreement with certain former holders of shares of capital stock of Fast Track, which we acquired in March 2008. This agreement provides for unlimited piggyback registration rights (other than in connection with this offering) to former holders of shares of Fast Track who hold 10,000 or more shares of our common stock at the time we determine to register any of our securities under the Securities Act, either for our own account or for the account of others. Please refer to "Description of Capital Stock—Registration Rights" for a description of these registration rights.

We also intend to register all common stock that we may issue under our Amended and Restated 2000 Stock Option Plan and our 2009 Long-Term Incentive Plan. Effective upon the completion of this offering, an aggregate of shares of our common stock will be reserved for future issuance under the Amended and Restated 2000 Stock Option Plan and an aggregate of shares of our common stock will be reserved for future issuance under our 2009 Long-Term Incentive Plan. Once we register these shares, which we plan to do shortly after the completion of this offering, they can be freely sold in the public market upon issuance, subject to the lock-up agreements referred to above. If a large number of these shares are sold in the public market, the sales could reduce the trading price of our common stock. See "Shares Eligible for Future Sale" for a more detailed description of sales that may occur in the future.

You will experience immediate and substantial dilution in net tangible book value.

The initial public offering price of our common stock is substantially higher than the net tangible book value per share of our outstanding common stock. As a result, you will pay a price per share that substantially exceeds the tangible book value of our assets after subtracting liabilities. You will incur immediate and substantial dilution of $ per share. You will suffer additional dilution if stock, restricted stock units, restricted stock, stock options, warrants or other equity awards, whether currently outstanding or subsequently granted, are exercised.

We have not determined any specific use for a significant portion of the proceeds from this offering and we may use the proceeds in ways with which you may not agree.

Our management will have considerable discretion in the application of the net proceeds received by us. You will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. You must rely on the judgment of our management regarding the application of the net proceeds of this offering. The net proceeds may be used for corporate purposes that may not improve our financial condition and results of operations or increase our stock price. See "Use of Proceeds."

A limited number of stockholders will have the ability to influence the outcome of director elections and other matters requiring stockholder approval.

After this offering, our directors, executive officers and their affiliated entities will beneficially own more than % of our outstanding common stock. These stockholders, if they act together, could exert substantial influence over matters requiring approval by our stockholders, including the election of directors, the amendment of our certificate of incorporation and bylaws and the approval of mergers or other business combination transactions. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could deprive our stockholders of an opportunity to receive a premium for their stock as part of a sale of our company and might reduce our stock price. These actions may be taken even if they are opposed by other stockholders, including those who purchase shares in this offering.

Provisions of Delaware law and our organizational documents may discourage takeovers and business combinations that our stockholders may consider in their best interests, which could negatively affect our stock price.

Provisions of Delaware law and our fourth amended and restated certificate of incorporation and amended and restated bylaws to be in effect upon completion of this offering may have the effect of delaying or preventing a change in control of our company or deterring tender offers for our common stock that other stockholders may consider in their best interests.

Our certificate of incorporation to be in effect upon completion of this offering authorizes us to issue up to shares of preferred stock in one or more different series with terms to be fixed by our board of directors. Stockholder approval is not necessary to issue preferred stock in this manner. Issuance of these shares of preferred stock could have the effect of making it more difficult and more expensive for a person or group to acquire control of us, and could effectively be used as an anti-takeover device. Following the closing of this offering, no shares of our preferred stock will be outstanding.

Our bylaws to be in effect upon completion of this offering provide for an advance notice procedure for stockholders to nominate director candidates for election or to bring business before an annual meeting of stockholders, including proposed nominations of persons for election to our board of directors, and require that special meetings of stockholders be called only by our chairman of the board, president or secretary after written request of a majority of our board of directors.

The anti-takeover provisions of Delaware law and provisions in our organizational documents may prevent our stockholders from receiving the benefit from any premium to the market price of our common stock offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if they are viewed as discouraging takeover attempts in the future.

Being a public company will increase our administrative workload and expenses.

Prior to this offering, we operated as a private company. As a public company with common stock listed on the NASDAQ Global Market, we will need to comply with new laws, regulations and requirements, including certain provisions of the Sarbanes-Oxley Act of 2002, related regulations of the Securities and Exchange Commission, or SEC, and the requirements of the NASDAQ Global Market, which we are not required to comply with as a private company. Complying with these statutes, regulations and requirements will occupy a significant amount of the time of our board of directors and management. The hiring of additional personnel to handle these responsibilities, including in our accounting and financial reporting departments, will increase our operating costs. We will need to:

- institute a more comprehensive compliance function;
- design, establish, evaluate and maintain a system of internal controls over financial reporting in compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and the related rules and regulations of the SEC and the Public Company Accounting Oversight Board;
- prepare and distribute periodic public reports in compliance with our obligations under the federal securities laws;
- involve and retain to a greater degree outside counsel and accountants in the above activities; and
- enhance our investor relations function.

In addition, we expect that being a public company and subject to these rules and regulations will make it more expensive for us to obtain director and officer liability insurance, and we may be required to incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit and compensation committees, and qualified executive officers.

We will be exposed to risks relating to evaluations of internal controls required by Section 404 of the Sarbanes-Oxley Act of 2002.

We are in the process of evaluating our internal controls systems to allow management to report on, and our independent registered public accounting firm to audit, our internal controls over financial reporting. We will be performing the system and process evaluation and testing (and any necessary remediation) required to comply with the management certification and auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002. We could be required to comply with Section 404 as early as the filing of our Annual Report on Form 10-K for our fiscal year ending December 31, 2010. However, we cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or the impact of the same on our operations.

Furthermore, upon completion of this process, we may identify control deficiencies of varying degrees of severity under applicable SEC and Public Company Accounting Oversight Board rules and regulations that remain unremediated. As a public company, we will be required to report, among other things, control deficiencies that constitute a “material weakness” or changes in internal controls that do,

or are reasonably likely to, materially affect internal controls over financial reporting. See "Risk Factors—Risks Related to Our Business—We currently have material weaknesses in our internal controls over financial reporting. If we fail to remedy our material weaknesses or otherwise maintain effective internal controls over financial reporting, the accuracy and timing of our financial reporting may be adversely affected." We are aware that we will need, and we intend, to hire additional accounting personnel in order to comply with the rules and regulations that will apply to us as a public company. If we fail to implement the requirements of Section 404 in a timely manner, we might be subject to sanctions or investigation by regulatory authorities such as the SEC or the NASDAQ Global Market. Additionally, failure to comply with Section 404 or the report by us of a material weakness may cause investors to lose confidence in our financial statements and our stock price may be adversely affected. If we fail to remedy any material weakness, our financial statements may be inaccurate, we may face restricted access to the capital markets, and our stock price may decline.

We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We have never declared or paid any cash dividends on our common stock and do not currently intend to do so for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. In addition, covenants in our outstanding senior secured credit facility will restrict our ability to pay dividends in the event that we do not repay the senior secured credit facility with proceeds from this offering. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future and the success of an investment in shares of our common stock will depend upon any future appreciation in its value. Shares of our common stock may depreciate in value or may not appreciate in value.

C Autionary S Tatement R Egarding F Orward -L Ooking S Tatements

CAUTIONARY STATEMENT

Regarding Forward-looking Statements

This prospectus contains "forward-looking statements" that reflect our current estimates, expectations and projections about our future results, performance, prospects and opportunities. Forward-looking statements include, among other things, the information concerning our possible future results of operations, business and growth strategies, financing plans, expectations that regulatory developments or other matters will not have a material adverse effect on our business or financial condition, our competitive position and the effects of competition, the projected growth of the industry in which we operate, the benefits and synergies to be obtained from our completed and any future acquisitions, and statements of management's goals and objectives, and other similar expressions concerning matters that are not historical facts. Words such as "may," "should," "could," "would," "predicts," "potential," "continue," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates," "appears," "projects" and similar expressions, as well as statements in the future tense, identify forward-looking statements.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by which, such performance or results will be achieved. Forward-looking information is based on information available at the time and/or management's good faith belief with respect to future events, and is subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements. Important factors that could cause such differences include, but are not limited to the factors discussed under the headings "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business."

In light of these risks, uncertainties and assumptions, our actual results of operations and execution of our business strategy could differ materially from those expressed in, or implied by, the forward-looking statements, and you should not place undue reliance upon them. In addition, past financial and/or operating performance is not necessarily a reliable indicator of future performance and you should not use our historical performance to anticipate results or future period trends. We can give no assurances that any of the events anticipated by the forward-looking statements will occur or, if any of them do, what impact they will have on our results of operations and financial condition.

Forward-looking statements speak only as of the date the statements are made. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect thereto or with respect to other forward-looking statements. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements included in this prospectus.

U Se of P Roceeds

USE OF PROCEEDS We estimate that the net proceeds to us from this offering will be approximately $, or approximately $ if the underwriters' option to purchase additional shares is exercised in full, based on an assumed initial public offering price of $, the midpoint of the range set forth on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses that are payable by us in connection with the offering. We expect to use the net proceeds for general corporate purposes, including working capital, capital expenditures and possible acquisitions. We may also use these net proceeds to repay all or a portion of our senior secured credit facility in the aggregate principal amount of $15.0 million, plus accrued interest and any fees relating to such prepayment, which bears interest at a rate equal to the greater of 4.5% and the lender's most recently announced prime rate plus 2.5% (currently 7% per year) and matures in September 2013, in the event that we are unable to restructure the credit facility or obtain alternative debt financing on more favorable terms.

The debt under our credit facility was incurred in August 2008, and the proceeds were used for working capital and to repay outstanding principal plus accrued interest in an amount equal to approximately $11.0 million under promissory notes payable to Stonehenge Capital Fund New York, LLC, which bore interest at a rate equal to 10% per year and had a maturity date of January 31, 2011.

Although we continually evaluate acquisition opportunities, we have not entered into any binding commitments or agreements with respect to future acquisitions.

Pending use of the net proceeds, we will invest the net proceeds of this offering in interest-bearing, short-term, investment grade, highly liquid securities.

D Ividend P Olicy

DIVIDEND POLICY We have never declared or paid any cash dividends on our capital stock. We expect to pay accumulated accrued dividends on our convertible preferred stock of approximately $2.1 million (as of December 31, 2008) in cash upon completion of this offering. We currently expect to retain any future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends on our common stock. Any further determination to pay dividends on our common stock will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements and other factors that our board of directors considers relevant.

C Apitalization

CAPITALIZATION The following table sets forth our consolidated cash and cash equivalents and capitalization as of September 30, 2008:

- on an actual basis;
- on a proforma basis to reflect the conversion of all of our outstanding preferred stock into 9,014,658 shares of our common stock and payment of approximately $1.9 million of accumulated accrued dividends on existing preferred stock from available cash on hand upon the completion of this offering; and
- on a proforma as adjusted basis to further reflect our sale of shares of our common stock at a price of $ per share, the midpoint of the range set forth on the cover page of this prospectus; and our use of proceeds, net of estimated underwriting discounts and commissions and estimated offering expenses that are payable by us.

This table should be read in conjunction with our audited consolidated financial statements, including the notes thereto, "Use of Proceeds," "Selected Consolidated Financial Information," and "Management's Discussion and Analysis of Financial Condition and Results of Operations," all included elsewhere in this prospectus.

	As of September 30, 2008		
	Actual	Proforma	Proforma As Adjusted
	(in thousands, except share and per share amounts)		
Cash and cash equivalents	$11,479	$9,531	$

Capital lease obligations, including current portion	8,399	8,399	
Long-term debt, including current portion(2)	14,452	14,452	
Convertible redeemable preferred stock:			
Series B, $0.01 par value, 1,436,636 shares authorized, 1,335,807 shares issued and outstanding, actual; no shares authorized, issued and outstanding, proforma and proforma as adjusted(1)	1,089	—	
Series C, $0.01 par value, 596,374 shares authorized, 180,689 shares issued and outstanding, actual; no shares authorized, issued and outstanding, proforma and proforma as adjusted(1)	177	—	
Series D, $0.01 par value, 2,752,333 shares authorized, issued and outstanding, actual; no shares authorized, issued and outstanding, proforma and proforma as adjusted(1)	11,855	—	
Stockholders' deficit:			
Convertible preferred stock, Series A, $0.01 par value, 2,385,000 shares authorized, issued and outstanding, actual; no shares authorized, issued and outstanding, proforma and proforma as adjusted(1)	24	—	
Common stock, $0.01 par value, 20,000,000 shares authorized, 7,531,214 shares issued and 7,034,403 shares outstanding, actual; 20,000,000 shares authorized, 16,545,872 shares issued and 16,049,061 shares outstanding, proforma; shares authorized, shares issued and shares outstanding, proforma as adjusted(1)	75	165	
Additional paid-in capital	21,594	32,701	
Treasury stock, 496,811 shares	(6,000)	(6,000)	
Accumulated other comprehensive income	(98)	(98)	
Accumulated deficit	(43,449)	(43,449)	
Total stockholders' deficit	(27,854)	(16,681)	
Total capitalization	$8,118	$6,170	$

(1) The number of shares of capital stock to be authorized, issued and outstanding after the offering is based on 7,034,403 shares of common stock outstanding as of September 30, 2008 and the issuance of 9,014,658 shares of common stock upon the automatic conversion of all of the outstanding shares of our preferred stock upon the closing of the offering. In addition, the number of shares of common stock to be outstanding after the offering assumes that accumulated accrued dividends on the convertible preferred stock of approximately $1.9 million (as of September 30, 2008) will be paid from cash on hand upon the closing of the offering. The number of shares of capital stock to be authorized, issued and outstanding after the offering:

- excludes 2,439,081 shares of common stock issuable upon the exercise of stock options outstanding as of September 30, 2008 at a weighted average exercise price of $6.63 per share;
- excludes shares of common stock reserved for future grants or awards from time to time under our 2009 Long-Term Incentive Plan;
- assumes no exercise by the underwriters of their option to purchase up to additional shares of common stock from us if they sell more than shares in the offering; and
- excludes shares issuable if holders of our senior preferred elect to receive shares of common stock valued at the initial public offering price as payment of their accumulated and accrued dividends.

(2) Does not reflect the potential paydown of our $15.0 million senior secured credit facility. See "Use of Proceeds."

D Ilution

DILUTION

If you invest in our common stock, your interest will be diluted to the extent of the difference between the public offering price per share of our common stock and the pro forma net tangible book value per share of our common stock after giving effect to this offering. Dilution results from the fact that the per share offering price of the common stock is substantially in excess of the book value per share attributable to the existing stockholders for the presently outstanding stock. The information provided below assumes conversion of all our preferred stock into common stock.

Our net tangible book value as of , 2009 was approximately $ million, or approximately $ per share of common stock.

We have calculated this amount by:

- subtracting our total liabilities from our total tangible assets; and
- then dividing the difference by the number of shares of common stock outstanding.

On a pro forma as adjusted basis, after giving effect to the conversion of shares of our preferred stock into shares of our common stock and the sale of shares of common stock in this offering at the initial public offering price of $ per share, the midpoint of the price range shown on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses that are payable by us, our adjusted net tangible book value as of , 2009 would have been approximately $, or approximately $ per share. This represents an immediate increase in pro forma net tangible book value from this offering of $ per share to our existing stockholders and an immediate dilution of $ per share to new investors purchasing common stock in this offering.

The following table illustrates this dilution to new investors on a per share basis:

Assumed initial public offering price	$
Pro forma net tangible book value per share as of , 2009	$
Increase in pro forma net tangible book value per share attributable to investors purchasing shares in this offering	
Pro forma net tangible book value per share after this offering	
Dilution in pro forma net tangible book value per share to investors in this offering	$

The following table summarizes on the basis described above, as of , 2009, the difference between the number of shares of common stock purchased from us, the total cash consideration paid to us, and the average price per share paid by our existing stockholders since our inception and by new investors in this offering, at an assumed initial public offering price of $ per share, the midpoint of the range set forth on the cover page of this prospectus, before deducting estimated underwriting discounts and commissions and estimated offering expenses that are payable by us:

	Shares Purchased(1)		Total Consideration		Average Priceper Share
	Number	Percent	Amount	Percent	
Existing stockholders		%		$%	$
New public investors					
Total		100.0%		$100.0%	

(1) Before deducting estimated underwriting discounts and commissions and estimated offering expenses that are payable by us. If the underwriters exercise their option to purchase additional shares in full, the number of shares of common stock held by new investors will increase to , or % of the total number of shares of common stock to be outstanding immediately after this offering, our existing stockholders would own approximately % of the total number of shares of our common stock to be outstanding after this offering, the pro forma as adjusted net tangible book value per share of common stock would be approximately $ and the dilution in pro forma as adjusted net tangible book value per share of common stock to new investors would be $. The tables above assume no exercise of stock options outstanding on , 2009. As of , 2009, there were outstanding stock options to purchase shares of common stock, at a weighted average exercise price of $ per share, subject to certain vesting requirements. To the extent these stock options are exercised after consummation of this offering, there will be further dilution to new investors. If all of these outstanding stock options had been exercised as of , 2009, net tangible book value per share after this offering would have been $ and total dilution per share to new investors would have been $.

S Elected C Onsolidated F Inancial I Nformation

SELECTED CONSOLIDATED FINANCIAL INFORMATION Our selected consolidated financial information presented for each of the years ended December 31, 2005, 2006 and 2007 and as of December 31, 2006 and 2007 was derived from our audited consolidated financial statements included elsewhere in this prospectus. Our selected financial information presented for each of the years ended December 31, 2003 and 2004 and as of December 31, 2003, 2004 and 2005 was derived from our audited consolidated financial statements, which are not included in this prospectus. Our selected unaudited consolidated financial information presented for the nine months ended September 30, 2007 and 2008 and as of September 30, 2008 was derived from our unaudited condensed consolidated interim financial statements included elsewhere in this prospectus. The results of operations for the nine months ended September 30, 2008 are not necessarily indicative of the results to be expected for the full year ending December 31, 2008.

The information contained in this table should also be read in conjunction with "Capitalization," "Unaudited Pro Forma Condensed Consolidated Financial Data," and "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the consolidated financial statements and accompanying notes thereto included elsewhere in this prospectus.

Consolidated Statement of Operations Data

	Year Ended December 31,					Nine Months Ended September 30,	
	2003	2004	2005	2006	2007	2007	2008(1)
	(in thousands, except share and per share amounts)						
Revenues:							
Application services	$1,166	$3,226	$13,069	$31,953	$48,378	$34,678	$54,446
Professional services	2,899	4,304	6,759	18,508	37,896	26,957	30,353
Total revenues	4,065	7,530	19,828	50,461	86,274	61,635	84,799
Cost of revenues:(2)							
Application services(3)	174	1,074	2,059	7,288	13,170	9,318	14,590
Professional services	1,294	4,878	14,459	20,462	33,035	24,200	23,815
Total cost of revenues	1,468	5,952	16,518	27,750	46,205	33,518	38,405
Gross profit	2,597	1,578	3,310	22,711	40,069	28,117	46,394
Operating costs and expenses: (2)							
Research and development(4)	883	2,859	4,104	5,905	10,716	7,404	14,632
Sales and marketing(5)	1,819	3,829	7,733	13,379	16,485	11,785	18,095
General and administrative	2,117	4,068	4,574	8,335	13,361	8,435	20,047
Total operating costs and expenses	4,819	10,756	16,411	27,619	40,562	27,624	52,774
(Loss) income from operations	(2,222)	(9,178)	(13,101)	(4,908)	(493)	493	(6,380)
Interest and other expenses (income), net	2	31	38	195	364	23	1,182
(Loss) income before provision for income taxes	(2,224)	(9,209)	(13,139)	(5,103)	(857)	470	(7,562)
Provision for income taxes(6)	2	23	110	306	515	351	481
Net (loss) income	(2,226)	(9,232)	(13,249)	(5,409)	(1,372)	119	(8,043)
Preferred stock dividends and accretion	5	303	498	498	498	374	374
Net loss available to common stockholders	$(2,231)	$(9,535)	$(13,747)	$(5,907)	$(1,870)	$(255)	$(8,417)
Basic and diluted loss per share(7)	$(0.38)	$(1.57)	$(2.24)	$(0.94)	$(0.29)	$(0.04)	$(1.25)
Weighted average basic and diluted common shares outstanding(7)	5,800,000	6,056,422	6,135,341	6,296,830	6,384,557	6,499,012	6,712,338

	Year Ended December 31,					Nine Months Ended September 30,	
	2003	2004	2005	2006	2007	2007	2008(1)
	(in thousands, except share and per share amounts)						
Pro forma(8)							
Pro forma basic and diluted loss per share					$(0.09)		$(0.51)
Pro forma weighted average basic and diluted common shares outstanding					15,399,215		15,726,996

	Year Ended December 31,					Nine Months Ended September 30,	
	2003	2004	2005	2006	2007	2007	2008(1)
	(in thousands)						
Stock-based compensation expense included in cost of revenues and operating costs and expenses is as follows:							
Cost of revenues	$—	$—	$178	$108	$172	$125	$210
Research and development expenses	—	—	27	89	183	114	334
Sales and marketing	—	—	69	304	448	329	470
General and administrative expenses	—	—	118	218	491	242	1,221
Total stock-based compensation	$—	$—	$392	$719	$1,294	$810	$2,235
Depreciation and amortization of intangible assets included in cost of revenues and operating expenses is as follows:							
Depreciation							
Cost of revenues	$—	$—	$563	$1,237	$3,605	$2,358	$4,459
Research and development expenses	—	—	136	289	463	321	494
Sales and marketing	—	—	91	202	243	165	289
General and administrative expenses	141	347	104	228	305	214	348
Total depreciation	141	347	894	1,956	4,616	3,058	5,590
Amortization of intangible assets(4)							
Cost of revenues	—	—	—	—	—	—	826
Sales and marketing	—	—	—	—	—	—	54
Total amortization of intangible assets	—	—	—	—	—	—	880
Total depreciation and amortization of intangible assets	$141	$347	$894	$1,956	$4,616	$3,058	$6,470

Consolidated Balance Sheet Data

	As of December 31,					As of September 30,
	2003	2004	2005	2006	2007	2008
	(in thousands)					
Cash and cash equivalents	$1,457	$7,595	$6,450	$7,016	$7,746	$11,479
Total current assets	2,854	13,149	13,218	18,328	27,810	37,066
Restricted cash	221	306	305	305	387	545
Total assets	3,554	14,824	16,406	24,376	42,733	68,809
Total deferred revenue	2,474	11,253	21,501	25,017	35,024	46,076
Total capital lease obligations	—	289	507	2,281	8,527	8,399
Total long-term debt	1,500	1,500	4,000	3,514	10,781	14,452
Convertible redeemable preferred stock	1,130	11,252	11,751	12,249	12,747	13,121
Convertible preferred stock	24	24	24	24	24	24
Stockholders' deficit	(2,383)	(13,706)	(27,656)	(32,614)	(39,023)	(27,854)

Notes to Selected Consolidated Financial Information:

(1) On March 17, 2008, we acquired Fast Track, a provider of clinical trial planning solutions. Our results of operations for the nine months ended September 30, 2008 include the operations of Fast Track since the date of acquisition. Please refer to "Unaudited Pro Forma Statements of Operations" for the pro forma effects of our acquisition of Fast Track.

(2)	Prior to January 1, 2006, we accounted for our stock-based compensation plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, or APB No. 25, and related interpretations. Under APB No. 25, compensation expense of fixed stock options is based on the difference, if any, on the date of the grant between the fair value of our stock and the exercise price of the option. Compensation expense is recognized on a straight-line basis over the requisite service period.

On January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, or SFAS No. 123(R), requiring us to recognize expense related to the fair value of our stock-based compensation awards. We elected the modified prospective transition method as permitted by SFAS No. 123(R). Under this transition method, stock-based compensation expense for the fiscal year ended December 31, 2006, includes compensation expense for all stock based compensation awards granted prior to, but not yet vested, as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, or SFAS No. 123, and compensation expense for all stock based compensation awards granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R).

(3)	In 2006, it was claimed that certain applications offered to our customers potentially infringed on intellectual property rights held by a third party. As a result of negotiations with the third party, we entered into a license and settlement agreement in June 2007, pursuant to which we licensed the intellectual property held by the third party for use in our future sales to customers and settled all past infringement claims. We paid a settlement amount of $2.2 million to the third party in 2007. Such amount was recorded in cost of revenues under application services for the year ended December 31, 2006 and in accrued expenses on the consolidated balance sheet as of December 31, 2006.
(4)	We determined that technological feasibility had not been established for certain in-process research and development projects acquired from Fast Track. These projects were written off, resulting in $0.7 million of additional research and development expenses included in the consolidated statement of operations for the nine months ended September 30, 2008. This write-off is not included in amortization of intangible assets in the consolidated statement of operations.
(5)	In 2006, a former employee made a claim seeking compensation of approximately $1.6 million in relation to a wrongful dismissal lawsuit. Subsequently, the claim has been reduced to approximately $1.4 million as of September 30, 2008. We recorded approximately $0.6 million in sales and marketing expenses during the year ended December 31, 2006 related to this matter. A hearing was held in November 2008 and the court rendered its decision on January 15, 2009, which awarded approximately $0.1 million to the plaintiff. While we believe this decision was favorable to us, it may be appealed by the plaintiff.
(6)	For the years ended December 31, 2003 to 2007 and the nine months ended September 30, 2008, we did not realize an income tax benefit for available net operating loss carryforwards. As of December 31, 2007, we had approximately $17.2 million of federal and $20.8 million of state net operating loss carryforwards available to offset future taxable income expiring from 2019 through 2027.
(7)	Basic and diluted net loss per share amounts and basic and diluted weighted average common shares outstanding have been adjusted to reflect a two-for-one stock split effective on August 10, 2004.
(8)	The pro forma information represents the pro forma effect of converting outstanding shares of convertible preferred stock into common stock at the applicable conversion ratio upon the completion of this offering, as if it had occurred on January 1, 2007 for the basic and diluted net loss per share presented on the consolidated statement of operations data for the year ended December 31, 2007 and for the nine months ended September 30, 2008.

U Naudited P Ro F Orma S Tatements of O Perations

UNAUDITED PRO FORMA STATEMENTS OF OPERATIONS On March 17, 2008, we acquired Fast Track for a purchase price of approximately $18.1 million. The following unaudited pro forma statements of operations for the year ended December 31, 2007 and the nine months ended September 30, 2008 gives pro forma effect to the acquisition of Fast Track as if it had occurred on January 1, 2007.

The unaudited pro forma statements of operations are based on estimates and assumptions. These estimates and assumptions are preliminary and have been made solely for purposes of developing this pro forma information. Unaudited pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have been achieved if the acquisition of Fast Track had been consummated as of the date indicated, nor is it necessarily indicative of the results of future operations. The pro forma financial information does not give effect to any cost savings or restructuring and integration costs that may result from the integration of Fast Track's business.

In connection with the purchase of Fast Track, we issued 864,440 shares of our common stock in exchange for all Fast Track's existing preferred stock and common stock as well as 25,242, 20,004 and 444 shares of common stock reserved for the exercise of outstanding vested employee stock options, unvested employee stock options and warrants, respectively.

The Fast Track purchase price has been allocated based on preliminary estimates of the fair market value of the acquired assets and liabilities. See Note 1 to the Notes to Unaudited Pro Forma Statements of Operations. The pro forma adjustments are subject to change pending a final analysis of the fair values of the assets acquired and liabilities assumed, which is expected to be completed in connection with the issuance of our financial statements for the year ending December 31, 2008.

PRO FORMA STATEMENTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2007 (AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	Medidata Solutions,Inc. (Historical)	Fast Track Systems,Inc. (Historical)	Pro Forma AdjustmentsforFast TrackAcquisition(1)(2(a))		Pro Forma Combined	
Revenues:						
Application services	$48,378	$5,398	$(665)	2(b)	$53,111	
Professional services	37,896	—			37,896	
Total revenues	86,274	5,398	(665)		91,007	
Cost of revenues:						
Application services	13,170	1,071	1,541	2(c)	15,782	
Professional services	33,035	—			33,035	
Total cost of revenues	46,205	1,071	1,541		48,817	
Gross profit	40,069	4,327	(2,206)		42,190	
Operating cost and expenses:						
Research and development	10,716	886			11,602	
Sales and marketing	16,485	1,394	110	2(c)	17,989	
General and administrative	13,361	2,897			16,258	
Total operating expenses	40,562	5,177	110		45,849	
Operating loss	(493)	(850)	(2,316)		(3,659)	
Interest and other expenses (income), net	364	(58)			306	
Loss before income taxes	(857)	(792)	(2,316)		(3,965)	
Provision for income taxes	515	70	—	2(d)	585	
Net loss	(1,372)	(862)	(2,316)		(4,550)	
Preferred stock dividends and accretion	498	388	(388)	2(e)	498	
Net loss available to common stockholders	$(1,870)	$(1,250)	$(1,928)		$(5,048)	
Basic and diluted net loss per share	$(0.29)				$(0.70)	
Weighted average basic and diluted common shares outstanding	6,384,557				7,248,997	2(f)

See notes to unaudited pro forma statements of operations.

Pro Forma Statements of Operations

For the Nine Months Ended September 30, 2008

(Amounts in Thousands, Except Share and Per Share Amounts)

	Medidata Solutions,Inc.January 1 toSeptember 30,2008(Historical)	Fast Track Systems,Inc.January 1to March 17,2008(Historical)	Pro Forma Adjustmentsfor FastTrackAcquisition(1) (2(a))		Pro Forma Combined
Revenues:					
Application services	$54,446	$1,370	$—	2(b)	$55,816

Professional services	30,353	—			30,353
Total revenues	84,799	1,370			86,169
Cost of revenues:					
Application services	14,590	256	437	2(c)	15,283
Professional services	23,815	—			23,815
Total cost of revenues	38,405	256	437		39,098
Gross profit	46,394	1,114	(437)		47,071
Operating cost and expenses:					
Research and development	14,632	225			14,857
Sales and marketing	18,095	364	53	2(c)	18,512
General and administrative	20,047	959			21,006
Total operating expenses	52,774	1,548	53		54,375
Operating loss	(6,380)	(434)	(490)		(7,304)
Interest and other expenses (income), net	1,182	(9)			1,173
Loss before income taxes	(7,562)	(425)	(490)		(8,477)
Provision for income taxes	481	11	—	2(d)	492
Net loss	(8,043)	(436)	(490)		(8,969)
Preferred stock dividends and accretion	374	81	(81)	2(e)	374
Net loss available to common stockholders	$(8,417)	$(517)	$(409)		$(9,343)
Basic and diluted net loss per share	$(1.25)				$(1.34)
Weighted average basic and diluted common shares outstanding	6,712,338				6,952,988 2(f)

See notes to unaudited pro forma statements of operations.

Notes to Unaudited Pro Forma Statements of Operations

For the Year Ended December 31, 2007 and for the Nine Months Ended September 30, 2008

(Amounts in Thousands, Except Share and Per Share Amounts)

(1) **ACQUISITION OF FAST TRACK**

The preliminary purchase price of Fast Track was based on a negotiated fair market value of Fast Track as of the acquisition date. The fair market value of our common stock issued to Fast Track shareholders of $19.66 was based on a valuation of our common stock performed by Financial Strategies Consulting Group LLC, or FSCG, an independent third-party valuation specialist, as of March 2008. FSCG used the market-comparable approach and the income approach to estimate our aggregate enterprise value at the valuation date (See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates—Significant Factors, Assumptions and Methodologies Used in Determining the Fair Value of our Capital Stock"). The determination of fair market value of our common stock requires us to make judgments that are complex and inherently subjective.

The following table sets forth the components of the purchase price:

Fair market value of common stock issued (864,440 shares)	$16,995
Fair market value of stock options and warrants exchanged (25,242 and 444 shares underlying the options and warrants, respectively)	459
Transaction costs	625
Total purchase price	$18,079

The issuance of 864,440 shares of our common stock in exchange for all Fast Track's existing preferred stock and common stock held by Fast Track employees and stockholders was based on the estimated fair market value of our common stock of $19.66 on the date of the acquisition.

The fair market value of the 25,242 shares of fully vested exchanged stock options and 20,004 shares of unvested exchanged stock options issued in connection with the acquisition was estimated using the Black-Scholes pricing model utilizing the following weighted-average assumptions:

Risk-free interest rate	2.61%
Expected life	2.4 years
Expected volatility	59%
Expected dividend yield	—

As a result of the valuation, the fair market value of $370 associated with the 20,004 shares of unvested exchanged stock options will be recorded into stock-based compensation expense over the stock option vesting term, which is approximately one year subsequent to the acquisition.

The fair market value of the 444 shares of exchanged warrants was also estimated using the Black-Scholes pricing model and was not material.

The allocation of the purchase price paid in connection with our acquisition of Fast Track among the assets acquired and liabilities assumed is based on preliminary estimates of their fair market value. These estimates of fair market value could change based on the completion of our evaluation of the assets and liabilities of Fast Track, which is expected to be completed by the time of the issuance of our financial statements for the year ended December 31, 2008. The following table provides the preliminary allocation of the purchase price based upon Fast Track's unaudited balance sheet as of March 17, 2008, the date of the acquisition:

Assets acquired	
Cash and cash equivalents and other current assets	$1,827
Restricted cash	158
Furniture, fixture and equipment	232
Intangible assets	8,200
Goodwill	9,799
Total assets acquired	$20,216
Liabilities assumed	
Accounts payable and accrued expenses	(798)
Deferred revenue	(1,338)
Other long-term liabilities	(1)
Net assets acquired	$18,079

In accordance with Statement of Financial Accounting Standards, or SFAS, No. 109, *Accounting for Income Taxes,* we have provided for deferred tax assets of $3,470 for the difference between the currently estimated book and tax basis of the net assets acquired. Based on our lack of a history of profits and uncertainty in regards to future profitability, we determined that it was more likely than not that such tax benefit would not be realized and therefore a valuation allowance of $3,470 was established to fully offset such net deferred tax assets. In addition, we did not recognize a deferred tax asset relating to the future tax distribution that will arise when the Fast Track employee

rollover options are exercised. When such exercises occur and a tax deduction is ultimately realized, we will recognize such benefit as a reduction of goodwill prior to the effective date of SFAS No. 141(R), *Business Combination*, or SFAS No. 141(R), which will be adopted by us on January 1, 2009. Upon the adoption of SFAS No. 141(R), such benefit will be recognized as an adjustment to income tax expense.

(2)	**PRO FORMA FAST TRACK ACQUISITION ADJUSTMENTS**
(a)	Adjustment to calculate goodwill and other intangible assets and to allocate the purchase price to the estimated fair value of Fast Track net assets acquired:

Common stock issued (see Note 1)	$16,995
Common stock reserved for stock options and warrants exchanged (see Note 1)	459
Transaction costs	625
Total purchase price	$18,079
Purchase price is allocated as follows:	
Goodwill	$9,799
Intangible assets	8,200
Net assets assumed	80
Total purchase price	$18,079

(b)	We estimated the fair value of the legal performance obligation associated with acquired deferred revenue in accordance with Emerging Issues Task Force Issue No. 01-3, *Accounting in a Business*

Combination for Deferred Revenue of an Acquiree. We concluded that the value of the legal performance obligation represents the direct costs to fulfill such obligation plus an expected profit margin. Our valuation of the acquired deferred revenue resulted in a 38% write-down of the deferred revenue balance as of the date of the acquisition. This write-down has been reflected on a pro forma basis as of January 1, 2007, resulting an adjustment to application services revenues of $665 in the pro forma statement of operations for the year ended December 31, 2007. The performance obligation associated with the acquired deferred revenue has a duration of one year, thus a similar reduction to the pro forma statement of operations for the nine months ended September 30, 2008 was not required.

(c)	Adjustment to historical amortization of intangible assets expense to reflect the incremental expense associated with the preliminary purchase price allocation and estimated useful lives:

	Purchase Allocation	**Estimated UsefulLives (Years)**	**Year Ended December 31,2007**	**Nine Months EndedSeptember 30,2008**
Technology	$2,400	5.00	$480	$360
Database	1,900	5.00	380	285
Customer relationships	1,600	5.00	110	108
Customer contracts	1,600	3.00	681	617
Research and development	700	None	—	—
	$8,200		1,651	1,370
Historical expense			—	880
Incremental pro forma expense for the year ended December 31, 2007 and the nine months ended September 30, 2008			$1,651	$490
Cost of revenues-application services			$1,541	$437
Sales and marketing			110	53
Total			$1,651	$490

Of the $8,200 of acquired intangibles, $700 was assigned to in-process research and development projects. Subsequent to the date of the acquisition, we determined that technological feasibility had not been established for any of these projects, and as a result, these projects were written off. This write-off is not included as a pro forma adjustment in the pro forma statement of operations for the year ended December 31, 2007, but has been reflected as research and development expense in Medidata's historical results of operations for the nine months ended September 30, 2008.

The acquired technology and database will be amortized on a straight-line basis over the estimated useful life of five years. The customer relationships and customer contracts will be amortized using an accelerated method which reflects the pattern in which the economic benefits derived from the related intangible assets are consumed or utilized. Amortization of customer relationships and customer contracts over their useful lives is as follows:

Year ending December 31,	
2008	$589
2009	967
2010	599
2011	517
2012	448
2013	80
	$3,200

(d)	Pro forma provision for income taxes represents only foreign, state and local income taxes imposed on a pro forma combined company basis, as we do not expect to pay U.S. income taxes on our net loss. We have not reflected a tax benefit on such loss as it is not assured that a tax benefit would be realized.
(e)	Pro forma adjustments for preferred stock dividends and accretion represent the elimination of Fast Track's historical preferred stock dividends, as all of Fast Track's preferred stock was exchanged for Medidata's common stock in connection with the acquisition.
(f)	Pro forma combined weighted average basic and diluted common shares outstanding were based on Medidata's historical weighted average basic and diluted common shares outstanding with the pro forma effect of the issuance of 864,440 shares of common stock in connection with the acquisition of Fast Track as if it had occurred on January 1, 2007.

M Anagement ' S D Iscussion and a Nalysis of F Inancial C Ondition and R Esults of O Perations

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

Financial Condition and Results of Operations

The following is a discussion and analysis of our financial condition and results of operations. You should read this discussion and analysis together with our consolidated financial statements and notes to those consolidated financial statements included elsewhere in this prospectus. This discussion contains forward-looking statements that are based on management's current expectations, estimates and projections about our business and operations. Our actual results may differ from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those described under the caption "Risk Factors" and elsewhere in this prospectus.

Overview

We are a leading global provider of hosted clinical development solutions that enhance the efficiency of our customers' clinical development processes and optimize their research and development investments. Our solutions allow our customers to achieve clinical results more efficiently and effectively by streamlining the design, planning and management of key aspects of the clinical development process, including protocol development, CRO negotiation, investigator contracting, the capture and management of clinical trial data and the analysis and reporting of that data on a worldwide basis.

The demand for electronic clinical solutions, such as those provided by Medidata, has been driven by the increasing complexity and cost associated with paper-based trials and inefficiencies with early generation EDC solutions. Paper-based trials may delay the clinical development process, impair data quality and prevent real-time decision making, while traditional EDC solutions have faced challenges with integration, site requirements, customization and scalability.

We have grown our revenues significantly since inception by expanding our customer base, increasing penetration with existing customers, enhancing our products and services and growing our indirect channel. In order to achieve and sustain our growth objectives, we have and will continue to invest in key areas, including: new personnel, particularly in direct domestic and international sales activities; resources to support our product development, including product functionality and platform; marketing programs to build brand awareness; and infrastructure to support growth.

We derive a majority of our application services revenues through multi-study arrangements for a pre-determined number of studies. We also offer our application services on a single-study basis that allows customers to use our solution for a limited number of studies or to evaluate it prior to committing to multi-study arrangements. We invest heavily in training our Medidata Rave customers, their investigators and other third parties to configure clinical trials independently. We believe this knowledge transfer accelerates customer adoption of our solutions.

We use a number of metrics to evaluate and manage our business. These metrics include customer growth, customer retention rate, revenues from lost customers, geographic contribution, and next twelve month, or NTM, backlog.

Our customer base has grown from 19 at December 31, 2004 to 148 at September 30, 2008. Our relationships with some of these customers include multiple divisions and business units at various domestic and international locations. We generate revenues from sales to new customers as well as sales and renewals from our existing customers. Our global direct sales organization represents our primary source of sales, with an increasing number of sales generated through our CRO relationships. Our customer retention rate was 84.2%, 81.8%, 92.0% and 94.6%, in 2005, 2006, 2007 and the nine months ended September 30, 2008, respectively. We calculate customer retention based upon the number of customers that existed both at the beginning and end of the relevant period.

Revenues from lost customers accounted for 0.8%, 2.8%, 0.8% and 1.4% of total prior year revenues in 2005, 2006, 2007 and the nine months ended September 30, 2008, respectively. To calculate the impact of customers lost during the year, we consider the revenues recognized from lost customers during the most recent prior fiscal year as a percentage of total company revenues from the same period. We believe revenue from lost customers coupled with customer retention rate gives the best sense of volume and scale of customer loss and retention. Our presentation of customer retention and revenues from lost customers may differ from other companies in our industry.

We manage our business as one reportable segment. Historically, we have generated most of our revenues from sales to customers located in the United States. However, revenues generated from customers located in Europe and Asia (including Australia) represent a significant and growing portion of overall revenues. Revenues generated from customers located in Europe represented 15.2%, 19.1%, 22.6% and 22.7% of total revenues in 2005, 2006, 2007 and the nine months ended September 30, 2008, respectively. Revenues generated from customers in Asia represented 0.7%, 11.2%, 11.3% and 10.8% of total revenues in 2005, 2006, 2007 and the nine months ended September 30, 2008, respectively. We expect sales from customers in Europe and Asia to continue to represent a significant portion of total sales as we continue to serve existing and new customers in these markets.

Our backlog is primarily associated with application services and represents the total future contract value of outstanding, multi-study and single-study arrangements, billed and unbilled, at a point in time. Thus, our backlog includes deferred revenue. Revenue for any given period is a function of revenue recognized from the beginning of period backlog, contract renewals, and new customer contracts. For this reason, backlog at the beginning of any period is not necessarily indicative of long-term future performance. We monitor as an annual metric the amount of revenues expected to be recognized from NTM backlog. As of January 1, 2008, we had NTM backlog of approximately $62.5 million. Our presentation of backlog may differ from other companies in our industry.

Acquisition of Fast Track Systems, Inc.

On March 17, 2008, we acquired Fast Track Systems, Inc., or Fast Track, a provider of clinical trial planning solutions. With this acquisition, we extended our ability to serve customers throughout the clinical research process with solutions that improve efficiencies in protocol development and trial planning, contracting and negotiation. We paid total consideration of approximately $18.1 million, which consisted of the issuance of 864,440 shares of common stock in exchange for all Fast Track's existing preferred stock and common stock as well as 444 and 25,242 shares of common stock reserved for the exercise of outstanding warrants and vested employee stock options, respectively.

The results of operations or other discussions below for the year ended December 31, 2005, 2006 and 2007 do not give effect to the impact of this acquisition. The unaudited pro forma statements of operations provide the pro forma effect to the acquisition of Fast Track as if it had occurred on January 1, 2007.

Sources of Revenue

We derive revenues from application services and professional services. Application services consist of multi-study or single-study arrangements which give our customers the right to use our software solutions, hosting and site support. Professional services consist of assisting our customers and partners with the design, workflow, implementation and management of their clinical trials.

Our application services are principally provided for both multi-study arrangements, which grant customers the right to manage up to a predetermined number of clinical trials for a term generally ranging from three to five years, as well as single-study arrangements that allow customers to use application services on a short-term basis for a limited number of studies or to evaluate our application services

prior to committing to multi-study arrangements. Many of our customers have migrated from single-study arrangements to multi-study arrangements. Since 2006, multi-study arrangements have approximated 70% of total application services revenues. We expect multi-study arrangements to continue to represent the majority of our application services revenues.

Our professional services provide our customers with reliable, repeatable and cost-effective implementation and training in the use of our application services. Professional services revenues have represented a significant portion of overall revenues to date. We expect professional services revenues to decline as a percentage of total revenues as our customers and partners become more adept at the management and configuration of their clinical trials as part of our knowledge transfer efforts.

Cost of Revenues

Cost of revenues consists primarily of costs related to hosting, maintaining and supporting our application suite and delivering our professional services and support. These costs include salaries, benefits, bonuses and stock-based compensation for our data center and professional services staff. Cost of revenues also includes outside service provider costs, data center and networking expenses and allocated overhead. We allocate overhead such as depreciation expense, rent and utilities to all departments based on relative headcount. As such, a portion of general overhead expenses are reflected in cost of revenues. The costs associated with providing professional services are significantly higher as a percentage of revenue than the costs associated with delivering our application services due to the labor costs associated with providing professional services. Over the long term, we believe that cost of revenues as a percentage of total revenues will decrease.

Operating Expenses

Research and Development. Research and development expenses consist primarily of personnel and related expenses for our research and development staff, including salaries, benefits, bonuses and stock-based compensation, the cost of certain third-party service providers and allocated overhead. We have focused our research and development efforts on expanding the functionality and ease of use of our applications. We expect research and development costs to increase in absolute dollars in the future as we intend to release new features and functionality designed to maximize the efficiency and effectiveness of the clinical development process for our customers. Over the long term, we believe that research and development expenses as a percentage of total revenues will remain relatively constant.

Sales and Marketing. Sales and marketing expenses consist primarily of personnel and related expenses for our sales and marketing staff, including salaries, benefits, bonuses and stock-based compensation, commissions, travel costs, and marketing and promotional events, corporate communications, advertising, other brand building and product marketing expenses and allocated overhead. Our sales and marketing expenses have increased in absolute dollars primarily due to our ongoing substantial investments in customer acquisition, but have decreased as a percentage of revenue in 2005, 2006 and 2007. We expect sales and marketing expenses to increase in absolute dollars. Over the long term, we believe that sales and marketing expenses as a percentage of total revenues will decrease.

General and Administrative. General and administrative expenses consist primarily of personnel and related expenses for executive, legal, quality assurance, finance and human resources, including wages, benefits, bonuses and stock-based compensation, professional fees, insurance premiums, allocated overhead and other corporate expenses, including certain one-time costs associated with becoming a public company. During 2008, we strengthened our management and corporate infrastructure, particularly in our finance department, and implemented financial reporting, compliance and other infrastructure associated with being a public company. On an ongoing basis, we expect general and administrative expenses to increase in absolute dollars as we continue to add administrative personnel and incur additional professional fees and other expenses resulting from continued growth and the compliance requirements of operating as a public company. Over the long term, we believe that general and administrative expenses as a percentage of total revenues will decrease.

Internal Controls over Financial Reporting

In connection with the audit of our consolidated financial statements for the years ended December 31, 2006 and 2007, we, together with our independent registered public accounting firm, identified material weaknesses in our internal controls over financial reporting attributable to deficiencies in our revenue recognition and expense cut-off procedures. In response, we have formulated a plan to remediate these material weaknesses and to evaluate and strengthen our other internal controls over financial reporting. The actions we have taken to date include hiring a new director of revenue accounting and additional technical accounting personnel, designing a comprehensive revenue recognition policy, and establishing a methodology for accruing missing invoices and expense reports. We performed additional analyses and other procedures designed to ensure that our annual and interim consolidated financial statements included herein were prepared in accordance with Generally Accepted Accounting Principles. These measures included, among other things, accounting reviews by senior finance staff, certain manual procedures, including the centralized review of key contracts and transactions; and the utilization of outside professionals to supplement our staff in assisting us in meeting the objectives otherwise fulfilled by an effective control environment. As a result, we believe our annual and interim consolidated financial statements fairly present, in all material respects, our financial position, results of operations and cash flows for all periods presented. While we believe that

our remediation plan will address the identified material weaknesses, we have not yet completed all of the steps required for remediation and our testing procedures have not yet been completed. Therefore, we cannot make any assurances as to the success of our remediation efforts. Elements of our remediation initiatives can only be accomplished over time, and there is no guarantee that they will result in an effective internal controls environment. Our board of directors, in coordination with our audit committee, will continually assess the progress and sufficiency of these initiatives and make adjustments as necessary.

See also "Risk Factors—Risks Related to Our Business—We currently have material weaknesses in our internal controls over financial reporting. If we fail to remedy our material weaknesses or otherwise maintain effective internal controls over financial reporting, the accuracy and timing of our financial reporting may be adversely affected."

Critical Accounting Policies

Our financial statements are prepared in conformity with accounting principles generally accepted in the United States. Our critical accounting policies, including the assumptions and judgments underlying them, require the application of significant judgment in the preparation of our financial statements, and as a result they are subject to a greater degree of uncertainty. In applying these policies, we use our judgment to determine the appropriate assumptions to be used in calculating estimates that affect the reported amounts of assets, liabilities, revenues and expenses. Estimates and assumptions are based on historical experience and on various other factors that are believed to be reasonable under the circumstances. Accordingly, actual results could differ from those estimates. Our critical accounting policies include the following:

Revenue Recognition

We derive our revenues from the sale of application services and the rendering of professional services. We recognize revenues when all of the following conditions are satisfied:

- persuasive evidence of an arrangement exists;
- service has been delivered to the customer;
- amount of the fees to be paid by the customer is fixed or determinable; and
- collection of the fees is reasonably assured or probable.

We invoice our customers in accordance with the terms of our underlying contracts, usually in installments in advance of the related service period. Payment terms are typically net 30 to 45 days. Amounts that have been invoiced for application services arrangements are initially recorded in accounts receivable and deferred revenue. Our deferred revenue represents the net balance billed in advance of revenue recognition. Application services arrangements represent the majority of our deferred revenue. Professional services arrangements are typically invoiced monthly on a time and material basis and do not represent a significant portion of our deferred revenue.

Application Services

We typically enter into multi-study and single-study arrangements that include software licenses that provide our customer the "right to use" our software as well as hosting, and other support services to be provided over a specified term. We recognize revenues ratably over the term of the arrangement, which may include optional renewal periods, beginning with the commencement of the arrangement term, which correlates with the activation of hosting services, assuming all other revenue recognition criteria are met.

Professional Services

We also provide a range of professional services that our customers have the option to utilize on an as-needed basis. Professional services do not result in significant alterations to our underlying software and are evaluated separately to determine if such professional services are essential to the functionality of our application services. Professional services deemed not essential to the functionality of our application services are considered to have a stand-alone value to our customers and are recognized separately as they are rendered, on a time and materials basis.

We have established a range of vendor specific objective evidence, or VSOE, of fair value for certain of our professional service offerings. For multiple element arrangements, consideration is allocated to professional services based on VSOE of fair value utilizing the residual method to determine the portion of the arrangement consideration to allocate to other services. If the contracted professional services consideration is priced outside the VSOE range, our policy is to adjust the pricing for accounting purposes to the closest point within the VSOE range.

Professional services that are essential to the functionality of our application services or for which VSOE of fair value was not established, do not qualify for separate accounting and are recognized ratably over the term of the related arrangement and are recorded as a component of application services revenues.

Stock-Based Compensation

We adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, or SFAS No. 123(R), on January 1, 2006, and previously applied Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. According to SFAS No. 123(R), all forms of share-based payments to employees, including employee stock options and employee stock purchase plans, are treated the same as any other form of compensation by recognizing the related cost in the statement of operations.

Under SFAS No. 123(R), stock-based compensation expense is measured at the grant date based on the fair value of the award, and the expense is recognized ratably over the award's vesting period. For all grants, we recognize compensation cost under the straight-line method.

We measure the fair value of stock options on the date of grant using the Black-Scholes pricing model which requires the use of several estimates, including:

- the volatility of our stock price;
- the expected life of the option;
- risk free interest rates; and
- expected dividend yield.

The use of different assumptions in the Black-Scholes pricing model would result in different amounts of stock-based compensation expense. Furthermore, if different assumptions are used in future periods, stock-based compensation expense could be materially impacted in the future.

Prior to the completion of this offering, we were not a publicly traded company and we had limited historical information on the price of our stock as well as employees' stock option exercise behavior. As a result, we could not rely on historical experience alone to develop assumptions for stock price volatility and the expected life of options. As such, our stock price volatility was estimated with reference to a peer group of companies. Subsequent to the completion of this offering, we will utilize the closing prices of our publicly-traded stock to determine our volatility.

We estimate the expected life of options based on the likely date of exercise as opposed to the actual life of the options. We consider internal studies of historical experience and projected exercise behavior to determine such estimate. The risk-free interest rate is based on the United States Treasury yield curve with a maturity tied to the expected life of the option. We have not and do not expect to pay dividends on our common shares.

We recorded stock-based compensation of $0.4 million, $0.7 million and $1.3 million during 2005, 2006, and 2007, respectively, and $2.2 million during the nine months ended September 30, 2008. In future periods, stock-based compensation expense is expected to increase as a result of our existing unrecognized stock-based compensation and as we issue additional equity-based awards to continue to attract and retain employees and non-employee directors. As of September 30, 2008, we had $8.6 million of unrecognized stock-based compensation costs related to stock options granted under our 2000 Stock Option Plan. The unrecognized compensation cost is expected to be recognized over an average period of 1.52 years.

Significant Factors, Assumptions and Methodologies Used in Determining the Fair Value of our Capital Stock

Financial Strategies Consulting Group, LLC, or FSCG, an unrelated third-party valuation firm, has performed valuations of our common stock in order to assist our board of directors in determining the fair value of our common stock. These valuation reports valued our common stock as of December 31, 2005, February 28, 2006, September 30, 2006, December 31, 2006, April 30, 2007, December 31, 2007, March 31, 2008, June 30, 2008 and September 30, 2008.

In connection with the preparation of our consolidated financial statements in anticipation of a potential initial public offering and due to the increase in value between the April 30, 2007 and the December 31, 2007 valuations, we obtained a retrospective valuation of our common stock performed by FSCG as of September 30, 2007. The retrospective valuation used a risk-adjusted discount of 28%, a non-marketability discount of 21% and an estimated time to a liquidity event of greater than 12 months. The expected outcomes were still weighted more toward an initial public offering (55-60%) with lower weights for a sale (30-35%) and remaining a private company (5-

15%), with no weight given to a liquidation scenario (0%), but the differences between the probability of an initial public offering increased and the probability of a sale decreased when compared with the probabilities used for the April 30, 2007 valuation. This retrospective valuation resulted in a reassessed fair value of $14.78 per share for our common stock as September 30, 2007. We considered this fair value when interpolating the value for the stock option grants made on October 2, 2007 and November 13, 2007 due to the proximity of the grant date to the September 30, 2007 retrospective valuation.

During the twelve months ended September 30, 2008, we granted the following stock options with exercise prices as follows (excluding those options exchanged with Fast Track employees):

Grant Date	Options Granted	Fair Value of Common Stockat Grant	Exercise Price	Intrinsic Value
10/02/07	221,000	$14.93	$12.08	$2.85
11/13/07	223,500	18.02	12.08	5.94
12/27/07	10,000	21.26	12.08	9.18
01/07/08	30,000	21.37	12.08	9.29
02/19/08	18,000	20.28	21.55	–
03/14/08	119,000	19.66	21.55	–
05/14/08	52,066	19.48	19.23	0.25
08/13/08	99,960	20.15	19.75	0.40

The exercise price of certain granted stock options was less than the fair value of the common stock at grant. As these options vest, we will recognize a higher stock-based compensation expense due to the intrinsic value associated with these grants.

Goodwill and Intangibles

Goodwill, which consists of the excess of the purchase price over the fair value of identifiable net assets of businesses acquired, is evaluated for impairment using a two-step process that is performed at least annually on October 1 of each year, or whenever events or circumstances indicate that impairment may have occurred. The first step is a comparison of the fair value of an internal reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying value, goodwill of the reporting unit is not considered impaired and the second step is unnecessary. If the carrying value of the reporting unit exceeds its fair value, a second test is performed to measure the amount of impairment by comparing the carrying amount of the goodwill to a determination of the implied value of the goodwill. If the carrying amount of the goodwill is greater that the implied value, an impairment loss is recognized for the difference.

The implied value of goodwill is determined as of the test date by performing a purchase price allocation, as if the reporting unit had just been acquired, using currently estimated fair values of the individual assets and liabilities of the reporting unit, together with an estimate of the fair value of the reporting unit taken as a whole. The estimate of the fair value of the reporting unit is based upon information available regarding prices of similar groups of assets, or other valuation techniques including present value techniques based upon estimates of future cash flow.

Intangible assets, including technology, database, customer relationships, and customer contracts arising from the acquisition of Fast Track, are recorded at cost less accumulated amortization and are amortized using a method which reflects the pattern in which the economic benefit of the related intangible asset is utilized. For intangible assets subject to amortization, impairment is recognized if the carrying amount is not recoverable and the carrying amount exceeds the fair value of the intangible asset.

As of September 30, 2008, we had goodwill and intangible assets of $16.4 million. There are many assumptions and estimates used that directly impact the results of impairment testing, including an estimate of future expected revenues, earnings and cash flows, and discount rates applied to such expected cash flows in order to estimate fair value. We have the ability to influence the outcome and ultimate results based on the assumptions and estimates we choose for testing. To mitigate undue influence, we set criteria that are reviewed and approved by various levels of management. The determination of whether or not goodwill or acquired intangible assets have become impaired involves a significant level of judgment in the assumptions underlying the approach used to determine the value of our reporting unit. Changes in our strategy or market conditions could significantly impact these judgments and require adjustments to recorded amounts of intangible assets.

Income Taxes

We use the asset and liability method of accounting for income taxes, as prescribed by Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, which recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

On January 1, 2007, we adopted Financial Accounting Standards Board, or FASB, Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*, or FIN No. 48. FIN No. 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN No. 48, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The impact of the adoption of FIN No. 48 did not have a material effect on our consolidated financial position, results of operations or cash flows.

We had approximately $20.8 million of federal and $24.2 million of state net operating loss carryforwards as of December 31, 2006 and $17.2 million of federal and $20.8 million of state net operating loss carryforwards as of December 31, 2007 available to offset future taxable income, expiring from 2019 through 2027.

The future utilization of the net operating loss carryforwards may be subject to significant limitations under the Internal Revenue Code. Due to these limitations and the likelihood that our future taxable income may be insufficient to utilize these tax benefits, we provided a valuation allowance against the net deferred tax assets as their future utilization is uncertain at this time. We believe the net deferred tax assets of $0.2 million as of December 31, 2006 and 2007 are realizable as they were generated in foreign jurisdictions where we are taxpayers. The net change in the valuation allowance was an increase of $3.1 million in 2006 and an increase of $1.1 million in 2007.

In calculating the provision for income taxes on an interim basis, we follow FASB Interpretation No. 18, *Accounting for Income Taxes in Interim Periods, an interpretation of APB Opinion No. 28*, and have developed an estimate of the annual effective tax rate based upon the facts and circumstances known at the time. Our effective tax rate is based upon expected income, statutory rates and permanent differences applicable to us in the various jurisdictions in which we operate.

Results of Operations

The following table sets forth our consolidated results of operations as a percentage of total revenues for the periods shown:

	Year ended December 31,			Nine months ended September 30,	
	2005	2006	2007	2007	2008
Revenues:					
Application services	65.9%	63.3%	56.1%	56.3%	64.2%
Professional services	34.1%	36.7%	43.9%	43.7%	35.8%
Total revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues:					
Application services	10.4%	14.4%	15.3%	15.1%	17.2%
Professional services	72.9%	40.6%	38.3%	39.3%	28.1%
Total cost of revenues	83.3%	55.0%	53.6%	54.4%	45.3%
Gross profit	16.7%	45.0%	46.4%	45.6%	54.7%
Operating expenses:					
Research and development	20.7%	11.7%	12.4%	12.0%	17.3%
Sales and marketing	39.0%	26.5%	19.1%	19.1%	21.3%
General and administrative	23.1%	16.5%	15.5%	13.7%	23.6%
Total operating expenses	82.8%	54.7%	47.0%	44.8%	62.2%
(Loss) income from operations	(66.1)%	(9.7)%	(0.6)%	0.8%	(7.5)%

Nine months ended September 30, 2008 Compared to Nine Months Ended September 30, 2007

Revenues

	Nine months ended September 30,					
	2007		2008		Change	
	Amount	% of Revenues	Amount	% of Revenues	Amount	%
	(Amounts in thousands)					
Revenues:						
Application services	$34,678	56.3%	$54,446	64.2%	$19,768	57.0%
Professional services	26,957	43.7%	30,353	35.8%	3,396	12.6%
Total revenues	$61,635	100.0%	$84,799	100.0%	$23,164	37.6%

Total revenues. Total revenues increased $23.2 million, or 37.6%, from $61.6 million in 2007 to $84.8 million in 2008. The increase in revenues was primarily due to a $19.8 million, or 57.0%, increase in revenues from application services, and a $3.4 million, or 12.6%, increase in revenues from professional services. Revenues for the nine months ended September 30, 2008 includes Fast Track application and professional services revenues of $2.6 million from the date of acquisition (March 17, 2008) through September 30, 2008.

Application services revenues. Revenues from application services increased $19.8 million, or 57.0%, from $34.7 million in 2007 to $54.4 million in 2008. Our acquisition of Fast Track contributed $2.5 million of additional applications services revenues in 2008. Excluding the impact of Fast Track, application services revenues increased $17.3 million, or 49.9%, compared to the prior year. The majority of the increase in application services revenues was derived from increased activity in our existing customer base, primarily resulting from new studies and renewals. In addition to maintaining a high customer retention rate, we also benefited from providing nine months of services to those customers who began their multi-year arrangements in the prior year. Revenues from domestic customers grew 47.4%, whereas revenues from customers in Europe and Asia grew 78.2% and 20.1%, respectively. Excluding the impact of Fast Track, our customer base grew to 118 compared to 93 at the end of 2007, accounting for the remaining growth in applications services revenues. The acquisition of Fast Track expanded our customer base by approximately 30 customers.

Professional services revenues. Revenues from professional services increased $3.4 million, or 12.6%, from $27.0 million in 2007 to $30.4 million in 2008. Our acquisition of Fast Track contributed $0.1 million of additional professional services revenues. Excluding the impact of Fast Track, the increase in professional services revenues was due to a higher number of studies started in the period, derived from both existing customers and new customers added during the year.

Cost of Revenues

	Nine months ended September 30,					
	2007		2008		Change	
	Amount	% of Revenues	Amount	% of Revenues	Amount	%
	(Amounts in thousands)					
Cost of revenues:						
Application services	$9,318	15.1%	$14,590	17.2%	$5,272	56.6%
Professional services	24,200	39.3%	23,815	28.1%	(385)	(1.6)%
Total cost of revenues	$33,518	54.4%	$38,405	45.3%	$4,887	14.6%

Total cost of revenues. Total cost of revenues increased $4.9 million, or 14.6%, from $33.5 million in 2007 to $38.4 million in 2008. The increase in total cost of revenues was primarily due to the increase in cost of application services revenues. Cost of revenues for the nine months ended September 30, 2008 included $1.7 million of cost of revenues incurred by Fast Track since the date of acquisition.

Cost of application services revenues. Cost of application services revenues increased $5.3 million, or 56.6%, from $9.3 million in 2007 to $14.6 million in 2008. The increase was due to $2.8 million in personnel related costs, depreciation of $2.0 million primarily associated with the build out and maintenance of our Houston data center, intangible asset amortization of $0.8 million associated with the acquisition of Fast Track and $0.5 million of other costs. This increase was partially offset by a decrease in consulting expenses of $0.8 million.

Cost of professional services revenues. Cost of professional services decreased $0.4 million, or 1.6%, from $24.2 million in 2007 to $23.8 million in 2008. The decrease was primarily due to a decrease in consulting costs of $3.0 million as we replaced outside consultants with employees, partially offset by an increase in personnel related costs of $2.6 million.

Operating Expenses

	Nine months ended September 30,					
	2007		2008		Change	
	Amount	% of Revenues	Amount	% of Revenues	Amount	%
	(Amounts in thousands)					
Operating expenses:						
Research and development	$7,404	12.0%	$14,632	17.3%	$7,228	97.6%
Sales and marketing	11,785	19.1%	18,095	21.3%	6,310	53.5%
General and administrative	8,435	13.7%	20,047	23.6%	11,612	137.7%
Total operating expenses	$27,624	44.8%	$52,774	62.2%	$25,150	91.0%

Total operating expenses. Total operating expenses increased $25.2 million, or 91.0%, from $27.6 million in 2007 to $52.8 million in 2008. Costs increased in each department with the largest increase in general and administrative costs. Total operating expenses for the nine months ended September 30, 2008 included Fast Track operating expenses of $4.3 million from the date of acquisition through September 30, 2008.

Research and development expenses. Research and development expenses increased $7.2 million, or 97.6%, from $7.4 million in 2007 to $14.6 million in 2008. The increase was primarily due to an increase in personnel related costs of $4.6 million, professional and consulting fees of $1.0 million, and a $0.7 million write off of in-process research and development projects, which were acquired from Fast Track. The personnel increase was planned to support our development and investment in new products, including the integration of the Fast Track products. Our acquisition of Fast Track accounted for $0.5 million of the increase in personnel related costs. The write-off of certain in-process research and development projects was required as we determined that technological feasibility had not been established for these acquired projects. The write-off occurred in the first quarter of 2008. The remaining $0.9 million increase in research and development expenses related to higher rent, travel related costs and other miscellaneous costs.

Sales and marketing expenses. Sales and marketing expenses increased $6.3 million, or 53.5%, from $11.8 million in 2007 to $18.1 million in 2008. The increase was primarily attributable to higher personnel related costs of $4.6 million as we increased our staffing levels in both our sales team and marketing department, travel and conference related costs of $0.8 million and $0.5 million related to the increased professional and consulting fees. The remaining $0.4 million increase in sales and marketing costs related to other miscellaneous costs. $0.6 million of the increase in personnel related costs was attributable to our acquisition of Fast Track.

General and administrative expenses. General and administrative expenses increased $11.6 million, or 137.7%, from $8.4 million in 2007 to $20.0 million in 2008. The increase was primarily due to increases in personnel related costs of $6.4 million, professional and consulting fees of $3.0 million, facility related costs of $0.7 million primarily associated with a new office space and increased travel related expenses of $0.4 million. Our acquisition of Fast Track accounted for $1.3 million of the increase in personnel related costs. The remaining increase in personnel related costs was due to higher staffing levels, bonuses and stock based compensation as we expanded our back office support groups in anticipation of our initial public offering. The increase in professional and consulting fees includes certain non-recurring accounting related costs also incurred in connection with our preparation to becoming a public company. We expect that costs incurred during 2008 as we strengthened our management team and corporate infrastructure, particularly in the finance department, and implemented the financial reporting, compliance and other infrastructure associated with being a public company will not increase significantly in 2009. The remaining increase in general and administrative expenses was primarily due to other costs resulting from our acquisition of Fast Track and other miscellaneous expenses, including $0.3 million of foreign currency exchange loss.

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Revenues

	Year ended December 31,					
	2006		2007		Change	
	Amount	% of Revenues	Amount	% of Revenues	Amount	%
	(Amounts in thousands)					

Revenues:						
Application services	$31,953	63.3%	$48,378	56.1%	$16,425	51.4%
Professional services	18,508	36.7%	37,896	43.9%	19,388	104.8%
Total revenues	$50,461	100.0%	$86,274	100.0%	$35,813	71.0%

Total revenues. Total revenues increased $35.8 million, or 71.0%, from $50.5 million in 2006 to $86.3 million in 2007. The $35.8 million increase in revenues was primarily due to a $16.4 million, or 51.4%, increase in revenues from application services, and $19.4 million, or 104.8%, increase in revenues from professional services.

*Application services revenue*s. Revenues from application services increased $16.4 million, or 51.4%, from $32.0 million in 2006 to $48.4 million in 2007. The increase in application services revenues was primarily the result of the increase in the number of customers. Our customer base increased 86.0% to 93 by the end of 2007 compared to 50 at the end of 2006. Application services revenues also benefited from the full year impact of the large multi-study arrangements we signed during the prior year. A significant portion of our revenue growth was generated from international customers. Revenues from international customers increased 97.4% and 102.8% in Europe and Asia, respectively. Revenues from domestic customers grew 34.7% compared to the prior year.

Professional services revenues. Revenues from professional services increased $19.4 million, or 104.8%, from $18.5 million in 2006 to $37.9 million in 2007. The increase was due to the large number of new customer contracts during the year as well as the full-year impact of the large multi-study arrangement customers added in 2006. The growth of professional services revenues relative to application services revenues was related to several large multi-study arrangements signed in 2006, and is not indicative of our expectation of relative growth going forward, as our customers become more adept at the management and configuration of their clinical trials as part of our knowledge transfer efforts.

Cost of Revenues

	Year ended December 31,					
	2006		2007		Change	
	Amount	% of Revenues	Amount	% of Revenues	Amount	%
	(Amounts in thousands)					
Cost of revenues:						
Application services	$7,288	14.4%	$13,170	15.3%	$5,882	80.7%
Professional services	20,462	40.6%	33,035	38.3%	12,573	61.4%
Total cost of revenues	$27,750	55.0%	$46,205	53.6%	$18,455	66.5%

Total cost of revenues. Total cost of revenues increased $18.5 million, or 66.5%, from $27.8 million in 2006 to $46.2 million in 2007. The increase in total cost of revenues was primarily due to the increase in cost of professional services revenues.

Cost of application services revenues. Cost of application services revenues increased $5.9 million, or 80.7%, from $7.3 million in 2006 to $13.2 million in 2007. The increase was primarily attributable to increased outside contractors costs of $3.3 million due to additional support needed for our Houston data center, depreciation of $1.9 million due to the full-year impact of the Houston data center as well as additional equipment purchased to support the business, personnel related costs of $1.3 million stemming from new employee hires in 2007, incremental computer related cost of $0.8 million and other applications services cost of $0.8 million, partially offset by a decrease in royalty costs due to the settlement of a royalty claim in 2006 for $2.2 million.

Cost of professional services. Cost of professional services increased $12.6 million, or 61.4%, from $20.5 million in 2006 to $33.0 million in 2007. The increase was due to increases in outside contractors cost of $5.3 million, personnel related costs of $5.2 million as personnel increased to keep pace with the large increase in customer volume, certain pass through expenses for reimbursable out of pocket costs and hardware provisioning of $0.6 million and depreciation of $0.5 million. The remaining $1.0 million increase consisted of professional fees and other costs.

Operating Expenses

	Year ended December 31,					
	2006		2007		Change	
	Amount	% of Revenues	Amount	% of Revenues	Amount	%
	(Amounts in thousands)					

Operating expenses:						
Research and development	$5,905	11.7%	$10,716	12.4%	$4,811	81.5%
Sales and marketing	13,379	26.5%	16,485	19.1%	3,106	23.2%
General and administrative	8,335	16.5%	13,361	15.5%	5,026	60.3%
Total operating expenses	$27,619	54.7%	$40,562	47.0%	$12,943	46.9%

Total operating expenses. Total operating expenses increased $12.9 million, or 46.9%, from $27.6 million in 2006 to $40.6 million in 2007. The increase in operating expenses was primarily due to increased research and development expenses, sales and marketing, and general and administrative as discussed below.

Research and development expenses. Research and development expenses increased $4.8 million, or 81.5%, from $5.9 million in 2006 to $10.7 million in 2007. The increase was primarily due to an increase in personnel related expense of approximately $2.7 million as personnel increased by 80% year over year, consulting expense of $1.0 million and other research and development expenses of $1.1 million. Additional staffing was required to support our application development and investment in our new software applications.

Sales and marketing expenses. Sales and marketing expenses increased $3.1 million, or 23.2%, from $13.4 million in 2006 to $16.5 million in 2007. The increase was due to increases in personnel related costs of $1.3 million as a result of higher commission expense compared to the prior year and increases in our marketing staff, professional fees of $0.6 million and advertising and promotion related costs of $0.4 million. The remaining increase of $0.8 million consisted of recruiting, travel related, and other sales and marketing costs.

General and administrative expenses. General and administrative expenses increased $5.0 million, or 60.3%, from $8.3 million in 2006 to $13.4 million in 2007. The increase was primarily due to higher personnel related expenses and recruiting fees of $2.1 million and consulting and professional services fees of $1.1 million. The personnel related costs were the result of increased staffing, including several senior level positions. The increase in consulting and professional services fees primarily related to audit and accounting services. We also leased additional office space for certain corporate and professional services staff which resulted in an increase in rent, depreciation, and other office related costs of $0.8 million. The remaining increase of $1.0 million consisted of higher travel related costs, insurance and other general expenses.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Revenues

	Year ended December 31,					
	2005		**2006**		**Change**	
	Amount	**% of Revenues**	**Amount**	**% of Revenues**	**Amount**	**%**
	(Amounts in thousands)					
Revenues:						
Application services	$13,069	65.9%	$31,953	63.3%	$18,884	144.5%
Professional services	6,759	34.1%	18,508	36.7%	11,749	173.8%
Total revenues	$19,828	100.0%	$50,461	100.0%	$30,633	154.5%

Total revenues. Total revenues increased $30.6 million, or 154.5%, from $19.8 million in 2005 to $50.5 million in 2006. The $30.6 million increase in revenues was due to a $18.9 million, or 144.5%, increase in revenues from application services and an $11.7 million, or 173.8%, increase in revenues from professional services.

Application services revenues. Revenues from application services increased $18.9 million, or 144.5%, from $13.1 million in 2005 to $32.0 million in 2006. The increase was due to an increase in our customer base from 33 at the end of 2005 to 50 at the end of 2006. We were able to secure several large multi-study arrangement customers in the first half of 2006. These customers, along with other new customers signed in 2006, contributed significantly to our year over year revenue growth and shifted composition of our customer revenue base from primarily single-study to multi-study arrangements. Revenues from domestic customers grew 116.6% compared to the prior year, accounting for $12.8 million of the total growth in application services revenues. Revenues from international customers also increased significantly compared to the prior year, but off a much smaller revenue base in 2005.

Professional services revenues. Revenues from professional services increased $11.7 million, or 173.8%, from $6.8 million in 2005 to $18.5 million in 2006. The increase was due to the number of large multi-study arrangement contracts in 2006 requiring our services. Professional services revenues also benefited from the increase in the number of customers, as compared to the prior year.

Cost of Revenues

	Year ended December 31,					
	2005		2006		Change	
	Amount	% of Revenues	Amount	% of Revenues	Amount	%
	(Amounts in thousands)					
Cost of revenues:						
Application services	$2,059	10.4%	$7,288	14.4%	$5,229	254.0%
Professional services	14,459	72.9%	20,462	40.6%	6,003	41.5%
Total cost of revenues	$16,518	83.3%	$27,750	55.0%	$11,232	68.0%

Total cost of revenues. Total cost of revenues increased $11.2 million, or 68.0%, from $16.5 million in 2005 to $27.8 million in 2006.

Cost of application services revenues. Cost of application services revenues increased $5.2 million, or 254%, from $2.1 million in 2005 to $7.3 million in 2006. The increase in costs was primarily the result of a $2.2 million non-recurring royalty settlement for the use of software in conjunction with our software offerings. In addition, we incurred $2.3 million of additional infrastructure and personnel related costs associated with the opening of our Houston data center. The remaining $0.7 million increase was related primarily to other departmental staffing increases and higher consulting fees.

Cost of professional services. Cost of professional services increased $6.0 million, or 41.5%, from $14.5 million in 2005 to $20.5 million in 2006. This increase was primarily due to increases in personnel related and consulting costs of $3.1 million and $1.4 million, respectively, as we increased staffing and support levels to meet the increased customer demand resulting from the large, multi-study arrangement customer wins in 2006. The remaining increase of $1.5 million related to higher reimbursed pass-through expenses, depreciation expense and other costs.

Operating Expenses

	Year ended December 31,					
	2005		2006		Change	
	Amount	% of Revenues	Amount	% of Revenues	Amount	%
	(Amounts in thousands)					
Operating expenses:						
Research and development	$4,104	20.7%	$5,905	11.7%	$1,801	43.9%
Sales and marketing	7,733	39.0%	13,379	26.5%	5,646	73.0%
General and administrative	4,574	23.1%	8,335	16.5%	3,761	82.2%
Total operating expenses	$16,411	82.8%	$27,619	54.7%	$11,208	68.3%

Total operating expenses. Total operating expenses increased $11.2 million, or 68.3%, from $16.4 million in 2005 to $27.6 million in 2006. Total operating expenses increased in absolute dollars across all cost categories with the largest increase in sales and marketing, but grew at a slower rate than revenues.

Research and development expenses. Research and development expenses increased $1.8 million, or 43.9%, from $4.1 million in 2005 to $5.9 million in 2006. The increase was primarily due to higher personnel related costs of $1.7 million as we increased staffing by 28% and $0.4 million of other costs, including depreciation and travel related costs. This increase was partially offset by a reduction of $0.3 million in consulting costs.

Sales and marketing expenses. Sales and marketing expenses increased approximately $5.6 million, or 73.0%, from $7.7 million in 2005 to $13.4 million in 2006. The increase was due to a $5.2 million increase in personnel related costs, primarily associated with higher commissions and bonuses as our sales team exceeded their sales plan for the year. In addition, we increased staffing by 16% compared to the prior year. The remaining increase of $0.4 million related to higher marketing and advertising expenses.

General and administrative expenses. General and administrative expenses increased approximately $3.8 million, or 82.2%, from $4.6 million in 2005 to $8.3 million in 2006. The increase was primarily due to $1.9 million increase in personnel related costs resulting from staffing increases and higher bonuses, as well as higher consulting and professional fees of $1.0 million to support the growth of the business. The remaining increase related to other general and administrative expenses.

Unaudited Quarterly Consolidated Results of Operations Data

The following table presents our unaudited quarterly consolidated results of operations data for the year ended December 31, 2007 and the three quarters of 2008. This information is derived from our unaudited consolidated financial statements, and includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for the fair presentation of the results of operations for the quarters presented. Historical results are not necessarily indicative of the results to be expected in future periods. You should read this data together with our consolidated financial statements and the related notes to these financial statements included elsewhere in this prospectus.

	Quarter Ended				Quarter Ended(1)		
	Mar 31, 2007	Jun 30, 2007	Sept 30, 2007	Dec 31, 2007	Mar 31, 2008	Jun 30, 2008	Sept 30, 2008
Revenues:							
Application services	$10,987	$11,172	$12,519	$13,700	$15,698	$18,930	$19,818
Professional services	7,458	9,661	9,838	10,939	9,199	11,519	9,635
Total revenues	18,445	20,833	22,357	24,639	24,897	30,449	29,453
Cost of revenues:							
Application services	2,399	3,504	3,415	3,852	4,475	4,889	5,226
Professional services	7,656	8,379	8,165	8,835	8,194	8,257	7,364
Total cost of revenues	10,055	11,883	11,580	12,687	12,669	13,146	12,590
Gross profit	8,390	8,950	10,777	11,952	12,228	17,303	16,863
Operating costs and expenses:							
Research and development(2)	2,125	2,462	2,817	3,312	4,872	4,778	4,982
Sales and marketing	3,783	3,916	4,086	4,700	5,631	6,375	6,089
General and administrative	2,285	2,718	3,432	4,926	5,807	7,144	7,096
Total operating expenses	8,193	9,096	10,335	12,938	16,310	18,297	18,167
(Loss) income from operations	197	(146)	442	(986)	(4,082)	(994)	(1,304)
Interest and other expenses (income), net	(19)	(2)	44	341	563	247	372
(Loss) income before provision for income taxes	216	(144)	398	(1,327)	(4,645)	(1,241)	(1,676)
Provision for income taxes	91	91	169	164	165	169	147
Net (loss) income	$125	$(235)	$229	$(1,491)	$(4,810)	$(1,410)	$(1,823)
Stock-based compensation expense included in cost of revenues and operating costs and expenses is as follows:							
Stock-Based Compensation							
Cost of revenues	$34	$40	$51	$47	$57	$75	$78
Research and development expenses	24	36	54	69	71	118	145
Sales and marketing	99	108	122	119	138	163	169
General and administrative expenses	77	75	90	249	335	408	478
Total stock-based compensation	$234	$259	$317	$484	$601	$764	$870
Depreciation and amortization of intangible assets included in cost of revenues and operating costs and expenses is as follows:							
Depreciation							
Cost of revenues	$549	$747	$1,062	$1,247	$1,384	$1,496	$1,579
Research and development expenses	84	126	111	142	155	164	175
Sales and marketing	58	49	58	78	89	97	103
General and administrative expenses	75	66	73	91	98	111	139

Total depreciation	766	988	1,304	1,558	1,726	1,868	1,996
Amortization of intangible assets							
Cost of revenues	—	—	—	—	64	381	381
Sales and marketing	—	—	—	—	4	25	25
Total amortization of intangible assets	—	—	—	—	68	406	406
Total depreciation and amortization of intangible assets	$766	$988	$1,304	$1,558	$1,794	$2,274	$2,402

(1) On March 17, 2008, we acquired Fast Track Systems, Inc., a provider of clinical trial planning solutions. The consolidated statements of operations data beginning from the first quarter of 2008 include the impact of the acquisition and operations of Fast Track since the date of acquisition. The information set forth above should be read in conjunction with the consolidated financial statements and unaudited interim consolidated financial statements included elsewhere in this prospectus.

(2) We determined that technological feasibility had not been established for certain in-process research and development projects acquired from Fast Track. These projects were written off, resulting in a $0.7 million charge to research and development expense for the quarter ended March 31, 2008.

Liquidity and Capital Resources

At September 30, 2008, our principal sources of liquidity were cash and cash equivalents of $11.5 million. We have funded our growth primarily through the private sale of equity securities of approximately $12.6 million, long term debt of $15.0 million, working capital and equipment leases. In September 2008, we entered into a new senior secured credit facility that included a $15.0 million term loan and a $10.0 million revolving line of credit. The term loan was fully drawn at closing and was used to fully repay $11.0 million of existing term loans. We incurred $0.6 million in fees to secure this credit facility. The revolving credit line, all of which remains undrawn, is available for future borrowings. Due to the structure of the credit agreement, any future borrowings under the revolving credit line would be classified as a current liability. We believe that our cash flows from operations, our available cash as of September 30, 2008 and our existing revolving line of credit will be sufficient to satisfy the anticipated cash requirements associated with our existing operations for at least the next 12 months. During 2009, we expect to make approximately $10.0 million in capital expenditures to support the expected growth of our business. Historically, approximately half of our capital expenditures have been made through capital lease obligations. Our future capital expenditures and other cash requirements could be higher than we currently expect as a result of various factors, including any expansion of our business that we may complete. See “Risk Factors.”

Cash Flows

Cash Flows Provided By Operating Activities

Cash flows provided by operating activities during the nine months ended September 30, 2008 were $8.0 million, which consisted of net loss of $8.0 million, offset by positive non-cash adjustments to net loss of $9.6 million and by a $6.5 million decrease in other operating activities. Positive non-cash adjustments to net loss consisted principally of $6.5 million of depreciation and amortization, $2.2 million of stock-based compensation and $0.7 million related to the write-off of in-process research and development projects acquired from Fast Track. The significant decrease in other operating activities includes the increase in deferred revenue of $9.7 million and accrued expenses of $3.5 million, partially offset by the increase in accounts receivable of $2.5 million and the decrease in our accounts payable of $4.4 million. Other operating activities were impacted by increased sales activity compared to the prior year and the timing of customer payments.

Cash flows provided by operating activities during the year ended 2007 were $6.0 million, which consisted of net loss of $1.4 million, plus $4.6 million of depreciation and amortization, $1.3 million of stock-based compensation $10.0 million increase in deferred revenue, offset by a $6.8 million increase in accounts receivable. The increase in deferred revenue and accounts receivable was primarily due to increased sales activity compared to the prior year.

Cash Flows Used In Investing Activities

Cash flows used in investing activities during the nine months ended September 30, 2008 were $2.5 million, which consisted of purchase of furniture, fixtures and equipment of $2.9 million and costs incurred to acquire Fast Track of $0.6 million, partially offset by cash and cash equivalents acquired from acquisition of Fast Track of $1.0 million. We acquired $2.9 million of equipment through capital lease arrangements. All acquisitions of furniture, fixtures and equipment were required to support our business growth.

Cash flows used in investing activities during the year ended 2007 were $3.8 million, which consisted of purchases of furniture, fixtures and equipment of $3.7 million and an increase in our restricted cash. We acquired $9.1 million of equipment through capital lease arrangements.

Cash Flows Used In Financing Activities

Cash flows used in financing activities during the nine months ended September 30, 2008 were $1.7 million, which consisted of $3.1 million of capital lease principal payments and $2.2 million of costs associated with our initial public offering, partially offset by $3.5 million from the proceeds of borrowings under our new credit facility net of repayment of existing term loans. Non-cash financing activities included capital lease obligations of $2.9 million with repayment terms of 36 months. Please refer to the section "Contractual Obligations and Commitments" for additional information on future cash requirements.

Cash flows used in financing activities during the year ended 2007 were $1.5 million which consisted of $2.8 million of capital lease principal payments and $6.0 million relating to the acquisition of treasury stock, partially offset by $7.3 million of net proceeds from our borrowing activities. The net proceeds from our borrowings were principally used to acquire our treasury stock. Non-cash financing activities included capital lease obligations of $9.1 million.

Contractual Obligations and Commitments

The following table of our material contractual obligations as of September 30, 2008 summarizes the aggregate effect that these obligations are expected to have on our cash flows in the periods indicated:

	Payments Due by Period				
	Total	1 year or less	2-3 years	4-5 years	More than 5 years
	(Amounts in thousands)				
Contractual Obligations:					
Long-term debt	$15,000	$1,125	$3,000	$10,875	$—
Estimated interest on long-term debt	4,422	1,104	1,884	1,434	—
Capital lease obligations	8,903	4,922	3,981	—	—
Operating lease obligations	11,290	2,698	3,962	3,142	1,488
Letters of credit	531	531	—	—	—
Total	$40,146	$10,380	$12,827	$15,451	$1,488

Long-Term Debt and Revolving Line of Credit

On September 10, 2008, we entered into a new senior secured credit facility that includes a $15.0 million term loan, which was fully drawn at closing, and a $10.0 million revolving credit line (including up to $10.0 million of letters of credit), all of which remains undrawn and available for future borrowings, subject to borrowing base limitations. Proceeds of the term loan were used to repay approximately $11.0 million of outstanding indebtedness and related fees and expenses under various term notes issued to one of our preferred shareholders in 2003, 2005 and 2007 and the remaining $4.0 million will be used for general corporate purposes.

The term loan and revolving credit line will mature in September 2013 and the outstanding principal of the term loan will amortize in quarterly installments of $375,000 beginning on March 31, 2009 up through the date of maturity at which time a lump sum payment of any remaining unpaid balance will be due. In addition, the term loan also includes an excess cash flow recapture feature which may require us to make additional principal payments beginning in April 2010.

The term loan and revolving credit line bear interest at prime rate plus a 2.5% margin until March 31, 2009 and, thereafter, will bear interest at prime rate plus a 2.25% margin. "Prime rate" means the lender's most recently announced prime rate or 4.5%, whichever is greater. However, if we can satisfy the minimum fixed charge coverage ratio covenant described below as of December 31, 2009 or March 31, 2010, the applicable margin thereafter will be reduced to 1.5%. At September 30, 2008, the effective interest rate on our long-term debt was 7.5%. In addition, any undrawn revolving credit line is subject to a quarterly unused fee at an annual rate of 0.5% of the average undrawn balance. We are entitled to prepay the term loan and revolving credit line at our option, subject to a payment of a premium on such prepayments during the first three years after closing, which decreases over the three-year period from 3% of the amount prepaid to 1%. The term loan and revolving credit line are also subject to mandatory prepayment under certain specified circumstances.

The term loan and revolving line of credit are secured by a first priority lien on all of our domestic assets and a pledge of 65% of the outstanding voting stock and 100% of the of non-voting stock of our foreign subsidiaries. The loan and security agreement relating to the term loan and revolving credit line contains customary representations and warranties, affirmative covenants and events of default for loans of this type. In addition, the loan and security agreement contains negative covenants that restrict our ability to sell, assign or otherwise dispose of our assets, change or dissolve our business or enter into certain change of control transactions, merge with or acquire any businesses or entities, incur indebtedness or liens, make investments, pay dividends or make other distributions or repay subordinated debt. The loan and security agreement requires us to deliver both annual audited and periodic unaudited financial

statements by specified dates and also contains financial covenants requiring us to maintain a fixed charge coverage ratio of at least 1.25 to 1.00 for each trailing four-quarter period, minimum quarterly net income (loss) levels that increase over time from ($2.5 million) to $3.0 million, minimum liquidity of at least $5.0 million through December 31, 2009 (or, under certain circumstances, March 31, 2010) and maximum capital expenditures of $12.0 million for each trailing 12-month period.

Under the loan agreement, we can borrow from the revolving credit line an available amount as specified by the agreement up to a maximum of $10.0 million. The amount available to borrow under the revolving credit line is subject to the requirement that, at any time prior to December 31, 2009, the sum of our borrowings under the term loan and the revolving credit line may not exceed 80% of our consolidated revenues for the trailing three-month period, and at any time after December 31, 2009, if we are not in compliance with the fixed charge coverage ratio covenant described above, the sum of our outstanding borrowings may not exceed 80% of eligible accounts receivable. Due to the lock-box arrangement and the subjective acceleration clause contained in the loan agreement, borrowings, if any, under the revolving credit line will be classified as a current liability in accordance with EITF No. 95-22, *Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements That Include both a Subjective Acceleration Clause and a Lock-Box Arrangement*.

After the closing of this offering we may either restructure our new credit facility to provide greater flexibility or replace it with new debt financing on more favorable terms. However, we cannot assure you that we will be able to restructure the credit facility or that more favorable alternative financing will be available. If we are unable to restructure or refinance our credit facility, we will prepay it using proceeds from this offering.

Letters of Credit

We had three outstanding standby letters of credit issued in connection with office leases as of December 31, 2007 in the total amount of $0.4 million and four outstanding standby letters of credit as of September 30, 2008 in the total amount of $0.5 million. These standby letters of credit are fully collateralized with restricted cash as of December 31, 2007 and September 30, 2008.

Preferred Stock

We currently have outstanding 2,385,000 shares of Series A Convertible Preferred Stock, 1,335,807 shares of Series B Convertible Redeemable Preferred Stock, 180,689 shares of Series C Convertible Redeemable Preferred stock and 2,752,333 shares of Convertible Redeemable Series D Preferred Stock. Upon the closing of this offering, all of our preferred stock will automatically convert into our common stock. In addition, in connection with such automatic conversion, the holders of our senior preferred stock will be entitled to payment of all accumulated accrued dividends on such senior preferred stock in cash, or at the election of the holders of at least 66% of our outstanding Series D preferred stock, in shares of our common stock at the initial public offering price. Each of (a) the unaudited condensed consolidated balance sheet as of September 30, 2008, (b) the condensed consolidated statement of operations for the nine months ended September 30, 2008 and (c) the consolidated statement of operations for the year ended December 31, 2007 contain pro forma information, which reflects the payment of $1.9 million of accumulated accrued dividends (as of September 30, 2008) out of cash on hand and the conversion of all outstanding shares of convertible preferred stock into common stock at the applicable conversion ratio upon the completion of this offering, as if the conversion had occurred with respect to (i) the condensed consolidated balance sheet, on September 30, 2008, (ii) the basic and diluted net loss per share presented on the condensed consolidated statement of operations for the nine months ended September 30, 2008, on January 1, 2007 and (iii) the consolidated statement of operations for the year ended December 31, 2007, on January 1, 2007.

Tax Uncertainties

We believe that our income tax positions and deductions will be sustained on audit and we do not anticipate material obligations in connection with uncertainties related to tax matters.

Effects of Recently Issued Accounting Standards

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, or SFAS No. 157, which enhances existing guidance for measuring assets and liabilities at fair value. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, except for the fair value measurement on nonfinancial assets and nonfinancial liabilities which has been delayed in accordance with FASB Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157*. Effective January 1, 2008, we adopted SFAS No. 157 and our adoption did not have an impact on our results of operations, financial position, and cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, or SFAS No. 159, which permits entities to measure the value of certain financial assets and liabilities and report the unrealized gain or loss thereon at each subsequent reporting period. SFAS No. 159 is effective for fiscal years beginning after November

15, 2007. We elected not to adopt the fair value option for those assets and liabilities which are eligible under this statement and therefore there was no impact on our results of operations, financial position, and cash flows.

On December 4, 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), *Business Combinations*, or SFAS No. 141(R), and Statement of Financial Accounting Standards No. 160, *Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements*, or SFAS No. 160, an amendment of ARB No. 51. SFAS No. 141(R) is required to be adopted concurrently with SFAS No. 160 and is effective for business combination transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is prohibited. Application of SFAS No. 141(R) and SFAS No. 160 is required to be adopted prospectively, except for certain provisions of SFAS No. 160, which are required to be adopted retrospectively. Business combination transactions accounted for before adoption of SFAS No. 141(R) should be accounted for in accordance with SFAS No. 141, *Business Combinations*, and that accounting previously completed under SFAS No. 141 should not be modified as of or after the date of adoption of SFAS No.141(R). The adoption of SFAS No. 141(R) and SFAS No. 160 is not expected to have a material impact on our financial position or results of operations.

Off-Balance Sheet Arrangements

As of December 31, 2006 and 2007 and September 30, 2008, we did not have any relationships with unconsolidated entities of financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Other than our operating leases for office space and computer equipment, we do not engage in off-balance sheet financing arrangements.

Quantitative and Qualitative Disclosure About Market Risk

The following discussion should be read in conjunction with our audited and unaudited consolidated financial statements appearing elsewhere in this prospectus.

Interest Rate Sensitivity

We had unrestricted cash and cash equivalents totaling $7.7 million at December 31, 2007 and $11.5 million at September 30, 2008. Our cash equivalents are invested primarily in money market funds and high quality liquid investments of a short duration and are not materially affected by fluctuations in interest rates. The unrestricted cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Declines in interest rates, however, would reduce future investment income.

As described above under "Liquidity and Capital Resources," we have outstanding floating rate debt in connection with the term loan and revolving credit line under our senior secured credit facility. Accordingly, we are exposed to fluctuations in interest rates. Based on the current balance of our term loan and assuming the entire amount of our revolving credit line were drawn, each hundred basis point change in prime rate would result in a change in interest expense by an average of approximately $0.3 million annually. This exposure will be mitigated in future periods as we begin to repay the term loan in quarterly installments in 2009.

Exchange Rate Sensitivity

We have two separate exposures to currency fluctuation risk – subsidiaries outside the United States which use a foreign currency as their functional currency which are translated into U.S. dollars for consolidation and non-U.S. dollar invoiced revenues.

Changes in foreign exchange rates for our subsidiaries that use a foreign currency as their functional currency are translated into U.S. dollars and result in cumulative translation adjustments, which are included in accumulated other comprehensive income (loss). At December 31, 2007, we had translation exposure to various foreign currencies including the Euro, British Pound Sterling and Japanese Yen. The potential loss resulting from a hypothetical 10% adverse change in quoted foreign currency exchange rates, as of December 31, 2007 and September 30, 2008, amounts to $0.2 million and $0.3 million, respectively.

We generally invoice our customers in U.S. dollars. However, we invoice a portion of customers in Euro, British Pound Sterling and Japanese Yen currencies. As such, the fluctuations in such currencies could impact our operating results.

Impact of Inflation

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we might not be able to offset these higher costs fully through price increases. Our inability or failure to do so could harm our business, operating results and financial condition.

Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, *Disclosure of Fair Value of Financial Instruments*, requires disclosure about fair value of financial instruments. The carrying amounts of our financial instruments which consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments. Amounts outstanding under long-term debt agreements are considered to be carried at their estimated fair values because they bear interest at rates which approximate market. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realized.

Related Party Transactions

We have engaged in a number of related party transactions. See “Certain Relationships and Related Transactions.”

B Usiness

BUSINESS

Company Overview

We are a leading global provider of hosted clinical development solutions that enhance the efficiency of our customers’ clinical development processes and optimize their research and development investments. Our customers include pharmaceutical, biotechnology and medical device companies, academic institutions, contract research organizations, or CROs, and other organizations engaged in clinical trials to bring innovative medical products to market and explore new indications for existing medical products. Our solutions allow our customers to achieve clinical results more efficiently and effectively by streamlining the design, planning and management of key aspects of the clinical development process, including protocol development, CRO negotiation, investigator contracting, the capture and management of clinical trial data and the analysis and reporting of that data on a worldwide basis. Our customers rely on our solutions to safely accelerate the clinical development process and maximize the commercial life of their products.

Our principal offering, Medidata Rave, is a comprehensive platform that integrates electronic data capture, or EDC, with a clinical data management system, or CDMS, in a single solution that replaces traditional paper-based methods of capturing and managing clinical data. Medidata Rave offers a robust, flexible platform enabling sponsors to manage increasingly complex trials. Medidata Rave’s intuitive, user-friendly Internet-based technology facilitates rapid adoption by investigators, sponsors and CROs. In addition, our on-demand, hosted technology platform facilitates rapid and cost-effective deployment of our solutions on a global basis. We have designed our Medidata Rave software to scale reliably and cost-effectively for clinical trials of all sizes and phases, including those involving substantial numbers of clinical sites and patients worldwide.

We also offer applications that improve efficiencies in protocol development and trial planning, contracting and negotiation. Our Medidata Designer application, a clinical trial protocol authoring tool, enables customers to write trial protocols more effectively and automatically configure Medidata Rave. By eliminating the need to separately configure the EDC platform, Medidata Designer reduces overhead cost and shortens the planning phase of the development process. Our Medidata Grants Manager product enables our customers to increase the efficiency of trial budgeting and investigator contracting as well as improving compliance. Our Medidata CRO Contractor application facilitates CRO outsourcing, budgeting and contract negotiation.

We derive a majority of our revenues from Medidata Rave application services through multi-study arrangements for a pre-determined number of studies. We also offer our application services on a single-study basis that allows customers to use our solution for a limited number of studies or to evaluate it prior to committing to multi-study arrangements. We support our solutions with comprehensive service offerings, which include global consulting, implementation, technical support and training for customers and investigators. We invest heavily in training our customers, their investigators and other third parties to configure clinical trials independently. We believe this knowledge transfer accelerates customer adoption.

Our diverse and expanding customer base currently includes 21 of the top 25 global pharmaceutical companies measured by revenue and many middle-market life sciences companies, as well as CROs through our ASP*ire* to Win program. In 2007, and in the nine months ended September 30, 2008, Johnson & Johnson, AstraZeneca, Amgen, Astellas Pharma and Takeda Pharmaceutical were our largest customers measured by revenue.

Our deep expertise derived from facilitating hundreds of studies across all development phases and therapeutic areas in more than 80 countries has positioned us as a leader in providing clinical trial solutions. For the fiscal year ended December 31, 2007, we generated $86.3 million in revenues, a 71.0% increase over 2006 revenues of $50.5 million. For the nine months ended September 30, 2008, we generated $84.8 million in revenues, a 37.6% increase over revenues of $61.6 million in the same period in 2007. On a pro forma basis,

assuming we had completed our recent acquisition of Fast Track on January 1, 2007, our revenue for 2007 would have been $91.0 million and our revenue for the nine months ended September 30, 2008 would have been $86.2 million. Our business model provides us with a recurring revenue stream that we believe delivers greater revenue visibility than perpetual software licensing models.

Industry Overview

The Clinical Development Market

Clinical development is sponsored by the pharmaceutical industry, medical device manufacturers, academic institutions, research foundations, government agencies and individual clinicians. The pharmaceutical industry, consisting of branded pharmaceutical firms, biotechnology companies and generic drug manufacturers, is the largest contributor to clinical development spending. According to IMS Health, the pharmaceutical industry is responsible for the development and marketing of drug therapies that generated approximately $712 billion in global pharmaceutical sales in 2007, representing a compound annual growth rate of approximately 6% over the previous five years.

Based on data from EvaluatePharma, we estimate that global research and development expenses in the pharmaceutical industry exceeded $120 billion in 2008. Clinical development has historically comprised one of the largest components of the pharmaceutical industry's research and development expenditures. The average total capitalized cost to develop one new prescription drug in 2005 was estimated by The Tufts Center for the Study of Drug Development at $1.2 billion. One new drug approved by the U.S. Food and Drug Administration, or FDA, from an initial pool of 5,000 to 10,000 candidates, takes an average of 10 to 15 years for total development.

The clinical development of new drugs, therapies and medical devices is centered on clinical trials designed to test human safety and efficacy prior to product commercialization and includes three mandated phases of progressively larger numbers of investigators and patients for longer durations of time. Out of an aggregate $120 billion global research and development budget, approximately 2,000 pharmaceutical, biotechnology, medical device companies and academic research institutions conducted an estimated 10,000 clinical trials in 2007. Early in the development process a sponsor will apply for patents in relevant jurisdictions to secure exclusive rights to its intellectual property. After applying for patent protection, which is generally effective for a period of 20 years from the date an application is filed, sponsors will commence the clinical development process, which can range from six to seven years, depending on process efficiency and specific regulatory requirements. Delays in the clinical development process may not only increase the cost of drug development, but also reduce a company's revenues by shortening the time for exclusive product sales afforded under patent protection.

Historically, companies generally realized an attractive return on investment following receipt of regulatory approval. In recent years, however, companies have faced increasing pressures to accelerate drug development, including:

- the increasing number of drugs losing patent protection and greater competition by generic manufacturers;
- large numbers of compound failures during the development cycle, resulting in the need for more drug candidates to enter the drug development pipeline and reach development milestones more quickly;
- efforts by managed care companies and third-party payers, including Medicare and Medicaid, to reduce price and limit utilization of high-cost medicines;
- the expanding scope and cost of post-approval studies, spurred by safety concerns regarding previously approved drugs; and
- commercial incentives to expand approved treatment indications.

The Clinical Development Process and Regulation

The clinical development process is subject to rigorous regulation by the U.S. federal government and related regulatory authorities, such as FDA, as well as by foreign governments and regulatory authorities if drugs, biological products or medical devices are tested or marketed abroad. As a result of increasing demands by these regulatory agencies to expand the number of patients tested and utilize improved safety and efficacy assessment procedures, the clinical development process has become more complex.

In the United States, before a company can market a new drug it must obtain approval of a New Drug Application, or NDA, or, in the case of a biologic, a Biologic License Application, or BLA, from FDA. FDA will approve an NDA or BLA based on its judgment that there has been substantial evidence presented to demonstrate the safety and effectiveness of the new drug or biologic. The evidence presented in an NDA or BLA generally consists of volumes of data and analysis that address all aspects of the drug development process, including the clinical trial protocol design, drug chemistry, toxicity levels, side-effect profile, efficacy results, manufacturing specifications, proposed product labeling and marketing claims. In some instances, FDA requests that a company conduct post-approval trials to monitor safety

and to review efficacy issues. Traditionally, FDA reviewed these volumes of data and analysis using paper records, but increasingly accepts electronic data from sponsors that rely on computerized systems to manage electronic source data and documentation. The following table outlines the drug development process in the United States:

Stage of DrugDevelopment	TrialPhase	Purpose of Stage	Approximate Time toCompletePhase	Approximate Number ofTrialParticipantsper Phase
Discovery / Preclinical Testing	—	Screen and select drug candidate for specific disease indications and conduct laboratory and animal studies to evaluate safety for human testing. Develop protocol outlining the study's setup and requirements and submit for FDA approval.	12 to 72 months	—
Clinical Testing (humans)	Phase I	Determine drug's safety profile, including how drug should be administered, dose levels and potential side effects by exposing volunteers to the drug.	6 to 12 months	5 to 80
	Phase II	Further evaluate the safety of the drug, and assess clinical efficacy, side effects and dosing by exposing subjects with the disease or condition to the drug.	6 to 12 months	15 to 300
	Phase III	Verify clinical efficacy of the drug and identify potential safety issues, including side effects in large target patient populations.	12 to 48 months	50 to 5,000
FDA Review and Approval	—	After submission of an NDA, FDA evaluates the submission and makes a determination as to whether the drug should be approved based on substantial evidence that the drug is safe and effective. If the drug is approved, the drug can be commercially marketed throughout the United States.	6 to 24 months	—
Post-Approval	Phase IV	Monitor ongoing safety in various patient populations and identify additional indications of the drug for potential approval by FDA.	Ongoing (followingFDAapproval)	Varies

Medical devices typically require some form of premarket notification, regulatory clearance or pre-market approval by FDA before the device can be commercialized. In the device context, the equivalent to the NDA or BLA is the premarket approval application, or PMA. FDA reserves the PMA requirement for those medical devices deemed by FDA to pose the greatest risks, such as life-sustaining, life-supporting or implantable devices, or devices that have a new intended use, or technology that is not substantially equivalent to that of a legally marketed device. A PMA generally must be supported by the same type and volume of data and analysis that is required for an NDA or a BLA, including technical specifications, preclinical data, clinical trial results, manufacturing requirements and proposed labeling, to demonstrate to FDA's satisfaction the safety and effectiveness of the device for its intended use. As with the NDA and BLA processes, PMA data sources and documentation increasingly are being presented to FDA electronically rather than via paper.

In addition to regulations in the United States, companies seeking to market a new drug, biologic or device outside the United States are subject to a variety of foreign regulations governing clinical trials, commercial sales and distribution. Whether or not a company obtains FDA approval for a product, that company must obtain approval by the comparable regulatory authorities of foreign countries before commencing clinical trials or marketing the product in those countries. The approval process varies from country to country and the time may be longer or shorter than that required for FDA approval. After regulatory approval, the clinical trial sponsor maintains responsibility for collecting and reporting the occurrence of new and unusual serious side effects to all such regulatory agencies.

The Opportunity for Clinical Trial Solutions

The traditional process of capturing and analyzing data in clinical trials relies on pre-printed, paper case report forms to submit data from the clinical trial sites to the clinical trial sponsor. Each case report form is manually checked for accuracy at the clinical site and subsequently entered into a computerized CDMS at the sponsor or CRO running the trial. Inconsistent, questionable, or missing data items are identified and must be addressed by facsimile, mail or hand-delivered document exchange. Each change in data requires documentation. These paper-based processes result in significant complexity and cost. Key limitations include:

- *Delay in clinical development process*. Manual data collection can delay interim and final data analysis by months or years, leading to delayed regulatory submission, product approval and product revenues, as well as increased development costs. In addition, these delays may reduce the exclusive sales period available under patent protection.
- *Impaired data quality*. Paper-based data collection and reporting are more susceptible to transcription and other errors, resulting in reduced accuracy and requiring a lengthy and costly correction process. In addition, poor data quality can cause increased scrutiny during regulatory review, which may further delay a product's approval.
- *Limited data visibility to effect real-time decision making*. With manual data collection, sponsors cannot evaluate trial status until relatively late in the process. Limited access to complete information precludes early termination of unsuccessful trials and reallocation of resources. Delayed access to data also prevents sponsors from quickly implementing measures to enhance patient safety.

Compared to traditional paper-based data collection, EDC technology provides substantial benefits at all stages of the clinical development process and has become widely accepted across the industry. However, we believe that most clinical trials are still conducted using the traditional paper-based format. We believe the total annual market opportunity for EDC solutions is in excess of $1.4 billion.

Despite the increased efficiency provided by EDC, early generation solutions have typically faced the following challenges:

- *Integration*. EDC solutions have had difficulty integrating complex, diverse and large volumes of data across multiple applications.
- *Investigator site requirements*. EDC installations can impose specific software and hardware requirements on trial sponsors and their investigator sites, causing delays in capturing data.
- *Complex customization*. EDC solutions often require custom programming to meet the requirements of diverse therapeutic areas across multiple phases.
- *Usability*. The user interface of EDC solutions often does not accommodate the needs and preferences of the medical researchers who coordinate and administer clinical trials, which limits the pace of adoption.
- *Workflow and security limitations*. EDC solutions often have limited ability to manage multiple languages, multiple workflows and blinded data.
- *Scalability*. EDC solutions often lack the ability to scale against multiple studies in a single database, requiring increased effort and expense.

The Medidata Solution

Our solutions allow users to accurately and efficiently design clinical trials and capture, manage and report clinical trial data through an easy-to-use, Internet-enabled platform. We believe our solutions provide our customers with the following benefits:

- *Accelerated time to market*. Our on-demand platform and delivery model streamlines the clinical development process, enabling users to compress the time associated with designing and implementing clinical trials and entering, cleansing and analyzing data. By reducing the clinical trial timeline through early and ongoing integration of multiple data sources, our solution accelerates the medical product development process, thereby maximizing commercial life under patent protection. In addition, our data products provide customers with benchmarking tools that can be used to improve speed, quality and efficiency of clinical trials.
- *Improved quality and visibility of results*. Medidata Rave allows users engaged in clinical trials to enhance the quality and completeness of their data earlier in the process by providing real-time data cleansing and eliminating duplicative manual entry of data. Decision making is enhanced through consistent access to reliable data, including allowing for adaptive trial design, the early identification and termination of unsuccessful trials and timely access to trial data that may identify significant safety concerns.
- *Comprehensive clinical development solution*. We have designed our comprehensive solutions to provide support throughout the clinical development process, from protocol authoring to preparing data for regulatory analysis and submission. We provide third party technology providers with access to our application programming interface, or API, and developer tools, which facilitates integration with complementary business systems. Medidata Rave can be integrated easily with auxiliary clinical and operational data systems, making it the backbone for a complete end-to-end solution. Medidata Rave's comprehensive security model also simplifies the management of double-blinded studies within a single platform.
- *Enhanced investigator acceptance*. We have designed the user interface of our application services to meet the needs of clinicians, with intuitive, consistent point-and-click navigation and a familiar clinical data entry approach. We have incorporated user input into the design of our interface and provide embedded training tools to accelerate end-user adoption.
- *Seamless execution of global trials*. Medidata Rave provides a single data repository that can be used in multiple languages simultaneously, avoiding the need for the installation and maintenance of parallel versions of the system. This capability allows investigators around the world to enter data in a variety of languages while enabling monitors and data managers to view the same data in a consistent language.
- *Lower cost of ownership*. Our product architecture scales reliably and cost-effectively across clinical trials of all sizes. Our customers can run all clinical trials on a single instance, further reducing deployment cost per study.

Our Growth Strategy

Our strategy is to become the global standard for application service solutions for EDC and complementary technologies for the clinical development process. Key elements of our strategy include:

- *Expand our global customer base.* We expect EDC adoption to increase, resulting in significant growth in spending on EDC solutions. We will continue to pursue new relationships with large global pharmaceutical and biotechnology companies by leveraging our support infrastructure, unique language translation capabilities and industry expertise. In addition, we have marketing, sales and services resources dedicated to small- and middle-market life sciences companies, as we believe this market represents an under-penetrated opportunity for customer expansion.

- *Increase sales to our existing customers.* We intend to drive adoption of our products and services within our existing customer base by facilitating the use of our application services in new trials and converting existing single-study customers into multi-study customers. We expect our knowledge transfer model to accelerate customer adoption, resulting in additional licensing opportunities. Further, we will continue to demonstrate the significant efficiencies that our customers can achieve by standardizing their end-to-end clinical development processes on our platform.

- *Enhance our suite of products and services.* We intend to add new features to our existing offerings and add new offerings to maximize the efficiency of the clinical development process. For example, our acquisition of Fast Track in March 2008 has enabled us to add capabilities in the areas of trial planning, including collaborative protocol authoring, contracting and negotiation. We believe our clinical trials expertise will enable us to leverage our customers' operational data to provide metrics-driven insights and advisory services to facilitate enhanced market penetration.

- *Expand indirect sales channel initiatives.* We will continue to pursue strategic partnerships with CROs and healthcare information technology consultants to position our software solutions as the platform of choice for their outsourced clinical trial management services. Through our ASP*ire* to Win program, we provide support and training to enable CROs to cost-effectively implement our products and services in sponsor studies and to provide additional services related to clinical trial design and deployment.

Our Solutions

We provide clinical development solutions for life science organizations around the world. Our solutions include software and services that enable organizations to systematically design protocols, capture, manage and report clinical data and analyze the results of that data in a cost-effective and efficient manner. We have also designed our solutions to enable our customers to efficiently plan clinical trials by providing budgeting, pricing, workflow and relationship management capabilities. Our software-as-a-service business model eliminates the costs associated with installing and maintaining applications within the customer's information technology infrastructure.

Application Services

Medidata Rave. Medidata Rave combines a scalable EDC solution with a robust and fully integrated CDMS. Medidata Rave's rich functionality allows customers to build clinical trials and capture, manage and report clinical trial data on a global basis and in multiple languages:

- *Build*. Medidata Rave offers a complete set of capabilities designed to allow clinical trial teams to build and deploy studies without the need for software programming professionals. Study teams can configure and manage ongoing revisions of case report forms, trial workflow, requirements for source document verification and complex data-cleaning algorithms. Integrated tools for the re-use of previously built studies and study components further streamline the deployment process when building multiple trials.

- *Capture*. Medidata Rave's intuitive user interface facilitates the capture and cleaning of data from global investigator sites, and is designed to provide compliance with regulatory requirements through comprehensive and easy-to-use audit trails and support for electronic signatures. Medidata Rave also allows for the real-time integration of data from other sources, including laboratory information management systems, or LIMS, paper case report forms, electronic patient-reported outcome, or ePRO, devices and interactive voice response systems, or IVRS.

- *Manage*. Medidata Rave's web-based interface provides clinical data management and operations personnel with the ability to monitor, query, code and obtain real-time reports and views of study data. The platform further provides comprehensive tools for automated cleaning, tracking, import and export of all study data. Medidata Rave's Amendment Manager and version control capabilities allow customers to manage mid-study changes without system downtime. Our strong support for industry standards, such as those provided by the clinical data interchange standards consortium, or CDISC, provides a foundation for integration with other systems at sponsors, CROs and their technology partners.

- *Report*. Medidata Rave's platform provides insight into both clinical and metric data in real time. Study teams can extract and analyze both clinical and operational data, which allows customers to view progress on their individual studies and current pipeline status across all of their studies. By reporting data during the course of the study, our platform enables sponsors to analyze interim data utilizing an adaptive trial design to modify the study conduct prior to its completion. Multiple language trials are also supported through the reporting phase. Monitors and sponsors have real-time access to reports in multiple languages, regardless of the data input language.

Medidata Designer. Medidata Designer, our protocol authoring tool, enhances the efficiency of clinical trial start-up by structuring protocol development with intuitive tools, guiding clinical research teams through the study design and set-up processes. Medidata Designer facilitates integration with downstream clinical trial processes and systems, including data capture, management, analysis and electronic data submission. Medidata Designer can automatically configure Medidata Rave studies, ensuring quality, consistency and efficiency for customers collaborating through both products.

Medidata Grants Manager. Medidata Grants Manager enables our customers to benchmark their investigator budgets against industry data as well as their own grant history to increase the efficiency of site contracting and to ensure fair and consistent site payments. Medidata Grants Manager includes data from nearly one quarter of a million grants and contracts and approximately 27,000 protocols in over 1,400 treatment indications.

Medidata CRO Contractor. Medidata CRO Contractor focuses on benchmarks for CRO outsourcing, budgeting and negotiation, similar to Medidata Grants Manager. Our database includes reliable cost benchmarks from over 4,000 sponsor contracts with more than 250 global CROs.

Hosting

Substantially all of our customers use our hosting services for Medidata Rave at our dedicated data center in Houston, Texas, which was designed specifically to optimize the delivery of our application services and to ensure the availability and security of our customers' research data. Our state of the art facility includes 24 by 7 staffing, enterprise class security, redundant power and cooling systems, large-scale data back-up capabilities and multiple Internet access points and providers. In addition, we maintain back-up facilities located in Secaucus and Piscataway, New Jersey and use SAVVIS, IBM and Iron Mountain for disaster recovery services and offsite data storage.

Our hosting operations incorporate industry-standard hardware, databases and application servers in a flexible, scalable architecture. Elements of our applications' infrastructure can be replaced or added with minimal interruption in service, in order to reduce the likelihood that the failure of any single device will cause a broad service outage. We can scale to increasing numbers of customers by adding industry-standard computers and servers and have invested heavily in our data center operations during 2006 and 2007 to expand our storage capacity to meet increasing customer demands. Our storage architecture helps to ensure the safe, secure archiving of customers' data and to deliver the speed and performance required to enable customers to access and manage their clinical study data in real-time.

Support

We have a multi-national organization to support our applications worldwide. We also offer 24 by 7 support to our customers' investigator sites through multi-lingual help desks located in Edison, New Jersey, Sofia, Bulgaria and Tokyo, Japan.

Professional Services

In order to provide reliable, repeatable and cost-effective implementation and use of our application services, we have developed a standard methodology to deliver professional services to our customers. Our methodology leverages both the industry-specific expertise of our employees and the specific capabilities of our platform to simplify, streamline and expedite the Medidata Rave implementation process. This methodology also enables us to deliver a comprehensive set of supporting documents and work instructions to facilitate our customers' compliance with applicable regulatory requirements. Our professional services include:

- implementation services to meet customers' data requirements for various indications;
- workflow design to meet the needs of different study phases and global regulatory requirements; and
- guidance on best practices for using our application services.

We offer knowledge transfer services, to enable our customers and partners to design, configure, implement and manage trials, and intuitive e-learning training courses for end users. We also offer a variety of additional training services through our training group, known as Medidata University, to facilitate the successful adoption of our application services throughout the customer's or partner's organization. We also provide professional services for Medidata Designer, to assist our customers to efficiently implement and reinforce best practices for protocol design.

Technology

We have designed our technology to maximize ease of use, flexibility, data visibility and system scalability to handle high-volume, global trials. We deploy our solutions through the use of industry-standard web browsers and three tiered server architectures: a web server, a proprietary application server and a database server. End users can access our solutions through any web browser from anywhere in the world without downloading or installing any Medidata-specific software. In addition, our software has end-to-end support for unicode characters, required to deliver multi-lingual studies. Additionally, we utilize technologies such as firewalls, intrusion detection and encryption to ensure the privacy and security of our customers' data.

We developed our solutions on a broad base of technologies, including Java 2 Enterprise Edition, or J2EE, Oracle, Microsoft.NET, Microsoft SQL Server and Business Objects. By creating consistent data models that can accommodate the broad software-as-a-service requirements from multiple biopharma, medical device and CRO customers, we have been able to avoid customer-specific builds or other customizations to our core product, thereby streamlining development and maintenance. Furthermore, our interfaces are built on fully documented application programming interfaces, or APIs, which allow us to safely update customers' data in new versions of the system, and to develop additional interfaces to address new market opportunities. These APIs also allow us to import and export configurations and auxiliary data in both human-readable and XML formats. By including version control and the ability to dynamically integrate data without system interruption, we are better able to accommodate the industry-specific challenges facing clinical trial teams around protocol amendments and the need for incremental changes to study data collection and cleaning processes during a clinical trial.

Research and Development

We believe that our future success will depend on our ability to continue to enhance and broaden our application services to meet the evolving needs of clinical trial sponsors and other entities engaged in clinical trials. As of December 31, 2008, we had 121 employees in research and development. Our research and development efforts are focused on developing new, complementary software solutions, as well as enhancing our existing software solutions.

When developing our technical solutions to manage clinical data, industry regulatory requirements also dictate that substantial documentation be created to demonstrate data integrity in the solution, known in the industry as a validation package. Our software development lifecycle practices include streamlined methodologies for generating and maintaining validation packages during the software release process. These methodologies include a validated path for upgrading existing installations and data. For Medidata Rave, with a major update occurring approximately once per year, the concurrency and robustness of validation packages provide our customers with an ability to stay on current technology, allowing us to minimize the number of legacy releases that require maintenance and support.

Our research and development department includes a product management team that works with both internal and customer experts to create new features and functionality, a technical documentation team, as well as product engineering and software quality assurance functions. We also have a dedicated research and development team building integration software and APIs on top of our platform. For example, our research and development team has integrated Medidata Rave with SAS Drug Development's data management, collaborative reporting and analysis solution. This integration provides our customers with immediate access to data collected and managed in Medidata Rave through the SAS Drug Development product, along with other data gathered in the research and development process. We incurred $4.1 million, $5.9 million, $10.7 million and $14.6 million in research and development expenses for the years ended December 31, 2005, 2006, 2007 and the nine months ended September 30, 2008, respectively.

Sales and Marketing

We market and sell our application services through a direct sales force and through relationships with CROs and other strategic partners. Our marketing efforts focus on increasing awareness, consideration and preferences for our application services and professional services and generating qualified sales leads. As of December 31, 2008, we had 74 employees in sales and marketing.

Our sales force operates globally, including in North America, Europe and Asia. The team, which is organized by both region and focus area, also includes pre-sales product consultants and sales operations support. Sales through this direct channel currently represent the largest source of our total revenues.

Sponsors of clinical trials are increasingly outsourcing their clinical research activities in an attempt to control costs and expand capacity. Our CRO relationships help us position our software solutions as the core platform for their outsourced client trial management services. Through our ASPire to Win program, we partner with CROs to deliver the Medidata Rave clinical trial technology along with the CRO's project and data management expertise. We also train, certify and support our CRO and other clinical services partners on Medidata Rave which enables them to quickly and cost-effectively implement our technology in sponsors' studies. Our strategic clinical services partners include Chiltern International Inc., Clinsys Clinical Research, Inc., CMIC Co., Ltd., Covance Inc., Eliassen Group, EPS International Co., Ltd. , Global Research Services, LLC, ICON Clinical Research, L.P., INC Research, Inc., Kendle International Inc., LAXAI, Omnicare Inc., PAREXEL International Corporation, PharmaLinkFHI, Inc., PRA International, Inc., Quintiles Transnational Corporation and United BioSource Corporation.

Our marketing strategy is to generate qualified sales leads, enhance the global recognition of our brand and products and establish Medidata as the premier provider of clinical trial solutions. Our principal marketing initiatives target key executives and decision makers within our existing and prospective customer base and include sponsorship of, and participation in, industry events including user conferences, trade shows and webinars. We also advertise through online and print media, publish Medidata-authored articles in trade magazines and journals, and participate in cooperative marketing efforts with our CRO partners and other providers of complementary services or technology, including joint press announcements, joint trade show activities and joint seminars and webinars.

We have been able to obtain valuable insight into our customers' needs through the following specific customer initiatives:

- *Medidata Customer Advisory Board*. We sponsor an annual meeting of the Medidata Customer Advisory Board which provides our customers with an opportunity to learn about our strategies and plans and gives us useful feedback on our application services.
- *Medidata User Group*. Our customers sponsor an annual meeting that gives them an opportunity to share best practices relating to Medidata Rave and provide feedback.
- *Medidata webinars*. We host periodic web-based seminars for current and prospective customers, which are typically focused on our products or current developments.
- *MyMedidata.com*. MyMedidata.com offers a global portal for our customers and partners and provides them with answers to frequently asked questions; on-line forums and polls where they can interact with our representatives and other members; and updates on Medidata-related events.

Customers

We are committed to developing long-term, partnering relationships with our customers on a global basis and working closely with new customers to configure our systems to meet the unique needs of their trials. Our customers include leading pharmaceutical, biotechnology, medical device companies, academic institutions, clinical research organizations and other entities engaged in clinical trials. As of September 30, 2008, we had 148 customers, including 21 of the top 25 global pharmaceutical companies measured by revenue. Our representative customers by industry group include:

Pharmaceutical

Astellas Pharma Inc.
AstraZeneca PLC
Baxter International, Inc.
Bayer HealthCare AG
Daiichi Sankyo Co., Ltd.
F. Hoffmann–La Roche, Ltd.
Johnson & Johnson
H. Lundbeck A/S
Orion Corporation
Pfizer Inc.
Takeda Pharmaceutical Corporation Ltd.
Wyeth

Biotechnology

Amgen Inc.
Array BioPharma, Inc.
Elan Pharmaceuticals Inc.
Genentech Inc.
Genzyme Corporation
Gilead Sciences, Inc.

Medical Devices

Boston Scientific Corporation DePuy International Ltd.
Edwards Lifesciences Corporation

CROs

CMIC Co., Ltd.
Covance Inc.
ICON Clinical Research, L.P.
INC Research, Inc.
Kendle International, Inc.

Institutions

National Cancer Institute of Canada
Northwestern University

Our five largest customers accounted for 56%, 53% and 47% of our revenues in 2006, 2007 and in the nine months ended September 30, 2008, respectively. Johnson & Johnson, AstraZeneca and Amgen accounted for approximately 15%, 13% and 11%, respectively, of our revenues in 2007.

Competition

The market for electronic data collection, data management and other clinical trial solutions is highly competitive and rapidly evolving. It is subject to changing technology, shifting customer needs, changes in laws and regulations, and frequent introductions of new products and services. In the EDC market, in addition to internally developed solutions, we compete with firms such as etrials Worldwide, Inc., eResearch Technology, Inc., ClinPhone, Datatrak International, Omnicom Corporation, Oracle Clinical, Phase Forward Incorporated and Phoenix Data Systems. In the clinical trial authoring tool market, we compete with internally developed protocol tools, commercially available software offering structured environments for creating protocols such as Microsoft Office and SharePoint solutions and providers of XML authoring tools using Microsoft Word to create protocols such as Invision Research. In addition, we face competition at the clinical data product level from smaller independent companies such as TTC LLC and ClearTrial, LLC.

We compete on the basis of several factors, including the following:

- ease of use of our products and rates of user adoption;
- product functionality and flexibility;

- speed and performance required to enable customers to access clinical trial data in real-time;
- product reliability and scalability;
- hosting security;
- regulatory compliance;
- financial stability;
- breadth and scope of commercial and technology partnerships;
- depth of expertise and quality of our professional services and customer support on a global basis; and
- sales and marketing capabilities.

Although some of our competitors and potential competitors have greater name recognition, longer operating histories and greater financial, technological and other resources than we do, we believe that we compete favorably with our competitors on the basis of these factors.

Government Regulation

The use of our software applications, services and hosted solutions by customers engaged in clinical trials must be done in a manner that is compliant with a complex array of U.S. federal and state laws and regulations, including regulation by FDA, as well as regulations and guidance issued by foreign governments and international non-governmental organizations. Our applications have been designed to allow our customers to deploy them as part of a validated system compliant with applicable laws and regulations.

Regulation of Clinical Trials and Electronic Systems Used in Clinical Trials The conduct of clinical trials is subject to regulation and regulatory guidance associated with the approval of new drugs, biological products and medical devices imposed upon the clinical trial process by FDA, foreign governmental regulatory agencies and international non-governmental organizations, such as the International Conference on Harmonization and the World Health Organization.

The laws, regulations and guidance from various countries and regions are often, but not always, harmonized. In those areas which are not yet harmonized, conflicting or even contradictory requirements may exist. Further, the regulatory environment and requirements for clinical trials and drug/device approvals are undergoing rapid change in the United States, the European Union and in other regions. We continue to monitor regulatory developments and industry best practices in these areas and make changes as necessary to remain in compliance.

The use of our software products, services and hosted solutions by customers engaged in clinical trials must be done in a manner that is compliant with these laws, regulations and guidance. Failure to do so could, for example, have an adverse impact on a clinical trial sponsor's ability to obtain regulatory approval of new drugs, biological products or medical devices or even to continue a clinical trial.

The use of software during the clinical trial process must also adhere to the regulations and regulatory guidance known as Good Clinical Practices, or GCPs, other various codified practices such as, the Consolidated Guidance for Industry from the International Conference on Harmonization Regarding Good Clinical Practices for Europe, Japan and the United States and other guidance documents. In addition to these regulations and regulatory guidance, FDA and other countries have developed regulations and regulatory guidance concerning electronic records and electronic signatures. In the United States, these regulations are interpreted for clinical trials in a guidance document titled U.S. FDA Computerized Systems Used in Clinical Investigations – Guidance for Industry. In general, regulatory guidance stipulates that computerized systems used to capture or manage clinical trial data must meet certain standards for attributability, accuracy, retrievability, traceability, inspectability, validity, security and dependability. If we or our customers violate the GCPs or other regulatory requirements, both parties run the risk that the violation will result in a warning letter from FDA, the suspension of the clinical trial, investigator disqualification, debarment, the rejection or withdrawal of a product marketing application, criminal prosecution or civil penalties, any of which could have a material adverse effect on our business, results of operations or financial condition.

Regulation of Health Information Government regulation of the use and disclosure of patient privacy and data protection imposes a number of requirements. In the United States, regulations issued pursuant to the Health Insurance Portability and Accountability Act of 1996, or HIPAA, require certain "covered entities," including facilities and providers which are involved in clinical trials, to comply with established standards regarding the privacy and security of protected health information and to use standardized code sets when

conducting certain electronic transactions. The regulations also require "business associates" that provide services on behalf of the covered entity to agree to follow the same standards. Although we are not a "covered entity" and therefore technically are not subject to HIPAA regulations, many users of our products and services are directly regulated under HIPAA and our products cannot be utilized in a manner that is inconsistent with the users' HIPAA compliance requirements. In addition, to the extent we perform functions or activities on behalf of customers that are directly regulated by such medical privacy laws, we are considered a HIPAA "business associate" and must execute a written agreement with each such customer in which we agree to comply with a number of the same HIPAA requirements. The breach of such an agreement on our part may result in contractual liability to our customer and could subject the customer to HIPAA liability. In addition to HIPAA, most states have enacted or are considering their own privacy and data protection laws. Such state laws, if more stringent than HIPAA requirements, are not preempted by the federal requirements and we must comply with them.

In addition to complying with the privacy laws of the United States, many foreign governments have data privacy protection laws that include additional protections for sensitive patient information, such as confidential medical records. Because we provide services in many of these countries, we must meet these requirements and must provide our services in a manner that supports our customers' compliance obligations.

Intellectual Property

Our success and ability to compete are dependent on our ability to develop and maintain the proprietary aspects of our technology and operate without infringing the proprietary rights of others. We rely upon a combination of trademark, trade secret, copyright, patent and unfair competition laws, as well as license agreements and other contractual provisions, to protect our intellectual property and other proprietary rights. In addition, we attempt to protect our intellectual property and proprietary information by requiring our employees and consultants to enter into confidentiality, non-competition and assignment of inventions agreements. We have registered trademarks and service marks in the United States and abroad, and applications for the registration of additional trademarks and service marks. Our principal trademarks are "Medidata," "Medidata Rave" and "ASPire to Win." We have filed trademark applications for "Medidata Designer," "Medidata Grants Manager" and "Medidata CRO Contractor." We also hold several domain names, including the domain name "mdsol.com." Although we do not rely heavily on patent protection, we hold one patent and have five patent applications outstanding with the U.S. Patent and Trademark Office as well as certain corresponding foreign patent applications.

The legal protections described above afford only limited protection for our technology. Due to rapid technological change, we believe that factors such as the technological and creative skills of our personnel, new product and service developments and enhancements to existing products and services are more important than the various legal protections of our technology to establishing and maintaining a technology leadership position.

On June 5, 2007, we entered into a License and Settlement Agreement with a third party, in connection with allegations that our Rave Remote product infringed a U.S. patent claimed to be owned by the third party. Under the License and Settlement Agreement, we agreed to make a lump-sum payment to the third party in an aggregate amount of $2.2 million to settle the claim and obtained a royalty bearing license to the patent at issue. Rave Remote is an older product that allows data to be collected and cleaned on personal computers that are not permanently connected to the Internet and is not material to our overall results. We have licensed in the past, and expect that we may license in the future, certain of our proprietary rights, such as trademarks, technology or copyrighted material, to third parties. We generally provide in our customer agreements that we will indemnify our customers against third-party infringement claims relating to our technology provided to the customer.

Employees

As of December 31, 2008, we had a total of 535 employees, of which 206 were employed at our headquarters and additional locations in New York, New York, 225 at other locations in the United States, 66 in the United Kingdom and 38 in Japan. As of December 31, 2008, we had 251 employees in services and information technology, 121 employees in research and development, 74 employees in sales and marketing, 20 employees in data operations and 69 employees in administration and executive management. We also retain additional outside contractors from time to time to supplement our services and research and development staff on an as-needed basis. As of December 31, 2008, we had 130 independent contractors, the majority of which have been engaged in connection with help desk and customer service functions. None of our employees are covered by a collective bargaining agreement. We consider our relationships with our employees to be good.

Properties

Our corporate headquarters and other material leased real property as of September 30, 2008 are shown in the following table. We do not own any real property.

Location	Use	Size	Expiration of Lease
New York, New York	Corporate headquarters	20,000 square feet	September 2013
New York, New York	Office space	14,875 square feet	May 2009
Edison, New Jersey	Office space	13,700 square feet	March 2010
Conshohocken, Pennsylvania	Office space	8,742 square feet	June 2011
Ross, California	Office space	3,138 square feet	December 2010
Houston, Texas	Data center	7,778 square feet	July 2013
Uxbridge, United Kingdom	Office space	8,500 square feet	December 2017
Tokyo, Japan	Office space	3,640 square feet	April 2009

We believe these facilities and additional or alternative space available to us will be adequate to meet our needs for the foreseeable future.

Legal Proceedings

We are a party to a lawsuit brought by a former employee of a Medidata subsidiary, MDSOL Europe Limited, in connection with the termination of her employment on November 30, 2006. The lawsuit was brought before the Belgian Labor Court seeking approximately $1.4 million. At September 30, 2008, we accrued approximately $0.7 million with respect to this claim. A hearing was held in November 2008 and the court rendered its decision on January 15, 2009, which awarded approximately $0.1 million to the plaintiff. While we believe this decision was favorable to us, it may be appealed by the plaintiff. In the event that this decision is appealed, we intend to continue to vigorously defend this claim until it is finally resolved. We are not currently a party to any other material legal proceedings.

M Anagement

MANAGEMENT

Executive Officers and Directors

The following table sets forth the names, ages and positions of each of our directors and executive officers as of December 31, 2008.

Name	Age	Position
Tarek A. Sherif	46	Chairman, Chief Executive Officer and Director
Glen M. de Vries	36	President and Director
Bruce D. Dalziel	50	Chief Financial Officer
Steven I. Hirschfeld	46	Executive Vice President—Global Sales and Alliances
Lineene N. Krasnow	57	Executive Vice President—Product and Marketing
Carlos Dominguez(1)(4)	50	Director
Edwin A. Goodman(2)	69	Director
Edward F. Ikeguchi, M.D.(2)	41	Director
Neil M. Kurtz, M.D.(1)(3)	58	Director
George McCulloch(1)(3)	31	Director
Peter Sobiloff(4)	52	Director
Robert B. Taylor(3)(4)	61	Director

(1) Member of compensation committee

(2) Dr. Ikeguchi and Mr. Goodman will resign from the board of directors effective immediately prior to completion of this offering.

(3) Member of audit committee

(4) Member of nominating and corporate governance committee

Set forth below is a brief description of the business experience of our executive officers and directors listed above.

Tarek A. Sherif is one of our founders. Mr. Sherif has served as our chief executive officer since 2001 and as a member of our board of directors since 2000. Prior to forming the company, Mr. Sherif was the managing member of Sherif Partners L.L.C., a company focused on public and private investments in technology and life science companies. Prior to that, Mr. Sherif served as portfolio manager at R.D.L. Securities, a privately held equity fund specializing in publicly traded technology companies, including those in the healthcare and information technology fields. Mr. Sherif has also served as assistant vice president of corporate finance at General Electric Capital Corporation, and mergers and acquisitions analyst at Brown Brothers Harriman & Company. Mr. Sherif holds a B.A. in economics from Yale College and an M.B.A. in business administration and finance from Columbia University.

Glen M. de Vries is one of our founders. Mr. de Vries has served as our president since February 2008 and as a member of our board of directors since 1999. From 2000 to 2008, Mr. de Vries served as our chief technology officer. Mr. de Vries has over 15 years of experience in medical software development, including electronic health records and consumer-targeted products. As president of OceanTek, Inc., a web development firm focused on applications for the healthcare industry, Mr. de Vries was the chief consultant for a Fortune 500 global e-commerce project, and was the author of web security components currently in use by websites and corporate intranets. Previously, he served as a research assistant at Columbia University focusing on both research science and creating a paperless clinical data management system. Mr. de Vries holds a B.S. in molecular biology and genetics from Carnegie Mellon University.

Bruce D. Dalziel has served as our chief financial officer since October 2007. Prior to joining us, Mr. Dalziel served as chief financial officer of The BISYS Group, Inc., a provider of business process outsourcing solutions, from 2005 to 2007, and as chief financial officer of DoubleClick, Inc., a provider of digital marketing technology and services, from 2001 to 2005. Mr. Dalziel has managed all aspects of finance, including financial reporting and control, tax, treasury and risk management, as well as investor relations, facilities, corporate technology, business operations and legal, with substantial merger and acquisitions activity in both roles. Prior to his employment at DoubleClick, Inc., Mr. Dalziel held a variety of positions at Prudential Insurance Company of America over a 14 year period, including corporate vice president of financial planning and analysis, vice president of institutional asset management sales and chief financial officer of international insurance. Mr. Dalziel holds a B.A. in English literature from Ursinus College, a B.S. in industrial engineering from Georgia Institute of Technology and an M.B.A. from Columbia University.

Steven I. Hirschfeld has served as our vice president—sales since September 2002 and was promoted to executive vice president—global sales and alliances in September 2005. From 1999 to 2001, Mr. Hirschfeld served as vice president of sales at I-Many, Inc., a provider of software and related professional services to support contract-based, business to business relationships. Prior to that, Mr. Hirschfeld spent five years at The Janis Group as sales leader and general manager where he launched and managed several of The Janis Group's emerging business units and directed the corporate marketing department. Mr. Hirschfeld holds a B.S. in business administration from the University of Delaware.

Lineene N. Krasnow joined us as vice president—marketing in April 2005 and has served as executive vice president—product and marketing since August 2008. Prior to joining us, Ms. Krasnow held various executive positions at IBM Corporation, a globally integrated innovation company. Most recently, Ms. Krasnow served as vice president of marketing management—corporate from 2001 to 2005. Prior to that, Ms. Krasnow's other positions at IBM included vice president of worldwide marketing management for IBM's Personal Systems Group; vice president of marketing for IBM Personal Systems Asia-Pacific in Tokyo. Ms. Krasnow holds a B.B.A. in marketing from the University of Notre Dame.

Carlos Dominguez has served on our board of directors since April 2008. Mr. Dominguez has held various executive positions at Cisco Systems Inc. and has been serving as its senior vice president, office of the chairman and chief executive officer since January 2008. Mr. Dominguez joined Cisco in 1992 and previously served as senior vice president of its Worldwide Service Provider Operations group from 2004 to 2008 and as a vice president for U.S. Service Provider Sales from 1999 to 2004.

Edwin A. Goodman has served on our board of directors since 2002 and serves as a partner at Milestone Venture Partners, an investment firm which he co-founded in 1999. Prior to founding Milestone, Mr. Goodman was part of the venture capital team at the U.S. office of Hambros, a London-based merchant bank since 1981. Mr. Goodman holds a B.A. in English literature from Yale College and an M.S. from Columbia University Business School. Mr. Goodman also serves on the board of SkillSurvey, Inc. and served in the U.S. Marine Corps Reserve.

Edward F. Ikeguchi, M.D., is one of our founders and has served on our board of directors since 1999. Dr. Ikeguchi previously served as our chief medical officer from 2000 through July 2008. Prior to joining the company, Dr. Ikeguchi served as assistant professor of clinical urology at Columbia University and has experience using healthcare technology solutions as a clinical investigator in numerous trials

sponsored by both commercial industry and the National Institutes of Health. Dr. Ikeguchi holds a B.S. in chemistry from Fordham University and a M.D. from Columbia University's College of Physicians & Surgeons, where he also completed his surgical internship, subspecialty training and fellowship.

Neil M. Kurtz, M.D. has served on our board of directors since 2002. Dr. Kurtz has served as president and chief executive officer of Golden Living since August 2008. Prior to joining Golden Living, Dr. Kurtz served as president and chief executive officer and a member of the board of directors of TorreyPines Therapeutics, Inc., a clinical-stage biopharmaceutical company, since 2002. Dr. Kurtz co-founded Worldwide Clinical Trials, a contract research organization, where he held the positions of president and chief executive officer until its acquisition by United Health Group, or UHG, in 1999. After the acquisition, Dr. Kurtz became president of Ingenix Pharmaceutical Services, a division of UHG, and also served as a member of the UHG Executive Board until joining TorreyPines Therapeutics, Inc. Dr. Kurtz's career includes senior positions with Boots Pharmaceuticals, Bayer Corporation, Bristol-Myers Squibb and Merck. He currently serves on the board of directors of NeurogesX, a specialty pharmaceutical company. Dr. Kurtz holds a B.A. in psychology from New York University and an M.D. from the Medical College of Wisconsin.

George McCulloch has served on our board of directors since 2004. He joined Insight Venture Partners, or Insight, in 2003, and became a managing director in 2007. Prior to joining Insight, he was an associate at Summit Partners, a private equity and venture capital firm, from 1999 to 2002. Mr. McCulloch holds a B.A. in history from Stanford University.

Peter Sobiloff has served on our board of directors since 2004. Mr. Sobiloff is currently Chief Executive Officer of Syncsort and has served as a managing director at Insight since 2000. Immediately prior to joining Insight in 1998, he was vice president of business development at i2 Technologies from 1997 to 1998. Mr. Sobiloff was previously president of Think Systems, a supply chain management software company. Prior to this, he was president of Datalogix, a vendor of enterprise application software for process manufacturers, and previously held senior executive roles at Ross Systems, a vendor of financial application software. Mr. Sobiloff holds a B.A. from Baruch University.

Robert B. Taylor has served on our board of directors since April 2008. Mr. Taylor has served as senior vice president for finance and administration of the Colonial Williamsburg Foundation since January 2001. Prior to joining the Colonial Williamsburg Foundation, Mr. Taylor previously served as vice president and treasurer of Wesleyan University from 1985 to 2001. Mr. Taylor also serves on the board of directors and as chair of the Audit Committee of Zygo Corporation. Mr. Taylor holds a B.A. from St. Lawrence University.

Composition of the Board of Directors

We have a board of directors comprised of nine members, which we believe is compliant with the independence criteria for boards of directors under the rules of the NASDAQ Global Market and SEC rules and regulations. Dr. Ikeguchi and Mr. Goodman will resign from the board of directors and any applicable committees effective immediately prior to completion of this offering, resulting in a seven-member board of directors as of the closing of this offering.

The directors are elected at the annual meeting of stockholders. Our directors hold office until the earlier of their death, resignation or removal or until their successors have been elected and qualified. There are no family relationships among any of our directors or executive officers.

Committees of the Board of Directors

As of the closing of this offering, our board of directors will have an audit committee, a compensation committee and a nominating and corporate governance committee, each of which has or will have the composition and responsibilities described below. The composition and functioning of all of our committees will comply with all applicable requirements of the Sarbanes-Oxley Act of 2002, the NASDAQ Global Market and SEC rules and regulations.

Audit Committee

Prior to the completion of this offering, our audit committee is comprised of Robert Taylor (chairman), Neil Kurtz and George McCullogh. In compliance with the transitional rules of the SEC and the NASDAQ Global Market, our audit committee will ultimately consist entirely of independent directors, as defined under the NASDAQ Global Market listing standards as well as under rules adopted by the SEC pursuant to Sarbanes-Oxley Act of 2002. The board of directors has determined that Mr. Taylor is an "audit committee financial expert" as defined under SEC rules and regulations by virtue of his business background and experience described under "Executive Officers and Directors" above.

Our board of directors will adopt a written charter for the audit committee, which will be effective immediately prior to the effectiveness of our registration statement relating to this offering and reflects standards set forth in SEC regulations and NASDAQ Global Market rules. The composition and responsibilities of the audit committee and the attributes of its members, as reflected in the charter, are

intended to be in accordance with applicable requirements for corporate audit committees. The charter will be reviewed, and amended if necessary, on an annual basis. The full text of the audit committee's charter will be available on our website at *www.mdsol.com*.

The audit committee will assist the board in fulfilling its oversight responsibility relating to our financial statements and the disclosure and financial reporting process, our system of internal controls, our internal audit function, the qualifications, independence and performance of our independent registered public accounting firm, compliance with our code of business conduct, and ethics and legal and regulatory requirements. The audit committee will have the sole authority to appoint, retain, terminate, compensate and oversee the work of the independent registered public accounting firm, as well as to pre-approve all audit and non-audit services to be provided by the independent registered public accounting firm.

Compensation Committee

Prior to the completion of this offering, the members of our compensation committee will be Carlos Dominguez (Chairman), Neil Kurtz and George McCullogh. All three members of the compensation committee will be independent as defined under the applicable listing standards of the NASDAQ Global Market. The compensation committee will operate under a written charter adopted by the board of directors. The committee will be responsible for administering any incentive compensation plans, equity-based compensation plans and other benefit plans and making recommendations to the board of directors with respect to such plans. Also, the committee will evaluate the chief executive officer's performance, determine compensation arrangements for all of our executive officers, including our chief executive officer, and make recommendations to the board of directors concerning compensation policies for us and our subsidiaries.

Nominating and Governance Committee

Prior to the completion of this offering, we will establish a nominating and governance committee with responsibility for, among other things: reviewing board composition, procedures and committees, and making recommendations on these matters to the board of directors; reviewing, soliciting and making recommendations to the board of directors and stockholders with respect to candidates for election to the board; and overseeing compliance by the board of directors and management with our corporate governance principles and ethics standards and code of conduct. Our nominating and governance committee will be comprised of Robert Taylor (Chairman), Carlos Dominguez and Peter Sobiloff. All three members of the nominating and governance committee will be independent as defined under the applicable listing standards of the NASDAQ Global Market. The nominating and governance committee will operate under a written charter adopted by the board of directors.

Compensation Committee Interlocks and Insider Participation

None of our executive officers serves as a member of the compensation committee or board of directors of any other entity that has an executive officer serving as a member of our board of directors or compensation committee.

Director Compensation

In March 2008, the compensation committee of our board of directors adopted a compensation policy that is applicable to all of our non-employee directors. The policy became effective with respect to Messrs. Dominguez and Taylor immediately upon commencement of their service and will become effective for the other non-employee directors immediately following completion of our initial public offering. This compensation policy provides that each such non-employee director will receive the following compensation for service on our board of directors:

- an annual cash retainer of $30,000;
- an additional annual cash retainer of $20,000 for serving as chairman of the audit committee and $12,000 for serving as a member of the audit committee;
- an additional annual cash retainer of $15,000 for serving as chairman of the compensation committee and $10,000 for serving as a member of the compensation committee;
- an additional annual cash retainer of $5,000 for serving as chairman of the nominating and corporate governance committee and $4,000 for serving as a member of the nominating and corporate governance committee; and
- upon first joining our board of directors and at each subsequent annual meeting thereafter, an equity award valued at $100,000, comprised 50% of restricted shares and 50% in options. The initial equity awards vest quarterly over four years and the subsequent annual awards vest quarterly over two years.

In addition, we will reimburse our directors for all reasonable expenses incurred for attending meetings and service on our board of directors.

In , 2009, our board of directors adopted and our stockholders approved a new stock incentive plan that will be effective upon the completion of our initial public offering. Upon the completion of this offering, each of our non-employee directors will receive an option to acquire shares of our common stock. These options will vest . On the date a new non-employee director is first elected or appointed to the board of directors, we intend that he or she will automatically be granted an option to acquire shares of our common stock on the date of the grant. In addition, upon election of directors each year, we intend that each non-employee director will receive an automatic grant of options to acquire shares of common stock on a fully diluted basis on the date of the grant.

2008 Director Compensation

The following table sets forth a summary of the compensation paid or accrued by us to individuals who were directors during any part of 2008. The table excludes Messrs. Sherif, de Vries, Goodman, Ikeguchi, Kurtz, McCulloch and Sobiloff, who did not receive any compensation from us in their roles as directors in 2008.

Name	Fees Earned or Paid inCash ($)	Option Awards($)	Total ($)
Carlos Dominguez			
Robert B. Taylor			

Executive Compensation

Compensation Discussion and Analysis

Compensation Overview, Objectives and Philosophy

The primary objective of our compensation and benefits program is to attract, motivate and retain the best possible executive talent. We believe that executive compensation should support our business goals and encourage increased stockholder value. We expect to implement and maintain compensation plans that link executive compensation to the achievement of key goals including revenues and profitability measures. We also seek to have plans which are attractive to potential employees relative to other companies with whom we compete for employees.

Evolution of our Compensation Approach

Our compensation approach is necessarily tied to our stage of development as a company. Historically, our compensation program has been characterized by below-median cash compensation and below-median equity compensation, when compared with public companies in our peer group. Historically, the non-employee members of our board of directors reviewed and approved executive compensation and benefits policies, subject to final board approval, often based on the recommendation of our chief executive officer, based on his subjective assessment. Going forward, we expect that the specific direction, emphasis and components of our executive compensation program will continue to evolve, and, we expect to reduce our reliance upon subjective determinations in favor of an approach that involves benchmarking the compensation paid to our executive officers against peer companies that we identify and the use of clearly defined, objective targets to determine incentive compensation awards. We may also reduce our executive compensation program's emphasis on stock options as a long-term incentive component in favor of other forms of equity compensation such as restricted stock awards.

Anticipating these changes, beginning in March 2008 three of our directors, Edwin Goodman, Neil Kurtz and Peter Sobiloff, in consultation with Pearl Meyer & Partners, an independent compensation consulting firm retained by our board of directors, conducted a review of total executive compensation and equity ownership, comparing our executive's total compensation levels to those of other executives at comparable public technology companies and conducting interviews with our independent board members and members of management to gain insights into our compensation philosophy. We expect to continue to utilize a compensation consultant to assist our compensation committee in developing our executive compensation program, and in the future we may look to programs implemented by comparable public companies in refining our compensation approach.

Compensation Setting Process

Historically, compensation decisions for our executive officers were approved by our board of directors upon the recommendation of our compensation committee, which in turn considered the recommendation of our chief executive officer. We traditionally placed significant emphasis on the recommendation of our chief executive officer with respect to the determination of executive compensation (other than his own), in particular with respect to the determination of base salary, cash incentive and equity incentive awards. In 2008, our compensation committee became solely responsible for administering our executive compensation program, although we continue to rely, in part, upon the advice and recommendations of our chief executive officer, particularly with respect to those executive officers that report directly to him. The compensation committee's composition and oversight of our executive compensation program is described in more detail below and in the section above entitled "Committees of the Board of Directors — Compensation Committee."

For purposes of determining our executive officer compensation in 2007 and in prior years, we considered the following factors: our understanding of the amount of compensation generally paid by similarly situated companies to their executives with similar roles and responsibilities; the roles and responsibilities of our executives; the individual experience and skills of, and expected contributions from, our executives; the amounts of compensation being paid to our other executives; and our executives' historical compensation at our company; an assessment of the professional effectiveness and capabilities of the executive officer; and the performance of the executive officer against the corporate objectives used to determine incentive compensation. We placed the most emphasis in determining compensation on our understanding of the amount of compensation generally paid by similarly situated companies to their executives with similar roles and responsibilities and the subjective assessment of the professional effectiveness and capabilities of the executive officer. Our understanding of the amount of compensation generally paid by similarly situated companies was based on our compensation committee's and chief executive officer's own business judgment and collective experience in such matters. This understanding was not based on quantitative data or benchmarking against any specific professional service firm or similar company or set of professional service firms or similar companies.

Beginning in March 2008, our board of directors retained Pearl Meyer & Partners to conduct an assessment of our executive compensation practices. This market survey compared the compensation paid to our chief executive officer and our other executive officers to executives at similar management levels and functions at 12 software, healthcare technology services or other technology oriented companies that had median annual revenue of $129 million. This market survey was developed for purposes of establishing a comprehensive compensation plan for 2008 and subsequent years and was not considered by the compensation committee in determining executive compensation prior to 2008.

Roles of the Compensation Committee and Chief Executive Officer

Our compensation committee administers our new executive compensation program, including:

- reviewing and making recommendations to the Board of Directors with respect to adoption and approval of all cash-based and equity-based incentive compensation plans for the Chief Executive Officer and other executives;
- administering and interpreting all such cash-based and equity-based compensation plans;
- approving the goals and objectives to be considered in determining compensation for the Chief Executive Officer and other executives;
- determining salary paid to the Chief Executive Officer and other executives;
- determining all grants of cash-based and equity-based incentive compensation; and
- determining the degree to which incentive compensation is earned.

The compensation committee determines all compensation for our chief executive officer and our other executive officers, including salaries, cash-based incentives and equity-based incentives. When making individual compensation decisions for executives other than the chief executive officer, the compensation committee considers the recommendations and performance evaluations made by the chief executive officer with respect to those executives, which evaluation may take into account many factors, including compensation survey data and individual skills, experience and impact on the organization, and personal and corporate performance. In addition, the compensation committee may consider any other factor or input as it deems necessary to make final compensation decisions. In assessing and determining chief executive officer compensation, the committee considers our overall financial and operating performance, the chief executive officer's contribution to that performance, and other factors in the same manner as it does for the other executives.

Under our new executive compensation program, the compensation committee selected target performance levels by which it will evaluate each executive officer's performance. The compensation committee seeks to establish target performance levels for new incentive compensation programs that are not guaranteed to be achievable, but will require execution of ambitious business strategies over the course of the year. Our compensation committee has discretion to adjust the actual results related to the performance targets, positively or negatively, for items which, in the opinion of the compensation committee, were not reasonably within management's control. The compensation committee may also modify compensation plan targets in light of new business initiatives that we may wish to pursue and that might have a short-term impact on individual or corporate goals.

Executive Officer Market Compensation Data

To ensure that our executive compensation is competitive in the marketplace, beginning with 2008 compensation arrangements, we relied on comparative benchmark data. We considered companies comparable, or comparator companies, if they met at least three of the following criteria:

- business competitor, which consists primarily of technology-focused healthcare services companies;
- labor market competitor, which consists of high-technology companies focused on information commerce; and
- annual revenues from approximately $45 million to $1.5 billion.

To develop the list of comparator companies, Pearl Meyer & Partners suggested a list of candidate companies to our compensation committee, which reviewed and adjusted the list after consultation with Pearl Meyer & Partners. The following companies were our comparator group for 2008:

Allscripts-Misys Healthcare Solutions, Inc.	HLTH Corporation
athenahealth, Inc.	MEDecision, Inc.
BladeLogic, Inc.	Merge Healthcare Incorporated
Concur Technologies, Inc.	Phase Forward Incorporated
Eclipsys Corporation	Quality Systems, Inc.
eResearchTechnology, Inc.	Taleo Corporation

Pearl Meyer & Partners surveyed the executive compensation data for equivalent executive positions for each of the comparator companies by reviewing their most recent SEC proxy filings to develop a market composite of compensation for each executive position within Medidata. Our management and compensation committee reviewed the survey data with respect to various elements of executive compensation at comparator companies and the level of executive compensation. In consultation with Pearl Meyer & Partners, our 2008 executive compensation program was approved by our compensation committee in May 2008.

Elements of our Compensation

Our compensation framework for our named executive officers in 2008 consisted of the following key elements:

- Base salary;
- Annual cash bonuses;
- Long-term incentives (including the grant of stock options and/or restricted stock units).

In addition to these key elements of compensation, our compensation framework in 2008 included employee benefits, limited perquisites and change in control protections. See "—Change in Control Agreements."

Each of these elements is discussed further below. In determining the weighting of the separate elements of our new compensation program, the compensation committee determined to structure the elements to emphasize variable compensation and long-term incentives over fixed compensation. Our compensation committee believes that this structure focuses our executive compensation plan on a pay-for-performance basis.

We generally categorized our incentive compensation in 2008 as either annual or long-term. Annual incentive programs included all compensation, whether cash or equity, which is earned or vests based on achieving pre-defined financial performance or other employment objectives within 12 months from the date of grant. Long-term incentive programs included all compensation, whether cash or equity, which is earned or vests based on achieving pre-defined financial performance or other employment objectives more than 12 months after the date of grant.

Base Salary

In reviewing the Pearl Meyer & Partners market survey, the compensation committee observed that 2007 base salary compensation for each of Tarek Sherif, Glen de Vries, and Steven Hirschfeld was below the median of the companies surveyed. Accordingly, the committee made adjustments to named executive officer salaries in May 2008 in order to increase those salaries to within the target percentile range.

Each individual named executive officer's base salary was set above or below the intended market positioning, depending on the compensation committee's subjective assessment of the individual named executive officer's experience, recent performance and expected future contribution, and retention concerns. We hired Bruce Dalziel as our chief financial officer in September 2007 and his base salary for 2008 was negotiated in connection with his hiring based on his prior experience, his prior levels of compensation, and competitive market factors.

For a description of the base salary paid to our named executive officers for 2008, please refer to the Summary Compensation Table included in this prospectus.

Annual Bonus

Bonuses in 2008 were based on the following corporate financial metrics, which were designed to motivate our named executive officers to achieve profitable growth:

- 2008 revenues; and
- 2008 adjusted EBITDA, representing net income calculated in accordance with GAAP, adjusted to eliminate interest, taxes, depreciation, amortization and stock-based compensation.

The compensation committee selected these metrics as broad indicators of the success of our business and the likely increase in stockholder value, in order to align executive incentives with the interests of stockholders. Both corporate financial metrics are weighted equally in determining the total financial metric factor. The performance targets used for 2008 annual incentives included $ million of revenues and $ million of adjusted EBITDA. The specific targets for each financial metric were, in the judgment of the compensation committee, capable of being achieved but are nevertheless subject to a number of uncertainties and extraneous influences which could prevent their achievement. Our compensation committee has discretion to adjust the actual results related to the performance targets, positively or negatively, for items which, in the opinion of the compensation committee, were not reasonably within management's control. Ultimate achievement of performance objectives will be evaluated by our compensation committee based on the annual targets and after considering overall events and factors for the year.

Target bonuses for 2008 were also tied to the achievement of individual objectives. Individual performance goals and objectives were not formally pre-established and documented for each named executive. Rather, the compensation committee's review involved developing an understanding of the specific significant contributions made by each named executive officer based upon the recommendations of the chief executive officer and the committee's deliberations. These objective factors fell into broad categories such as:

- major business initiatives or project execution;
- department goals; and
- personal development initiatives.

Specific objectives for each named executive officer reflected his or her individual responsibilities. While goals may be subjective by nature, to the extent possible, the committee selected objective and quantifiable targets in order to improve accountability for results. The compensation committee will determine the degree to which each named executive officer achieved 2008 targeted personal objective goals, based on the chief executive officer's evaluation of his direct reports, and for our chief executive officer, based on the committee's deliberations.

For a description of the bonuses earned by our named executive officers in 2008, please refer to the Summary Compensation Table included herein.

Long-Term Incentives

We believe that long-term performance is achieved through an ownership culture that encourages participation by our executive officers in equity-based awards. Our incentive plans have been established to provide our current and future directors, officers, consultants and advisors, including our executive officers, with incentives to help align their interests with the interests of our stockholders. We believe that the use of equity-based awards offers the best approach to achieve our compensation goals.

Stock options provide executives with a significant and long-term interest in our success. By only rewarding the creation of shareholder value, we believe stock options provide our named executive officers with an effective risk and reward profile. Although it is our current practice to use stock options as our sole form of long-term incentive compensation, the compensation committee reviews this practice on an annual basis in light of our overall business strategy, existing market-competitive best practices and other factors.

Historically, our equity-based incentives to our executives, other than our founders, were primarily stock option awards. Prior to 2008, our founders were not granted stock options. Stock options are granted periodically and are subject to vesting based on the executive's continued employment. Historically, we have granted our executive officers a combination of incentive stock options and non-qualified stock options that vest over four years from the date of the grant.

Stock options are granted to our named executive officers in amounts determined by the compensation committee in its discretion. Grants have not been formula-based, but instead have historically been granted taking into account a mixture of the following qualitative factors: the executive's level of responsibility; the competitive market for the executive's position; the executive's potential contribution to our growth; and the subjective assessment of the professional effectiveness and capabilities of the executive as determined by our chief executive officer for our executives other than our chief executive officer and by our compensation committee for our chief executive officer. Although no specific number of options granted can be attributable to any specific factor, we have placed the most emphasis in determining the amount of the stock option grants on the competitive market for the executive's position and the executive's potential contribution to our success. Additionally, larger awards are typically made to the named executive officers that have areas of responsibility and function that are more likely to build long-term shareholder value as determined by how directly linked their areas of responsibility and function are to our growth.

Our newly-adopted equity award grant policy formalizes our process for granting equity-based awards to officers and employees after this offering. Under our equity award grant policy all grants must be approved by our board of directors or compensation committee. All stock options will be awarded at fair value and calculated based on our closing market price on the grant date. Under our equity award grant policy, equity awards will typically be made on a regularly scheduled basis, as follows:

- grants made in conjunction with the hiring of a new employee or the promotion of an existing employee will be made on the first trading day of the month following the later of (i) the hire date or the promotion date or (ii) the date on which such grant is approved; and
- any grants made to existing employees other than in connection with a promotion will be made on an annual basis.

For a description of the stock options granted to our named executive officers in 2008, please refer to the Summary Compensation Table included herein.

Equity Benefit Plans

Amended and Restated 2000 Stock Option Plan

Our Amended and Restated 2000 Stock Option Plan, or 2000 Stock Plan, provides for the grant of nonstatutory and incentive stock options to our employees, directors and consultants. As of December 31, 2008, options to purchase 2,431,550 shares of common stock were outstanding and shares of common stock were reserved for future grant under the 2000 Stock Plan. Following this offering, our board of directors does not intend to grant any further awards under the 2000 Stock Plan. We intend to adopt the 2009 Long-Term Incentive Plan, under which we expect to make all future awards. All outstanding stock options granted under the 2000 Stock Plan will remain outstanding and subject to their respective terms and the terms of the 2000 Stock Plan.

2009 Long-Term Incentive Plan

In connection with this offering, we intend to adopt our 2009 Long-Term Incentive Plan, or 2009 Plan. The 2009 Plan will be a comprehensive incentive compensation plan under which we can grant equity-based and other incentive awards to officers, employees and directors of, and consultants and advisers to our company and our subsidiaries. The purpose of the 2009 Plan is to help us attract, motivate and retain such persons and thereby enhance shareholder value.

We intend to reserve up to shares of our common stock for issuance under the 2009 Plan. Unissued shares covered by awards that terminate, shares that are forfeited, and shares withheld or surrendered for the payment of the exercise price or withholding obligations associated with an award will remain available for issuance under the 2009 Plan. The number of shares issuable under the 2009 Plan is subject to adjustment in the event of certain capital changes affecting outstanding shares of our common stock, such as the payment of a stock dividend, a spin-off or other form of recapitalization.

Awards under the 2009 Plan may be in the form of stock options, restricted stock and other forms of stock-based incentives, including stock appreciation rights and deferred stock rights.

- *Stock options* represent the right to purchase shares of our common stock within a specified period of time for a specified price. The purchase price per share must be at least equal to the fair market value per share on the date the option is granted. Stock options may have a maximum term of ten years. Our compensation committee will have the flexibility to grant stock options that are intended to qualify as "incentive stock options" under Section 422 of the Internal Revenue Code.

- *Restricted stock awards* consist of the issuance of shares of our common stock subject to certain vesting conditions and transfer restrictions that lapse based upon continuing service and/or the attainment of specified performance objectives. The holder of a restricted stock award may be given the right to vote and receive dividends on the shares covered by the award.

- *Stock appreciation rights* entitle the holder to receive the appreciation in the fair market value of the shares of our common stock covered by the award between the date the award is granted and the date the award is exercised. In general, settlement of a stock appreciation right will be made in the form of shares of our common stock with a value equal to the amount of such appreciation.

- *Deferred stock awards* represent the right to receive shares of our common stock in the future, subject to applicable vesting and other terms and conditions. Deferred stock awards are generally settled in shares of our common stock at the time the award vests, subject to any applicable deferral conditions as may be permitted or required under the award. The holder of a deferred stock award may not vote the shares covered by the award unless and until the award vests and the shares are issued. Dividend equivalents may or may not be payable with respect to shares covered by deferred stock award.

The 2009 Plan will also provide for stock bonus and other forms of stock-based awards and for cash incentive awards.

The 2009 Plan will be administered by the compensation committee of our board of directors. Subject to the terms of the 2009 Plan, the compensation committee (or its designee) may select the persons who will receive awards, the types of awards to be granted, the purchase price (if any) to be paid for shares covered by the awards, and the vesting, forfeiture and other terms and conditions of the awards. In general, awards granted under the 2009 Plan will not be transferrable.

In the event of a change in control or sale event as described in the 2009 Plan, outstanding awards under the 2009 Plan may be converted into equivalent awards with respect to shares of an acquiring or successor company (or corporate parent), subject to substantially similar vesting and other terms and conditions. In general, if an outstanding award is not so converted, it will become fully vested and will be cashed out or otherwise entitled to participate in the change in control transaction or sale event based upon its then intrinsic value.

Unless sooner terminated by our board of directors, the 2009 Plan shall expire on the tenth anniversary of the date of its adoption. The board of directors may amend or terminate the 2009 Plan at any time, provided, however, that no such action may adversely affect outstanding awards without the holder's consent. Amendments to the 2009 Plan will be subject to shareholder approval if and to the extent required in order to comply with applicable legal or stock exchange requirements.

The 2009 Plan is intended to constitute a plan described in Treasury Regulation Section 1.162-27(f)(1), pursuant to which the deduction limits under Section 162(m) of the Internal Revenue Code do not apply during the applicable reliance period, which would end upon the earliest of: (i) a material modification of the 2009 Plan, (ii) the issuance of all available shares under the 2009 Plan, or (iii) the first shareholders' meeting at which directors are to be elected that occurs after the close of the third calendar year in which we become publicly held.

Employee Benefits and Perquisites

Consistent with our compensation philosophy to attract and retain talent, we intend to continue to maintain competitive employee benefits and perquisites for all employees, including executive officers.

In 2008, our named executive officers, like our other employees, participated in various employee benefit plans, including medical and dental care plans, qualified 401(k) retirement plan, life, accidental death and dismemberment and disability insurance, paid time off and other benefits.

For a further description of these benefits in provided in 2008, please refer to the Summary Compensation Table set forth herein.

We do not generally differentiate the benefits we offer our named executive officers from the benefits we offer our other employees and we also do not currently maintain any benefit programs exclusive to executives such as executive pension plans, deferred compensation plans, supplemental insurance or other executive retirement benefits. In the future, the compensation committee, in its discretion, may revise, amend or add to the officers' executive benefits and perquisites as it deems advisable.

Change in Control Agreements

We have entered into change in control agreements with each of our named executive officers that provide for specified payments and benefits if the officer's employment is terminated by us without cause, or by the executive officer for good reason within 24 months following a change of control. The terms of these agreements are described under "Potential Payments upon Termination of Employment or a Change of Control." We adopted these arrangements because we recognize that we may from time to time consider the possibility of an acquisition by another company or other change of control transaction and that such consideration could be a distraction to our executive officers and could cause such officers to consider alternative employment opportunities. Accordingly, the Board concluded that it is in the best interests of our company and its stockholders to provide executives with certain severance benefits upon termination of employment without cause or for good reason following a change of control.

Tax Considerations

Section 162(m) of the Code places a limit of $1.0 million on the amount of compensation we may deduct for federal income tax purposes in any one year with respect to our chief executive officer, chief financial officer and the next three most highly compensated officers, which we refer to herein as the named executive officers.

However, performance-based compensation that meets certain requirements is excluded from this $1.0 million limitation.

The 2009 Long-Term Incentive Plan is intended to constitute a plan described in Treasury Regulation Section 1.162-27(f)(1), pursuant to which the deduction limits under Section 162(m) of the Code do not apply during the applicable reliance period. In general, the reliance period ends upon the earliest of:

- the expiration of the plan;
- the material modification of the plan;
- the issuance of all available stock and other compensation that has been allocated under the plan; or
- the first stockholder meeting at which directors are to be elected that occurs after the close of the third calendar year in which we became publicly held.

While we seek to take advantage of favorable tax treatment for executive compensation where appropriate, the compensation committee may in the future award compensation which would not comply with the Section 162(m) requirements for deductibility if the compensation committee concluded that to be in our best interest.

Summary Compensation Table

The following table provides information regarding the compensation of our chief executive officer, chief financial officer and each of the next three most highly compensated executive officers in the year ended December 31, 2008. We refer to these officers as our named executive officers.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Option Awards($)	All Other Compensation($)	Total ($)
Tarek A. Sherif *Chairman and Chief Executive Officer*	2008			$$		$$
Glen M. de Vries *President*	2008					
Bruce D. Dalziel *Chief Financial Officer*	2008					
Steven I. Hirschfeld *Executive Vice President—* *Global Sales and Alliances*	2008					
Lineene N. Krasnow *Executive Vice President—* *Product and Marketing*	2008					

Grants of Plan-Based Awards

The following table provides information regarding grants of plan-based awards to our named executive officers during the year ended December 31, 2008:

Name	Grant Date	All Other Stock Awards: Numberof Shares of Stockor Units(#)	All Other Option Awards: Number ofSecuritiesUnderlying Options(#)	Exercise or Base Price ofOptionAwards($ / Sh)	Grant Date Fair Value of Stockand OptionAwards($)
Tarek A. Sherif					
Glen M. de Vries					
Bruce D. Dalziel					

Steven I. Hirschfeld	
Lineene N. Krasnow	

Outstanding Equity Awards at December 31, 2008

The following table provides information regarding equity awards granted to our named executive officers that were outstanding at December 31, 2008:

	Option Awards			
Name	Number of SecuritiesUnderlyingUnexercisedOptions (#)	Number of SecuritiesUnderlyingUnexercisedOptions (#)	Option ExercisePrice($)	Option ExpirationDate
	Exercisable	Unexercisable		
Tarek A. Sherif				
Glen M. de Vries				
Bruce D. Dalziel				
Steven I. Hirschfeld				
Lineene N. Krasnow				

Option Exercises

	Option Awards	
Name	Number of Shares Acquired on Exercise(#)	Value Realized on Exercise($)
Tarek A. Sherif		
Glen M. de Vries		
Bruce D. Dalziel		
Steven I. Hirschfeld		
Lineene N. Krasnow		

Potential Payments upon Termination of Employment or a Change of Control

We have entered into change in control agreements with our chief executive officer and our other named executive officers. These agreements provide for payments to be made to each named executive officer upon termination of employment. Payments will be due in the event the named executive officer's employment is involuntarily terminated by us without cause or by the executive for "good reason," as defined in the agreements, within a two-year period following a "change of control." These agreements provide that, upon a qualifying termination event, a named executive officer will be entitled to:

- a severance payment equal to the executive's base salary plus target bonus amount;
- continuation of health benefits (at our expense) for 12 months;
- immediate vesting of any remaining unvested equity awards; and
- a tax gross-up payment under Section 280G sufficient to reimburse the executive for 50% of any excise taxes payable as a result of any termination payments following a change in control, if applicable.

The severance and pro rata bonus amounts are payable in cash, in a lump sum. Receipt of these benefits are conditioned upon the executive executing a general release of claims against the company. As of , 2009, in the event of a qualifying termination Mr. Sherif would have been entitled to cash payments totaling $, Mr. de Vries would have been entitled to cash payments totaling $, Mr. Dalziel

would have been entitled to cash payments totaling $, Mr. Hirschfeld would have been entitled to cash payments totaling $ and Ms. Krasnow would have been entitled to cash payments totaling $.

P Rincipal S Tockholders

PRINCIPAL STOCKHOLDERS

Beneficial Ownership of Our Common Stock

The following table sets forth certain information regarding the beneficial ownership of our common stock as of December 31, 2008, and as adjusted to reflect the sale of our common stock offered by this prospectus by:

- each of our directors;
- each of our named executive officers;
- all our directors and executive officers as a group; and
- each person or entity who is known by us to beneficially own 5% or more of our outstanding common stock.

The amounts and percentage of common stock beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a "beneficial owner" of a security if that person has or shares "voting power," which includes the power to vote or to direct the voting of such security, or "investment power," which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days. Under these rules, more than one person may be deemed a beneficial owner of the same securities and a person may be deemed a beneficial owner of securities as to which he has no economic interest. The number of shares of common stock outstanding used in calculating the percentage for each listed person includes the shares of common stock underlying options held by such person that are, or within 60 days after the date of this prospectus will become, exercisable, but excludes shares of common stock underlying options held by any other person.

Except as indicated by footnote, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them, subject to community property laws where applicable.

Percentage of ownership is based on 16,049,758 shares of common stock outstanding on December 31, 2008, which assumes the conversion of all outstanding shares of our preferred stock into 9,014,658 shares of common stock, and shares of common stock outstanding after the completion of this offering.

The table assumes that the underwriters' option to purchase additional shares is not exercised and excludes any shares purchased in this offering by the respective beneficial owners.

Unless otherwise indicated below, each person or entity has an address in care of our principal executive offices at 79 Fifth Avenue, 8th Floor, New York, New York 10003.

	Before Offering		After Offering(1)	
Beneficial Owner	Number of SharesBeneficiallyOwned	Percentage of SharesBeneficiallyOwned	Number of SharesBeneficiallyOwned	Percentage of SharesBeneficiallyOwned
Directors and Named Executive Officers				
Tarek A. Sherif(3)	1,433,397	8.9		
Glen M. de Vries(4)	1,434,303	8.9		
Bruce D. Dalziel(5)	78,270	*		
Steven I. Hirschfeld(6)	413,423	2.5		
Lineene N. Krasnow(7)	141,977	*		
Carlos Dominguez(8)	2,077	*		
Neil M. Kurtz, M.D.(9)	100,000	*		
Edwin A. Goodman(2)(10)	1,219,068	7.6		

Edward F. Ikeguchi M.D.(2)(11)	1,429,712	8.9
George McCulloch(12)	0	*
Peter Sobiloff(13)	5,436,706	33.9
Robert Taylor(14)	2,077	*
All current directors and executive officers as a group (12 persons)(15)	11,691,010	70.1
Five Percent Stockholders		
Entities affiliated with Insight Venture Partners(16)	5,436,706	33.9
Entities affiliated with Milestone Venture Partners(10)	1,219,068	7.6
Stonehenge Capital Fund New York, LLC(17)	975,606	6.1

* Represents beneficial ownership of less than one percent.

(1) The number of shares of common stock to be outstanding after the offering is based on 7,035,100 shares outstanding as of December 31, 2008 and the issuance of 9,014,658 shares of common stock upon the automatic conversion of all of the outstanding shares of our preferred stock upon the closing of the offering. In addition, the number of shares of common stock to be outstanding after the offering assumes that all accumulated accrued dividends on the convertible preferred stock of approximately $2.1 million (as of December 31, 2008) will be paid from cash on hand upon closing of the offering. The number of shares of common stock to be outstanding after the offering:

- excludes 2,431,550 shares of common stock issuable upon the exercise of stock options outstanding as December 31, 2008 (less 629,381 shares issuable pursuant to options exercisable by directors and executive officers within 60 days after December 31, 2008);
- excludes shares of common stock reserved for future grants or awards from time to time under our 2009 Long-Term Incentive Plan;
- assumes no exercise by the underwriters of their option to purchase up to additional shares of common stock from us if they sell more than shares in the offering; and
- excludes shares issuable if holders of our senior preferred stock elect to receive shares of common stock valued at the initial public offering price as payment of their accumulated accrued dividends.

(2) Dr. Ikeguchi and Mr. Goodman will resign from the board of directors effective immediately prior to completion of this offering.

(3) Includes 4,591 shares subject to options exercisable within 60 days of December 31, 2008.

(4) Includes 4,591 shares subject to options exercisable within 60 days of December 31, 2008.

(5) Consists of 78,270 shares subject to options exercisable within 60 days of December 31, 2008.

(6) Includes 295,798 shares subject to options exercisable within 60 days of December 31, 2008.

(7) Consists of 141,977 shares subject to options exercisable within 60 days of December 31, 2008.

(8) Consists of 2,077 shares subject to options exercisable within 60 days of December 31, 2008.

(9) Consists of 100,000 shares subject to options exercisable within 60 days of December 31, 2008.

(10) Mr. Goodman is a General Partner of Milestone Venture Partners II, L.P. and has the power to exercise voting and investment control with respect to the shares held by the partnership. Mr. Goodman disclaims beneficial ownership of such shares, except to the extent of his pecuniary interest therein. The address of the entities affiliated with Milestone Venture Partners is 1115 Fifth Avenue, New York, New York, 10128.

(11) Consists of 1,429,712 shares held by EJD LLC. Dr. Ikeguchi is a sole member of EJD, LLC and has the power to exercise voting and investment control with respect to the shares held by the company. Dr. Ikeguchi disclaims beneficial ownership of such shares, except to the extent of his pecuniary interest therein.

(12) Mr. McCulloch is a Managing Director of Insight Venture Partners, but holds no voting or investment power over the shares owned by the Insight Partnerships. See footnote 16 below for more information regarding the Insight Partnerships.

(13) Consists of 5,436,706 shares of common stock held by the Insight Partnerships. Mr. Sobiloff disclaims beneficial ownership of shares held by the Insight Partnerships, except to the extent of his pecuniary interest therein. See footnote 16 below for more information regarding the Insight Partnerships.

(14) Consists of 2,077 shares subject to options exercisable within 60 days of December 31, 2008.

(15) Includes 629,381 shares subject to options exercisable within 60 days of December 31, 2008.

(16) Consists of 4,298,210 shares held by Insight Venture Partners IV, L.P., 529,706 shares held by Insight Venture Partners (Cayman) IV, L.P., 574,636 shares held by Insight Venture Partners IV (Co-Investors), L.P. and 34,154 shares held by Insight Venture Partners IV (Fund B), L.P. Insight Venture Associates IV, L.L.C. is the general partner of each of the Insight partnerships (collectively, the "Insight Partnerships"). The managing member of Insight Venture Associates IV, L.L.C. is Insight Holdings Group, L.L.C. Insight Holdings Group, L.L.C. is managed by its board of managers. Jeffery Horing, Peter Sobiloff and Deven Parekh, the members of the board of managers of Insight Holdings Group, L.L.C., share the voting and investment power with respect to the shares held by the Insight Partnerships. Each of Messrs. Horing, Sobiloff and Parekh disclaim beneficial ownership of such shares, except to the extent of his pecuniary interest therein. The address of the entities affiliated with Insight Venture Partners is 680 Fifth Avenue, New York, New York, 10019.

(17) The address of Stonehenge Capital Fund is 152 West 57th Street, 20th Floor, New York, NY 10019.

C Ertain R Elationships and R Elated T Ransactions

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS In addition to the director and executive compensation arrangements discussed above in "Management," we have been a party to the following transactions since January 1, 2006, in which the amount involved exceeded or will exceed $120,000, and in which any director, executive officer or holder of more than 5% of any class of our voting stock, or any member of the immediate family of or entities affiliated with any of them, had or will have a material interest.

Stock Repurchases

In October 2007, we entered into an agreement with certain executive officers and directors pursuant to which we repurchased an aggregate of 496,811 shares of our common stock at price of $12.077 per share (or $5,999,986 in the aggregate). The transaction consisted of 149,194 shares repurchased from Tarek Sherif, Chief Executive Officer and Chairman; 149,288 shares repurchased from Glen de Vries, President and Director; 49,041 shares repurchased from Steven Hirschfeld, Executive Vice President—Global Sales & Alliances; and 149,288 shares repurchased from EJD, LLC, an entity affiliated with Edward Ikeguchi, a director.

Registration Rights

Holders of our preferred stock are entitled to certain registration rights with respect to the common stock issued or issuable upon conversion of the preferred stock. In addition, holders of shares of our common stock issued in connection with our acquisition of Fast Track have certain registration rights with respect to such shares. See "Description of Capital Stock—Registration Rights."

Sale Right

Starting May 27, 2009, the holders of at least 66% of our outstanding Series D preferred stock (or the common stock issued upon conversion of the Series D preferred stock) will have the right to request that we effect a sale of all or substantially all of our assets or a merger or other business combination on terms satisfactory to the holders of a majority of the Series D preferred stock. This right will terminate upon the completion of this offering.

Change in Control

In connection with this offering, we intend to enter into transition agreements with certain of our executive officers. See "Management—Potential Payments Upon Termination or Change in Control" above.

Indemnification Agreements

We have also entered into indemnification agreements with each of our directors and executive officers. The indemnification agreements and our certificate of incorporation and bylaws require us to indemnify our directors and executive officers to the fullest extent permitted by Delaware law.

Option Grants

We have granted options to purchase shares of our common stock to our directors and executive officers. See "Management—Summary Compensation Table," "Management—Grants of Plan Based Awards" and "Management—Outstanding Equity Based Awards at December 31, 2008."

Note Purchase Agreement

In October 2007, we entered into an amended and restated note purchase agreement with our preferred stockholder, Stonehenge Capital Fund New York, LLC, which provided for extending the maturity of our then outstanding Term Note A and Term Note B, which had an aggregate principal balance of $4.0 million, and issuing a new Term Note C in the principal amount of $8.0 million. In September 2008, we prepaid in full the outstanding principal and accrued interest on these notes with proceeds from our new senior secured credit facility. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Contractual Commitments."

Stockholders Agreement

Pursuant to a stockholder agreement by and among us and certain of our stockholders, each of Messrs. Sobiloff, McCulloch, Goodman, Sherif, de Vries, Ikeguchi and Kurtz were elected to serve as a member of our board of directors. Messrs. Sobiloff and McCulloch were selected as representatives of our Series D preferred stockholder as designated by Insight Venture Partners and Mr. Goodman was selected as a representative of our Series C preferred stockholders as designed by Milestone Venture Partners. The stockholders agreement and all rights thereunder will automatically terminate upon completion of this offering.

Indemnification Agreements

We intend to enter into indemnification agreements with each of our directors and executive officers prior to completion of this offering. These agreements, among other things, will require us to indemnify each director and executive officer to the fullest extent permitted by Delaware law, including indemnification of expenses such as attorneys' fees, judgments, fines and settlement amounts incurred by the director or executive officer in any action or proceeding, including any action or proceeding by or in right of us, arising out of the person's services as a director or executive officer.

Separation Agreement

On August 12, 2008, we entered into a Separation Agreement and General Release with Dr. Ikeguchi, our former chief medical officer, with respect to the termination of Dr. Ikeguchi's employment with us. Pursuant to the Separation Agreement, Dr. Ikeguchi received a payment of $120,000 and at his option, we will continue to make premium payments for COBRA benefits until the earlier of July 31, 2009 or at such time that Dr. Ikeguchi is eligible to receive similar benefits with another employer. Dr. Ikeguchi will resign from the board of directors effective immediately prior to completion of this offering, and we will reimburse him for any out-of-pocket expenses incurred in the performance of his duties.

Customer Contract

In 2008, Torrey Pines, engaged a clinical trial study using our solutions. Mr. Kurtz, a member of our board of directors, was chief executive officer of Torrey Pines but resigned from his position at Torrey Pines during the third quarter of 2008 to assume a position with another company. We recognized a total of $326,000 of application and professional services revenues from this customer for the nine months ended September 30, 2008. As of September 30, 2008, accounts receivable and deferred revenue relating to this customer were $17,000 and $21,000 respectively.

Policy for Approval of Related Person Transactions

Our board of directors reviews and approves transactions with directors, officers and holders of five percent or more of our voting securities and any member of the immediate family of and any entity affiliated with any of the foregoing persons. Prior to this offering, before our board of directors' considers a transaction with a related party, the material facts as to the related party's relationship or interest in the transaction are disclosed to our board of directors, and the transaction is not considered approved by our board of directors unless a majority of the directors who are not interested in the transaction approve the transaction. Further, when stockholders are entitled to vote on a transaction with a related party, the material facts of the related party's relationship or interest in the transaction are disclosed to the stockholders. We have adopted a formal policy that will require all related party transactions to be approved by our audit committee or another independent body of our board of directors. In approving or rejecting any such proposal, our audit committee (or other independent committee) is to consider the relevant facts and circumstances available and deemed relevant to the committee, including, but not limited to, whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances and the extent of the related party's interest in the transaction.

D Escription of C Apital S Tock

DESCRIPTION OF CAPITAL STOCK The following summary of our capital stock does not relate to our current certificate or bylaws, but rather is a description of our capital stock pursuant to the fourth amended and restated certificate of incorporation and amended and

restated bylaws that will be in effect upon the completion of this offering. This information does not purport to be complete and is subject to, and qualified in its entirety by reference to, the terms of our fourth amended and restated certificate of incorporation and amended and restated bylaws, which will be included as exhibits to the registration statement of which this prospectus forms a part, and the provisions of applicable Delaware law, the state in which we are incorporated.

Upon the completion of this offering our authorized capital stock will consist of shares, of which shares will be common stock, $0.01 par value, and shares will be preferred stock, $ par value, the rights and preferences of which may be established from time to time by our board of directors. Upon completion of this offering all shares of our preferred stock and accumulated accrued dividends will automatically convert into shares of common stock. Upon completion of the offering there will be shares of common stock outstanding and no outstanding shares of preferred stock.

Common Stock

Holders of common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders and do not have cumulative voting rights in connection with the election of directors. Accordingly, holders of a majority of the shares of common stock entitled to vote in any election of directors may elect all of the directors standing for election.

Subject to any preferential rights of any then outstanding preferred stock, holders of common stock are entitled to receive any dividends that may be declared by our board of directors out of legally available funds. In the event of our liquidation, dissolution or winding up, holders of common stock will be entitled to receive proportionately any of our assets remaining after the payment of liabilities and any preferential rights of our preferred stock then outstanding.

Holders of common stock have no preemptive, subscription, redemption or conversion rights. The outstanding shares of common stock are, and the shares of common stock offered by us in this offering, when issued, will be, validly issued, and fully paid. The rights, preferences and privileges of holders of common stock will be subject to those of the holders of any shares of our preferred stock we may issue in the future.

Preferred Stock

Our board of directors may, from time to time, authorize the issuance of one or more classes or series of preferred stock without stockholder approval. Though we have no current intention to issue any shares of preferred stock, our certificate of incorporation permits us to issue up to shares of preferred stock. Subject to the provisions of our certificate of incorporation and limitations prescribed by law, our board of directors is authorized to adopt resolutions to issue shares, establish the number of shares constituting any series, and provide or change the voting powers, designations, preferences and relative rights, qualifications, limitations or restrictions on shares of our preferred stock, including dividend rights, redemption rights, conversion rights and liquidation preferences, in each case without any action or vote by our stockholders.

The issuance of preferred stock may adversely affect the rights of our common stockholders by, among other things:

- restricting dividends on the common stock;
- diluting the voting power of the common stock;
- impairing the liquidation rights of the common stock; or
- delaying or preventing a change in control without further action by the stockholders.

As a result of these or other factors, the issuance of preferred stock could have an adverse impact on the market price of our common stock.

Registration Rights

We are party to a registration rights agreement with holders of our preferred stock, which provides them with rights to register under the Securities Act shares of our common stock presently held by them and shares of common stock that are issued following the conversion of our shares of convertible preferred stock upon the completion of this offering. Under this agreement, holders of shares having registration rights can request that their shares be covered by a registration statement that we are otherwise filing. These registration rights include:

- *Piggyback Registration Rights*. If we determine to register any of our securities under the Securities Act (other than in this offering), either for our own account or for the account of others, the holders of registration rights are entitled to written notice of the registration and are entitled to include their shares of our common stock. The number of shares of our common stock requested to be registered may not be limited to less than 25% of the number of securities to be registered in the offering.

- *Demand Registration Rights*. One or more holders of 30% in interest or more may demand us to use our best efforts to effect the expeditious registration of their shares of our common stock on up to two occasions. The demand registration rights become effective on the earlier of May 27, 2009 or 180 days following the closing of our initial public offering.

- *S-3 Registration*. If we qualify for registration on Form S-3, holders of registration rights may also request a registration on Form S-3 at any time and we are required to use our best efforts to effect the expeditious registration of their shares of our common stock.

We are also party to a registration rights agreement with certain former holders of shares of capital stock of Fast Track, which we acquired in March 2008. This agreement provides for unlimited piggyback registration rights to former holders of shares of Fast Track who hold 10,000 or more shares of our common stock on a fully-diluted, as-converted basis at the time we determine to register any of our securities under the Securities Act, either for our own account or for the account of others, other than this initial public offering.

Under our registration rights agreements, we have agreed to pay all registration expenses, other than underwriting discounts and commissions, including reasonable fees and expenses of one independent counsel to the holders of registration rights.

All of these registration rights are subject to applicable conditions and limitations, including the right of the underwriters of an offering to limit the number of shares included in such registration.

Anti-takeover Effects of Certain Provisions of Our Certificate of Incorporation and Bylaws

Our certificate of incorporation contains provisions that could make it more difficult to acquire control of our company by means of a tender offer, open market purchases, a proxy contest or otherwise. A description of these provisions is set forth below.

Preferred Stock

We believe that the availability of the preferred stock under our certificate of incorporation provides us with flexibility in addressing corporate issues that may arise. Having these authorized shares available for issuance will allow us to issue shares of preferred stock without the expense and delay of a special stockholders' meeting. The authorized shares of preferred stock, as well as shares of common stock, will be available for issuance without further action by our stockholders, unless action is required by applicable law or the rules of any stock exchange on which our securities may be listed. The board of directors has the power, subject to applicable law, to issue series of preferred stock that could, depending on the terms of the series, impede the completion of a merger, tender offer or other takeover attempt that some, or a majority, of the stockholders might believe to be in their best interests or in which stockholders might receive a premium for their stock over the then prevailing market price of the stock.

Advance Notice Procedure

Our bylaws provide an advance notice procedure for stockholders to nominate director candidates for election or to bring business before an annual meeting of stockholders. Only persons nominated by, or at the direction of, our board of directors or by a stockholder who has given proper and timely notice to our secretary prior to the meeting, will be eligible for election as a director. In addition, any proposed business other than the nomination of persons for election to our board of directors must constitute a proper matter for stockholder action pursuant to the notice of meeting delivered to us. For notice to be timely, it must be received by our secretary not less than 90 nor more than 120 calendar days prior to the date our proxy statement was released to stockholders in connection with the previous year's annual meeting (or if the date of the annual meeting is advanced more than 30 calendar days or delayed by more than 30 calendar days from the anniversary date of the previous year's annual meeting, not earlier than the 90th calendar day prior to such meeting or the 10th calendar day after public disclosure of the date of such meeting is first made). These advance notice provisions may have the effect of precluding the conduct of certain business at a meeting if the proper procedures are not followed or may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect its own slate of directors or otherwise attempt to obtain control of us.

Special Meetings of Stockholders

Our bylaws provide that special meetings of stockholders may be called only by our chairman of the board, president or secretary after written request of a majority of our board of directors.

Anti-Takeover Effects of Delaware Law

Section 203 of the Delaware General Corporation Law (DGCL) provides that, subject to exceptions specified therein, an "interested stockholder" of a Delaware corporation shall not engage in any "business combination," including general mergers or consolidations or acquisitions of additional shares of the corporation, with the corporation for a three-year period following the time that such stockholder

becomes an interested stockholder unless:

- prior to such time, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction which resulted in the stockholder becoming an "interested stockholder," the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced (excluding specified shares); or
- on or subsequent to such time, the business combination is approved by the board of directors of the corporation and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 ^{2}/3% of the outstanding voting stock not owned by the interested stockholder.

Under Section 203, the restrictions described above also do not apply to specified business combinations proposed by an interested stockholder following the announcement or notification of one of specified transactions involving the corporation and a person who had not been an interested stockholder during the previous three years or who became an interested stockholder with the approval of a majority of the corporation's directors, if such transaction is approved or not opposed by a majority of the directors who were directors prior to any person becoming an interested stockholder during the previous three years or were recommended for election or elected to succeed such directors by a majority of such directors. The restrictions described above also do not apply to specified business combinations with a person who is an "interested stockholder" prior to the time when the corporation's common stock is listed on a national securities exchange, so these restrictions would not apply to a business combination with any person who is one of our stockholders prior to this offering.

Except as otherwise specified in Section 203, an "interested stockholder" is defined to include:

- any person that is the owner of 15% or more of the outstanding voting stock of the corporation, or is an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation at any time within three years immediately prior to the date of determination; and
- the affiliates and associates of any such person.

Under some circumstances, Section 203 makes it more difficult for a person who is an interested stockholder to effect various business combinations with us for a three-year period.

Limitation on Liability and Indemnification Matters

Our certificate of incorporation limits the liability of directors to the fullest extent permitted by Delaware law. The effect of these provisions is to eliminate the rights of our company and our stockholders, through stockholders' derivative suits on behalf of our company, to recover monetary damages against a director for breach of fiduciary duty as a director, including breaches resulting from grossly negligent behavior. However, exculpation does not apply if the directors acted in bad faith, knowingly or intentionally violated the law, authorized illegal dividends or redemptions or derived an improper benefit from their actions as directors. In addition, our bylaws provide that we will indemnify our directors and officers to the fullest extent permitted by Delaware law.

We have entered into separate indemnification agreements with each of our directors and executive officers that may be broader than the specific indemnification provisions contained in the DGCL. These indemnification agreements require us, among other things, to indemnify our directors and officers against liabilities that may arise by reason of their status or service as directors or officers.

In addition, we maintain directors' and officers' liability insurance to provide our directors and officers with insurance coverage for losses arising from claims based on breaches of duty, negligence, errors and other wrongful acts.

There is no currently pending material litigation or proceeding involving any of our directors or officers for which indemnification is sought.

Listing

We intend to apply to list our common stock on the NASDAQ Global Market under the symbol "MDSO."

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is .

S Hares E Ligible for F Uture S Ale

SHARES ELIGIBLE FOR FUTURE SALE Prior to this offering, there was no market for our common stock. We can make no predictions as to the effect, if any, that sales of shares or the availability of shares for sale will have on the market price prevailing from time to time. Nevertheless, sales of significant amounts of our common stock in the public market, or the perception that those sales may occur, could adversely affect prevailing market prices and impair our future ability to raise capital through the sale of our equity at a time and price we deem appropriate.

Upon completion of this offering, shares of common stock will be outstanding, based on shares outstanding as of December 31, 2008 and the issuance of shares of common stock upon the automatic conversion of all of the outstanding shares of our preferred stock upon the closing of the offering. The number of shares of common stock to be outstanding upon completion of this offering:

- excludes 2,431,550 shares of common stock issuable upon the exercise of stock options outstanding as of December 31, 2008 at a weighted average exercise price of $6.63 per share;
- excludes shares of common stock reserved for future grants or awards from time to time under our 2009 Long-Term Incentive Plan;
- assumes no exercise by the underwriters of their option to purchase up to additional shares of common stock from us if they sell more than shares in the offering; and
- excludes shares issuable if the holders of our senior preferred stock elect to receive shares of common stock valued at the initial public offering price as payment of their accumulated and accrued dividends.

Of these shares, shares (or in the event the underwriters' option to purchase additional shares is exercised in full, shares) of our common stock sold in this offering will be freely tradable without restriction under the Securities Act, except for any shares of our common stock purchased by our "affiliates," as that term is defined in Rule 144 under the Securities Act, which would be subject to the limitations and restrictions described below. The remaining shares of our common stock outstanding upon completion of this offering are deemed "restricted shares," as that term is defined under Rule 144 of the Securities Act.

Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rule 144 under the Securities Act, which rules are described below.

Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the effective date of the registration statement of which this prospectus is a part, a person (or persons whose shares are aggregated) who is deemed to be an affiliate of ours at the time of sale, or at any time during the preceding three months, and who has beneficially owned restricted shares for at least six months, would be entitled to sell within any three-month period a number of shares that does not exceed the greater of 1% of the then outstanding shares (shares at present) or the average weekly trading volume of shares during the four calendar weeks preceding such sale. Sales under Rule 144 are subject to certain manner of sale provisions, notice requirements and the availability of current public information about us. A person who has not been our affiliate at any time during the three months preceding a sale, and who has beneficially owned his shares for at least six months, would be entitled under Rule 144 to sell such shares without regard to any manner of sale, notice provisions or volume limitations described above. Any such sales must comply with the public information provision of Rule 144 until our common stock has been held for one year.

Rule 701

Rule 701 of the Securities Act, as currently in effect, permits resales of shares in reliance upon Rule 144 but without compliance with some of the restrictions of Rule 144, including the holding period requirement. Most of our employees, officers, directors or consultants who purchased shares under a written compensatory plan or contract (such as our current stock option plans) may be entitled to rely on the resale provisions of Rule 701, but all holders of Rule 701 shares are required to wait until 90 days after the date of this prospectus before selling their shares.

Lock-up Agreements

All of our officers and directors and substantially all of our stockholders, who will collectively hold after this offering shares of common stock, have agreed that they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any of these transactions are to be settled by delivery of our

common stock or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of the representatives of the underwriters for a period of 180 days after the date of this prospectus.

Registration of Shares in Connection with Long-Term Incentive Plan

We intend to file a registration statement on Form S-8 under the Securities Act covering shares of common stock to be issued pursuant to our Amended and Restated 2000 Stock Option Plan and our 2009 Long-Term Incentive Plan. Based on the number of shares reserved for issuance under these plans, the registration statement would cover approximately shares and shares in total for the Amended and Restated 2000 Stock Option Plan and the 2009 Long-Term Incentive Plan, respectively. The registration statement will become effective upon filing. Accordingly, shares of common stock registered under the registration statement on Form S-8 will be available for sale in the open market immediately subject to complying with Rule 144 volume limitations applicable to affiliates, with applicable lock-up agreements, and with the vesting requirements and restrictions on transfer affecting any shares that are subject to restricted stock awards.

U Nderwriting

UNDERWRITING Citigroup Global Markets Inc. and Credit Suisse Securities (USA) LLC are acting as joint bookrunning managers of the offering, and, together with Jefferies & Company, Inc. and Needham & Company, LLC, are acting as representatives of the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus, each underwriter named below has agreed to purchase, and we have agreed to sell to that underwriter, the number of shares of common stock set forth opposite the underwriter's name.

Underwriters

	Number of Shares
Citigroup Global Markets Inc.	
Credit Suisse Securities (USA) LLC	
Jefferies & Company, Inc.	
Needham & Company, LLC	
Total	

The underwriting agreement provides that the obligations of the underwriters to purchase the shares of common stock included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the shares of common stock (other than those covered by the over-allotment option described below) if they purchase any of the shares.

The underwriters propose to offer some of the shares directly to the public at the public offering price set forth on the cover page of this prospectus and some of the shares to dealers at the public offering price less a concession not to exceed $ per share. The underwriters may allow, and dealers may reallow, a concession not to exceed $ per share on sales to other dealers. If all of the shares are not sold at the initial offering price, the representatives may change the public offering price and the other selling terms. The representatives have advised us that the underwriters do not intend sales to discretionary accounts to exceed five percent of the total number of shares of our common stock offered by them.

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to additional shares of common stock at the public offering price less the underwriting discount. The underwriters may exercise the option solely for the purpose of covering over-allotments, if any, in connection with this offering. To the extent the option is exercised, each underwriter must purchase a number of additional shares approximately proportionate to that underwriter's initial purchase commitment.

We, our officers and directors, and substantially all of our other stockholders have agreed that, for a period of 180 days from the date of this prospectus, we and they will not, without the prior written consent of the representatives, dispose of or hedge any shares of our common stock or any securities convertible into or exchangeable for our common stock. The representatives in their sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

Each underwriter has represented, warranted and agreed that:

- it has not offered or sold and, prior to the expiry of a period of six months from the closing date, will not offer or sell any shares included in this offering to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

- it has only communicated and caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("FSMA")) received by it in connection with the issue or sale of any shares included in this offering in circumstances in which section 21(1) of the FSMA does not apply to us;

- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares included in this offering in, from or otherwise involving the United Kingdom;

- the offer in The Netherlands of the shares included in this offering is exclusively limited to persons who trade or invest in securities in the conduct of a profession or business (which include banks, stockbrokers, insurance companies, pension funds, other institutional investors and finance companies and treasury departments of large enterprises);

- (1) it has not offered or sold and will not offer or sell our common stock in Hong Kong SAR by means of this prospectus or any other document, other than to persons whose ordinary business involves buying or selling shares or debentures, whether as principal or agent or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32 of the Laws of Hong Kong SAR), and (2) unless it is a person who is permitted to do so under the securities laws of Hong Kong SAR, it has not issued or held for the purpose of issue in Hong Kong and will not issue or hold for the purpose of issue in Hong Kong SAR this prospectus, any other offering material or any advertisement, invitation or document relating to the common stock, otherwise than with respect to common stock intended to be disposed of to persons outside Hong Kong SAR or only to persons whose business involves the acquisition, disposal, or holding of securities, whether as principal or as agent;

- the shares offered in this prospectus have not been registered under the Securities and Exchange Law of Japan, and it has not offered or sold and will not offer or sell, directly or indirectly, the common stock in Japan or to or for the account of any resident of Japan, except (1) pursuant to an exemption from the registration requirements of the Securities and Exchange Law and (2) in compliance with any other applicable requirements of Japanese law; and

- this prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the common stock, may not be circulated or distributed, nor may the common stock be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (1) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (2) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the SFA or (3) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Prior to this offering, there has been no public market for our common stock. Consequently, the initial public offering price for the shares was determined by negotiations between us and the representatives. Among the factors considered in determining the initial public offering price were our record of operations, our current financial condition, our future prospects, our markets, the economic conditions in and future prospects for the industry in which we compete, our management, and currently prevailing general conditions in the equity securities markets, including current market valuations of publicly traded companies considered comparable to our company. We cannot assure you, however, that the prices at which the shares will sell in the public market after this offering will not be lower than the initial public offering price or that an active trading market in our common stock will develop and continue after this offering.

We intend to apply to list our common stock on the NASDAQ Global Market under the symbol "MDSO."

The following table shows the underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares of common stock.

	Paid by Medidata	
	No Exercise	**Full Exercise**
Per share		$$
Total		$$

In connection with the offering, the representatives on behalf of the underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of common stock in excess of the number of shares to be purchased by the underwriters in the offering, which creates a syndicate short position. "Covered" short sales are sales of shares made in an amount up to the number of shares represented by the underwriters' over-allotment option. In determining the source of shares to close out the covered syndicate short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. Transactions to close out the covered syndicate short involve either purchases of the common stock in the open market after the distribution has been completed or the exercise of the over-allotment option. The underwriters may also make "naked" short sales of shares in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing shares of common stock in the open market. A naked short position is more likely to be created if the

underwriters are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of bids for or purchases of shares in the open market while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the representatives repurchase shares originally sold by that syndicate member in order to cover syndicate short positions or make stabilizing purchases.

Any of these activities may have the effect of preventing or retarding a decline in the market price of the common stock. They may also cause the price of the common stock to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on NASDAQ Global Market or in the over-the-counter market, or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

We estimate that our portion of the total expenses of this offering will be $.

The underwriters have performed investment banking and advisory services for us from time to time for which they have received customary fees and expenses. The underwriters may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business.

A prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters. The representatives may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. The representatives will allocate shares to underwriters that may make Internet distributions on the same basis as other allocations. In addition, shares may be sold by the underwriters to securities dealers who resell shares to online brokerage account holders.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

Notice to Prospective Investors in the European Economic Area

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of the shares of our common stock described in this prospectus may not be made to the public in that relevant member state prior to the publication of a prospectus in relation to the shares of our common stock that has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, an offer of securities may be offered to the public in that relevant member state at any time:

- to any legal entity that is authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities or
- to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year, (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts or
- in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each purchaser of the shares of our common stock described in this prospectus located within a relevant member state will be deemed to have represented, acknowledged and agreed that it is a “qualified investor” within the meaning of Article 2(1)(e) of the Prospectus Directive.

For purposes of this provision, the expression “offer to the public” in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe the securities, as the expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

The sellers of the shares of our common stock have not authorized and do not authorize the making of any offer of the shares of our common stock through any financial intermediary on their behalf, other than offers made by the underwriters with a view to the final placement of the shares of our common stock as contemplated in this prospectus. Accordingly, no purchaser of the shares of our common stock, other than the underwriters, is authorized to make any further offer of the shares of our common stock on behalf of the sellers or the underwriters.

Notice to Prospective Investors in the United Kingdom

This prospectus is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive ("Qualified Investors") that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). This prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant persons should not act or rely on this document or any of its contents.

L Egal M Atters

LEGAL MATTERS The validity of the shares of common stock offered by this prospectus will be passed upon for us by Fulbright & Jaworski L.L.P., New York, New York. The underwriters have been represented by Ropes & Gray LLP, Boston, Massachusetts.

E Xperts

EXPERTS

The consolidated financial statements of Medidata Solutions, Inc. and subsidiaries as of December 31, 2006 and 2007 and for each of the three years in the period ended December 31, 2007 included in this prospectus and the related financial statement schedule included elsewhere in the registration statement have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing herein (which report expresses an unqualified opinion on the consolidated financial statements and financial statement schedule and includes an explanatory paragraph referring to our adoption of Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, effective January 1, 2006), and have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The financial statements of Fast Track Systems, Inc. as of December 31, 2006 and 2007, and for each of the two years in the period ended December 31, 2007 included in this prospectus and related registration statement have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing herein, and have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

W Here Y Ou C an F Ind M Ore I Nformation

WHERE YOU CAN FIND MORE INFORMATION We have filed with the SEC a registration statement on Form S-1 under the Securities Act to register the shares offered by this prospectus. The term "registration statement" means the original registration statement and any and all amendments thereto, including the schedules and exhibits to the original registration statement or any amendment. This prospectus is part of that registration statement. This prospectus does not contain all of the information set forth in the registration statement or the exhibits to the registration statement. For further information with respect to us and the shares we are offering pursuant to this prospectus, you should refer to the registration statement and its exhibits. Statements contained in this prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete, and you should refer to the copy of that contract or other document filed as an exhibit to the registration statement. You may read or obtain a copy of the registration statement at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the public reference room and its copy charges by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains registration statements, reports, proxy information statements and other information regarding registrants that file electronically with the SEC. The address of the website is *www.sec.gov*.

We are not yet subject to the information and periodic reporting requirements of the Exchange Act. Upon completion of this offering, we will become subject to such information and periodic reporting requirements.

We intend to furnish holders of the shares of common stock offered in this offering with written annual reports containing audited consolidated financial statements together with a report by our independent certified public accountants, and make available to our stockholders quarterly reports for the first three quarters of each year containing unaudited interim financial statements.

I Ndex to F Inancial S Tatements

MEDIDATA SOLUTIONS INC.

Index to Financial Statements

	Page
Unaudited Condensed Consolidated Financial Statements of Medidata Solutions Inc. and Subsidiaries	
Condensed Consolidated Balance Sheet as of September 30, 2008	F-2
Condensed Consolidated Statements of Operations for the Nine Months Ended September 30, 2007 and 2008	F-4
Condensed Consolidated Statement of Stockholders' Deficit for the Nine Months Ended September 30, 2008	F-5
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2007 and 2008	F-6
Notes to Condensed Consolidated Financial Statements	F-7
Consolidated Financial Statements of Medidata Solutions Inc. and Subsidiaries	
Report of Independent Registered Public Accounting Firm	F-21
Consolidated Balance Sheets as of December 31, 2006 and December 31, 2007	F-22
Consolidated Statements of Operations for the Years Ended December 31, 2005, 2006 and 2007	F-24
Consolidated Statements of Stockholders' Deficit for the Years Ended December 31, 2005, 2006 and 2007	F-25
Consolidated Statements of Cash Flows for The Years Ended December 31, 2005, 2006 and 2007	F-26
Notes to Consolidated Financial Statements	F-27
Schedule II – Valuation and Qualifying Accounts	F-47
Financial Statements of Fast Track Systems, Inc.	
Report of Independent Registered Public Accounting Firm	F-48
Balance Sheets as of December 31, 2006 and December 31, 2007	F-49
Statements of Operations for the Years Ended December 31, 2006 and 2007	F-50
Statements of Stockholders' Deficit for the Years Ended December 31, 2006 and 2007	F-51
Statements of Cash Flows for the Years Ended December 31, 2006 and 2007	F-52
Notes to Financial Statements	F-53

C Ondensed C Onsolidated B Alance S Heet as of S Eptember 30, 2008

MEDIDATA SOLUTIONS, INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Balance Sheets

As of September 30, 2008

(Amounts in thousands, except share and per share data)

	September 30, 2008	September 30, 2008Pro Forma(See Note 11)
Assets		
CURRENT ASSETS:		

Cash and cash equivalents	$11,479	$9,531
Accounts receivable, net of allowance for doubtful accounts of $44	18,753	18,753
Prepaid commission expense	1,912	1,912
Prepaid expenses and other current assets	4,758	4,758
Deferred income taxes	164	164
Total current assets	37,066	35,118
RESTRICTED CASH	545	545
FURNITURE, FIXTURES AND EQUIPMENT, NET	14,341	14,341
GOODWILL	9,799	9,799
INTANGIBLE ASSETS, NET	6,620	6,620
OTHER ASSETS	438	438
TOTAL ASSETS	$68,809	$66,861

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

Medidata Solutions, Inc. and Subsidiaries

Unaudited Condensed Consolidated Balance Sheets, Continued

As of September 30, 2008

(Amounts in thousands, except share and per share data)

	September 30, 2008	**September 30, 2008Pro Forma(See Note 11)**
Liabilities and Stockholders' Deficit		
CURRENT LIABILITIES:		
Accounts payable	$2,666	$2,666
Accrued payroll and other compensation	7,004	7,004
Accrued expenses and other	4,643	4,643
Deferred revenue	34,181	34,181
Capital lease obligations	4,794	4,794
Current portion of debt obligation	1,125	1,125
Total current liabilities	54,413	54,413
NONCURRENT LIABILITIES:		
Deferred revenue, less current portion	11,895	11,895
Capital lease obligations, less current portion	3,605	3,605
Long-term debt	13,327	13,327
Other long-term liabilities	302	302
Total noncurrent liabilities	29,129	29,129
Total liabilities	83,542	83,542

CONVERTIBLE REDEEMABLE PREFERRED STOCK:		
Series B, par value $0.01 per share; liquidation value $1,091 1,436,636 shares authorized; 1,335,807 issued and outstanding.None authorized, issued and outstanding, pro forma	1,089	—
Series C, par value $0.01 per share; liquidation value $178; 596,374 shares authorized; 180,689 shares issued and outstanding.None authorized, issued and outstanding, pro forma	177	—
Series D, par value $0.01 per share; liquidation value $11,885 2,752,333 shares authorized, issued and outstandingNone authorized, issued and outstanding, pro forma	11,855	—
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT:		
Convertible preferred stock, Series A, par value $0.01 per share; liquidation value $1,193; 2,385,000 shares authorized, issued and outstanding. None authorized, issued and outstanding, pro forma	24	—
Common stock, par value $0.01 per share; 20,000,000 shares authorized; 7,531,214 shares issued and 7,034,403 shares outstanding. 16,545,872 shares issued and 16,049,061 shares outstanding, pro forma	75	165
Additional paid-in capital	21,594	32,701
Treasury stock, 496,811 shares	(6,000)	(6,000)
Accumulated other comprehensive income	(98)	(98)
Accumulated deficit	(43,449)	(43,449)
Total stockholders' deficit	(27,854)	(16,681)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$68,809	$66,861

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

C Ondensed C Onsolidated S Tatements of O Perations for the N Ine M Onths E Nded S Eptember 30, 2007 and 2008

MEDIDATA SOLUTIONS, INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Operations

For the Nine Months Ended September 30, 2007 and 2008

(Amounts in thousands, except share and per share data)

	Nine months ended September 30,	
	2007	**2008**
Revenues		
Application services	$34,678	$54,446
Professional services	26,957	30,353
Total revenues	61,635	84,799
Cost of revenues		
Application services	9,318	14,590
Professional services	24,200	23,815
Total cost of revenues	33,518	38,405
Gross profit	28,117	46,394

OPERATING COSTS AND EXPENSES:		
Research and development	7,404	14,632
Sales and marketing	11,785	18,095
General and administrative	8,435	20,047
Total operating costs and expenses	27,624	52,774
OPERATING INCOME (LOSS)	493	(6,380)
INTEREST AND OTHER EXPENSE (INCOME):		
Interest expense	357	1,493
Interest income	(250)	(99)
Other income, net	(84)	(212)
Total interest and other expense, net	23	1,182
INCOME (LOSS) BEFORE INCOME TAXES	470	(7,562)
PROVISION FOR INCOME TAXES	351	481
NET INCOME (LOSS)	119	(8,043)
PREFERRED STOCK DIVIDENDS AND ACCRETION	374	374
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	$(255)	$(8,417)
BASIC AND DILUTED LOSS PER SHARE	$(0.04)	$(1.25)
WEIGHTED AVERAGE BASIC AND DILUTED COMMON SHARES OUTSTANDING	6,499,012	6,712,338
PRO FORMA (Notes 2 and 11):		
PRO FORMA BASIC AND DILUTED LOSS PER SHARE		$(0.51)
PRO FORMA WEIGHTED AVERAGE BASIC AND DILUTED COMMON SHARES OUTSTANDING		15,726,996

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

C Ondensed C Onsolidated S Tatement of S Tockholders ' D Eficit for the N Ine M Onths E Nded S Eptember 30, 2008

MEDIDATA SOLUTIONS, INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Statement of Stockholders' Deficit

For the Nine Months Ended September 30, 2008

(Amounts in thousands, except shares and per share data)

	Series A Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount		Shares	Amount			
BALANCE—January 1, 2008	2,385,000	$24	6,571,119	$66	$2,228	496,811	$(6,000)	$65	$(35,406)	$(39,023)
Comprehensive loss:										
Net loss	—	—	—	—	—	—	—	—	(8,043)	(8,043)

Foreign currency translation adjustment	—	—	—	—	—	—	—	(163)	—	(163)
Total comprehensive loss	—	—	—	—	—	—	—	(163)	(8,043)	(8,206)
Common stock issuance for acquisition	—	—	864,440	8	16,987	—	—	—	—	16,995
Common stock reserved for stock options and warrants exchanged in connection with acquisition	—	—	—	—	459	—	—	—	—	459
Stock options exercised	—	—	95,655	1	59	—	—	—	—	60
Stock-based compensation	—	—	—	—	2,235	—	—	—	—	2,235
Accrued preferred stock dividends	—	—	—	—	(336)	—	—	—	—	(336)
Accretion of preferred stock issuance costs	—	—	—	—	(38)	—	—	—	—	(38)
BALANCE—September 30, 2008	2,385,000	$24	7,531,214	$75	$21,594	496,811	$(6,000)	$(98)	$(43,449)	$(27,854)

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

C Ondensed C Onsolidated S Tatements of C Ash F Lows for the N Ine M Onths E Nded S Eptember 30, 2007 and 2008

MEDIDATA SOLUTIONS, INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Cash Flows

For the Nine Months Ended September 30, 2007 and 2008

(Amounts in thousands)

	Nine months ended September 30,	
	2007	**2008**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$119	$(8,043)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,058	6,470
Amortization of debt issuance costs	—	181
Stock-based compensation	810	2,235
Write-off of acquired research and development costs	—	700

Changes in operating assets and liabilities:		
Accounts receivable	(7,179)	(2,470)
Prepaid commission expense	(407)	(376)
Prepaid expenses and other current assets	(1,036)	326
Other assets	(173)	37
Accounts payable	604	(4,408)
Accrued payroll and other compensation	(1,631)	1,721
Accrued expenses and other	167	1,786
Deferred revenue	11,235	9,714
Other long-term liabilities	(30)	125
Net cash provided by operating activities	5,537	7,998
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of furniture, fixtures and equipment	(1,623)	(2,913)
Increase in restricted cash	(82)	—
Fast Track acquisition related costs	—	(625)
Cash and cash equivalents acquired through acquisition	—	1,049
Net cash used in investing activities	(1,705)	(2,489)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	5	60
Repayment of obligations under capital leases	(1,822)	(3,059)
Payment of costs associated with initial public offering	—	(2,228)
Proceeds from notes payable	—	15,000
Repayment of notes payable	(556)	(10,958)
Payment of debt issuance costs	—	(552)
Net cash used in financing activities	(2,373)	(1,737)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,459	3,772
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	—	(39)
CASH AND CASH EQUIVALENTS—Beginning of period	7,016	7,746
CASH AND CASH EQUIVALENTS—End of period	$8,475	$11,479
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$355	$1,243
Income taxes	$539	$397
NONCASH ACTIVITIES:		
Common stock issuance for acquisition	$—	$16,995
Common stock reserved for stock options and warrants exchanged in connection with acquisition	$—	$459
Furniture, fixtures and equipment acquired through capital lease obligations	$7,021	$2,921
Furniture, fixtures and equipment acquired but not yet paid for at period-end	$234	$488
Accrued preferred stock dividends	$336	$336
Accretion of preferred stock issuance costs	$38	$38

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

N Otes to C Ondensed C Onsolidated F Inancial S Tatements

MEDIDATA SOLUTIONS, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2007 and 2008

(In thousands, except share and per-share data)

1. ORGANIZATION

Medidata Solutions, Inc. ("Medidata" or the "Company") provides hosted clinical development solutions that enhance the efficiency of its customers' clinical development processes and optimize their research and development investments. The Company's solutions allow its customers to achieve clinical results by streamlining the design, planning and management of key aspects of the clinical development process, including protocol development, contract research organization negotiation, investigator contracting, the capture and management of clinical trial data and the analysis and reporting of that data on a worldwide basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

With the exception of the following, the Company's significant accounting policies as of September 30, 2008 are similar to those at December 31, 2007, which are included elsewhere in this prospectus.

Unaudited Interim Financial Statements—The accompanying interim condensed consolidated balance sheet as of September 30, 2008, the condensed consolidated statements of operations for the nine months ended September 30, 2007 and 2008, the condensed consolidated statement of stockholders' deficit for the nine months ended September 30, 2008, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2007 and 2008 are unaudited and have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, reflect all adjustments consisting of normal recurring accruals considered necessary to present fairly the Company's financial position as of September 30, 2008 and results of its operations for the nine months ended September 30, 2007 and 2008, and cash flows for the nine months ended September 30, 2007 and 2008. The results of operations for the nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes for the years ended December 31, 2005, 2006 and 2007 included elsewhere in this prospectus.

Unaudited Pro Forma Information—Unaudited pro forma basic and diluted earnings per share were calculated using a calculation of pro forma weighted average shares outstanding (See Note 11). In addition, a pro forma condensed consolidated balance sheet as of September 30, 2008 has been presented reflecting pro forma adjustments as if such adjustments had occurred on September 30, 2008 (See Note 11).

Goodwill and Intangible Assets—On March 17, 2008, the Company acquired Fast Track Systems, Inc. ("Fast Track") (See Note 3) which generated significant goodwill and intangible assets. Goodwill represents the excess of consideration paid over the fair value of net assets acquired in business combinations. Under Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets,* goodwill is no longer amortized and is instead evaluated for impairment using a two-step process that is performed at least annually on October 1 of each year, or whenever events or circumstances indicate that impairment may have occurred. The first step is a comparison of the fair value of an internal reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying value, goodwill of the reporting unit is not considered impaired and the second step is unnecessary. If the carrying value of the reporting unit exceeds its fair value, a second test is performed to measure the amount of impairment by comparing the carrying amount of the goodwill to a determination of the implied value of the goodwill. If the carrying amount of the goodwill is greater that the implied value, an impairment loss is recognized for the difference.

The implied value of goodwill is determined as of the test date by performing a purchase price allocation, as if the reporting unit had just been acquired, using currently estimated fair values of the individual assets and liabilities of the reporting unit, together with an estimate of the fair value of the reporting unit taken as a whole. The estimate of the fair value of the reporting unit is based upon information available regarding prices of similar groups of assets, or other valuation techniques including present value techniques based upon estimates of future cash flow.

The definite-lived intangible assets are recorded at cost less accumulated amortization. Amortization of acquired technology and database is computed using the straight-line method over 5 years and amortization of customer relationships and customer contracts is computed using an accelerated method which reflects the pattern in which the economic benefits derived from the related intangible assets are consumed or utilized.

Prepaid Commission Expense—For arrangements where revenue is recognized over the relevant contract period, the Company capitalizes related sales commissions that have been paid and recognizes these expenses over the period the related revenue is recognized. Commissions are payable to the Company's sales representatives upon payment from the customer. The Company amortized prepaid commissions of $2,700 and $3,771 for the nine months ended September 30, 2007 and 2008, respectively, which are included within sales and marketing expense in the condensed consolidated statements of operations.

Income Taxes—The Company uses the asset and liability method of accounting for income taxes, as prescribed by SFAS No. 109, *Accounting for Income Taxes*, which recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

In addition, the Company follows Financial Accounting Standards Board ("FASB") Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* ("FIN 48"), for the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

For the provision for income taxes at interim periods, the Company follows FASB Interpretation No. 18, *Accounting for Income Taxes in Interim Periods, an interpretation of APB Opinion No. 28* ("FIN 18"), and has developed an estimate of the annual effective tax rate based upon the facts and circumstances known at the time. The Company's effective tax rate is based on expected income, statutory rates and permanent differences applicable to the Company in the various jurisdictions in which the Company operates.

Convertible Redeemable Preferred Stock—At the time of issuance, preferred stock is recorded at gross proceeds received less issuance costs. The carrying value is increased to the redemption value using the straight-line method, which approximates the effective interest method over the period from the date of issuance to the earliest date of redemption. The carrying value is also increased by cumulative unpaid dividends.

(In thousands, except share and per-share data)

Cash and Cash Equivalents and Restricted Cash—The Company considers all money market funds and other highly liquid investments purchased with original maturities of three months or less to be cash and cash equivalents. The fair value of cash and cash equivalents approximates the amounts shown on the financial statements. Restricted cash represents deposits made to fully collateralize certain standby letters of credit issued in connection with office lease arrangements.

Cash and cash equivalents and restricted cash are deposited with major financial institutions and, at times, such balances with any one financial institution may be in excess of the FDIC-insured limit. In September 2008, the FDIC-insured limit was temporarily increased from $100 to $250. The limit will revert back to $100 on December 31, 2009. As of September 30, 2008, $11,869 in cash and cash equivalents and restricted cash were in excess of the new FDIC-insured limit.

In September 2008, the United States Treasury Department announced that, for the next year, it would insure holdings of any publicly offered eligible money market mutual fund that pays a fee to participate in the program. The program provides support to investors in funds that participate in the program and the net asset value of those funds will not fall below $1.00. The Company has money market holdings with a bank which has chosen to participate in this program. As such, the Company's money market funds will continue to be considered cash and cash equivalents.

Segment Information—The Company operates as a single segment as defined by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. The Company recorded revenues for the nine months ended September 30, 2007 and 2008 in the following geographic areas, based on the country in which the customer is located:

	Nine Months Ended September 30,	
	2007	2008
Revenues:		
United States of America	$41,348	$55,725
United Kingdom	7,252	8,497
Japan	6,822	8,601
Other	6,213	11,976
Total	$61,635	$84,799

The following table summarizes long-term assets by geographic area as of September 30, 2008:

Long-term assets:	
United States of America	$30,060
United Kingdom	1,241
Japan	442
Total	$31,743

Recently Issued Accounting Pronouncements—On December 4, 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, and SFAS No. 160, *Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*. SFAS No. 141(R) is required to be adopted concurrently with SFAS No. 160 and is effective for business combination transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is prohibited. SFAS No. 141(R) and SFAS No. 160 are required to be adopted prospectively, except for certain provisions of SFAS No. 160, which are required to be adopted retrospectively. Business combination transactions accounted for before adoption of SFAS No. 141(R) should be accounted for in accordance with SFAS No. 141, *Business Combinations*, and that accounting previously completed under SFAS No. 141 should not be modified as of or after the date of adoption of SFAS No.141(R). The adoption of SFAS No. 141(R) and SFAS No. 160 is not expected to have a material impact on the Company's financial position or results of operations.

3. ACQUISITION

On March 17, 2008, the Company acquired Fast Track Systems, Inc. ("Fast Track"), a provider of clinical trial planning solutions. With this acquisition, the Company extended its ability to serve customers throughout the clinical research process with solutions that improve efficiencies in protocol development and trial planning, contracting and negotiation. The Company paid total consideration of approximately $18,100, which consisted of the issuance of 864,440 shares of common stock in exchange for all Fast Track's existing preferred stock and common stock as well as 444 and 25,242 shares of common stock reserved for the exercise of outstanding warrants and vested employee stock options, respectively.

The Company utilized an independent third-party specialist to perform a valuation of its common stock at the date of the acquisition, which resulted in a value of $19.66 per share.

Fair value of common stock issued (864,440 shares)	$16,995
Fair value of common stock reserved for warrants and stock options exchanged (25,242 and 444 shares underlying the options and warrants, respectively)	459
Transaction costs	625
Total purchase price	$18,079

The fair value of the 25,242 shares of fully vested exchanged stock options and 20,004 shares of unvested exchanged stock options (See Note 7) issued in connection with the acquisition was estimated using the Black-Scholes pricing model based on the following assumptions:

Weighted-average volatility	59%
Weighted-average estimated life	2.4 years
Weighted-average risk-free interest rate	2.61%
Dividend yield	—

The Company paid a premium (i.e. goodwill) over the fair value of the net tangible and identified intangible assets acquired for a number of reasons, including the following:

- The merger combined the broad customer base of the Company with Fast Track's customer base.

- The acquisition allows the Company to provide customers with a complete technology solution for use in clinical trials and improve effectiveness of key trial planning and execution activities through the products offered by the combined company.
- By acquiring Fast Track, the Company now has additional resources and skill to innovate and more quickly deliver to customers the next generation of technology in clinical trial solutions and to compete in the marketplace.
- The Company will be able to realize cost savings and revenue synergies.

The value reflected in these elements of the purchase price does not meet the definition of an intangible asset under SFAS 141 and is therefore reflected as goodwill.

Fast Track's operations have been included in our condensed consolidated financial statements after the March 17, 2008 acquisition date.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Assets acquired	
Cash and cash equivalents	$1,049
Other current assets	778
Restricted cash	158
Furniture, fixtures and equipment	232
Intangible assets subject to amortization:	
Acquired technology	2,400
Database	1,900
Customer relationships	1,600
Customer contracts	1,600
In-process research and development	700
Goodwill	9,799
Total assets acquired	20,216
Liabilities assumed	
Current liabilities, excluding deferred revenue	(798)
Deferred revenue	(1,338)
Other long-term liabilities	(1)
Total liabilities assumed	(2,137)
Net assets acquired	$18,079

The initial purchase price allocations are preliminary and may be adjusted for changes in estimates of the fair value of the assets acquired and liabilities assumed. The Company expects that the purchase price allocation will be finalized by December 31, 2008. The significant assumptions used in the valuation included factors affecting the duration, growth rates and amounts of future cash flows for each income stream, specifically the future economic outlook for the industry, risks involved in the business, and the input of competition and technological changes.

In connection with the preliminary purchase price allocation, the Company estimated the fair value of the legal performance obligation associated with acquired deferred revenue in accordance with Emerging Issues Task Force ("EITF") Issue No. 01-3, *Accounting in a Business Combination for Deferred Revenue of an Acquiree* ("EITF 01-3"). The Company concluded that the fair value of the legal performance obligation represented the direct costs to fulfill such obligation plus an expected profit margin. As a result, the acquired deferred revenue had been reduced by approximately $839 to $1,338.

The following table provides the details of acquired intangible assets and their weighted-average useful lives:

	Estimated Fair Value	Weighted-averageUseful Life(in years)
Acquired technology	$2,400	5.00
Database	1,900	5.00
Customer relationships	1,600	5.00
Customer contracts	1,600	3.00
In-process research and development	700	None
Total acquired intangible assets	$8,200	4.18

Of the $8,200 of acquired intangible assets, $700 was assigned to in-process research and development projects. Subsequent to the date of acquisition, the Company determined that technological feasibility had not been established for any of these projects and, as a result, these projects were written off subsequent to the acquisition in March 2008.

For the remaining acquired intangible assets, acquired technology represents Fast Track's three principal clinical trial planning software products. Database represents Fast Track's existing database relating to the past finalized protocols, negotiated grants and contract research organizations. Customer relationships represent the underlying relationships associated with Fast Track's existing customer base. Customer contracts pertain to the contractual revenues from Fast Track's current customers that have not yet been invoiced, paid, and realized as of acquisition date.

The assessment of the fair value and useful life of these acquired intangible assets was based on the estimated future cash flows to be generated from these acquired intangible assets expected to be utilized. The Company determined that technology and database will be amortized using a straight-line method and customer relationships and customer contracts will be amortized using a method which reflects the pattern in which the economic benefits derived from the related intangible assets are consumed or utilized.

The fair value of customer contracts was calculated based on the present value of projected future cash flows from those identified contractual revenues less expected fulfillment costs, which represented the necessary costs to complete these contracts. The amortization of customer contracts has been charged to cost of revenues over the periods consistent with those contractual revenues expected to be recognized.

In accordance with SFAS No. 109, *Accounting for Income Taxes*, the Company has provided for net deferred tax assets of $3,470 representing the difference between the currently estimated book and tax basis of the net assets acquired. Based on the Company's lack of a history of profits and uncertainty of future

profitability, it is more likely than not that such tax benefit will not be realized and therefore a valuation allowance of $3,470 was recognized to fully offset such net deferred tax assets. In addition, the Company did not recognize a deferred tax asset relating to the future tax distribution that will arise when the Fast Track employee rollover options are exercised.

The following table summarizes unaudited pro forma financial information for the nine months ended September 30, 2007 and 2008 assuming the acquisition of Fast Track had occurred on January 1 of each period.

	Nine months ended September 30,	
	2007	**2008**
Revenues	$65,150	$86,036
Loss from operations	(1,426)	(7,270)
Net loss	(1,754)	(8,935)
Net loss per share:		
Basic and diluted	$(0.29)	$(1.34)

4. GOODWILL AND INTANGIBLE ASSETS

Changes in carrying amount of goodwill for the nine months ended September 30, 2008 are as follows:

Balance as of January 1, 2008	$—
Goodwill from acquisition of Fast Track	9,799
Balance as of September 30, 2008	$9,799

Intangible assets are summarized as follows:

	As of September 30, 2008		
	Gross CarryingAmount	**Accumulated Amortization**	**Net CarryingAmount**
Acquired technology	$2,400	$(260)	$2,140
Database	1,900	(217)	1,683
Customer relationships	1,600	(55)	1,545
Customer contracts	1,600	(348)	1,252
Total	$7,500	$(880)	$6,620

Amortization expense for intangible assets was $0 and $880 for the nine months ended September 30, 2007 and 2008, respectively. Annual amortization for the next five years is expected to be as follows:

Remainder of year ending December 31, 2008	$ 390
Years ending December 31,	
2009	1,826
2010	1,459
2011	1,377
2012	1,308

Medidata Solutions, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

For the Nine Months Ended September 30, 2007 and 2008

(In thousands, except share and per-share data)

5. DEBT

In November 2003, the Company entered into a Note Purchase Agreement, as subsequently amended at various dates through June 2005 (collectively, the "Term Note A") with one of its preferred stockholders (the "Lender"). In December 2005, the Company entered into an Amended and Restated Note Purchase Agreement with the Lender extending the maturity date of Term Note A and issuing a second note ("Term Note B"). In October 2007, the Company entered into an Amended and Restated Note Purchase Agreement extending the maturity of Term Note A and Term Note B and issuing a third note ("Term Note C"). Term Note A, Term Note B and Term Note C were secured by all of the Company's assets.

In September 2008, the Company entered into a new senior secured credit facility ("New Credit Facility") with an unrelated lender that included a $15,000 term loan ("New Term Loan"), which was fully drawn at closing, and a $10,000 revolving credit line ("Revolving Credit Line"), all of which remains undrawn and available for future borrowings. The New Credit Facility was secured by all of the Company's assets. Proceeds of the New Term Loan were used to repay all outstanding notes payable, which included Term Note A of $1,500, Term Note B of $1,458, and Term Note C of $8,000, and the remaining $4,000 will be used for general corporate purposes. The New Term Loan and Revolving Credit Line will mature in September 2013 and the outstanding principal of the New Term Loan will amortize in quarterly installments of $375 beginning on March 31, 2009 up through the date of maturity at which time a lump sum payment of any remaining unpaid balance will be due. In addition, the New Term Loan also includes an excess cash flow recapture feature which may require the Company to make additional principal payments beginning in April 2010.

The New Term Loan and Revolving Credit Line bear interest at prime rate plus 2.5% until March 31, 2009 and, thereafter, will bear interest at prime rate plus 2.25%. In December 2008, the New Credit Facility was amended to define "prime rate" as 4.5% or the lender's most recently announced prime rate, whichever is greater. However, if the Company can satisfy the minimum fixed charge coverage ratio covenant as of December 31, 2009 or March 31, 2010, the applicable margin thereafter will be reduced to 1.5%. As of September 30, 2008, the effective interest rate on the New Term Loan was 7.5%. In addition, any undrawn Revolving Credit Line is subject to a quarterly unused fee at an annual rate of 0.5% of the average undrawn balance. The Company is entitled to prepay the New Credit Facility at its option, subject to a payment of a premium on such prepayments during the first three years after closing, which decreases over the three-year period from 3% of the amount prepaid to 1%. The New Credit Facility is also subject to mandatory prepayment under certain specified circumstances.

Due to the lock-box arrangement and the subjective acceleration clause contained in the New Credit Facility agreement, borrowings, if any, under the Revolving Credit Line will be classified as a current liability in accordance with EITF No. 95-22, *Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements That Include both a Subjective Acceleration Clause and a Lock-Box Arrangement.*

In connection with the New Credit Facility, the Company incurred legal and other costs of approximately $552, which have been deferred and will be amortized over the term of the credit facility. The remaining unamortized debt issuance costs of $139 associated with the fully repaid term notes were written off in September 2008 and included within interest expense in the condensed consolidated statement of operations for the nine months ended September 30, 2008. The Company incurred interest expense of $195 and $968 for the nine months ended September 30, 2007 and 2008, respectively. Of the $968 of interest expense for the nine months ended September 30, 2008, $59 and $3 were related to the interest expense of New Term Loan and fees associated with unused Revolving Credit Line, respectively, since inception of New Credit Facility.

(In thousands, except share and per-share data)

The New Credit Facility requires quarterly compliance with certain financial covenants, as amended, which include minimum profitability, liquidity, maximum allowable capital expenditures, and fixed charge coverage ratio.

Scheduled repayments of balances outstanding under the New Term Loan at September 30, 2008 are as follows:

Twelve months ending September 30,	
2009	$1,125
2010	1,500
2011	1,500
2012	1,500
2013	9,375
	$15,000

6. CAPITAL LEASES

The Company leases certain equipment under noncancelable capital lease agreements which provide for total future minimum annual lease payments as follows:

Twelve months ending September 30,	
2009	$4,922
2010	3,244
2011	737
Total minimum lease payments	8,903
Less amount representing interest	504
Present value of net minimum capital lease payments	8,399
Less current portion	4,794
Capital lease obligations, excluding current portion	$3,605

As of September 30, 2008, computer equipment and software acquired under capital leases, net of related accumulated depreciation of $8,039, were $8,489.

7. STOCK OPTIONS

In 2000, the Company adopted the 2000 Stock Option Plan (the “Plan”) under which 500,000 shares of the Company’s common stock were reserved for issuance to employees, directors, consultants and advisors. Since such date, the Company has amended the Plan to provide for 3,353,906 authorized shares. Options granted under the Plan may be incentive stock options, nonqualified stock options or restricted stock. Incentive stock options may be granted only to employees. Options generally vest 25% one year from the grant date and 75% ratably over the next three years and expire after ten years. Stock options are typically issued at the current market price on the date of the grant. The Company uses an independent third-party specialist to perform the valuation of its common stock as part of the stock options valuation.

In connection with the Fast Track acquisition, a total of 358,883 shares of pre-acquisition stock options held by Fast Track's employees were exchanged into 45,246 shares of Company's stock options based on the conversion rate of 0.12616. The Company valued the exchanged stock options using the Black-Scholes pricing model and based on the fair value of Company's common stock of $19.66 at acquisition. Of the 45,246 shares of exchanged stock options, 25,242 shares were fully vested at acquisition and therefore included as part of the purchase price of acquisition (See Note 3). The remaining 20,004 shares of unvested stock options will be vested based on the original stock option contracts with an accelerated vesting at the first anniversary of the acquisition in accordance with the acquisition agreement.

For options accounted for under SFAS No. 123(R), the fair value of each option grant is estimated on the date of grant using the Black-Scholes pricing model. The Company estimated its future stock price volatility based upon observed option-implied volatilities for a group of peer comparable companies, taking into account the stage of the Company as compared to its peers. Management believes this is the best estimate of the expected volatility over the weighted-average expected life of its option grants. The Company estimated its weighted-average useful life based on the likely date of exercise as opposed to the actual life of the options. The risk-free interest rate is based on the United States Treasury yield curve in effect at the time of the option grant with a maturity tied to the expected life of the options. No dividends are expected to be declared by the Company at this time. The fair value of each option grant is estimated with the following assumptions:

	Nine months ended September 30,	
	2007	2008
Weighted-average volatility	62%	59%
Weighted-average estimated life	6 years	6 years
Weighted-average risk-free interest rate	4.64%	3.06%
Dividend yield	—	—

The following table summarizes the stock options activity under the Plan as of September 30, 2008, and changes during the nine months then ended:

	Number of Shares	Weighted-AverageExercisePrice	Weighted-AverageRemainingContractualTerm	Aggregate IntrinsicValue($000)
Outstanding at January 1, 2008	2,276,018	$4.61		
Granted	319,026	19.72		
Fast Track exchanged options	45,246	2.38		
Canceled	(105,554)	6.39		
Exercised	(95,655)	0.63		
Outstanding at September 30, 2008	2,439,081	$6.63	7.18	$34,169
Exercisable at September 30, 2008	1,429,104	$2.38	6.02	$26,016

The weighted-average grant-date fair value of options granted, excluding Fast Track exchanged options, during the nine months ended September 30, 2007 and 2008 was $7.14 and $11.59, respectively. The total intrinsic value of options exercised during the nine months ended September 30, 2007 and 2008 was $106 and $1,913, respectively.

(In thousands, except share and per-share data)

The following table summarizes the status of the Company's nonvested stock options as of September 30, 2008, and changes during the nine months then ended:

	Number of Shares	Weighted-AverageGrant-DateFair Value
Nonvested at January 1, 2008	1,046,539	$7.13
Granted	319,026	11.59
Fast Track exchanged options	20,004	18.52
Vested	(325,659)	5.21
Cancelled	(49,933)	7.65
Nonvested at September 30, 2008	1,009,977	$9.35

As of September 30, 2008, there was a total of $8,587 of unrecognized compensation cost related to non-vested share-based compensation awards granted, as recorded in accordance with SFAS No. 123(R). This cost is expected to be recognized over a weighted-average period of 1.52 years. The total fair value of shares vested during the nine months ended September 30, 2007 and 2008 was $804 and $1,697, respectively.

For the nine months ended September 30, 2007 and 2008, the stock-based compensation expense was included in the following costs and expenses:

	Nine months ended September 30,	
	2007	2008
Cost of revenues	$125	$210
Research and development	114	334
Sales and marketing	329	470
General and administrative	242	1,221
Total stock-based compensation	$810	$2,235

The following are the details of stock options granted in each quarter during the twelve months ended September 30, 2008. The Company used contemporaneous valuations performed by an independent third-party specialist to determine the fair value of the stock options.

	4th Quarter 2007	1st Quarter 2008	2nd Quarter 2008	3rd Quarter 2008
Number of options granted	454,500	167,000	52,066	99,960
Weighted average exercise price	$12.08	$19.85	$19.23	$19.75
Weighted average fair value of common stock at grant date	$16.59	$20.03	$19.48	$20.15
Weighted average intrinsic value	$4.51	$1.67	$0.25	$0.40

The exercise price of certain granted stock options was less than the fair value of the common stock at grant date. As a result, the Company recorded an increased stock-based compensation expense due to the intrinsic value associated with these grants.

(In thousands, except share and per-share data)

8. EARNINGS PER SHARE

The Company follows SFAS No. 128, *Earnings Per Share*, in calculating earnings per share. Basic earnings per share is calculated by dividing net income (loss) available to common stockholders by the weighted-average number of shares outstanding during the period. Diluted earnings per share includes the determinants of basic net income (loss) per share and, in addition, gives effect to potentially dilutive common shares. For the nine months ended September 30, 2007 and 2008, the diluted loss per share excluded the impact of the conversion of all preferred stock and all stock options because the effect would be anti-dilutive.

The following common stock equivalents were excluded from the calculation of diluted net loss per share since the effects are anti-dilutive:

	Nine months ended September 30,	
	2007	**2008**
Number of potential shares that are antidilutive:		
Preferred stock	9,014,658	9,014,658
Employee stock options and non-vested stock	1,459,613	1,970,376
Total	10,474,271	10,985,034

9. RELATED PARTY TRANSACTION

In 2008, one customer, whose former chief executive officer is a member of the Company's board of directors, used the Company's products and services in the normal course of business. Such board member resigned from his position with this customer during the third quarter of 2008. The Company has recognized a total of $326 of application and professional services revenues from this customer for the nine months ended September 30, 2008. As of September 30, 2008, accounts receivable and deferred revenue relating to this customer were $17 and $21, respectively.

10. COMMITMENTS AND CONTINGENCIES

Operating Leases–The Company leases certain equipment and office space under noncancelable operating lease agreements which provide for total future minimum annual lease payments as follows:

Twelve months ending September 30,	
2009	$2,698
2010	2,150
2011	1,812
2012	1,587
2013	1,555
Thereafter	1,488
Total minimum lease payments	$11,290

Rent expense was approximately $1,170 and $1,906 for the nine months ended September 30, 2007 and 2008, respectively. The Company had outstanding standby letters of credit issued in connection with office leases as of September 30, 2008, in the amount of $531. These standby letters of credit are fully collateralized with restricted cash as of September 30, 2008.

401(k) Plan–The Company has a pre-tax savings and profit sharing plan (the "Plan") under Section 401(k) of the Internal Revenue Code for substantially all employees. Under the Plan, eligible employees are able to contribute up to 15% of their compensation not to exceed the maximum IRS annual deferral amount. Effective January 1, 2008, the Company provides a 50% match of the first 4% of eligible compensation contributed each period, for a maximum match by the Company of 2% of compensation. Prior to 2008, the Company was not required to and did not make any matching contributions under the Plan. For the nine months ended September 30, 2008, the Company incurred expense of $466 relating to matching contributions.

Legal Matters–The Company is subject to legal proceedings and claims which have arisen in the ordinary course of business. The Company records an estimated liability for these matters when an adverse outcome is determined to be probable.

In 2006, a former employee of the Company made a claim seeking compensation of approximately $1,600 in relation to a wrongful dismissal lawsuit. Subsequently, the claim has been reduced to approximately $1,400 as of September 30, 2008. While the Company plans to defend and contest this case vigorously, it has accrued approximately $700 which is included in accrued payroll and other compensation on the accompanying condensed consolidated balance sheet as of September 30, 2008. A hearing was held in November 2008 and the court rendered its decision on January 15, 2009, which awarded approximately $103 to the plaintiff. While the Company believes the decision is favorable to it, the decision may be appealed by the plaintiff. In the event the decision is appealed, the Company will continue to defend this claim until it is ultimately resolved.

Contractual Warranties–The Company typically provides contractual warranties to its customers covering its product and services. To date, any refunds provided to customers have been immaterial.

Indemnification–The Company indemnifies its customers against claims that software or documentation purchased from or made available by the Company infringes upon a copyright, patent or the proprietary rights of others. Such indemnification is typical in the industry in which the Company competes. In the event of such a claim, the Company agrees to obtain the rights for continued use of the software for the customer, to replace or modify the software or documentation to avoid such claim or to provide a credit to the customer for the unused portion of the software license. While the Company has not had any such indemnification claims made by its customers, due to the nature of this indemnification and the various options in which the Company can satisfy the indemnification, it is not possible to calculate the maximum potential amount of future payments that may be required.

11. PRO FORMA INFORMATION

The Company is presenting pro forma information to reflect the pro forma adjustments made to the historical condensed consolidated balance sheet as of September 30, 2008 and condensed consolidated results of operations for the nine months then ended. The pro forma effect is related to the automatic conversion of all preferred stock into common stock upon a Qualified Public Offering of securities of the Company and the payment of accumulated accrued dividends on our preferred stock of $1,948 from cash on hand, as if it had occurred on September 30, 2008 for the condensed consolidated balance sheet and on January 1, 2007 for the basic and diluted net loss per share.

A Qualified Public Offering is defined as the closing of the Company's first underwritten public offering on a firm commitment basis by a nationally recognized investment banking organization or organizations pursuant to an effective registration statement under the Securities Act, covering the offer and sale of Common Stock (i) at

(In thousands, except share and per-share data)

a price per share of Common Stock of not less than $3.48 for Series B and Series C Preferred Stock or $11.04 for Series D Preferred Stock (which numbers are to be appropriately adjusted for stock splits, stock dividends, combinations, recapitalizations and the like), (ii) with respect to which the Company receives aggregate gross proceeds attributable to sales for the account of the Company of not less than $20,000 for Series B and Series C Preferred Stock or $50,000 for Series D Preferred Stock, and (iii) with respect to which such Common Stock is listed for trading on either the New York Stock Exchange or the NASDAQ National Market. As a result of a two-for-one stock split of the common stock in August 2004 in the form of a common stock dividend, the price per share of common stock under Qualified Public Offering requirement has been adjusted to $1.74 for the Series B Preferred Stock and the Series C Preferred Stock and $5.52 for the Series D Preferred Stock.

The following table provides the details of the pro forma basic and diluted net loss per share (in thousands, except share and per share data):

	Nine months ended September 30,2008
Net loss available to common stockholders, as reported	$(8,417)
Elimination of preferred stock dividends and accretion	374
Pro forma net loss available to common stockholders	$(8,043)
Weighted average basic and diluted common shares outstanding, as reported	6,712,338
Conversion of preferred stock to common stock	9,014,658
Pro forma weighted average basic and diluted common shares outstanding	15,726,996
Pro forma basic and diluted loss per share	$(0.51)

R Eport of I Ndependent R Egistered P Ublic a Ccounting F Irm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM To the Board of Directors of Medidata Solutions, Inc. and Subsidiaries New York, New York We have audited the accompanying consolidated balance sheets of Medidata Solutions, Inc. and Subsidiaries (the “Company”) as of December 31, 2006 and 2007, and the related consolidated statements of operations, stockholders’ deficit and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the information included in the financial statement schedule listed in the Index at page F-1. These consolidated financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion,

such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, on January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*.

/s/ Deloitte & Touche LLP New York, New York October 29, 2008

C Onsolidated B Alance S Heets as of D Ecember 31, 2006 and D Ecember 31, 2007

MEDIDATA SOLUTIONS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

As of December 31, 2006 and 2007

(Amounts in thousands, except share and per share data)

	2006	2007
Assets		
CURRENT ASSETS:		
Cash and cash equivalents	$7,016	$7,746
Accounts receivable, net of allowance for doubtful accounts of $24 and $32 in 2006 and 2007, respectively	8,893	15,685
Prepaid commission expense	1,019	1,512
Prepaid expenses and other current assets	1,151	2,699
Deferred income taxes	249	168
Total current assets	18,328	27,810
RESTRICTED CASH	305	387
FURNITURE, FIXTURES AND EQUIPMENT, Net	5,630	14,061
OTHER ASSETS	113	475
TOTAL ASSETS	$24,376	$42,733

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

Medidata Solutions, Inc. and Subsidiaries

Consolidated Balance Sheets (Continued)

As of December 31, 2006 and 2007

(Amounts in thousands, except share and per share data)

	2006	2007

Liabilities and Stockholders' Deficit

CURRENT LIABILITIES:		
Accounts payable	$3,464	$6,849
Accrued payroll and other compensation	6,481	5,102
Accrued expenses and other	3,870	2,549
Deferred revenue	14,471	26,644
Capital lease obligations	958	3,655
Notes payable	833	—
Total current liabilities	30,077	44,799
NONCURRENT LIABILITIES:		
Deferred revenue, less current portion	10,546	8,380
Capital lease obligations, less current portion	1,323	4,872
Notes payable, long term portion	2,681	10,781
Other long-term liabilities	114	177
Total noncurrent liabilities	14,664	24,210
Total liabilities	44,741	69,009
CONVERTIBLE REDEEMABLE PREFERRED STOCK:		
Series B, par value $0.01 per share; liquidation value $1,026 and $1,063 in 2006 and 2007, respectively; 1,436,636 shares authorized; 1,335,807 shares issued and outstanding in 2006 and 2007	1,018	1,059
Series C, par value $0.01 per share; liquidation value $167 and $173 in 2006 and 2007 respectively; 596,374 shares authorized; 180,689 shares issued and outstanding in 2006 and 2007	163	171
Series D, par value $0.01 per share; liquidation value $11,177 and $11,581 in 2006 and 2007, respectively; 2,752,333 shares authorized, issued and outstanding in 2006 and 2007	11,068	11,517
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT:		
Convertible preferred stock, Series A, par value $0.01 per share; liquidation value $1,193 in 2006 and 2007; 2,385,000 shares authorized, issued and outstanding in 2006 and 2007	24	24
Common stock, par value $0.01 per share; 20,000,000 shares authorized; 6,494,851 shares and 6,571,119 shares issued in 2006 and 2007, respectively; 6,494,851 shares and 6,074,308 shares outstanding in 2006 and 2007, respectively	65	66
Additional paid-in capital	1,309	2,228
Treasury stock, 496,811 shares	—	(6,000)
Accumulated other comprehensive income	22	65
Accumulated deficit	(34,034)	(35,406)
Total stockholders' deficit	(32,614)	(39,023)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$24,376	$42,733

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

C Onsolidated S Tatements of O Perations for the Y Ears E Nded D Ecember 31, 2005, 2006 and 2007

MEDIDATA SOLUTIONS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

For the Each of the Three Years in the Period Ended December 31, 2007

(Amounts in thousands, except share and per share data)

	2005	2006	2007
Revenues			
Application services	$13,069	$31,953	$48,378
Professional services	6,759	18,508	37,896
Total revenues	19,828	50,461	86,274
Cost of revenues			
Application services	2,059	7,288	13,170
Professional services	14,459	20,462	33,035
Total cost revenues	16,518	27,750	46,205
Gross profit	3,310	22,711	40,069
OPERATING COSTS AND EXPENSES:			
Research and development	4,104	5,905	10,716
Sales and marketing	7,733	13,379	16,485
General and administrative	4,574	8,335	13,361
Total operating costs and expenses	16,411	27,619	40,562
OPERATING LOSS	(13,101)	(4,908)	(493)
INTEREST AND OTHER EXPENSE (INCOME):			
Interest expense	129	341	769
Interest income	(113)	(200)	(327)
Other expense (income), net	22	54	(78)
Total interest and other expense, net	38	195	364
LOSS BEFORE INCOME TAXES	(13,139)	(5,103)	(857)
PROVISION FOR INCOME TAXES	110	306	515
NET LOSS	(13,249)	(5,409)	(1,372)
PREFERRED STOCK DIVIDENDS AND ACCRETION	498	498	498
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	$(13,747)	$(5,907)	$(1,870)
BASIC AND DILUTED LOSS PER SHARE	$(2.24)	$(0.94)	$(0.29)
WEIGHTED AVERAGE BASIC AND DILUTED COMMON SHARES OUTSTANDING	6,135,341	6,296,830	6,384,557
UNAUDITED PRO FORMA (Notes 2 and 11)			
PRO FORMA BASIC AND DILUTED LOSS PER SHARE			$(0.09)
PRO FORMA WEIGHTED AVERAGE BASIC AND DILUTED COMMON SHARES OUTSTANDING			15,399,215

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

C Onsolidated S Tatements of S Tockholders ' D Eficit for the Y Ears E Nded D Ecember 31, 2005, 2006 and 2007

MEDIDATA SOLUTIONS, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Deficit

For Each of the Three Years in the Period Ended December 31, 2007

(Amounts in thousands, except shares and per share data)

	Series A ConvertiblePreferred Stock		Common Stock		Additional Paid-inCapital	Treasury Stock		Accumulated OtherComprehensiveIncome (Loss)	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount		Shares	Amount			
BALANCE—January 1, 2005	2,385,000	$24	6,105,895	$61	$945	—	$—	$(21)	$(15,376)	$(14,367)
Comprehensive income (loss):										
Net loss	—	—	—	—	—	—	—	—	(13,249)	(13,249)
Foreign currency translation adjustment	—	—	—	—	—	—	—	22	—	22
Total comprehensive income (loss)	—	—	—	—	—	—	—	22	(13,249)	(13,227)
Stock options exercised	—	—	46,885	1	43	—	—	—	—	44
Stock-based compensation	—	—	—	—	392	—	—	—	—	392
Accrued preferred stock dividends	—	—	—	—	(448)	—	—	—	—	(448)
Accretion of preferred stock issuance costs	—	—	—	—	(50)	—	—	—	—	(50)
BALANCE—December 31, 2005	2,385,000	24	6,152,780	62	882	—	—	1	(28,625)	(27,656)
Comprehensive income (loss):										
Net loss	—	—	—	—	—	—	—	—	(5,409)	(5,409)
Foreign currency translation adjustment	—	—	—	—	—	—	—	21	—	21
Total comprehensive income (loss)	—	—	—	—	—	—	—	21	(5,409)	(5,388)
Stock options exercised	—	—	342,071	3	206	—	—	—	—	209
Stock-based compensation	—	—	—	—	719	—	—	—	—	719
Accrued preferred stock dividends	—	—	—	—	(448)	—	—	—	—	(448)

Accretion of preferred stock issuance costs	—	—	—	—	(50)	—	—	—	—	(50)
BALANCE—December 31, 2006	2,385,000	24	6,494,851	65	1,309	—	—	22	(34,034)	(32,614)
Comprehensive income (loss):										
Net loss	—	—	—	—	—	—	—	—	(1,372)	(1,372)
Foreign currency translation adjustment	—	—	—	—	—	—	—	43	—	43
Total comprehensive income (loss)	—	—	—	—	—	—	—	43	(1,372)	(1,329)
Stock options exercised	—	—	69,643	1	43	—	—	—	—	44
Stock-based compensation	—	—	—	—	1,294	—	—	—	—	1,294
Stock issued for payment of services	—	—	6,625	—	80	—	—	—	—	80
Accrued preferred stock dividends	—	—	—	—	(448)	—	—	—	—	(448)
Accretion of preferred stock issuance costs	—	—	—	—	(50)	—	—	—	—	(50)
Acquisition of treasury stock	—	—	—	—	—	496,811	(6,000)	—	—	(6,000)
BALANCE—December 31, 2007	2,385,000	$24	6,571,119	$66	$2,228	496,811	$(6,000)	$65	$(35,406)	$(39,023)

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

C Onsolidated S Tatements of C Ash F Lows for T He Y Ears E Nded D Ecember 31, 2005, 2006 and 2007

MEDIDATA SOLUTIONS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For Each of the Three Years in the Period Ended December 31, 2007

(Amounts in thousands)

	2005	2006	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(13,249)	$(5,409)	$(1,372)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			

Depreciation and amortization	894	1,956	4,616
Amortization of debt issuance costs	—	—	14
Stock-based compensation	392	719	1,294
Professional fees paid in common stock	—	—	80
Deferred income taxes	—	(249)	81
Changes in operating assets and liabilities:			
Accounts receivable	(993)	(3,525)	(6,792)
Prepaid commission expense	(297)	76	(493)
Prepaid expenses and other current assets	76	(846)	(1,548)
Other assets	2	(93)	(362)
Accounts payable	180	1,982	3,142
Accrued payroll and other compensation	206	3,664	(1,379)
Accrued expenses and other	1,666	1,745	(1,321)
Deferred revenue	9,587	3,516	10,007
Other long-term liabilities	16	(50)	63
Net cash (used in) provided by operating activities	(1,520)	3,486	6,030
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of furniture, fixtures and equipment	(1,459)	(1,458)	(3,673)
Increase in restricted cash	(1)	—	(82)
Net cash used in investing activities	(1,460)	(1,458)	(3,755)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from exercise of stock options	44	209	44
Repayment of obligations under capital leases	(731)	(1,184)	(2,842)
Proceeds from notes payable	2,500	—	8,000
Repayment of notes payable	—	(486)	(555)
Payment of debt issuance costs	—	—	(192)
Acquisition of treasury stock	—	—	(6,000)
Net cash provided by (used in) financing activities	1,813	(1,461)	(1,545)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,167)	567	730
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	22	(1)	—
CASH AND CASH EQUIVALENTS—Beginning of year	7,595	6,450	7,016
CASH AND CASH EQUIVALENTS—End of year	$6,450	$7,016	$7,746
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$123	$333	$708
Income taxes	$32	$141	$539
NONCASH ACTIVITIES:			
Furniture, fixtures and equipment acquired through capital lease obligations	$949	$2,958	$9,088
Furniture, fixtures and equipment acquired but not yet paid for at year-end	$—	$307	$593
Accrued preferred stock dividends	$448	$448	$448

Accretion of preferred stock issuance costs	$50	$50	$50

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

N Otes to C Onsolidated F Inancial S Tatements

MEDIDATA SOLUTIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For Each of the Three Years in the Period Ended December 31, 2007

(In thousands, except share and per-share data)

1. ORGANIZATION

Medidata Solutions, Inc. (“Medidata” or the “Company”) provides hosted clinical development solutions that enhance the efficiency of its customers’ clinical development processes and optimize their research and development investments. The Company’s solutions allow its customers to achieve clinical results by streamlining the design, planning and management of key aspects of the clinical development process, including protocol development, contract research organization negotiation, investigator contracting, the capture and management of clinical trial data and the analysis and reporting of that data on a worldwide basis.

For purposes of these financial statements, the years ended December 31, 2005, 2006 and 2007, are referred to as 2005, 2006 and 2007, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). All intercompany balances and transactions have been eliminated in consolidation.

Unaudited Pro Forma Information—Unaudited pro forma basic and diluted earnings per share were calculated using a calculation of pro forma weighted average shares outstanding, which reflected the pro forma adjustments as if such adjustments had occurred on January 1, 2007 (See Note 11).

Use of Estimates—The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including deferred revenue, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Revenue Recognition—The Company derives its revenue from the sale of application services and the rendering of professional services. The Company recognizes revenue when all of the following conditions are satisfied: (1) persuasive evidence of an arrangement exists; (2) service has been delivered to the customer; (3) amount of the fees to be paid by the customer is fixed or determinable; and (4) collection of the fees is reasonably assured or probable.

Application Services The Company typically enters into multi-study and single-study arrangements that include software licenses that provide the customer the “right to use” the software, as well as with hosting and other support services, to be provided over a specified term. Multiple study agreements grant the customer the right to manage a predetermined number of clinical trials simultaneously for a term typically ranging from three to five years. Single study arrangements allow customers to use the Company’s technology on a per trial basis.

The Company provides its software as a service and recognizes revenues in accordance with Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin No. 104, *Revenue Recognition* and Emerging Issues Task Force (“EITF”) Issue No. 00-21*, Revenue Arrangements with Multiple Deliverables* (“EITF 00-21”). The Company applies EITF 00-21 when the customer does not have the right to take possession of the software or

cannot do so without incurring a significant penalty as specified in EITF Issue No. 00-3, *Application of AICPA Statement of Position 97-2, Software Revenue Recognition, to Arrangements That Include the Right to Use Software Stored on Another Entity's Hardware* ("EITF 00-3"). Revenue from application service arrangements is recognized ratably over the term of the arrangement, which may or may not include optional renewal periods, beginning with the commencement of the arrangement term, which correlates with the activation of the hosting services, assuming all other revenue recognition criteria are met.

Revenue for multiple study arrangements where the customer has the ability to self host, or the customer has the contractual right to take possession of the software at any time during the hosting period without significant penalty and it is feasible for the customer to either run the software on its own hardware or contract with another unrelated party to host the software, is recognized in accordance with Statement of Position ("SOP") 97-2, *Software Revenue Recognition*. The Company recognizes revenue from these multiple study arrangements ratably over the term of the arrangement, which may or may not include optional renewal periods, assuming all other revenue recognition criteria are met.

Professional Services The Company also provides a range of professional services that its customers have the option to utilize on an as-needed basis. These services, which the customer can contractually obtain from other third-party consultants, generally include customer training, implementation planning, simple interface creation, trial configuration, data testing, documentation of procedures and other agreed-upon procedures specified by the customer. Professional services do not result in significant alterations to the underlying software and are evaluated separately to determine if such professional services are essential to the customer's ability to benefit from the "right to use" software license. Professional services deemed not essential to the customer's ability to benefit from the "right to use" software license are considered to have stand alone value to the customer and are recognized separately as a component of professional services revenue as the related services are performed, on a time and materials basis based on entity specific evidence of fair value.

The Company has established a range of vendor specific objective evidence ("VSOE") of fair value for certain of its professional service offerings. For multiple element arrangements, consideration is allocated to professional services based on VSOE of fair value utilizing the residual method to determine the portion of the arrangement consideration to allocate to other services. If the contracted professional services consideration is priced outside the VSOE range, the Company's policy is to adjust the pricing for accounting purposes to the closest point within the VSOE range.

Professional services that are essential to the customers ability to benefit from the "right to use" software license or for which VSOE of fair value could not be established do not qualify for separate accounting and are recognized ratably over the term of the related application services arrangement and reported as a component of application services revenue.

In accordance with EITF Issue No. 01-14, *Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred*, the Company included $197, $532 and $875 of reimbursable out-of-pocket expenses in Professional services revenue in 2005, 2006 and 2007, respectively.

Medidata Solutions, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

For Each of the Three Years in the Period Ended December 31, 2007

(In thousands, except share and per-share data)

Deferred Revenue

Deferred revenue consists of billings or payments received in advance of revenue recognition and is recognized as the revenue recognition criteria are met. Amounts that have been invoiced are initially recorded in accounts receivable and deferred revenue. The Company invoices its customers in accordance with the terms of the underlying contract, usually in installments in advance of the related service period. Accordingly, the deferred revenue balance does not represent the total contract value of outstanding arrangements. Payment terms are net 30 to 45 days. Deferred revenue that will be recognized during the subsequent 12-month period is recorded as current deferred revenue and the remaining portion as non-current deferred revenue.

In some instances, customers elect to renew their application services arrangements prior to the original termination date of the arrangement. The renewed application services agreement provides support for in-process clinical trials, and includes the "right to use" the software for initial clinical studies. As such, the unamortized portion of the deferred revenues associated with the initial arrangement is aggregated with the consideration received upon renewal and amortized over the renewed term of the application services arrangements.

Cost of Revenues—Cost of revenue primarily consists of costs related to hosting, maintaining and supporting the Company's application suite and delivering professional services and support. These costs include salaries, benefits, bonuses and stock-based compensation for the Company's data center and professional services staff. Cost of revenues also includes outside service provider costs, data center and networking expenses, and allocated overhead. Overhead, such as depreciation expense, rent and utilities, is allocated to all departments based on relative headcount. As such, general overhead expenses are reflected in cost of revenue and each operating expense category. These costs are expensed as incurred.

Software Development Costs—Costs incurred in the research and development of new software products and enhancements to existing software products are expensed as incurred under Statement of Financial Accounting Standards ("SFAS") No. 2, *Accounting for Research and Development Costs.* Internally developed software costs are capitalized under SFAS No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed*, when technological feasibility is reached which is not until a working model is developed, and the functionality is tested and determined to be compliant with all federal and international regulations. As such, no internally developed software development costs have been capitalized during 2005, 2006 or 2007.

Prepaid Commission Expense—For arrangements where revenue is recognized over the relevant contract period, the Company capitalizes related sales commissions that have been paid and recognizes these expenses over the period the related revenue is recognized. Commissions are payable to the Company's sales representatives upon payment from the customer. The Company amortized prepaid commissions of $1,261, $2,461 and $3,733 for the years ended December 31, 2005, 2006, and 2007, respectively, which are included within sales and marketing expense in the consolidated statements of operations. As of December 31, 2006 and 2007, the Company had unamortized prepaid commissions of $1,019 and $1,512, respectively.

Impairment of Long-Lived Assets—Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such asset may be impaired. The Company subjects long-lived assets to a test of recoverability based on undiscounted cash flows expected to be generated by such assets while utilized by the Company and cash flows expected from disposition of such assets. If the assets are impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Management does not believe that there is any impairment of long-lived assets as of December 31, 2006 or 2007.

Cash and Cash Equivalents—The Company considers all money market funds and other highly liquid investments purchased with original maturities of three months or less to be cash and cash equivalents. The fair value of cash and cash equivalents approximates the amounts shown on the financial statements.

Restricted Cash—Restricted cash represents deposits made to fully collateralize three standby letters of credit issued in connection with office lease arrangements.

Accounts Receivable—Accounts receivable are recorded at original invoice amount less an allowance that management believes will be adequate to absorb estimated losses on existing accounts receivable. The allowance is based on an evaluation of the collectibility of accounts receivable and prior bad debt experience. Accounts receivable are written off when deemed uncollectible.

Furniture, Fixtures and Equipment—Furniture, fixtures and equipment consists of furniture, computers, other office equipment, purchased software for internal use, and leasehold improvements recorded at cost. Depreciation is computed on the straight-line method over five years for furniture and fixtures, and three to five years for computer equipment and software. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or their estimated useful lives. Improvements are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

Income Taxes—The Company uses the asset and liability method of accounting for income taxes, as prescribed by SFAS No. 109, *Accounting for Income Taxes*, which recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

On January 1, 2007, the Company elected to early adopt Financial Accounting Standards Board ("FASB") Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*, or FIN 48. FIN 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements.

Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The impact of the adoption of FIN 48 did not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

Convertible Redeemable Preferred Stock—At the time of issuance, preferred stock is recorded at gross proceeds received less issuance costs. The carrying value is increased to the redemption value using the straight-line method, which approximates the effective interest method, over the period from the date of issuance to the earliest date of redemption. The carrying value is also increased by cumulative unpaid dividends.

Treasury Stock—Shares of the Company's common and preferred stock that are repurchased are recorded as treasury stock at cost and included as a component of stockholders' deficit.

Comprehensive Income—SFAS No. 130, *Reporting Comprehensive Income*, established standards for reporting and displaying comprehensive income into its components (revenue, expenses, gains and losses) in a full set of general-purpose financial statements. The Company's other comprehensive income component results from foreign currency translation adjustments.

Stock-Based Compensation—On January 1, 2006, the Company adopted the provisions of SFAS No. 123(R), *Share-Based Payment* ("SFAS No. 123(R)"), requiring the Company to recognize expense related to the fair value of its stock-based compensation awards. The Company elected the modified prospective transition method as permitted by SFAS No. 123(R). Under this transition method, stock-based compensation expense for the year ended December 31, 2006 includes compensation expense for all stock based compensation awards granted prior to, but not yet vested, as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123"), and compensation expense for all stock based compensation awards granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R).

Prior to January 1, 2006, the Company accounted for its stock-based compensation plans in accordance with Accounting Principles Board Opinion ("APB") No. 25, *Accounting for Stock Issued to Employees,* and related interpretations, as opposed to the fair value method allowed by SFAS No. 123. Under APB No. 25, compensation expense of fixed stock options is based on the difference, if any, on the date of grant

between the fair value of the Company's stock and the exercise price of the option. Compensation expense is recognized on a straight-line basis over the requisite service period.

Prior to the adoption of SFAS No. 123(R), the Company applied APB No. 25 to account for its stock based awards. The table below indicates the pro forma impact on 2005 results, had the Company applied SFAS No. 123(R):

	Year Ended December 31,2005
Net loss, as reported	$(13,249)
Pro forma stock based compensation expense, net of taxes	(146)
Pro forma net loss	$(13,395)
Basic and diluted loss per share:	
Net loss, as reported	$(2.24)
Pro forma net loss	$(2.26)

Fair Value of Financial Instruments–The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments. Amounts outstanding under long-term debt agreements are considered to be carried at their estimated fair values because they bear interest at rates which approximate market. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realized.

Concentration of Credit Risk–Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable and notes payable. The Company has policies that limit the amount of credit exposure to any one issuer. The Company performs ongoing credit evaluations of its customers and maintains an allowance for potential losses, but does not require collateral or other security to support customers' receivables. The Company's credit risk is further mitigated because its customer base is diversified both geographically and by industry sector.

Cash and cash equivalents and restricted cash are deposited with major financial institutions and, at times, such balances with any one financial institution may be in excess of the FDIC-insured limit ($100 at December 31, 2007). As of December 31, 2007, $8,026 in cash and cash equivalents and restricted cash were deposited in excess of the FDIC-insured limit.

As of December 31, 2006 and 2007 and for the three years then ended, total revenues recognized and total accounts receivable balance due related to the following significant customers are as follows:

	Percentage of Revenues			Percentage of AccountsReceivable	
	For the year ended December 31,			As of December 31,	
	2005	2006	2007	2006	2007
Customer A	21%	9%	8%	0%	0%
Customer B	15	15	15	13	9
Customer C	13	12	13	13	16
Customer D	8	11	11	10	6
Total (Customers A to D)	57%	47%	47%	36%	31%

Foreign Currency Translation—The financial statements of the Company's foreign subsidiaries are translated in accordance with SFAS No. 52, *Foreign Currency Translation*. The reporting currency for the Company is the U.S. dollar. The functional currencies of the Company's subsidiaries in the United Kingdom and Japan are the British Pound Sterling and the Japanese yen, respectively. Accordingly, the assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars using the exchange rate in effect at each balance sheet date. Revenue and expense accounts are translated using an average rate of exchange during the period. Foreign currency translation adjustments are accumulated as a component of other comprehensive income (loss) as a separate component of stockholders' deficit. Gains and losses arising from transactions denominated in foreign currencies are primarily related to intercompany accounts that have been determined to be temporary in nature and accordingly, are recorded directly to the statement of operations.

Segment Information—As defined by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, the Company operates as a single segment, as the management makes operating decisions and assesses performance based on one single operating unit. The Company recorded revenues in 2005, 2006 and 2007 in the following geographic areas, based on the country in which revenue is generated:

	2005	2006	2007
Revenues:			
United States of America	$16,671	$35,051	$56,891
United Kingdom	1,530	5,325	10,430
Japan	140	5,424	9,481
Others	1,487	4,661	9,472
Total	$19,828	$50,461	$86,274

The following table summarizes long-term assets by geographic area as of December 31, 2006 and 2007, respectively:

	2006	2007
Long-term assets:		
United States of America	$5,885	$13,026
United Kingdom	47	1,422
Japan	116	475
Total	$6,048	$14,923

Recently Issued Accounting Pronouncements—In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"), which enhances existing guidance for measuring assets and liabilities at fair value. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, except for the fair value measurement on nonfinancial assets and nonfinancial liabilities which has been delayed in accordance with FASB Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157*. The Company subsequently adopted this statement on January 1, 2008 and the adoption did not have an impact on the Company's results of operations, financial position, and cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS No. 159"), which permits entities to measure the value of certain financial assets and liabilities and report the unrealized gain or loss thereon at each subsequent reporting period. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company elected not to adopt the fair value option for valuation of those assets and liabilities which are eligible under this statement and therefore there was no impact to the Company's results of operations, financial position, and cash flows.

On December 4, 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS No. 141R"), and SFAS No. 160, *Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* ("SFAS No. 160"). SFAS No. 141R is required to be adopted concurrently with SFAS No. 160 and is effective for business combination transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is prohibited. Application of SFAS No. 141R and SFAS No. 160 is required to be adopted prospectively, except for certain provisions of SFAS No. 160, which are required to be adopted retrospectively. Business combination transactions accounted for before adoption of SFAS No. 141R should be accounted for in accordance with SFAS No. 141, *Business Combinations*, and that accounting previously completed under SFAS No. 141 should not be modified as of or after the date of adoption of SFAS No. 141(R). The adoption of SFAS No. 141R and SFAS No. 160 is not expected to have a material impact on the Company's financial position or results of operations.

(In thousands, except share and per-share data)

3. FURNITURE, FIXTURES, AND EQUIPMENT

Furniture, fixtures and equipment consists of the following:

	As of December 31,	
	2006	2007
Furniture and fixtures	$389	$781
Computer equipment and purchased software	8,406	19,366
Leasehold improvements	329	1,336
Total furniture, fixtures, and equipment	9,124	21,483
Less accumulated depreciation and amortization	(3,494)	(7,422)
Net furniture, fixtures, and equipment	$5,630	$14,061

Included in net furniture, fixtures and equipment as of December 31, 2006 and 2007 are computer equipment and purchased software under capital leases of approximately $3,243 and $9,247, respectively, net of related accumulated depreciation of $1,273 and $4,358, respectively. Depreciation and amortization expense for furniture, fixtures, and equipment, including assets under capital leases, was $894, $1,956 and $4,616 for the years ended December 31, 2005, 2006 and 2007, respectively. Depreciation of equipment under capital leases was $267, $970 and $3,085 for the years ended December 31, 2005, 2006 and 2007, respectively.

4. DEBT AND RELATED PARTY TRANSACTIONS

In November 2003, the Company entered into a Note Purchase Agreement, as subsequently amended at various dates through June 2005 (collectively, the "Term Note A") with one of its preferred stockholders (the "Lender"). In December 2005, the Company entered into an Amended and Restated Note Purchase Agreement with the Lender extending the maturity date of Term Note A and issuing a second note ("Term Note B"). In October 2007, the Company entered into an Amended and Restated Note Purchase Agreement extending the maturity of Term Note A and Term Note B and issuing a third note ("Term Note C"). Term Note A, Term Note B and Term Note C are secured by all of the Company's assets.

At inception of Term Note A, the Company received proceeds of $1,500 and has been required to pay monthly interest thereon until its scheduled maturity date on January 31, 2011. Term Note A incurs interest at 4% from inception through February 2004, 5% from March 2004 through June 2004, 3.5% from July 2004 through May 2005, 6% from June 2005 through November 2006, 8% from December 2006 through September 2007, 10% from October 2007 through September 2009, and 15% from October 2009 until maturity. Interest expense on Term Note A, which was recognized on a straight-line basis, was $74, $91 and $135 for the years ended December 31, 2005, 2006 and 2007, respectively.

At inception of Term Note B, the Company received proceeds of $2,500. The Company was required to pay monthly principal payments of $35 from inception until November 2006 and $69 from December 2006 through September 2007. The principal balance remaining as of October 2007 amounted to approximately $1,500 payable in full at its maturity date on January 31, 2011. The Company has been required to pay monthly interest on the outstanding principal balance until its scheduled maturity date. Term Note B incurs interest at 6% from inception to November 2006, 8% from December 2006 through September 2007, 10% from October 2007 through September 2009, and 15% from October 2009 until maturity. Interest expense on Term Note B, which was recognized on a straight-line basis, was $6, $146 and $149 for the years ended December 31, 2005, 2006 and 2007, respectively.

At inception of Term Note C, the Company received proceeds of $8,000 and has been required to pay monthly interest thereon until its scheduled maturity date on January 31, 2011. In connection with the issuance of this note, the Company incurred expense of approximately $192 which had been deferred and amortized over the term of the note. Term Note C incurs interest at 10% from October 2007 through September 2009, and 15% from October 2009 until maturity. Interest expense on Term Note C, which was recognized on a straight-line basis, was $242 for the year ended December 31, 2007.

The Term Notes require compliance with certain financial covenants, which include calculations relating to cash availability and positive cash consumption, as defined.

Scheduled repayments of balances outstanding under all Term Notes at December 31, 2007 are as follows:

Years ending December 31,	
2008	$—
2009	—
2010	—
2011	10,958
	$10,958

The Company had outstanding standby letters of credit issued in connection with office leases as of December 31, 2006 and 2007, in the amount of $305 and $387, respectively. These standby letters of credit are fully collateralized with restricted cash as of December 31, 2006 and 2007.

The Company leases certain equipment under noncancelable capital lease agreements which provide for total future minimum annual lease payments as follows:

Years Ending December 31,	
2008	$3,953
2009	3,572
2010	1,447
Total minimum lease payments	8,972
Less amount representing interest	445
Present value of net minimum capital lease payments	8,527
Less current portion	3,655
Capital lease obligations, excluding current portion	$4,872

5. PREFERRED STOCK

In June 2000, the Company issued 2,385,000 shares of Series A Convertible Preferred Stock ("Series A") in exchange for cash proceeds of $1,192. In January and February 2002, the Company issued 1,436,636 shares of Series B Convertible Redeemable Preferred Stock ("Series B") in exchange for cash proceeds of $1,000. In February 2003, the Company issued 596,374 shares of Series C Convertible Redeemable Preferred Stock ("Series C") in exchange for cash proceeds of $500. The Company incurred legal and other fees associated with the issuance of the Series A, B, and C preferred stock of $8, $24 and $12, respectively.

In May 2004, the Company amended and restated its certificate of incorporation to increase the number of authorized shares of Common Stock and Preferred Stock. The total number of shares of all classes of capital stock which the Company is authorized to issue is 27,170,343, divided into two classes: 20,000,000 shares of Common Stock at $0.01 par value and 7,170,343 shares of Preferred Stock at $0.01 par value.

In May 2004, the Company entered into a Securities Purchase Agreement to increase the capitalization of the Company. Pursuant to this agreement, the investors purchased 2,752,333 shares of the Company's Series D Convertible Redeemable Preferred Stock ("Series D") at a price of $3.68 per share. Simultaneous with the issuance of the Series D shares, the Company also redeemed 100,829 Series B shares and 415,685 Series C shares for an aggregate of $1,909. The total proceeds from the issuance of Series D shares (net of issuance costs of $229) were $9,896.

Certain of the rights, preferences and privileges of the Preferred Stock are listed below:

Dividends—The holders of the Series A Preferred Stock will be entitled to receive dividends when, as and if declared by the Board of Directors.

The holders of Series B, C and D Senior Preferred Stock ("Senior Preferred Stock") will be entitled to receive cumulative dividends, on a pari passu basis, at the per annum rate of $0.0278 per share, $0.0335 per share, and $0.1471 per share in respect of the Series B Preferred Stock, Series C Preferred Stock, and the Series D Preferred Stock, respectively, payable: (i) if declared by the Board of Directors, (ii) upon the occurrence of a Liquidation, (iii) upon redemption of any Senior Preferred Stock, (iv) upon automatic conversion of any Senior Preferred Stock upon a Qualified Public Offering of securities of the Company, or (v) upon the voluntary conversion of any of the Senior Preferred Stock into common stock, if such conversion is in connection with a public offering of securities by the Company. Dividends that are declared by the Board will be paid in cash or, at the option of at least 66% of the outstanding Series D Preferred Stock, in shares of the Company's common stock with the number of shares of common stock determined based on the fair value of common stock on the dividend payment date.

A Qualified Public Offering as it relates to Senior Preferred Stock dividend rights is defined as the closing of the Company's first underwritten public offering on a firm commitment basis by a nationally recognized investment banking organization or organizations pursuant to an effective registration statement under the Securities Act, covering the offer and sale of Common Stock (i) at a price per share of Common Stock of not less than $3.48 for Series B and Series C Preferred Stock or $11.04 for Series D Preferred Stock (appropriately adjusted for stock splits, stock dividends, combinations, recapitalizations and the like), (ii) with respect to which the Corporation receives aggregate gross proceeds attributable to sales for the account of the Corporation of not less than $20,000 for Series B and Series C Preferred Stock or $50,000 for Series D Preferred Stock, and (iii) with respect to which such Common Stock is listed for trading on either the New York Stock Exchange or the NASDAQ National Market. As a result of a two-for-one stock split of the common stock in August 2004 in the form of a common stock dividend ("August 2004 Stock Split"), the price per share of common stock under Qualified Public Offering requirement has been adjusted to $1.74 for the Series B Preferred Stock and the Series C Preferred Stock and $5.52 for the Series D Preferred Stock.

To date, no dividends have been declared by the Company. At December 31, 2006 and 2007, unpaid cumulative dividends aggregated to $1,164 and $1,612, respectively, and have been accreted to the carrying value of the Senior Preferred Stock.

Dividends to accrete the carrying value of Senior Preferred Stock to redemption value are recorded as reductions to retained earnings over the period from the date of issuance to the earliest redemption date of the security. In the absence of retained earnings, dividends are recorded as a decrease in additional paid-in capital.

Liquidation–The Company's Articles of Incorporation define "liquidation" to include: (i) voluntary or involuntary liquidation or dissolution, or (ii) any sale of the Company (i.e., via merger, consolidation, sale of

substantially all of the Company's assets, or any other transaction or series of transactions in which another party or group of parties acquires capital stock from the Company representing a majority of the Company's outstanding voting power).

Upon a liquidation, after payment or provision for payment of debts and other liabilities of the Company, the holders of the Senior Preferred Stock shall be entitled to receive out of the remaining assets of the Company the following amounts:

(i)	Each share of the Series D Preferred Stock, on a pari passu basis with each share of the other series of Senior Preferred Stock, shall be entitled to the payment of its original issue price of $3.6787 per share plus accumulated but unpaid dividends applicable to the Series D Preferred Stock (appropriately adjusted for stock splits, stock dividends, combinations, recapitalizations).
(ii)	Each share of the Series C Preferred Stock, on a pari passu basis with each share of the other series of Senior Preferred Stock, shall be entitled to the payment of its original issue price of $0.8384 per share plus accumulated but unpaid dividends applicable to the Series C Preferred Stock (appropriately adjusted for stock splits, stock dividends, combinations, recapitalizations).
(iii)	Each share of the Series B Preferred Stock, on a pari passu basis with each share of the other series of Senior Preferred Stock, shall be entitled to the payment of its original issue price of $0.69614 per share plus accumulated but unpaid dividends applicable to the Series B Preferred Stock (appropriately adjusted for stock splits, stock dividends, combinations, recapitalizations).

If upon a liquidation the holders of outstanding shares of the Senior Preferred Stock would receive more than the aggregate amount calculated above had the shares of their Senior Preferred Stock been converted into shares of common stock, then each holder of outstanding shares of Senior Preferred Stock in connection with such liquidation shall be entitled to be paid cash as if their Senior Preferred Shares had been converted into common stock immediately before the liquidation.

Upon a liquidation, and after the payment in full of the Senior Preferred Stock, the Series A Preferred Stock shall be entitled to $0.50 per share plus any declared but unpaid dividends.

Conversion–The Series A Preferred Stock was initially convertible into common stock at a rate of 1 share of Series A Preferred Stock for one share of common stock, subject to adjustment for stock dividends, combinations of stock or reorganizations. As a result of a one-for-ten reverse stock split of the common stock in January 2002, the conversion was adjusted to ten shares of Series A Preferred Stock for one share of common stock. As a result of the August 2004 Stock Split, the conversion rate has been adjusted to five shares of Series A Preferred Stock for one share of common stock. The Series A Preferred Stock is (a) optionally convertible into common stock upon the approval of at least two-thirds of the holders of the Series A Preferred Stock or (b) automatically convertible into common stock upon the effective date of a Qualified Public Offering of the Company's common stock. Series A Preferred Stock will be automatically converted upon the effective date of a registration statement under the Securities Act of 1933 for the sale of common stock to the public.

The Senior Preferred Stock plus any unpaid cumulative dividends were initially voluntarily convertible into common stock upon the written election of a holder of the Series D Preferred Stock, the Series C Preferred Stock, or the Series B Preferred Stock at a conversion rate of one to one, with adjustments provided for anti-dilution protection and preference amounts eligible to the Senior Preferred Stock. As a result of the August 2004 Stock Split, the conversion rate has been adjusted to one share of Senior Preferred Stock plus any unpaid cumulative dividends for two shares of common stock.

The Series B Preferred Stock and the Series C Preferred Stock are automatically converted into common stock upon the occurrence of a Qualified Public Offering at a price per share of common stock of not less than $3.48 (appropriately adjusted for stock splits, stock dividends, combinations and recapitalizations) where the Company receives aggregate gross proceeds of not less than $20,000 to which the common stock is listed either on the New York Stock Exchange or the NASDAQ National Market.

The Series D Preferred Stock is automatically converted into common stock upon the occurrence of a Qualified Public Offering at a price per share of common stock of not less than $11.04 (appropriately adjusted for stock splits, stock dividends, combinations and recapitalizations) where the Company receives aggregate gross proceeds of not less than $50,000 to which the common stock is listed either on the New York Stock Exchange or the NASDAQ National Market.

Upon the automatic conversion of our Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock in connection with a Qualified Public Offering, the holders of our Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock will be entitled to payment of all accumulated accrued dividends on such preferred stock in cash, unless the holders of at least 66% of the outstanding Series D Preferred Stock elect to have such dividends paid in shares of the Company's common stock at the then fair market value.

As a result of the August 2004 Stock Split, the price per share of common stock under Qualified Public Offering requirement has been adjusted to $1.74 for the Series B Preferred Stock and the Series C Preferred Stock and $5.52 for the Series D Preferred Stock.

Voting Rights—Each share of Series A Preferred Stock shall entitle the holder to one vote per share of each share of common stock into which each share of Series A Preferred Stock is then convertible.

Each share of Senior Preferred Stock shall be entitled to a number of votes equal to the number of shares of common stock into which such share of Senior Preferred Stock is then convertible, voting with the holders of common stock as a single class upon all matters submitted to a vote of stockholders.

Redemption—The Series A Preferred Stock has no redemption rights.

At any time on or after May 27, 2009, upon 90 days' advance written notice, the holders of at least a majority of all the then-outstanding shares of Series D Preferred Stock may elect to have all (but not less than all) of the then-outstanding shares of Senior Preferred Stock redeemed for cash in two equal installments. In such an event, the Company will redeem for cash one half of each holder's shares of Senior Preferred Stock 90 days after written notice and the other half of the shares of the Senior Preferred Stock one year thereafter.

The redemption price for each of the Series D Preferred Stock, the Series C Preferred Stock, and the Series B Preferred Stock is equal to the respective liquidation values referred to above. Redemption of the Series B and C Preferred Stock is contingent upon the Series D Preferred Stock exercising its redemption right described above.

If the Company has insufficient funds to redeem all of the Senior Preferred Stock, the Company must use any funds legally available to it to redeem the maximum possible number of such shares pro rata in accordance with the respective redemption price. All shares required to be redeemed but were not, due to insufficient funds, shall accrue interest at a rate of 12% per annum, compounded annually, from their respective redemption date until redeemed. Such unredeemed shares of Senior Preferred Stock shall also be entitled to dividends thereon as described above until the respective shares are redeemed.

As a result of the redemption features associated with the Series B, C and D convertible preferred stock, the Company has classified these securities outside of stockholders' deficit. The Company is accreting the related issuance costs incurred over the stated redemption period.

Anti-Dilution Protection—The Senior Preferred Stock have weighted-average anti-dilution provisions.

(In thousands, except share and per-share data)

6. STOCKHOLDERS' DEFICIT

Common Stock—The Company is authorized to issue 20,000,000 shares of common stock at $0.01 par value. Common shares outstanding were 6,494,851 and 6,074,308 in 2006 and 2007, respectively. Common stockholders are entitled to one vote for each share of common stock held. Common stockholders may receive dividends only after the payment in full of all preferential dividends of the Senior Preferred stockholders and if and when the Board of Directors determines in its sole discretion.

In 2007, the Company issued 6,625 shares of common stock for payment of professional fees with an estimated value of $80 to a non-related party.

Treasury Stock—In October 2007, the Company entered into a Stock Repurchase Agreement with certain officers of the Company. Pursuant to this agreement, the Company repurchased 496,811 shares of the Company's common stock from the officers of the Company at a price of $12.077 per share. The Company accounted for the treasury stock under the cost method.

7. STOCK OPTIONS

In 2000, the Company adopted the 2000 Stock Option Plan (the "Plan") under which 500,000 shares of the Company's common stock were reserved for issuance to employees, directors, consultants and advisors. Since such date, the Company has amended the Plan to provide for 3,231,406 authorized shares. Options granted under the Plan may be incentive stock options, nonqualified stock options or restricted stock. Incentive stock options may be granted only to employees. Options generally vest 25% one year from the grant date and 75% ratably over the next three years and expire after ten years. Stock options are typically issued at the current market price on the date of the grant. The Company uses an independent third-party specialist to perform the valuation of its common stocks as part of the stock options calculations.

For options accounted for under SFAS No. 123(R), the fair value of each option grant is estimated on the date of grant using the Black-Scholes pricing model. The Company estimated its future stock price volatility based upon observed option-implied volatilities for a group of peer companies, taking into account the stage of the Company as compared to its peers. Management believes this is the best estimate of the expected volatility over the weighted-average expected life of its option grants. The Company estimated its weighted-average useful life based on the likely date of exercise as opposed to the actual life of the options. The risk-free interest rate is based on the United States Treasury yield curve in effect at the time of the option grant. No dividends are expected to be declared by the Company at this time. The fair value of each option grant is estimated with the following assumptions:

	2005	2006	2007
Weighted-average volatility	80%	74%	62%
Weighted-average estimated life	6 years	6 years	6 years
Weighted-average risk-free interest rate	3.81 – 4.50%	4.56 – 4.91%	3.76 – 4.81%
Dividend yield	–	–	–

(In thousands, except share and per-share data)

During 2006, the Company amended certain options granted in November 2005 and February 2006 under the transition rules in accordance with IRS guidance for Internal Revenue Code Section 409A. The options were originally granted with an exercise price of $0.62 per share and were subsequently amended such that the exercise price was increased to $2.00 per share for November 2005 grants and $3.20 per share for February 2006 grants. No other terms of the options were amended. This modification resulted in no additional stock-based compensation expense.

The following table summarizes the stock options activity under the Plan as of December 31, 2007, and changes during the year then ended:

	Number of Shares	Weighted-AverageExercisePrice	Weighted-AverageRemainingContractualTerm	Aggregate IntrinsicValue($000)
Outstanding at January 1, 2007	1,762,948	$1.59		
Granted	649,500	12.29		
Canceled	(66,787)	3.45		
Exercised	(69,643)	0.63		
Outstanding at December 31, 2007	2,276,018	$4.61	7.59	$38,546
Exercisable at December 31, 2007	1,229,479	$1.23	6.37	$24,984

The weighted-average grant-date fair value of options granted during the years ended December 31, 2005, 2006 and 2007 was $2.87, $3.52 and $9.86, respectively. The total intrinsic value of options exercised during the years ended December 31, 2005, 2006 and 2007 was $62, $1,117 and $1,255, respectively.

The following table summarizes the status of the Company's nonvested stock options as of December 31, 2007, and changes during the year then ended:

	Number of Shares	Weighted-AverageGrant-dateFair Value
Nonvested at January 1, 2007	847,903	$2.76
Granted	649,500	9.86
Vested	(393,729)	2.74
Cancelled	(57,135)	3.58
Nonvested at December 31, 2007	1,046,539	$7.13

As of December 31, 2007, there was a total of $7,137 of unrecognized compensation cost related to non-vested share-based compensation awards granted, as recorded in accordance with SFAS No. 123(R). This cost is expected to be recognized over a weighted-average period of 1.75 years. The total fair value of shares vested during the years ended December 31, 2005, 2006 and 2007 was $82, $1,023 and $1,078, respectively.

(In thousands, except share and per-share data)

For the years ended December 31, 2005, 2006, and 2007, the stock-based compensation expense was included in the following costs and expenses:

	2005	2006	2007
Cost of revenues	$178	$108	$172
Research and development	27	89	183
Sales and marketing	69	304	448
General and administrative	118	218	491
Total stock-based compensation	$392	$719	$1,294

The followings are the details of stock options granted in each quarter during the year ended December 31, 2007. The Company used contemporaneous valuation to determine the fair value of the stock options.

	1st Quarter of 2007	2nd Quarter of 2007	3rd Quarter of 2007	4th Quarter of 2007
Number of options granted	63,500	82,500	49,000	454,500
Weighted average exercise price	$13.00	$13.00	$12.08	$12.08
Weighted average fair value of common stock at grant	$9.76	$12.20	$13.89	$16.59
Weighted average intrinsic value	$—	$—	$1.81	$4.51

8. INCOME TAXES

The components of income tax expense (benefit) for 2005, 2006 and 2007 are as follows:

	2005	2006	2007
Net income tax expense (benefit):			
Current expense (benefit):			
Federal	$—	$—	$—
State	10	—	—
Foreign	100	555	434
Current expense	110	555	434
Deferred expense (benefit):			
Federal and state	(4,577)	(3,131)	(1,134)
Foreign	(32)	(249)	81
Valuation allowance	4,609	3,131	1,134
Net	$110	$306	$515

(In thousands, except share and per-share data)

A reconciliation of income tax expense and the amount computed by applying the statutory federal income tax rate loss before income taxes is as follows:

	2005	2006	2007
Tax computed at federal statutory rate	$(4,467)	$(1,735)	$(291)
Increase (decrease) in income taxes resulting from:			
State income taxes, net of federal income tax benefit	10	—	—
Permanent differences	63	912	704
Valuation allowance	4,542	1,127	104
Other, net	(38)	2	(2)
Total	$110	$306	$515

As of December 31, 2006 and 2007, the components of net deferred tax assets (liabilities) are as follows:

	2006	2007
Net deferred tax assets (liabilities):		
Assets:		
Unrealized gain on foreign exchange	$—	$160
Payroll accruals	441	752
Net operating loss carryforwards	8,449	7,584
Royalty accrual	873	—
Deferred revenue	2,641	3,905
Foreign tax credit	555	989
Property and equipment	353	590
Other	223	608
Less valuation allowance	(13,264)	(14,398)
Deferred tax asset	271	190
Liabilities:		
Foreign exchange translation	(22)	(22)
Net	$249	$168

Income (loss) before income taxes by jurisdiction is as follows:

	2006	2007
U.S Loss	$(6,054)	$(2,434)
Non-U.S. Income	951	1,577
Total Loss Before Income Taxes	$(5,103)	$(857)

As of December 31, 2006 and 2007, the Company had approximately $20,800 of federal and $24,200 of state; and $17,200 of federal and $20,800 of state, respectively, net operating loss carryforwards available to offset future taxable income expiring from 2019 through 2027.

The future utilization of the net operating loss carryforwards may be subject to significant limitations under the Internal Revenue Code (the "Code"). Due to these limitations and the likelihood that the Company's future

taxable income may be insufficient to utilize these tax benefits, the Company has provided a valuation allowance against the net deferred tax assets as their future utilization is uncertain at this time. The net deferred tax assets of $249 and $168, as of December 31, 2006 and 2007, respectively, represent those from foreign subsidiaries which the Company believes are realizable as they are taxpayers in those jurisdictions. The net change in the valuation allowance was an increase of $3,131 in 2006 and an increase of $1,134 in 2007.

The Company believes that its income tax positions and deductions will be sustained on audit and does not anticipate adjustments that will result in a material change to its financial position during the next twelve months. Therefore, no reserves for uncertain tax positions have been recorded pursuant to FIN 48 as of December 31, 2007.

9. EARNINGS PER SHARE

The Company follows SFAS No. 128, *Earnings Per Sha*re, in calculating earnings per share. Basic earnings per share is calculated by dividing net income (loss) available to common stockholders by the weighted-average number of shares outstanding during the period. Diluted earnings per share includes the determinants of basic net income (loss) per share and, in addition, gives effect to potentially dilutive common shares. For 2005, 2006, and 2007, the diluted loss per share excluded the impact of the conversion of all preferred stock and all stock options because the effect would be anti-dilutive.

The following common stock equivalents were excluded from the calculation of diluted net loss per share since the effects are anti-dilutive:

	Year ended December 31,		
	2005	**2006**	**2007**
Number of potential shares that are antidilutive:			
Preferred stock	9,014,658	9,014,658	9,014,658
Employee stock options and non-vested stock	1,483,315	1,292,675	1,587,938
Total	10,497,973	10,307,333	10,602,596

10. COMMITMENTS AND CONTINGENCIES

Leases–The Company leases certain equipment and office space under noncancelable operating lease agreements which provide for total future minimum annual lease payments as follows:

Years Ending December 31,	
2008	$1,601
2009	1,211
2010	676
2011	558
2012	539
Thereafter	2,052

Total minimum lease payments	$6,637

Rent expense was approximately $812, $1,128 and $1,792 for 2005, 2006 and 2007, respectively.

(In thousands, except share and per-share data)

401(k) Plan—The Company has a pre-tax savings and profit sharing plan (the "Plan") under Section 401(k) of the Code for substantially all employees. Under the Plan, eligible employees are able to contribute up to 15% of their compensation not to exceed the maximum IRS annual deferral amount. The Company is not required to and did not make any matching contributions under the Plan in 2005, 2006 and 2007.

Legal Matters—The Company is subject to legal proceedings and claims which have arisen in the ordinary course of business. The Company records an estimated liability for these matters when an adverse outcome is considered to be probable.

In 2006, the Company identified that certain products offered to its customers potentially infringed on intellectual property rights held by a third party. As a result of negotiations between the Company and the third party, the parties entered into a license and settlement agreement in June 2007 pursuant to which the Company licensed the intellectual property held by the third party for use in its future sales to customers and settled all past claims of infringement. The Company agreed and paid a settlement amount of $2,200 to the third party in 2007. As of December 31, 2006, such amount was included in accrued expenses on the accompanying balance sheet.

In 2006, a former employee of the Company made a claim seeking compensation of approximately $1,600 in relation to a wrongful dismissal lawsuit. While the Company plans to defend and contest this case vigorously, it has accrued $620 and $710 as of December 31, 2006 and 2007, respectively. Such reserve was included in accrued payroll and other compensation on the accompanying balance sheet as of December 31, 2006 and 2007.

Contractual Warranties—The Company typically provides contractual warranties to its customers covering its product and services. To date, any refunds provided to customers have been immaterial.

Indemnifications—The Company indemnifies its customers against claims that software or documentation purchased or made available from the Company infringes upon a copyright, patent or the proprietary rights of others. Such indemnification is typical in the industry in which the Company competes. In the event of such a claim, the Company agrees to obtain the rights for continued use of the software for the customer, to replace or modify the software or documentation to avoid such claim or to provide a credit to the customer for the unused portion of the software license. While the Company has not had any such indemnification claims made by its customers, due to the nature of this indemnification and the various options in which the Company can satisfy the indemnification, it is not possible to calculate the maximum potential amount of future payments that may be required.

11. UNAUDITED PRO FORMA INFORMATION

The Company is presenting pro forma information to reflect the pro forma adjustments made to the consolidated statement of operations for the year ended December 31, 2007. The pro forma effect is related to the automatic conversion of all preferred stock into common stock and the payment of accumulated accrued dividends on our preferred stock of $1,612 from cash on hand upon a Qualified Public Offering of securities of the Company, as if it had occurred on January 1, 2007 for the basic and diluted net loss per share.

A Qualified Public Offering is defined as the closing of the Company's first underwritten public offering on a firm commitment basis by a nationally recognized investment banking organization or organizations pursuant to an effective registration statement under the Securities Act, covering the offer and sale of Common Stock (i) at a price per share of Common Stock of not less than $3.48 for Series B and Series C Preferred Stock or $11.0361

(In thousands, except share and per-share data)

for Series D Preferred Stock (which numbers are to be appropriately adjusted for stock splits, stock dividends, combinations, recapitalizations and the like), (ii) with respect to which the Company receives aggregate gross proceeds attributable to sales for the account of the Company of not less than $20,000 for Series B and Series C Preferred Stock or $50,000 for Series D Preferred Stock, and (iii) with respect to which such Common Stock is listed for trading on either the New York Stock Exchange or the NASDAQ National Market.

The following table provides the details of the pro forma basic and diluted net loss per share (in thousands, except share and per share data):

	Year ended December 31, 2007
Net loss available to common stockholders, as reported	$(1,870)
Elimination of preferred stock dividends and accretion	498
Pro forma net loss available to common stockholders	$(1,372)
Weighted average basic and diluted common shares outstanding, as reported	6,384,557
Conversion of preferred stock to common stock	9,014,658
Pro forma weighted average basic and diluted common shares outstanding	15,399,215
Pro forma basic and diluted loss per share	$(0.09)

12. SUBSEQUENT EVENTS

Acquisition—On March 17, 2008, the Company acquired Fast Track Systems, Inc. (“Fast Track”), a provider of clinical trial planning software, proprietary contracting data and professional services. With this acquisition, the Company extended its ability to serve customers throughout the clinical research process with solutions that improve efficiencies in protocol development and trial planning, contracting and negotiation. Based upon a valuation analysis by an independent third-party valuation specialist, the fair value of Company’s common stock was $19.66 per share at the closing of the acquisition. Therefore, the total consideration paid by the Company was approximately $18,100, which consisted of the issuance of 864,440 shares of the common stock in exchange for all Fast Track’s existing preferred stock and common stock, as well as 444 shares and 25,242 shares of common stock reserved for the exercise of outstanding warrants and vested employee stock options, respectively.

At the effective date of the business combination, the terms of Fast Track’s outstanding stock options did not terminate but continue to have and be subject to the same terms and conditions that are in effect prior to the business combination, except that the options are exercisable into a calculated equivalent price and number of the Company’s common stock. All unvested Fast Track’s stock options at the date of acquisition will be vested based on the original stock option contracts with an accelerated vesting at 1st year anniversary of acquisition in accordance with the acquisition agreement.

In connection with this acquisition, the 2000 Stock Option Plan had been further amended to provide for a total 3,353,906 authorized shares.

Medidata Solutions, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

For Each of the Three Years in the Period Ended December 31, 2007

(In thousands, except share and per-share data)

New Credit Facility—In September 2008, the Company entered into a new senior secured credit facility that included a $15,000 term loan, which was fully drawn at closing, and a $10,000 revolving credit line, all of which remains undrawn and available for future borrowings. The new senior secured credit facility was secured effectively by all of the assets of the Company. Proceeds of the term loan were used to repay approximately $11,000 of outstanding notes payable (see Note 4) and the remaining $4,000 will be for general corporate purposes. The term loan and revolving credit line will mature in September 2013 and the outstanding principal of the term loan will amortize in quarterly installments of $375 beginning on March 31, 2009 up through the date of maturity at which time a lump sum payment of any remaining unpaid balance will be due. The term loan and revolving credit line bear interest at prime rate plus 2.5% until March 31, 2009 and, thereafter, will bear interest at prime rate plus 2.25%. However, if the Company can satisfy the minimum fixed charge coverage ratio covenant as of December 31, 2009 or March 31, 2010, the applicable margin thereafter will be reduced to 1.5%. In addition, any undrawn revolving credit line is subject to a quarterly unused fee at 0.5% of the average undrawn balance.

FDIC-Insured Limits—In September 2008, the FDIC-insured limits were temporarily increased from $100 to $250. The limit will revert back to $100 on December 31, 2009. See Note 2 for discussion of concentration of credit risk.

Money Market Funds Guaranty Program—In September 2008, the U.S. Treasury Department announced that, for the next year, it would insure holdings of any publicly offered eligible money market mutual fund that pays a fee to participate in the program. The program provides support to investors in funds that participate in the program and the net asset value of those funds will not fall below $1.00. The Company has money market holdings with an investment bank which has chosen to participate in this program. As such, the Company's money market funds will continue to be considered cash and cash equivalents.

Medidata Solutions, Inc. and Subsidiaries

S Chedule Ii – V Aluation and Q Ualifying a Ccounts

Exhibits and Financial Statement Schedules Schedule II—Valuation and Qualifying Accounts The allowance for doubtful accounts as of December 31, 2006 and 2007 was $24 and $32, respectively. The table below details the activity in the account for the past three fiscal years:

Period	Balance at beginningof period	Charged to costs andexpenses	Deductions	Balance at end ofperiod
Year ended December 31, 2005	$70	$9	$(64)	$15
Year ended December 31, 2006	15	23	(14)	24
Year ended December 31, 2007	24	8	—	32

R Eport of I Ndependent R Egistered P Ublic a Ccounting F Irm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM To the Board of Directors and Stockholders of Fast Track Systems, Inc.

Conshohocken, Pennsylvania We have audited the accompanying balance sheets of Fast Track Systems, Inc. (the "Company") as of December 31, 2006 and 2007, and the related statements of operations, stockholders' deficit and cash flows for each of the two years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Fast Track Systems, Inc. as of December 31, 2006 and 2007, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP Philadelphia, Pennsylvania November 21, 2008

B Alance S Heets as of D Ecember 31, 2006 and D Ecember 31, 2007

FAST TRACK SYSTEMS, INC.

Balance Sheets

As of December 31, 2006 and 2007

	2006	2007
Assets		
CURRENT ASSETS		
Cash and cash equivalents	$1,800,659	$1,652,307
Accounts receivable, net of allowance for doubtful accounts of $620 and $35,833 for 2006 and 2007, respectively	593,266	593,366
Prepaid and other current assets	95,148	183,584
Total current assets	2,489,073	2,429,257
RESTRICTED CASH, NONCURRENT	158,000	158,000
PROPERTY AND EQUIPMENT, NET	170,854	181,423
OTHER ASSETS		
Goodwill	1,686,966	1,686,966
Capitalized patent costs	179,360	229,981
Security deposit	17,259	—
TOTAL ASSETS	$4,701,512	$4,685,627
Liabilities and Stockholders' Deficit		
CURRENT LIABILITIES		
Accrued compensation	$271,837	$483,347
Other accrued expenses	105,526	385,103
Deferred revenue	1,759,471	2,070,379

Deferred rent—current portion	34,694	34,694
Capital lease obligation—current portion	7,942	8,431
Total current liabilities	2,179,470	2,981,954
LONG-TERM LIABILITIES		
Deferred rent	124,318	89,624
Deferred taxes	60,146	128,660
Capital lease obligation	11,487	3,056
Total long-term liabilities	195,951	221,340
Total liabilities	2,375,421	3,203,294
CONVERTIBLE REDEEMABLE PREFERRED STOCK		
Series 1—1,000,000 shares authorized, $0.001 par value; 476,581 shares issued and outstanding; liquidation value of $4,587,688 and $4,909,380 in 2006 and 2007, respectively	4,092,979	4,414,671
Series 2—2,400,000 shares authorized, $0.001 par value; 886,661 shares issued and outstanding; liquidation value of $899,961 and $966,461 in 2006 and 2007, respectively	899,961	966,461
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT		
Common stock—$0.001 par value; 7,000,000 shares authorized, 2,509,329 shares issued and outstanding	2,518	2,518
Additional paid in capital	47,463,239	47,092,910
Accumulated deficit	(50,132,606)	(50,994,227)
Total stockholders' deficit	(2,666,849)	(3,898,799)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$4,701,512	$4,685,627

See notes to financial statements.

S Tatements of O Perations for the Y Ears E Nded D Ecember 31, 2006 and 2007

FAST TRACK SYSTEMS, INC.

Statements of Operations

Years Ended December 31, 2006 and 2007

	2006	2007
REVENUES	$5,112,814	$5,398,675
COST OF REVENUES	924,317	1,071,343
GROSS PROFIT	4,188,497	4,327,332
OPERATING EXPENSES		
Research and development	848,502	886,201
Sales and marketing	1,036,305	1,394,371
General and administrative	2,350,289	2,896,591
Total operating expenses	4,235,096	5,177,163
LOSS FROM OPERATIONS	(46,599)	(849,831)
OTHER INCOME (EXPENSE)		
Interest income	58,333	62,351

Interest expense	(54,662)	(3,672)
Total other income	3,671	58,679
LOSS BEFORE INCOME TAXES	(42,928)	(791,152)
INCOME TAX EXPENSE	(62,101)	(70,469)
NET LOSS	(105,029)	(861,621)
PREFERRED STOCK DIVIDENDS	343,859	388,192
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	$(448,888)	$(1,249,813)
BASIC AND DILUTED LOSS PER SHARE	$(0.18)	$(0.50)
WEIGHTED AVERAGE BASIC AND DILUTED COMMON SHARES OUTSTANDING	2,506,994	2,509,329

See notes to financial statements.

S Tatements of S Tockholders ' D Eficit for the Y Ears E Nded D Ecember 31, 2006 and 2007

FAST TRACK SYSTEMS, INC.

Statements of Stockholders' Deficit

Years Ended December 31, 2006 and 2007

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' DEFICIT
	SHARES	AMOUNT			
BALANCE AT JANUARY 1, 2006	2,515,514	$2,515	$47,799,735	$(50,027,577)	$(2,225,327)
Exercise of options	2,813	3	4,815	—	4,818
Stock-based compensation	—	—	2,548		2,548
Accrued preferred stock dividends			(343,859)		(343,859)
Net loss and comprehensive loss	—	—	—	(105,029)	(105,029)
BALANCE AT DECEMBER 31, 2006	2,518,327	2,518	47,463,239	(50,132,606)	(2,666,849)
Stock-based compensation			17,863		17,863
Accrued preferred stock dividends			(388,192)		(388,192)
Net loss and comprehensive loss				(861,621)	(861,621)
BALANCE AT DECEMBER 31, 2007	2,518,327	$2,518	$47,092,910	$(50,994,227)	$(3,898,799)

See notes to financial statements.

S Tatements of C Ash F Lows for the Y Ears E Nded D Ecember 31, 2006 and 2007

FAST TRACK SYSTEMS, INC.

Statements of Cash Flows

Years Ended December 31, 2006 and 2007

	2006	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(105,029)	$(861,621)
Adjustments to reconcile net loss to net cash provided by operating activities:		
(Recovery) provision for doubtful accounts	(4,380)	35,213
Depreciation and amortization	80,742	83,648
Deferred rent	(5,207)	(34,694)
Stock-based compensation	2,548	17,863
Deferred taxes	60,146	68,514
Interest on convertible notes	50,529	—
Loss on disposal of property and equipment	36,228	388
Increase (decrease) in operating assets and liabilities:		
Accounts receivable	42,891	(35,313)
Prepaid and other current assets	17,199	(71,177)
Accrued compensation	74,992	211,510
Other accrued expenses	2,000	279,577
Deferred revenue	404,239	310,908
Net cash provided by operating activities	656,898	4,816
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(84,249)	(94,705)
Proceeds from sales of property and equipment	2,440	100
Patent costs	(33,504)	(50,621)
Net cash used in investing activities	(115,313)	(145,226)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of capital lease obligation	(7,480)	(7,942)
Proceeds from exercise of options	4,818	—
Net cash used in financing activities	(2,662)	(7,942)
NET INCREASE (DECREASE) IN CASH	538,923	(148,352)
CASH AND CASH EQUIVALENTS—BEGINNING OF YEAR	1,261,736	1,800,659
CASH AND CASH EQUIVALENTS—END OF YEAR	$1,800,659	$1,652,307
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$54,662	$3,672
NONCASH FINANCING ACTIVITIES:		
Conversion of notes payable and accrued interest to preferred stock	$877,794	$—
Accrued preferred stock dividends	$343,859	$388,192

See notes to financial statements.

N Otes to F Inancial S Tatements

FAST TRACK SYSTEMS, INC.

Notes to Financial Statements

Years Ended December 31, 2006 and 2007

1. ORGANIZATION AND BUSINESS

Fast Track Systems, Inc. (the "Company") was incorporated in the state of California in 1999. The Company focuses on improving and expediting the clinical trials process through by providing customers with clinical trial planning software and proprietary contracting data. The Company's TrialSpace suite of products drive more robust and cost-effective clinical results by solving problems associated with trial design, review, and start-up activities at the earliest stages of the clinical development process.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition—The Company generates revenue from fees paid by biotech and pharmaceutical firms for access to the Company's on-demand software tools and data to improve the early-stage clinical development process and the provision of other services, primarily professional services associated with training. The Company recognizes revenue when all of the following conditions are satisfied: (1) persuasive evidence of an arrangement exists; (2) service has been delivered to the customer; (3) amount of the fees to be paid by the customer is fixed or determinable; and (4) collection of the fees is reasonably assured or probable.

The Company provides its software and data access as a service and recognizes revenue in accordance with Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 104, *Revenue Recognition,* and Emerging Issue Task Force ("EITF") Issue No. 00-21*, Revenue Arrangements with Multiple Deliverables* ("EITF 00-21"). The Company's customers do not have the right to take possession of the software. Instead, the services and data access are provided on an on-demand basis from the Company's hosting facility. Revenues are recognized ratably over the life of the contract. Contractual terms range from one to five years in length.

Deferred revenue consists of billings or payments received in advance of revenue recognition and are recognized as the revenue recognition criteria are met. Amounts that have been invoiced are initially recorded in accounts receivable and deferred revenue. The Company invoices its customers in accordance with the terms of the underlying contract, usually in advance of the related service period. Payment terms are net 30 days.

Other services consist of consulting services, training and related out of pocket expenses and are recognized as services are rendered. In accordance with EITF Issue No. 01-14*, Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred*, the Company included $11,557 and $12,296 of reimbursable out-of-pocket expenses in revenues in 2006 and 2007, respectively.

Cost of revenue—Cost of revenues consist primarily of salary and benefits associated with direct labor costs, fees to outside contractors, other direct costs in providing services, reimbursable out-of-pocket expenses and depreciation on computer hardware and software. These costs are expensed as incurred.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ materially from those estimates.

Concentrations—Financial instruments that potentially subject the Company to concentration of credit risk include cash, restricted cash, and accounts receivable. The Company places its cash and restricted cash with high credit quality financial institutions. Exposure to customer credit risk is controlled through credit approvals and

establishment of allowance for doubtful accounts when deemed necessary. The allowance for doubtful accounts is increased when the Company becomes aware of a specific customer's inability to meet its financial obligations to them. As of December 31, 2006 and 2007, outstanding receivables were amounts due from customers for services. The Company extends reasonably short collection terms but does not require collateral. Concentration of credit risk, with respect restricted cash, and accounts receivable exists to the extent of amounts presented in the financial statements.

One customer accounted for 13% of the Company's total revenue in 2006 and 7% of total revenue in 2007.

The Company maintains its cash in bank deposit accounts which, at times, may exceed insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash and Cash Equivalents—The Company considers all money market funds and other highly liquid investments purchased with original maturities of three months or less to be cash and cash equivalents. The fair value of cash and cash equivalents approximates the amounts shown on the financial statements.

Restricted Cash—Restricted cash represents deposits related to office lease arrangement and to fully collateralize credit card processors.

Accounts Receivable—Accounts receivable are recorded at original invoice amount less an allowance that management believes will be adequate to absorb estimated losses on existing accounts receivable. The allowance is based on an evaluation of the collectibility of accounts receivable and prior bad debt experience. Accounts receivable are written off when deemed uncollectible.

Property and Equipment—Property and equipment consists of computer hardware and software, office equipment, furniture and fixtures and leasehold improvements recorded at cost. Depreciation is computed on the straight-line method over 3 years for computer hardware and software, and 7 years for office equipment, furniture and fixtures. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or their estimated useful lives. (See Note 3) ***Impairment of Long-Lived Assets***—Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such asset may be impaired. The Company subjects long-lived assets to a test of recoverability based on undiscounted cash flows expected to be generated by such assets while utilized by the Company and cash flow expected from disposition of such assets. If the assets are impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Management has concluded that there is no impairment of long-lived assets as of December 31, 2006 or 2007.

Goodwill—The Company's goodwill is reviewed annually (or more frequently if impairment indicators arise) to determine the recoverability of carrying amounts. The Company uses a two-phase process for impairment testing of goodwill. The first phase screens for impairment; the second phase, if necessary, measures the impairment. The Company has determined itself to be a single reporting unit. Accordingly, all of the Company's goodwill is associated with the entire Company. At December 31, 2006 and 2007, the Company performed the required annual impairment analysis and determined that there was no impairment of goodwill. There was no change in the carrying amount of goodwill which was $1,686,966 during the years ended December 31, 2006 and 2007.

Notes to Financial Statements (Continued)

Years Ended December 31, 2006 and 2007

Capitalized Patent Costs—Internally developed patent costs of $179,360 and $229,981 at December 31, 2006 and 2007, respectively, are being deferred pending their approval or rejection by the United States Patent Office and the patent offices of certain foreign jurisdictions. If approved, these patent costs will be amortized over their legal life. If rejected, they will be expensed in the year of patent denial.

Internal Use Software—The Company capitalizes certain costs related to internal-use software once certain criteria have been met. These costs are amortized over their estimated useful lives (three years), beginning when the computer software is ready for its intended use.

Research and Development—Costs incurred by the Company between completion of the working model of internally developed software and the point at which the product is ready for general release have not been material. Therefore, through December 31, 2007, all research and development costs have been expensed as incurred instead of capitalized.

Stock-Based Compensation—Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123R"), using the prospective transition method and therefore the Company has not restated financial results for prior periods. SFAS 123R requires all share-based payments to employees, including grants of stock options, to be recognized as expense in the statement of operations based on their fair values and vesting periods. Expense for all stock-based compensation awards granted after January 1, 2006 is based on the grant date estimated fair value and recognized on a straight-line basis over the vesting period of the award. Compensation expense related to stock-based compensation of $2,548 and $17,863 has been recorded in the accounts of the Company for the years ended December 31, 2006 and 2007, respectively.

Advertising Costs—The Company expenses advertising costs as incurred. Advertising expense for the years ended December 31, 2006 and 2007 was $97,436 and $104,336, respectively, and is included in sales and marketing expenses.

Income Taxes—The Company uses the asset and liability method of accounting for income taxes, as prescribed by SFAS No. 109, *Accounting for Income Taxes*, which recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Segment Information—As defined by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information,* the Company operates as a single segment, as the management makes operating decisions and assesses performance based on one single operating unit. The Company's revenues and long lived assets in 2006 and 2007 were based solely in North America.

Recently Issued Accounting Pronouncements—In June 2006, the Financial Accounting Standard Board ("FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109,* or FIN 48. FIN 48 clarifies the accounting for uncertainties in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109, Accounting for Income Taxes. This interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. Under **FAST TRACK SYSTEMS, INC.**

FIN 48, the tax effects of a position should be recognized only if it is "more likely-than-not" to be sustained on examination by the taxing authorities, based on its technical merits as of the reporting date. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN 48 on January 1, 2008. If the Company was a public enterprise in 2007, it would have been required to adopt FIN 48 on January 1, 2007. The Company's adoption of FIN 48 did not have a material impact on its financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which enhances existing guidance for measuring assets and liabilities at fair value. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 for financial instruments, and non-financial instruments beginning after November 15, 2008. The Company is currently assessing the impact, if any, that SFAS No. 157 will have on its results of operations, financial position or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits entities to measure the value of certain financial assets and liabilities and report the unrealized gain or loss thereon at each subsequent reporting period. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact, if any, SFAS No 159 will have on its results of operations, financial position or cash flows. Effective January 1, 2008, the Company elected not to take the fair value options for any of its qualifying financial instruments.

In December 2007, FASB issued Statement No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R) and Statement No. 160, *Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS No. 160). These new standards will significantly change the financial accounting and reporting of business combination transactions and noncontrolling (or minority) interests in consolidated financial statements. SFAS No. 141R is required to be adopted concurrently with

Statement No. 160 and is effective for business combination transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is prohibited. Application of SFAS No. 141R and SFAS No. 160 is required to be adopted prospectively, except for certain provisions of SFAS No. 160, which are required to be adopted retrospectively. The adoption of SFAS No. 141R and SFAS No. 160 is not expected to have a material impact on the Company's financial position or results of operations.

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31,	
	2006	**2007**
Computer hardware and software	$215,255	$286,567
Office equipment, furniture, and fixtures	143,459	143,459
Leasehold improvements	4,945	6,145
	363,659	436,171
Less accumulated depreciation and amortization	192,805	254,748
Net property and equipment	$170,854	$181,423

Included in office equipment, furniture and fixtures as of December 31, 2006 and 2007, is a copier under capital lease with a cost of $31,653, net of accumulated depreciation of $17,585 and $28,136, respectively. Depreciation and amortization expense, including assets under capital lease, was $80,742 and $83,648 for the years ended December 31, 2006 and 2007, respectively. Depreciation of equipment under capital lease was $10,551 for each of the years ended December 31, 2006 and 2007.

4. OTHER ACCRUED EXPENSES

Other accrued expenses consist of the following:

	December 31,	
	2006	**2007**
Professional fees	$15,000	$290,000
Consulting fees	39,000	2,800
Sales taxes	—	6,725
State and local franchise taxes	—	13,956
Other sales and marketing expenses	2,500	578
Other general and administrative expenses	49,026	71,044
Total accrued expenses	$105,526	$385,103

5. COMMITMENTS

The Company leases its office facilities and certain equipment under operating leases that expire at various dates through June 2011. At December 31, 2007, future minimum payments are as follows:

Year ending December 31,	
2008	$251,087
2009	251,087
2010	250,117

2011	24,574
Total	$776,865

In addition to minimum rent, the Company is responsible for taxes, maintenance, and insurance. Rent expense for office facilities for the years ended December 31, 2006 and 2007 was $296,560 and $276,474, respectively. Equipment lease rental for the years ended December 31, 2006 and 2007 was $10,153 and $1,206, respectively.

In connection with these operating leases, the Company is required to maintain a security deposit in the amount of $145,000 for its Pennsylvania facility. This amount is included in restricted cash on the accompanying balance sheet at December 31, 2006 and 2007.

The Company leases certain equipment under noncancelable capital lease agreements which provide for total future minimum annual lease payments as follows:

Year ending December 31,	
2008	$8,891
2009	2,964
Total minimum lease payments	11,855
Less amount representing interest	368
Present value of minimum lease payments	11,487
Current portion	8,431
Capital lease obligation excluding current portion	$3,056

6. RELATED PARTY TRANSACTIONS

A major pharmaceutical company is an investor in the Company and holds a seat on the Board of Directors. In 2006 and 2007, sales to this related party totaled $264,250 and $220,000, respectively.

7. CONVERTIBLE REDEEMABLE PREFERRED STOCK

In March 2005, the Company issued convertible 10% promissory notes for principal amounts aggregating $765,211. The notes and accrued interest were convertible in to Series 2 Preferred Stock at $0.99 per share. On August 29, 2006, the notes and related accrued interest were converted to 886,661 shares of Series 2 Preferred Stock in the amount of $877,794. The interest expense on the convertible note for the year ended December 31, 2006 was $50,529.

Warrants—In conjunction with the recapitalization and issuance of convertible notes in March 2005, the Company issued two warrants, each to purchase 93,600 shares of common stock at an effective net exercise price of $0.99 per share. These two warrants expire on the earlier of March 10, 2010; the date of a merger, sale or exchange of all or substantially all of the assets of the Company, or on the date of the Company's initial public offering.

Preferred Stock

The total number of preferred stock the Company has authority to issue is 4,400,000, with par value of $.001 per share. 1,000,000 shares of Preferred Stock are designated Series 1 and 2,400,000 shares are Series 2 and the remaining Preferred Stock may be issued from time to time in one or more additional series.

Dividends—Preferred stockholders are entitled to cumulative dividends at a rate of $0.675 and $0.075 per share, per annum, accruing monthly for Series 1 and 2 preferred stock, respectively, when and if declared by the Board of Directors, payable in preference to common stock dividends. No common dividends have been declared or paid by the Company. The Company began to accrue Series 2 preferred

dividends subsequent to the conversion in August 2006. As of December 31, 2006, Series 1 and Series 2 dividends in arrears amounted to $562,961 and $22,167, respectively. As of December 31, 2007, Series 1 and Series 2 dividends in arrears amounted to $884,653 and $88,667, respectively.

Redemption—At any time subsequent to March 22, 2009, the Company, upon request from the holders of the Preferred Stock, may be required to redeem all shares of Series 1 and 2 Preferred Stock. The Company would be required to make a single cash sum equal to the original purchase prices per share of the Series 1 and 2 Preferred Stock ($4,407,812) plus all accrued or declared and unpaid dividends. See Note 11 for subsequent event.

Conversion—Series 1 and 2 preferred stock is convertible at any time at the option of the holder into common stock on a one-for-one basis, subject to adjustment for antidilution, stock dividends, and reorganization. Each series of preferred stock shall be converted into common stock at the then effective conversion rate (i) upon the closing of a firm commitment underwritten public offering with a sales price per share of common stock (as adjusted for combinations, stock dividends, subdivisions, or split-ups) of at least $6.00 and with an aggregate gross proceeds of at least $25,000,000 or (ii) upon the approval (by vote or written consent) of the holders of the Requisite Series Preferred Percentage. Requisite Series Preferred Percentage shall mean an aggregate number of shares of Series Preferred, voting together as a single class, greater than 106% of the number of shares of Series Preferred held of record by the largest holder of Series Preferred. See Note 11 for subsequent event.

Liquidation Preferences—In the event of any liquidation, dissolution, or winding up of the Company, including a merger, acquisition, or sale of assets where the beneficial owners of the Company's shares own less than 50% of the resulting voting power of the surviving entity, the holders of the preferred stock are entitled to receive cash payments prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of common stock. The holders of Series 1 and 2 shares, prior to holders of common stock, are entitled to receive a distribution equal to $8.445 and $0.99 per share, respectively, plus all accumulated dividends. After the preferential payments to holders of Series 1 and 2 shares, the remaining assets shall be distributed ratably among the holders of common stock in proportion to the number of shares held by each holder.

Voting Rights—Each holder of shares of preferred stock shall be entitled to the number of votes equal to the number of shares of common stock into which their shares would be converted.

8. STOCK OPTION PLAN

In June 1999, the Company adopted the 1999 Stock Option Plan (the Plan) under which the Board of Directors may issue incentive stock options to employees, including officers and members of the Board of Directors who are also employees, and nonqualified stock options to employees, officers, directors, consultants, and advisors of the Company. Under the Plan, incentive options to purchase the Company's common stock may be granted to employees at prices not lower than fair value at the date of grant, as determined by the Board of Directors. Nonqualified options may be granted to key employees, including directors and consultants, at prices not lower than 85% of fair value at the date of grant, as determined by the Board of Directors. Options have a term of 10 years. Shares issued pursuant to the exercise of an unvested option are subject to the Company's right of repurchase which lapse over periods specified by the Board of Directors, generally five years from the date of grant.

For options accounted for under SFAS No. 123R, the fair value of each option grant is estimated on the date of grant using the Black-Scholes pricing model. The Company estimated its future stock price volatility based upon observed option-implied volatilities for a group of peer comparable companies, taking into account the stage of the Company as compared to its peers. Management believes this is the best estimate of the expected volatility over the weighted-average expected life of its option grants. The Company estimated its weighted-average useful life based on the likely date of exercise as opposed to the actual life of the options. The

risk-free interest rate is based on the United States Treasury yield curve in effect at the time of the option grant. No dividends are expected to be declared by the Company at this time. Forfeiture rate is expected to be not material. The fair value of each option grant is estimated with the following assumptions:

	2006	2007
Weighted-average volatility	70%	63%
Expected dividends	—	—
Expected term	6.5 years	6.5 years
Risk free rate	4.91%	4.46% – 4.81%

Activity under the Plan for the years ended December 31, 2006 and 2007 is as follows:

	Number of Shares(Vested andNonvested)	Weighted-AverageExercise PricePer Share	Average RemainingContractual Term(in years)
Balance at January 1, 2006	728,524	$0.34	
Options granted	43,000	0.10	
Options exercised	(2,813)	1.71	
Options cancelled	(7,912)	0.14	
Options expired	(1,088)	2.85	
Balance at December 31, 2006	759,711	0.32	6.89
Options granted	152,500	0.10	
Options exercised	—	—	
Options cancelled	(1,075)	0.10	
Options expired	(425)	0.10	
Balance at December 31, 2007	910,711	$0.28	6.08
Exercisable at December 31, 2007	426,258	$0.28	6.08

The weighted average grant-date fair value of options granted during the years 2006 and 2007 was $0.48 and $0.47, respectively.

Options Outstanding				Options Exercisable	
Exercise Price	Shares Outstanding AtDecember 31, 2007	Remaining ContractualLife(Years)	Weighted-AverageExercisePrice	Shares Exercisable AtDecember 31, 2007	Weighted-AverageExercisePrice
$0.10	828,541	7.77	$0.10	345,294	$0.10
$1.50	33,031	5.84	1.50	31,825	1.50
$1.65	10,733	2.55	1.65	10,733	1.65
$2.85	38,406	3.77	2.85	38,406	2.85
	910,711	6.08	$0.28	426,258	$0.28

Notes to Financial Statements (Continued)

Years Ended December 31, 2006 and 2007

A summary of the status of the Company's nonvested shares as of December 31, 2007 is as follows:

	Number of Shares	Weighted-AverageGrant-DateFair Value

Nonvested at January 1, 2006	658,444	$0.15
Granted	43,000	0.10
Vested	(254,906)	0.18
Forfeited	(9,000)	0.10
Nonvested at December 31, 2006	437,538	0.11
Granted	152,500	0.10
Vested	(104,085)	0.14
Forfeited	(1,500)	0.10
Nonvested at December 31, 2007	484,453	$0.10

As of December 31, 2007, there was a total of $71,619 of unrecognized compensation cost related to non-vested share-based compensation awards granted, as recorded in accordance with SFAS No. 123R. This cost is expected to be recognized over a weighted-average period of three years. The total fair value of shares vested during the years ended December 31, 2006 and 2007 was $44,098 and $14,248, respectively.

Under the Plan, the Company also may grant rights to purchase shares subject to repurchase either alone, in addition to, or in tandem with other awards granted under the Plan and/or cash awards granted outside the Plan. Exercise of these share purchase rights are made pursuant to restricted stock purchase agreements containing provisions established by the Board of Directors. These provisions give the Company the right to repurchase the shares at the original sales price.

The right expires at a rate determined by the Board of Directors, generally at a rate of 20% after one year and 1/60th per month thereafter. See Note 10 for subsequent event.

8. INCOME TAXES

The components of the tax provision for the year ended December 31, 2006 and 2007 are as follows:

	2006	2007
Current		
Federal	$–	$–
State	1,956	1,956
Sub-total	1,956	1,956
Deferred		
Federal	51,124	58,236
State	9,021	10,277
Sub-total	60,145	68,513
Total	$62,101	$70,469

Income taxes were at rates different from U.S. federal statutory rates for the following reasons:

	2006	2007
Federal statutory rate	$(16,339)	$(269,915)
State income taxes, net of federal tax deduction	10,977	12,233
Research and development	(26,494)	(9,255)

Valuation allowance—federal	84,928	335,947
Other, net	9,029	1,459
Total	$62,101	$70,469

As of December 31, 2006 and 2007, the components of net deferred tax assets (liabilities) are as follows:

	2006	2007
Net deferred tax assets (liabilities):		
Current:		
Allowance for bad debts	$249	$14,333
Payroll accruals	12,139	8,718
	12,388	23,051
Long-term:		
Property and equipment	(5,938)	(6,420)
Intangibles	488,140	357,775
Research and development credits	811,618	823,645
Net operating loss carryforwards	17,221,762	17,666,671
Capitalized R&D expenses	531,322	442,167
	19,046,904	19,283,838
Less valuation allowance	(19,119,438)	(19,435,549)
Net deferred tax asset (liabilities)	$(60,146)	$(128,660)

The Company has provided a valuation allowance against the net deferred tax assets as their future utilization is dependent on future taxable income, if any, the amounts and timing of which are uncertain at this time. The net change in the federal and state valuation allowance was an increase of $74,150 for the year ended December 31, 2006 and an increase of $316,111 for the year ended December 31, 2007. As of December 31, 2007, the Company had federal and state net operating loss (“NOL”) carryforwards of approximately $48,000,000 and $19,000,000, respectively. The Company also had federal and state research and development (“R&D”) tax credit carryforwards of approximately $824,000. The federal and state net operating loss and tax credit carryforwards will expire at various dates through 2027, if not utilized.

The Tax Reform Act of 1986 contains provisions that may limit the NOL and R&D credit carryforwards available to be used in any given year upon the occurrence of certain events, including significant changes in ownership interest. Generally, a change in ownership of a company of greater than 50% within a three-year period results in an annual limitation on that company’s ability to utilize its NOL carryforwards and tax credits from the tax periods prior to the ownership change, therefore, the NOLs reflected above could be limited to the extent an ownership change occurred prior to December 31, 2007. Subsequent to December 31, 2007, the Company has had a change in ownership that could limit the use of NOL and R&D credit carryforwards. See Note 11 for subsequent event.

9. CONTINGENCIES

From time to time, the Company is subject to litigation in the ordinary course of business. Currently, there are no claims or proceedings against the Company that management believes would be expected to have a material adverse effect on the Company’s business or financial condition, results of operations or cash flows.

10. EARNINGS PER SHARE

The Company follows SFAS No. 128, *Earnings Per Shar*e, in calculating earnings per share. Basic earnings per share is calculated by dividing net income (loss) available to common stockholders by the weighted-average number of shares outstanding during the period. Diluted earnings per share includes the determinants of basic net income (loss) per share and, in addition, gives effect to potentially dilutive common shares. For 2006 and 2007, the diluted income (loss) per share excluded the impact of the conversion of all preferred stock, stock options and warrants because the effect would be anti-dilutive.

The following common stock equivalents were excluded from the calculation of diluted net loss per share since the effects are anti-dilutive:

	2006	2007
Preferred stock	1,363,242	1,363,242
Stock options	759,711	910,711
Warrants	187,200	187,200
	2,310,153	2,461,153

11. SUBSEQUENT EVENT

Effective March 17, 2008, the Company was acquired by Medidata Worldwide Solutions, Inc. (“Medidata”), a provider of software and technology solutions for use in the clinical trial component of our customers’ research and development initiatives. The total consideration paid by Medidata was approximately $18.1 million, which consisted of the issuance of 864,884 shares of their common stock in exchange for all existing preferred stock, common stock and outstanding warrants issued by the Company and reserve of 25,242 shares of common stock for the exercise of vested stock options.

At the effective date of the business combination, the terms of the outstanding stock options did not terminate but continue to have and be subject to the same terms and conditions that were in effect prior to the business combination, except that the options are exercisable into a calculated equivalent price and number of Medidata’s common stock. All unvested stock options at the date of acquisition will be vested based on the original stock option contracts with an accelerated vesting at the 1st anniversary of acquisition in accordance with the acquisition agreement.

******

Shares

Common Stock

Prospectus

, 2009

Citi	**Credit Suisse**
Jefferies & Company	**Needham & Company, LLC**

Part Ii

Information Not Required in Prospectus

Item 13. Other Expenses of Issuance and Distribution.

The following table sets forth the various expenses, other than underwriting discounts and commissions, payable by the registrant in connection with the sale of common stock being registered. All of the amounts shown are estimated except the SEC registration fee, the Financial Industry Regulatory Authority, or FINRA, filing fee and the NASDAQ Global Market listing fee.

	Amount to be Paid
SEC registration fee	$3,390
FINRA filing fee	9,125
NASDAQ Global Market listing fee	*

Printing and engraving expenses	*
Legal fees and expenses	*
Accounting fees and expenses	*
Transfer agent and registrar fees	*
Miscellaneous fees and expenses	*
Total	$ *

* To be completed by amendment.

Item 14. Indemnification of Directors and Officers.

Section 145(a) of the DGCL provides that a Delaware corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person's conduct was unlawful.

Section 145(b) provides that a Delaware corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person acted in any of the capacities set forth above, against expenses (including attorneys' fees) actually and reasonably incurred by the person in connection with the defense or settlement of such action or suit if the person acted under standards similar to those discussed above, except that no indemnification may be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the court in which such action or suit was brought shall determine that despite the adjudication of liability, such person is fairly and reasonably entitled to be indemnified for such expenses which the court shall deem proper.

Section 145 further provides that to the extent a director or officer of a corporation has been successful in the defense of any action, suit or proceeding referred to in subsections (a) and (b) or in the defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith; that indemnification provided for by Section 145 shall not be deemed exclusive of any other rights to which the indemnified party may be entitled; and that the corporation may purchase and maintain insurance on behalf of a director or officer of the corporation against any liability asserted against such person or incurred by such person in any such capacity or arising out of such person's status as such whether or not the corporation would have the power to indemnify such person against such liabilities under Section 145.

The registrant's fourth amended and restated certificate of incorporation provides that, to the fullest extent permitted by the DGCL, as the same exists or hereafter may be amended, a director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for the breach of any fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL, as the same exists or hereafter may be amended, or (iv) for any transaction from which the director derived an improper personal benefit.

The registrant's amended and restated bylaws provide that the registrant shall indemnify any director or officer of the corporation, and may indemnify any other person, who (a) was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person's conduct was unlawful, and (b) was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses

(including attorneys' fees) actually and reasonably incurred by the person in connection with the defense or settlement of such action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper. Section 102(b)(7) of the DGCL provides that a certificate of incorporation may contain a provision eliminating or limiting the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that such provision shall not eliminate or limit the liability of a director: (i) for any breach of the director's duty of loyalty to the corporation or its stockholders; (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) under Section 174 of the DGCL; or (iv) for any transaction from which the director derived an improper personal benefit.

In addition, the registrant has entered into indemnification agreements, in the forms attached as Exhibits 10.1 and 10.2 hereto, with its directors and executive officers which would require the registrant, among other things, to indemnify them against certain liabilities which may arise by reason of their status.

The registrant maintains directors' and officers' liability insurance for its officers and directors.

The underwriting agreement filed as Exhibit 1.1 to this Registration Statement contains provisions indemnifying officers and directors of the registrant against liabilities arising under the Securities Act or otherwise.

Item 15. Recent Sales of Unregistered Securities.

In the three years preceding the filing of this Registration Statement, the registrant has issued the following securities that were not registered under the Securities Act:

On March 17, 2008, in connection with our acquisition of Fast Track by merger, the registrant issued 864,440 shares of common stock to the 75 former stockholders of Fast Track in exchange for all of their shares of Fast Track. In the acquisition, the registrant also assumed 45,246 outstanding options under Fast Track Stock Option Plan (on the same terms and conditions as in effect prior to the merger) and warrants to purchase a total of 444 shares of common stock. The shares were issued pursuant to an exemption available under Section 4(2). The recipients of securities in the acquisition represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the stock certificates that were issued. The sales of these securities were made without general solicitation or advertising. All recipients either received adequate information about us or had access, through employment or other relationships, to such information.

Between January 16, 2006 and January 16, 2009, the registrant granted options to purchase 1,617,726 shares of common stock to its directors, employees and consultants, at exercise prices ranging from $0.62 to $21.55 per share. During the same period, the registrant issued and sold 508,066 unregistered shares of common stock pursuant to option exercises at prices ranging from $0.17 to $12.08 per share. These issuances of these options and common stock upon exercise of these options were exempt either pursuant to Rule 701, as a transaction pursuant to a compensatory benefit plan or pursuant to of the Securities Act, or pursuant to Section 4(2), as a transaction by an issuer not involving a public offering. The common stock issued upon exercise of options are deemed restricted securities for purposes of the Securities Act.

Item 16. Exhibits and Financial Statement Schedules.

(a) Exhibits.

The information required by this item is set forth on the exhibit index that follows the signature page of this Registration Statement.

(b) Financial statement schedules.

Schedule II—Valuation and Qualifying Accounts is included in the Consolidated Financial Statements of Medidata Solutions, Inc. and subsidiaries at page F-47. All other financial statement schedules are omitted because they are inapplicable, not required or the information is indicated elsewhere in the consolidated financial statements or the notes thereto.

Item 17. Undertakings.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers, and controlling persons of the registrant pursuant to the provisions described above in Item 14 or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is

asserted against the registrant by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

The undersigned registrant hereby undertakes that:

1. For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

2. For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Signatures

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on January 23, 2009.

MEDIDATA SOLUTIONS, INC.	
By:	/S/ TAREK A. SHERIF
	Tarek A. Sherif
	Chairman and Chief Executive Officer

Power of Attorney

Each person whose signature appears below appoints Tarek A. Sherif and Bruce D. Dalziel, and each of them, any of whom may act without the joinder of the other, as his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement and any Registration Statement (including any amendment thereto) for this offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or would do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them of their or his substitute and substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Tarek A. Sherif **Tarek A. Sherif**	Chairman, Chief Executive Officer (*Principal Executive Officer*) and Director	January 23, 2009
/s/ Bruce D. Dalziel **Bruce D. Dalziel**	Chief Financial Officer (*Principal Financial Officer*)	January 23, 2009
/s/ Cory Douglas **Cory Douglas**	Controller (*Principal Accounting Officer*)	January 23, 2009
/s/ Glen M. de Vries **Glen M. de Vries**	Director	January 23, 2009
/s/ Carlos Dominguez **Carlos Dominguez**	Director	January 23, 2009
/s/ Edward F. Ikeguchi, M.D. **Edward F. Ikeguchi, M.D.**	Director	January 23, 2009
/s/ Edwin A. Goodman **Edwin A. Goodman**	Director	January 23, 2009
/s/ Neil M. Kurtz, M.D. **Neil M. Kurtz, M.D.**	Director	January 23, 2009
/s/ George McCulloch **George McCulloch**	Director	January 23, 2009
/s/ Peter Sobiloff **Peter Sobiloff**	Director	January 23, 2009
/s/ Robert B. Taylor **Robert B. Taylor**	Director	January 23, 2009

Exhibit Index

Exhibit No.	Description
1.1*	Form of Underwriting Agreement.
3.1*	Fourth Amended and Restated Certificate of Incorporation.
3.2*	Amended and Restated Bylaws.
4.1*	Specimen common stock certificate.
5.1*	Opinion of Fulbright & Jaworski L.L.P.
10.1*	Form of Director Indemnification Agreement.
10.2*	Form of Officer Indemnification Agreement.
10.3*†	Medidata Solutions, Inc. Amended and Restated 2000 Stock Option Plan.
10.4*†	Form of Medidata Solutions, Inc. Amended and Restated 2000 Stock Option Plan Option Agreement.
10.5*†	Medidata Solutions, Inc. 2009 Long-Term Incentive Plan.
10.6*†	Director Form of Medidata Solutions, Inc. 2009 Long-Term Incentive Plan Stock Option Agreement.
10.7*†	Officer Form of Medidata Solutions, Inc. 2009 Long-Term Incentive Plan Stock Option Agreement.
10.8*†	Form of Medidata Solutions, Inc. 2009 Long-Term Incentive Plan Restricted Stock Unit Agreement.
10.9*	Amended and Restated Registration Rights Agreement, dated as of May 27, 2004, by and among Medidata Solutions, Inc. and the Investors named therein.
10.10*	Agreement and Plan of Merger, dated as of February 13, 2008, among Medidata Solutions, Inc., FT Acquisition Corp., Fast Track Systems, Inc., and Shareholder Representative Services LLC.

10.11*	Loan and Security Agreement, dated as of September 10, 2008, by and among Medidata Solutions, Inc., Medidata FT, Inc. and Silicon Valley Bank.
10.12*	First Loan Modification Agreement, dated as of December 31, 2008, by and among Silicon Valley Bank, Medidata Solutions, Inc. and Medidata FT Inc.
10.13*	Registration Rights Agreement, dated as of March 14, 2008, by and among Medidata Solutions, Inc., Shareholder Representative Services LLC and Fast Track Systems, Inc.
10.14*†	Form of Executive Change in Control Agreement.
21.1	Subsidiaries of Medidata Solutions, Inc.
23.1*	Consent of Fulbright & Jaworski L.L.P. (included in Exhibit 5.1).
23.2	Consent of Deloitte & Touche LLP.
23.3	Consent of Deloitte & Touche LLP.
24.1	Power of Attorney (on signature page).
99.1	Consent of Pearl Meyer & Partners.
99.2	Consent of Financial Strategies Consulting Group LLC.

* To be filed by amendment.

† Indicates a management contract or any compensatory plan, contract or arrangement.