TigerLogic CORP
Form 10-Q
November 10, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from _____ to _____

Commission File Number 0-16449

TIGERLOGIC CORPORATION
(Name of Registrant as Specified in Its Charter)

Delaware (State of Incorporation)	94-3046892 (I.R.S. Employer ID. No.)
25A Technology Drive Suite 100, Irvine, California (Address of Principal Executive Offices) (949) 442-4400 (Registrant's Telephone Number, Including Area Code)	92618 (Zip Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO x

As of October 31, 2011, the Registrant had 28,164,347 shares of its common stock outstanding.

TIGERLOGIC CORPORATION
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TIGERLOGIC CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	September 30, 2011	March 31, 2011
ASSETS		
Current assets		
Cash	$8,917	$11,354
Trade accounts receivable, less allowance for doubtful accounts of $10 and $11, respectively.	1,227	756
Other current assets	1,040	421
Total current assets	11,184	12,531
Property, furniture and equipment-net	645	699
Goodwill	26,388	26,388
Deferred tax assets	290	304
Other assets	114	116
Total assets	$38,621	$40,038
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$227	$205
Accrued liabilities	1,635	1,682
Deferred revenue	4,042	4,283
Total current liabilities	5,904	6,170
Commitments and contingencies		
Stockholders' equity		
Preferred stock	—	—
Common stock	2,815	2,810
Additional paid-in-capital	134,729	133,995
Accumulated other comprehensive income	2,289	2,312
Accumulated deficit	(107,116)	(105,249)
Total stockholders' equity	32,717	33,868
Total liabilities and stockholders' equity	$38,621	$40,038

See accompanying notes to the unaudited condensed consolidated financial statements.

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TIGERLOGIC CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
Net revenues				
Licenses	$1,137	$1,079	$1,976	$2,006
Services	2,392	2,293	4,727	4,612
Total net revenues	3,529	3,372	6,703	6,618
Operating expenses				
Cost of license revenues	4	4	6	6
Cost of service revenues	482	440	959	851
Selling and marketing	1,201	1,147	2,560	2,308
Research and development	1,384	1,496	2,868	3,002
General and administrative	880	926	1,973	2,065
Total operating expenses	3,951	4,013	8,366	8,232
Operating loss	(422)	(641)	(1,663)	(1,614)
Other income (expense)				
Interest income (expense)-net	—	(1)	2	(1)
Other income (expense)-net	(38)	34	(29)	(12)
Total other income (expense)	(38)	33	(27)	(13)
Loss before income taxes	(460)	(608)	(1,690)	(1,627)
Income tax provision	68	97	177	117
Net loss	$(528)	$(705)	$(1,867)	$(1,744)
Basic and diluted net loss per share	$(0.02)	$(0.03)	$(0.07)	$(0.06)
Shares used in computing basic and diluted net loss per share	28,134	27,986	28,128	27,959

See accompanying notes to the unaudited condensed consolidated financial statements.

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TIGERLOGIC CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Six Months Ended September 30,	
	2011	2010
Cash flows from operating activities:		
Net loss	$(1,867)	$(1,744)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of long-lived assets	82	187
Provision for bad debt	4	5
Stock-based compensation expense	629	549
Change in deferred tax assets	177	117
Foreign currency exchange loss	30	10
Change in assets and liabilities:		
Trade accounts receivable	(498)	42
Other current and non-current assets	(652)	(20)
Accounts payable	31	18
Accrued liabilities	(178)	(462)
Deferred revenue	(207)	(333)
Net cash used in operating activities	(2,449)	(1,631)
Cash used in investing activities-purchase of property, furniture and equipment	(44)	(213)
Cash from financing activities:		
Proceeds from exercise of stock options	62	175
Proceeds from issuance of common stock	48	32
Net cash provided by financing activities	110	207
Effect of exchange rate changes on cash	(54)	20
Net decrease in cash	(2,437)	(1,617)
Cash at beginning of period	11,354	12,492
Cash at end of period	$8,917	$10,875

See accompanying notes to the unaudited condensed consolidated financial statements.

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TIGERLOGIC CORPORATION AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011

1. INTERIM FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial information furnished herein reflects all adjustments, consisting only of normal recurring items, which in the opinion of management are necessary to fairly state TigerLogic Corporation and its subsidiaries' (collectively, the "Company" or "we," "us" or "our") financial position, results of operations and cash flows for the dates and periods presented and to make such information not misleading. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to rules and regulations of the Securities and Exchange Commission ("SEC"); nevertheless, management of the Company believes that the disclosures herein are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended March 31, 2011, contained in the Company's Annual Report on Form 10-K filed with the SEC on June 22, 2011. The results of operations for the three and six months ended September 30, 2011, are not necessarily indicative of results to be expected for any other interim period or the fiscal year ending March 31, 2012.

2. STOCK-BASED COMPENSATION

The Company has a stock option plan that provides for the granting of stock options, restricted stock and restricted stock units to directors, employees and consultants. The Company also has an employee stock purchase plan allowing employees to purchase the Company's common stock at a discount.

Total stock-based compensation expense included in the unaudited condensed consolidated statements of operations for the three and six months ended September 30, 2011 and 2010, was as follows (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
Cost of revenue	$39	$17	$76	$34
Operating expense:				
Selling and marketing	64	99	179	198
Research and development	105	80	201	152
General and administrative	88	78	173	165
Total stock-based compensation expense	296	274	629	549
Income tax benefit	—	—	—	—
Net stock-based compensation expense	$296	$274	$629	$549

As of September 30, 2011, there was approximately $1.8 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans. That cost is expected to be recognized over a weighted-average period of 2.7 years.

3. RECENTLY ISSUED ACCOUNTING GUIDANCE

In June 2011, the Financial Accounting Standards Board (FASB) issued amended disclosure requirements for the presentation of comprehensive income. This guidance eliminates the option of presenting the components of other comprehensive income (OCI) as part of the statement of changes in equity. Under this amended guidance, all changes in OCI are to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive financial statements. This change is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and is to be applied retrospectively. The Company does not expect this guidance to have an impact on the consolidated financial statements as it only relates to changes to the financial statement

presentation.

In September 2011, the FASB issued an update to existing guidance which permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity can support the conclusion that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it would not need to perform the two-step impairment test for that reporting unit. This guidance is effective for annual and interim goodwill impairment tests performed in fiscal years beginning

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after December 15, 2011. Early adoption is allowed. The Company does not expect this guidance to have an impact on the consolidated financial statements.

4. FAIR VALUE MEASUREMENT

The Company maintains all of its cash on deposit at financial institutions. As such, there were no cash equivalents in our balance sheets as of September 30, 2011 or March 31, 2011. The carrying amounts of accounts receivable and accounts payable approximate fair value because of the short-term maturity of these instruments. There were no nonfinancial assets or liabilities that required recognition or disclosure at fair value on a nonrecurring basis in our balance sheets as of September 30, 2011 or March 31, 2011.

5. STOCKHOLDERS' EQUITY

Basic loss per share is computed using the net loss and the weighted average number of common shares outstanding during the period. Diluted loss per share is computed using the net loss and the weighted average number of common shares and potential common shares outstanding during the period when the potential common shares are dilutive. Potential dilutive common shares include outstanding stock options.

Weighted outstanding options to purchase 2,005,970 shares and 1,567,981 shares of the Company's common stock have been excluded from the computation of diluted net loss per share for the three and six month periods ended September 30, 2011, respectively; and 1,328,691 shares and 1,334,771 shares for the three and six month periods ended September 30, 2010, respectively, because the effect of their inclusion would have been anti-dilutive.

The change in accumulated other comprehensive loss during the three and six month periods ended September 30, 2011 and 2010 is the result of the effect of foreign exchange rate changes. The following table reconciles net loss as reported with total comprehensive loss (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
Net loss reported	$(528)	$(705)	$(1,867)	$(1,744)
Translation adjustments-net	(18)	38	(23)	40
Total comprehensive loss	$(546)	$(667)	$(1,890)	$(1,704)

6. BUSINESS SEGMENT

The Company operates in one reportable segment. International operations consist primarily of foreign sales offices selling software developed in the United States combined with local maintenance and support revenue. The following table summarizes consolidated financial information of the Company's operations by geographic location (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
Net revenue				
United States	$2,335	$2,377	$4,498	$4,665
Europe/Africa	1,194	995	2,205	1,953
Total	$3,529	$3,372	$6,703	$6,618

	September 30, 2011	March 31, 2011
Long-lived assets		
United States	$26,985	$27,029
Europe/Africa	452	478

Total	$27,437	$27,507

The Company is engaged in the design, development, sale, and support of the following software product lines: 1) yolink, 2) MDMS, 3) RAD, and 4) Postano. To date, the Company has not recognized any material revenue relating to our yolink and

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Postano products. The following table represents the Company's net revenue by product line (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
Net revenue				
Databases (MDMS)	$2,376	$2,349	$4,643	$4,696
RAD Software Tools	1,153	1,023	2,060	1,922
Total	$3,529	$3,372	$6,703	$6,618

7. RELATED PARTY TRANSACTIONS

The Company entered into an expense reimbursement agreement with Astoria Capital Partners, L.P. (“Astoria”), its largest stockholder, in connection with Richard Koe's appointment as Interim President and Chief Executive Officer, pursuant to which the Company agreed to reimburse Astoria for a portion of overhead costs and expenses related to the use by Mr. Koe of Astoria's premises and office equipment while performing his employment duties for the Company. The agreement terminates 90 days after Mr. Koe is either no longer employed by the Company or is no longer performing services for the Company from Astoria's premises. Mr. Koe also serves as President of Astoria. Since the start of the agreement on April 1, 2009, the Company reimbursed Astoria approximately $7,100 per month. Effective April 1, 2011, the Company entered into a new office lease in Portland, Oregon, and as a result, the expense reimbursement agreement with Astoria terminated on June 30, 2011.

8. INCOME TAXES

On August 9, 2011, the Company received a report from the German tax authorities upon completion of a tax audit of the Company's German subsidiary for fiscal years 2005 through 2007. During the quarter ended June 30, 2011, the Company considered the results of the tax audit in measuring its uncertain tax position for transfer pricing between its German subsidiary and other affiliated companies. The effect of the change in estimate was to increase the Company's liability for uncertain tax positions and income tax expense by $4,000 for the quarter ended June 30, 2011. During the quarter ended September 30, 2011, the Company settled $33,000 of the $45,000 in tax liability accrued in the prior quarter for uncertain tax position related to Germany. The remaining balance is expected to be settled within the next twelve months.

During the quarter ended June 30, 2011, while reconciling the German tax audit results to its records for the German subsidiary, the Company discovered certain errors in the amounts of German net operating loss carryforwards and taxable income included in its income tax provision for prior years. The effect of these errors was an understatement of income tax expense by $45,000 and $48,000 in fiscal years 2010 and 2011, respectively. These amounts were recorded during the quarter ended June 30, 2011. Income tax expense for the three month period ended June 30, 2011, and for six month period ended September 30, 2011 includes the effect of the correction of these errors. Management believes these amounts are immaterial to the financial statements for all affected periods.

The tax audit in Germany also resulted in the assessment of certain withholding taxes on intercompany payments in Germany relating to fiscal years 2005 through 2007. Management believes these withholding taxes are refundable pursuant to tax treaties between Germany and the United States and under European Union law. During the quarter ended September 30, 2011, the Company settled approximately $403,000 previously accrued for withholding taxes. Additionally, during the quarter ended September 30, 2011, the Company assessed the potential withholding liability for the periods subsequent to the periods already examined by the German tax authorities, and as a result, identified additional withholding taxes due of approximately $196,000. For the quarter ended September 30, 2011, the Company has recorded this amount as an accrued liability and as a corresponding receivable to reflect the anticipated future refund of these withholding taxes under the tax treaties. As of September 30, 2011, the Company has an accrued liability of approximately $196,000 and a current asset of approximately $599,000 relating to these withholding taxes.

9. COMMITMENTS AND CONTINGENCIES

The Company is subject from time to time to litigation, claims and suits arising in the ordinary course of business. There were no ongoing material legal proceedings as of September 30, 2011.

Indemnification

The Company's standard customer license and software agreements contain indemnification and warranty provisions

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which are generally consistent with practice in the Company's industry. The duration of the Company's service warranties generally does not exceed 30 days following completion of its services. The Company has not incurred significant obligations under customer indemnification or warranty provisions historically and does not expect to incur significant obligations in the future. Accordingly, the Company does not maintain accruals for potential customer indemnification or warranty-related obligations. The maximum potential amount of future payments that the Company could be required to make is generally limited under the indemnification provisions in its customer license and service agreements. The Company has entered into its standard form of indemnification agreement with each of its directors and executives.

10. SUBSEQUENT EVENT

On October 11, 2011, the Board of Directors of the Company approved, subject to shareholder approval, an amendment to the Company's employee stock purchase plan, mainly to extend its term and without increasing the number of shares reserved under the plan, because the existing plan was scheduled to expire by its own terms in October 2011. The amendment does not affect the rights of participating employees under the existing plan's current offering period, and the amended plan will not become effective until and unless it is approved by the Company's shareholders.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The section entitled "Management's Discussion and Analysis" set forth below contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements may generally be identified by the use of such words as "expect," "anticipate," "believe," "intend," "plan," "will," or "shall," or the negative of those terms have based these forward-looking statements on our current expectations and projections about future events. Forward-looking statements involve certain risks and uncertainties and actual results may differ materially from those discussed in any such statement. Factors that could cause actual results to differ materially from such forward-looking statements include the risks described under the heading "Risk Factors" in Item 1A of this Form 10-Q and elsewhere in this Form 10-Q. The forward-looking statements contained in this Form 10-Q include, but are not limited to statements about the following: (1) our future success, (2) our research and development efforts, (3) our future operating results and cash flow, (4) our ability to compete, (5) the markets in which we operate, (6) our revenue, (7) cost of license revenue and cost of service revenue, (8) our selling and marketing costs, (9) our general and administrative expenses (10) our research and development expenses, (11) the effect of critical accounting policies,(12) the possibility that we may seek to take advantage of opportunities in the equity and capital markets, (13) our belief that our existing cash balances will be sufficient to meet our operating and capital expenditure requirements through the foreseeable future, (14) our focus on the continued development and enhancement of new product lines, including search technology and social media products, and identification of new and emerging technology areas and discussions with channel partners for the sale and distribution of new product lines, (15) the effect of recent changes in tax laws on our financial statements, and (16) the possibility that we may seek to take advantage of strategic acquisition opportunities. All forward-looking statements in this document are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement.

OVERVIEW

We were incorporated in the State of Delaware in August 1987. We were originally incorporated as Blyth Holdings, Inc. and our name was changed to Omnis Technology Corporation in September 1997. Effective December 1, 2000, we completed the acquisition of PickAx, Inc., a Delaware corporation ("PickAx"). Concurrent with the acquisition, we changed our name to Raining Data Corporation. On April 17, 2008, we changed our name to TigerLogic Corporation. Reference to "we," "our," "us" or the "Company" in this Form 10-Q means TigerLogic Corporation

and our subsidiaries.

PRODUCTS

Our principal business consists of 1) the design, development, sale, and support of software infrastructure; 2) Internet search enhancement tools; and 3) a social media content aggregation platform. Our products allow customers to create and enhance flexible software applications for their own needs. Our database and rapid application development software may be categorized into the following product lines: Multidimensional Database Management Systems ("MDMS") and Rapid Application Development ("RAD") software tools. Many of our database software products are based on the proprietary Pick Universal Data Model ("Pick UDM") and are capable of handling data from many sources. Our Internet search enhancement tools include the yolink browser plug-in, yolink API for web sites, and yolink search plug-in for WordPress sites. Our Postano product is a real-time social media content aggregation platform.

We primarily sell our database and rapid application development software products through established distribution

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channels consisting of OEMs, system integrators, specialized vertical application software developers and consulting organizations. Our Internet search enhancement tools and social media content aggregation platform are generally sold through our web sites, as well as through co-marketing arrangements with third parties. We also sell all of our products directly through our sales personnel to end user organizations. Outside the United States, we maintain direct sales offices in the United Kingdom, France and Germany. We generally license our database and rapid application development software on a per-CPU, per-server, per-port or per-user basis. We license our yolink and Postano product lines at prices based on usage measured in a variety of ways. We may make both our yolink and Postano products available to users for free under certain circumstances. We also provide continuing software maintenance and support, and other professional services relating to our products, including consulting and training services. Our revenue to date has been principally derived from MDMS and RAD software products.

In addition, one of the elements of our business strategy involves expansion through the acquisition of businesses, assets, products or technologies that allow us to complement our existing product offerings, expand our market coverage, or enhance our technological capabilities. We continually evaluate and explore strategic opportunities as they arise, including business combination transactions, strategic partnerships, and the purchase or sale of assets, including tangible and intangible assets such as intellectual property.

TigerLogic Postano

Postano is a real-time social media content aggregation platform, integrated with our yolink search technology, that allows companies and individuals to collect content from various social media sources, and to display that content either within existing web pages or on new web pages. Postano is designed primarily for commercial use and is generally priced based on the number of social media fans or followers and the number of Postano pages. Through September 30, 2011, revenue recognized from Postano has been immaterial.

TigerLogic Yolink

Yolink is a next-generation search enhancement technology that increases the effectiveness of search functionality across web sites and services. Yolink can search both structured markup, such as HTML, and binary code documents as well as unstructured, raw text documents by layering a common semantic model across them, and using this to organize and effect full-text searches across documents. Yolink searches behind links and through web sites to retrieve content based on keyword search terms. To facilitate the user's review of search results, each keyword is highlighted with a unique color. This capability is especially useful for reviewing and searching through the many web pages that contain hundreds, if not thousands, of embedded hyperlinks. Yolink technology can be applied to many platforms and Internet delivery methodologies. Yolink application programming interfaces (known as APIs) allow developers to integrate yolink search technologies with their web sites, services or applications. Yolink is available for download at www.yolink.com. Through September 30, 2011, revenue recognized from the yolink search technology has been immaterial.

Multi-dimensional Databases (MDMS)

The MDMS product line consists principally of the D3 Data Base Management System (“D3”), which runs on many operating systems, including IBM AIX, Linux and Windows. D3 allows application programmers to create new business solution software in less time than it normally takes in many other environments. Our MDMS products also include mvEnterprise, a scalable multi-dimensional database solution that allows the user to leverage the capabilities of the UNIX operating system, and mvBase, a multi-dimensional database solution that runs on all Windows platforms.

Version 9.0 of D3 and version 3.0 of mvBase, released in September 2010, include bundled support for .NET, providing developers a cost effective solution for developing applications utilizing Microsoft Visual Studio; and bundled support for Java, allowing development of applications utilizing Java.

The TigerLogic Dashboard, released in August 2010, is a development tool that allows Pick UDM developers to create intuitive and web-based graphical displays of multi-value data via dashboard and widget creation utilizing Pick/BASIC programming language.

Rapid Application Development (RAD) Tools

Our RAD products support the full life cycle of software application development and are designed for rapid prototyping, development and deployment of graphical user interface (“GUI”) client/server and web applications. The

RAD products-Omnis Studio and Omnis Classic-are object-oriented and component-based, providing the ability to deploy cross-platform applications on operating system platforms and database environments.
Version 5.1 of Omnis Studio, released in October 2010, includes functionality for developers to create mobile

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applications for Apple iOS devices including the iPhone, iPad, and iPod touch.

RESEARCH AND DEVELOPMENT

We have devoted significant resources to the research and development of our products and technology. We believe that our future success will depend largely on strong development efforts with respect to both our existing and new products. These development efforts have resulted in updates and upgrades to existing MDMS and RAD products and the launch of new products including the yolink search technology and Postano social media product lines. New product updates and upgrades in all of our product lines are currently in progress. We expect to continue our research and development efforts in all product lines for the foreseeable future. We intend for these efforts to improve our future operating results and increase cash flow. However, such efforts may not result in additional new products or revenue, and we can make no assurances that the recently announced products or future products will be successful. We spent approximately $1.4 million and $2.9 million on research and development during the three and six month periods ended September 30, 2011, respectively.

COMPETITION

Competition for our MDMS and RAD products include companies such as Oracle, Microsoft, IBM, and SAP. Direct competitors of our yolink search technology include Google, Yahoo, Microsoft, AOL, and Ask, as well as a number of smaller companies with products that directly and indirectly compete with our yolink search technology. Direct competitors of our Postano social media content aggregation platform include Facebook and Twitter, as well as a number of smaller companies with products and services in the emerging social media marketplace.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and disclosure of contingent liabilities.

On an on-going basis, we evaluate our estimates, including those related to revenue recognition and accounting for goodwill. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. As of September 30, 2011, the fair value of the reporting unit substantially exceeded its carrying value.

We have identified the accounting policies below as the policies critical to our business operations and the understanding of our results of operations and how the related judgments and estimates affect the preparation of our consolidated financial statements:

- Revenue Recognition
- Goodwill
- Employee Stock-Based Compensation
- Income Taxes

These critical accounting policies are described in our Form 10-K for the fiscal year ended March 31, 2011 and there have been no changes in our application of these policies during the period ended September 30, 2011.

RESULTS OF OPERATIONS

The following table sets forth certain unaudited Condensed Consolidated Statement of Operations data in total dollars, as a percentage of total net revenues and as a percentage change from the same periods in the prior year. Cost of license revenues and cost of service revenues are expressed as a percentage of the related revenues. This information should be read in conjunction with the unaudited Condensed Consolidated Financial Statements included elsewhere in this Form 10-Q.

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	Three Months Ended September 30, 2011			Three Months Ended September 30, 2010		Six Months Ended September 30, 2011			Six Months Ended September 30, 2010	
	Results	% of Net Revenues	% Change	Results	% of Net Revenues	Results	% of Net Revenues	% Change	Results	% of Net Revenues
	(In thousands)			(In thousands)		(In thousands)			(In thousands)	
Net revenues										
Licenses	$1,137	32 %	5 %	$1,079	32 %	$1,976	29 %	(1)%	$2,006	30 %
Services	2,392	68 %	4 %	2,293	68 %	4,727	71 %	2 %	4,612	70 %
Total net revenues	3,529	100 %	5 %	3,372	100 %	6,703	100 %	1 %	6,618	100 %
Operating expenses										
Cost of revenues:										
Cost of license revenues (as a % of license revenues)	4	— %	— %	4	— %	6	— %	— %	6	— %
Cost of service revenues (as a % of service revenues)	482	20 %	10 %	440	19 %	959	20 %	13 %	851	18 %
Selling and marketing	1,201	34 %	5 %	1,147	34 %	2,560	38 %	11 %	2,308	35 %
Research and development	1,384	39 %	(7)%	1,496	44 %	2,868	43 %	(4)%	3,002	45 %
General and administrative	880	25 %	(5)%	926	27 %	1,973	29 %	(4)%	2,065	31 %
Total operating expenses	3,951	112 %	(2)%	4,013	119 %	8,366	125 %	2 %	8,232	124 %
Operating loss	(422)	(12)%	(34)%	(641)	(19)%	(1,663)	(25)%	3 %	(1,614)	(24)%
Other income (expense)-net	(38)	(1)%	(215)%	33	1 %	(27)	— %	(108)%	(13)	— %
Loss before income taxes	(460)	(13)%	(24)%	(608)	(18)%	(1,690)	(25)%	4 %	(1,627)	(25)%
Income tax provision	68	2 %	(30)%	97	3 %	177	3 %	51 %	117	2 %
Net loss	$(528)	(15)%	(25)%	$(705)	(21)%	$(1,867)	(28)%	7 %	$(1,744)	(26)%

REVENUE

NET REVENUE. Our revenue is derived principally from two sources: fees from software licensing and fees for post contract technical support. We generally license our database and rapid application development software primarily on a per-CPU, per-server, per-port or per-user basis. Therefore, the addition of CPUs, servers, ports or users to existing systems increases our revenue from our installed base of licenses. Similarly, the reduction of CPUs, servers, ports or users from existing systems decreases our revenue from our installed base of customers. The timing of orders and customer ordering patterns has resulted in fluctuations in license revenue between quarters and year-to-year. Total revenue increased slightly by $0.2 million or 5%, and $0.1 million or 1% for the three and six month periods ended

September 30, 2011, respectively, when compared to the same periods in the prior year mainly due to higher service revenues and favorable foreign currency exchange effect. License revenue for the three and six month periods ended September 30, 2011 remained relatively unchanged on a dollar amount basis when compared to the same periods in the prior year.

We have been actively developing and marketing our newer product lines, including yolink and Postano. Revenue from these new products has been immaterial for the three and six month periods ended September 30, 2011 and no revenue was recognized in the same periods in the prior year. While we are committed to research and development efforts that are intended to allow us to penetrate new markets and generate new sources of revenue, such efforts may not result in additional products, services or revenue.

OPERATING EXPENSES

COST OF LICENSE REVENUE. Cost of license revenue is comprised of direct costs associated with software license sales including software packaging, documentation, physical media costs and royalties. Cost of license revenue remained consistent for the three and six month periods ended September 30, 2011 when compared to the same periods in the prior year.

COST OF SERVICE REVENUE. Cost of service revenue includes primarily personnel costs relating to consulting, technical support and training services. Cost of service revenue for the three and six month periods ended September 30, 2011 increased $42,000 or 10% and $0.1 million or 13% when compared to the same periods in the prior year due to higher one-time personnel related costs resulting from the consolidation of our offices in the United Kingdom, and higher stock compensation expense for new stock options issued during the prior period.

SELLING AND MARKETING. Selling and marketing expense consists primarily of salaries, benefits, advertising, trade shows, travel and overhead costs for our sales and marketing personnel. Selling and marketing expense for the three month

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period ended September 30, 2011 increased $0.1 million or 5% when compared to the same period in the prior year. Selling and marketing expense for the six month period ended September 30, 2011 increased $0.3 million or 11% when compared to the same period in the prior year. The increase in the three and six month periods ended September 30, 2011 when compared to the same periods in the prior year was due to higher personnel cost from additional headcount, and consulting expenses relating to the new Postano product. We anticipate that selling and marketing costs related to the yolink and Postano product lines may increase as we further develop the sales channels for these products and if customer acceptance of these products increases. In addition, if our continued research and development efforts are successful, including with respect to our yolink and Postano product lines, and as new products or services are created, we may incur increased sales and marketing expense to promote those new products in future periods.

RESEARCH AND DEVELOPMENT. Research and development expense consists primarily of salaries and other personnel-related expenses and overhead costs for engineering personnel, including employees in the United States and the United Kingdom and contractors in the United States. Research and development expense for the three month period ended September 30, 2011 decreased $0.1 million or 7% when compared to the same period in the prior year due to lower personnel expense resulted from lower headcount, and lower depreciation expense as certain fixed assets were fully depreciated, partially offset by higher stock compensation expense for new stock options issued during the prior period. Research and development expense for the six month period ended September 30, 2011 decreased by $0.1 million or 4% when compared to the same period in the prior year due to lower amortization and depreciation expense as certain fixed assets were fully depreciated. We are committed to our research and development efforts and expect research and development expenses to increase in future periods as we investigate further applications and delivery options for the yolink technology and Postano social media products, and as we build new technology platforms for our RAD product line and continue enhancing our MDMS product line. Such efforts may not result in additional new products, and new products may not generate sufficient revenue, if any, to offset the research and development expense.

GENERAL AND ADMINISTRATIVE. General and administrative expense consists primarily of costs associated with our finance, human resources, legal and other administrative functions. These costs consist principally of salaries and other personnel-related expenses, professional fees, depreciation and overhead costs. General and administrative expense for the three month period ended September 30, 2011 remained consistent when compared to the same period in the prior year. General and administrative expense for the six month period ended September 30, 2011 decreased $0.1 million or 4% when compared to the same period in the prior year due to lower professional fees in the current year.

OTHER INCOME (EXPENSE). Other income (expense) consists primarily of gains and losses on foreign currency transactions. Other income (expense) decreased from $33,000 of income for the three month period ended September 30, 2010 to $38,000 of expense for the three month period ended September 30, 2011. Other income (expense) increased from $13,000 of expense for the six month period ended September 30, 2010 to $27,000 of expense for the six month period ended September 30, 2011. The variance for the three and six month periods ended September 30, 2011 when compared to the same periods in the prior year is mainly due to fluctuation in the Euro exchange rate relating to intercompany balances. Due to the uncertainty in exchange rates, we may experience transaction gains or losses in future periods, the effect of which cannot be predicted at this time.

PROVISION FOR INCOME TAXES. Our effective tax rate was (14.8)% and (10.5)% for the three and six month periods ended September 30, 2011, respectively, and (16.0)% and (7.2)% for the three and six month periods ended September 30, 2010, respectively. The provision for income taxes for the three and six month periods ended September 30, 2011 reflected the income tax on net earnings from foreign subsidiaries, and true up of tax expense of our Germany subsidiary, net of the deferred tax benefits. The provision for income taxes for the three and six month periods ended September 30, 2010 reflected income tax on net earnings from foreign subsidiaries. Due to uncertainties surrounding the timing of realizing the benefits of the net operating loss carryforwards in the future, we continue to carry a full valuation allowance against net deferred tax assets for our subsidiaries in the United States and United Kingdom.

On August 9, 2011, we received a report from the German tax authorities upon completion of a tax audit of our German subsidiary for fiscal years 2005 through 2007. During the quarter ended June 30, 2011, we considered the results of the tax audit in measuring our uncertain tax position for transfer pricing between our German subsidiary and other affiliated companies. The effect of the change in estimate was to increase our liability for uncertain tax positions and income tax expense by $4,000 for the quarter ended June 30, 2011. During the quarter ended September 30, 2011, we have settled $33,000 of the $45,000 in tax liability accrued in the prior quarter for uncertain tax position related to Germany. The remaining balance is expected to be settled within the next twelve months.

During the quarter ended June 30, 2011, while reconciling the German tax audit results to our records for the German subsidiary, we discovered certain errors in the amounts of German net operating loss carryforwards and taxable income included in our income tax provision for prior years. The effect of these errors was an understatement of income tax expense by

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$45,000 and $48,000 in fiscal 2010 and 2011, respectively. These amounts were recorded during the quarter ended June 30, 2011. Income tax expense for the three month period ended June 30, 2011, and for six month period ended September 30, 2011 includes the effect of the correction of these errors. Management believes these amounts are immaterial to the financial statements for all affected periods.

The tax audit in Germany also resulted in the assessment of certain withholding taxes on intercompany payments in Germany relating to fiscal years 2005 through 2007. Management believes these withholding taxes are refundable pursuant to tax treaties between Germany and the United States and under European Union law. During the quarter ended September 30, 2011, we settled $403,000 of the withholding tax liability accrued for in the previous quarter ended June 30, 2011. Additionally, during the quarter ended September 30, 2011, we assessed the potential withholding liability for the periods subsequent to the periods already examined by the German tax authorities, and as a result, identified additional withholding taxes due of approximately $196,000. For the quarter ended September 30, 2011, we recorded this amount as an accrued liability and as a corresponding receivable amount to reflect the anticipated future refund of these withholding taxes under the tax treaties. As of September 30, 2011, we have an accrued liability of $196,000 and a current asset of $599,000 relating to these withholding taxes.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2011, we had $8.9 million in cash, of which approximately $1.0 million was held by our foreign subsidiaries and, if repatriated, would not be subject to material tax consequences. We believe that our existing cash balances will be sufficient to meet our operating and capital expenditure requirements for the remainder of the fiscal year ending March 31, 2012 and through the foreseeable future. We are committed to research and development and marketing efforts that are intended to allow us to penetrate new markets and generate new sources of revenue and improve operating results. However, our research and development and marketing efforts have required, and will continue to require, cash outlays without the immediate or short-term receipt of related revenue. Our ability to meet our expenditure requirements is dependent upon our future financial performance, and this will be affected by, among other things, prevailing economic conditions, our ability to penetrate new markets and attract new customers, market acceptance of our new and existing products and services, the success of research and development efforts and other factors beyond our control.

On December 7, 2009, we entered into an amendment to our lease agreement dated November 9, 2004 with The Irvine Company relating to office space in Irvine, California. The amendment modified certain terms of the original lease as follows: (a) the lease term was extended to October 31, 2015; (b) the lease completely terminated as to the approximately 14,000 square foot portion of the premises from the original 29,000 square feet space; and (c) commencing on March 1, 2010, the total base rent over the new lease amendment term became approximately $1.5 million. The annual base rent ranges from approximately $215,000 during the first year to approximately $299,000 during the last year of the lease. The rent expense is being recognized on a straight line basis over the new lease term.

Effective May 1, 2010, we entered into a three-year term lease for approximately 4,500 square feet of office space located in Mountain View, California. Total base rent over the three-year term is approximately $408,000.

Effective April 1, 2011, we entered into a 49-month term lease for approximately 7,500 square feet of office space located in Portland, Oregon. Total base rent over the 49-month term is approximately $321,000.

We had no material commitments for capital expenditures as of September 30, 2011.

Net cash used in operating activities was $2.4 million and $1.6 million for the six month periods ended September 30, 2011 and 2010, respectively. The increase in net cash used in operating activities for the six month period ended September 30, 2011 as compared to the same period in the prior year was primarily due to higher selling and marketing expense and also due to remittance of refundable withholding taxes to the German government of approximately $403,000. Net cash used in investing activities was $44,000 and $213,000 for the six month periods ended September 30, 2011 and 2010, respectively, for expenditures related to furniture and equipment purchased. Net cash provided by financing activities was $110,000 and $207,000 for the six month periods ended September 30, 2011 and 2010, respectively. Net cash provided by financing activities was due to proceeds derived from the exercise of stock options and related issuance of common stock.

There was no outstanding line of credit during the six months ending September 30, 2011 or 2010.

OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet liabilities or transactions as of September 30, 2011.

NON-GAAP FINANCIAL INFORMATION

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EBITDA or Adjusted EBITDA (each as defined below) should not be construed as a substitute for net income (loss) or as a better measure of liquidity than cash flow from operating activities determined in accordance with U.S. GAAP. EBITDA and Adjusted EBITDA exclude components that are significant in understanding and assessing our results of operations and cash flows. EBITDA or Adjusted EBITDA do not represent funds available for management's discretionary use and are not intended to represent cash flow from operations. In addition, EBITDA and Adjusted EBITDA are not terms defined by GAAP and as a result our measure of EBITDA and Adjusted EBITDA might not be comparable to similarly titled measures used by other companies.

However, EBITDA and Adjusted EBITDA are used by management to evaluate, assess and benchmark our operational results and we believe that EBITDA and Adjusted EBITDA are relevant and useful information widely used by analysts, investors and other interested parties in our industry. Accordingly, we are disclosing this information to permit a more comprehensive analysis of our operating performance, to provide an additional measure of performance and liquidity and to provide additional information with respect to our ability to meet future debt service and capital expenditure and working capital requirements.

EBITDA is defined as net income (loss) with adjustments for depreciation and amortization, interest income (expense)-net, and income tax provision (benefit). Adjusted EBITDA used by our company is defined as EBITDA plus adjustments for other income (expense)-net, and non-cash stock-based compensation expense.

Our Adjusted EBITDA was negative $0.1 million or negative 2% of total net revenue for the three month period ended September 30, 2011 as compared to negative $0.3 million or negative 8% of total net revenue for the same period in the prior year. The improvement in the adjusted EBITDA for the three months ended September 30, 2011 as compared to the same period in the prior year was due to higher revenue, and lower research and development expense due to lower headcount. Our adjusted EBITDA was negative $1.0 million or negative 14% of total net revenue for the six month period ended September 30, 2011, as compared to negative $0.9 million or negative 13% of total net revenue for the same period in the prior year. The slight decrease in the adjusted EBITDA for the six month period ended September 30, 2011 when compared to the same period in the prior year was a result of higher one-time cost of service personnel expense associated with the consolidation of our offices in the United Kingdom, and higher selling and marketing expense relating to our Postano product, partially offset by lower research and development expense due to lower headcount, and lower general and administrative expense due to lower professional expense. The following table reconciles Adjusted EBITDA to the GAAP reported net loss:

RECONCILIATION OF ADJUSTED EBITDA TO NET LOSS
(In thousands)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
Reported net loss	$(528)	$(705)	$(1,867)	$(1,744)
Depreciation and amortization	38	90	82	187
Stock-based compensation	296	274	629	549
Interest (income) expense-net	—	(1)	(2)	1
Other (income) expense-net	38	(34)	29	12
Income tax provision	68	97	177	117
Adjusted EBITDA	$(88)	$(279)	$(952)	$(878)

Our Adjusted EBITDA financial information can also be reconciled to net cash used in operating activities as follows:

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RECONCILIATION OF ADJUSTED EBITDA TO NET CASH USED IN OPERATING ACTIVITIES
(In thousands)

	Six Months Ended September 30,	
	2011	2010
Net cash used in operating activities	$(2,449)	$(1,631)
Interest (income) expense-net	(2)	1
Other expense-net	29	12
Change in trade accounts receivable	498	(42)
Change in other current and non-current assets	652	20
Change in accounts payable	(31)	(18)
Change in accrued liabilities	178	462
Change in deferred revenue	207	333
Foreign currency exchange loss	(30)	(10)
Provision for bad debt	(4)	(5)
Adjusted EBITDA	$(952)	$(878)

ITEM 4.CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our principal executive officer and principal financial officer evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective, as of the end of the period covered by this report, to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Management necessarily applied its judgment in assessing the benefits of controls relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within our company have been detected.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

We operate in a rapidly changing environment that involves numerous risks and uncertainties. A description of the risks and uncertainties associated with our business is set forth below. You should carefully consider such risks and uncertainties, together with the other information contained in this Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2011 and in our other public filings, including our Annual Report on Form 10-K for the fiscal year ended March 31, 2011. If any of such risks and uncertainties actually occurs, our business, financial condition or operating results could differ materially from the plans, projections and other forward-looking statements included in the section titled “Management's Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this report and in our other public filings. In addition, if any of the following risks and uncertainties,

or if any other risks and uncertainties, actually occurs, our business, financial condition or operating results could be harmed substantially, potentially causing the market price of our stock to decline, perhaps significantly. The following section lists some, but not all, of these risks and uncertainties that may have a material adverse effect on our business, financial condition or results of operation.

IF WE DO NOT DEVELOP NEW PRODUCTS AND ENHANCE EXISTING PRODUCTS TO KEEP PACE WITH

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RAPIDLY CHANGING TECHNOLOGY AND INDUSTRY STANDARDS, OUR REVENUE MAY DECLINE.

We have devoted significant resources to the research and development of products and technologies. We believe that our future success will depend in large part on strong research and development efforts with respect to both our existing and new products. We have made an extensive effort to leverage our Pick UDM and core intellectual property to create new product lines, which include our yolink search technology and our social media product called Postano. While we intend for these efforts to improve our future operating results and increase cash flow, such new products may not be successful or generate significant revenue. The development of new or enhanced software products is a complex and uncertain process requiring high levels of innovation, as well as accurate anticipation of customer and technical trends. In developing new products and services, we may fail to develop and market products that respond to technological changes or evolving industry standards in a timely or cost-effective manner, or experience difficulties that could delay or prevent the successful development, introduction and marketing of these new products. The development and introduction of new or enhanced products also requires us to manage the transition from older products in order to minimize disruptions in customer ordering patterns and to ensure that adequate supplies of new products can be delivered to meet customer demand. Failure to develop and introduce new products, or enhancements to existing products, in a timely and cost-effective manner in response to changing market conditions or customer requirements, or lack of customer acceptance of our products, will materially and adversely affect our business, results of operations and financial condition. In addition, if we acquire new technologies in the future, they could prove difficult to integrate and may disrupt our business, dilute stockholders' value and adversely affect our operating results.

OUR FAILURE TO COMPETE EFFECTIVELY MAY HAVE AN ADVERSE IMPACT ON OUR OPERATING RESULTS.

The market for our products is highly competitive, diverse and subject to rapid change. Our products and services compete on the basis of the following key characteristics: performance; inter-operability; scalability; functionality; reliability; pricing; post sale customer support; quality; compliance with industry standards; and overall total cost of ownership. The application development tools software market is rapidly changing and intensely competitive. Our MDMS products compete with products developed by companies such as Oracle, Microsoft and IBM. Our RAD products currently encounter competition from several direct competitors, including Microsoft, and competing development environments, including JAVA. Direct competitors of our yolink search technology include Google, Yahoo, Microsoft, AOL and Ask, as well as a number of smaller companies with products that directly and indirectly compete with our yolink search technology. Direct competitors of our Postano social media product include Facebook and Twitter, as well as numerous smaller companies in the emerging social media marketplace. Additionally, as we expand our business, we expect to compete with a different group of companies, including smaller, highly focused companies offering single products.

The strong competition we face in the sales of our products and services and general economic and business conditions can put pressure on us to change our prices. If our competitors offer deep discounts on certain products or services or develop products that the marketplace considers more valuable, we may need to lower prices or offer other favorable terms in order to compete successfully. Any such changes may reduce margins and could adversely affect our operating results.

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Most of our competitors have significantly more financial, technical, marketing and other resources than we do. As a result, these competitors may be able to respond more quickly to new or emerging technologies, evolving markets and changes in customer requirements and may devote greater resources to the development, promotion and sale of their products. Our products and services could fall behind marketplace demands at any time. If we fail to address the competitive challenges, our business would suffer materially.

BECAUSE OUR MDMS AND RAD PRODUCTS COMPETE WITH PRODUCTS FROM MUCH LARGER AND WELL KNOWN COMPANIES, OUR REVENUE MAY DECLINE IF WE CANNOT MAINTAIN OUR SALES TO EXISTING CUSTOMERS OR GENERATE SALES TO NEW CUSTOMERS.

We face very strong competition from much larger and better known companies in the markets for our MDMS and RAD products. As a result, existing customers and new customers may be inclined to adopt other technologies. To maintain or grow our revenue in these markets, we will need to maintain or grow our sales to existing customers and to generate sales to new customers, including corporate development teams, commercial application developers, system integrators, independent software vendors and independent consultants. If we fail to attract new customers, if we lose our customers to competitors, or if the MDMS or RAD markets decline, our revenue may be adversely affected. In the longer term, it is expected that our revenue from the MDMS and RAD markets will eventually decline as customers adopt newer technologies.

ADVERSE ECONOMIC CONDITIONS COULD CONTINUE TO HARM OUR BUSINESS.

Our operations and performance depend significantly on worldwide economic conditions and these have deteriorated significantly in many countries and regions, including without limitation the United States and Western Europe where we

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derive a majority of our revenue. Unfavorable changes in economic conditions, including recession, rising inflation, diminished credit availability, declining valuation of investments or other changes in economic conditions have resulted in lower information technology spending and have adversely affected our revenue. For example, current or potential customers may have been unable to fund software purchases, potentially causing them to delay, decrease or cancel purchases of our products and services or to not pay us or to delay paying us for previously purchased products and services. Further, since we generally license our MDMS and RAD software on a per-CPU, per-server, per-port or per-user basis, any decrease in CPUs, servers, ports or users by our customers would result in a decrease in our revenue. These and other economic factors could continue to have a material adverse effect on demand for our products and services and on our financial results.

WE HAVE A HISTORY OF LOSSES AND MAY CONTINUE TO INCUR SIGNIFICANT LOSSES IN THE FUTURE.

We incurred net losses of approximately $0.5 million and $1.9 million for the three and six months ended September 30, 2011. We had an accumulated deficit of approximately $107.1 million as of September 30, 2011. We may continue to incur significant losses in the future for a number of reasons, including uncertainty as to the level of our future revenues and our efforts to monetize newer technologies we have developed including yolink and Postano. We plan to continue to pursue strategic opportunities and invest in new product development. Forecasting our revenues and profitability for these new business models is inherently uncertain and volatile. We will need to generate significant increases in our revenues to achieve and maintain profitability, particularly given the current small size of our business relative to the costs associated with being a public reporting company. If our revenue fails to grow or grows more slowly than we currently anticipate or our operating expenses exceed our expectations, our losses would significantly increase which could harm our business and operating results.

OUR PRODUCTS HAVE A LONG SALES CYCLE WHICH COULD RESULT IN DELAYS IN THE RECEIPT OF REVENUE.

The sales cycle for our MDMS and RAD products typically ranges from three to nine months or longer. Our products are typically used by application developers, system integrators and value added resellers to develop applications that are critical to their corporate end user's business. Because our products are often part of an end user's larger business process, re-engineering initiative, or implementation of client/server or web-based computing, the end users frequently view the purchase of our products as part of a long-term strategic decision regarding the management of their workforce-related operations and expenditures. Thus, this sometimes results in end users taking a significant period of time to assess alternative solutions by competitors or to defer a purchase decision as a result of an unrelated strategic issue beyond our control. The adoption cycle for our yolink search technology and Postano social media products is anticipated to be long since the search and social media markets currently have much larger direct competitors such as Google, Yahoo, Microsoft, AOL, Ask, and Facebook and Twitter, respectively. As a result, a significant period of time may elapse between our research and development efforts and recognition of revenue, if any.

THE CONCENTRATION OF OUR STOCK OWNERSHIP GIVES CERTAIN STOCKHOLDERS SIGNIFICANT CONTROL OVER OUR BUSINESS.

As of September 30, 2011, Astoria beneficially owned approximately 53% of our outstanding common stock. Richard W. Koe, Chairman of the Board of Directors and our Interim President and Chief Executive Officer, serves as the Managing General Partner for Astoria Capital Management, Inc., a general partner of Astoria. This concentration of stock ownership allows Astoria, acting alone, to block any actions that require approval of our stockholders, including the election of members to our Board of Directors and the approval of significant corporate transactions. Moreover, this concentration of ownership may delay or prevent a change in control.

WE MAY EXPERIENCE QUARTERLY FLUCTUATIONS IN OPERATING RESULTS, POSSIBLY RESULTING IN VOLATILITY OF OUR STOCK PRICE.

We expect to continue to spend substantial amounts of money in the area of research and development, sales and marketing and operations in order to promote new product development and introduction. Because the expenses associated with these activities are relatively fixed in the short-term, we may be unable to timely adjust spending to offset any unexpected shortfall in revenue growth or any decrease in revenue levels. Operating results may also

fluctuate due to factors such as:

- the size and timing of customer orders;
- changes in pricing policies by us or our competitors;
- our ability to develop, introduce, and market new and enhanced versions of our products;
- the number, timing, and significance of product enhancements and new product announcements by our competitors;
- the demand for our products;
- non-renewal of customer support agreements;

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- software defects and other product quality problems; and
- personnel changes.

We operate without a significant backlog of orders. As a result, the quarterly sales and operating results in any given quarter are dependent, in large part, upon the volume and timing of orders booked and products shipped during that quarter. Accordingly, we may be unable to adjust spending in a timely manner to compensate for any unanticipated decrease in orders, sales or shipments. Therefore, any decline in demand for our products and services, in relation to the forecast for any given quarter, could materially and negatively impact the results of our operations. As a result, our quarterly operating results may fluctuate, potentially causing our stock price to be volatile. In addition, we believe that period-to-period comparisons of our operating results should not be relied upon as indications of future performance. A significant drop in our stock price could also expose us to the risk of securities class actions lawsuits, which could result in substantial costs and divert management's attention and resources, which could adversely affect our business.

THE SUCCESS OF OUR BUSINESS DEPENDS IN PART UPON OUR ABILITY TO RECRUIT AND RETAIN KEY PERSONNEL AND MANAGEMENT.

Mr. Koe was appointed Interim President and Chief Executive Office in February 2009. The loss of one or more of our executives could adversely affect our business. In addition, we have in the past restructured or made other adjustments to our workforce in response to management changes, product changes, performance issues, acquisitions and other internal and external considerations. Workforce restructurings could result in a temporary lack of focus and reduced productivity, negatively affecting our revenues.

We believe that our future success will depend to a significant extent on our ability to recruit, hire and retain highly skilled management and employees with experience in engineering, product management, business development, sales, marketing and customer service. Competition for such personnel in the software industry can be intense, and there can be no assurance that we will be successful in attracting and retaining such personnel. If we are unable to do so, we may experience inadequate levels of staffing to develop and license our products and perform services for our customers, adversely affecting our business.

THE INABILITY TO PROTECT OUR INTELLECTUAL PROPERTY COULD HARM OUR ABILITY TO COMPETE.

Our ability to compete successfully will depend, in part, on our ability to protect our proprietary technology and operations without infringing upon the rights of others. We may fail to do so. In addition, the laws of certain countries in which our products are, or may be, licensed may not protect our proprietary rights to the same extent as the laws of the United States. We rely primarily on a combination of trade secret, copyright and trademark laws and contractual provisions to protect our intellectual property and proprietary rights. Our trademarks include TigerLogic, yolink, Pick, D3, Omnis, Omnis Studio, mvEnterprise, mvBase, and mvDesigner, among others. We have five issued U.S. patents, one allowed U.S. patent, and ten pending U.S. patent applications as of September 30, 2011. In addition to trademark and copyright protections, we generally license our products to end users on a “right to use” basis pursuant to license agreements that restrict use of products to a specified number of users or a specified usage.

We generally rely on “click-wrap” licenses that become effective when a customer downloads and installs software on its system or accesses and uses our software. In order to retain exclusive ownership rights to our software and technology, we generally provide our software in object code only, with contractual restrictions on copying, disclosure and transferability. There can be no assurance that these protections will be adequate, that our license agreements will be enforceable in the United States or foreign jurisdictions or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology.

THIRD PARTIES COULD ASSERT THAT OUR SOFTWARE PRODUCTS OR SERVICES INFRINGE ON THEIR INTELLECTUAL PROPERTY RIGHTS, POTENTIALLY RESULTING IN COSTLY LITIGATION, PRODUCT SHIPMENT DELAYS, PRODUCT LICENSING PROHIBITIONS OR REQUIRE US TO ENTER INTO ROYALTY OR LICENSING AGREEMENTS.

There has been a substantial amount of litigation in the software and online services industry regarding intellectual property rights and there is significant uncertainty in our industry as many of the legal principles associated with software and online services continue to evolve rapidly. Third parties may claim that our current or potential future products or services infringe upon their intellectual property rights, and we may be periodically involved in any number of ordinary course of business proceedings of this type. We expect that software product developers and providers of software applications and

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online services will increasingly be subject to infringement claims as the number of products, services and competitors in our industry segment grow and the functionality of products and services in different industry segments overlap. Any claims, with or without merit, could be time consuming, result in costly litigation, divert management's attention, cause product shipment delays, prohibit product licensing or require us to enter into royalty or licensing agreements. Royalty or licensing agreements, if required, may not be available on terms acceptable to us or at all, which could seriously harm our business.

OUR PRODUCTS MAY CONTAIN SOFTWARE DEFECTS POTENTIALLY HARMING OUR BUSINESS.

Our enterprise applications software, search technology, and social media products may contain undetected errors or failures. This includes our higher risk yolink and Postano products because they are in the early stages of the product life cycle. This may result in loss of, or delay in, customer acceptance of our products and could harm our reputation and our business. Undetected errors or failures in computer software programs are not uncommon.

The detection and correction of any security flaws can be time consuming and costly. Errors in our software products could affect the ability of our products to work with other hardware or software products, could delay the development or release of new products or new versions of products and could adversely affect market acceptance of our products. If we experience errors or delays in releasing new products or new versions of products, we could lose revenues. End users who rely on our products and services for applications that are critical to their businesses may have a greater sensitivity to product errors and security vulnerabilities than customers for software products generally. Software product errors and security flaws in our products or services could expose us to product liability, performance or warranty claims as well as harm our reputation, which could impact our future sales of products and services.

IF ASTORIA OR OTHER SECURITIES HOLDERS REQUEST REGISTRATION OF THEIR RESTRICTED SECURITIES, OR THESE SECURITIES HOLDERS SELL A SUBSTANTIAL AMOUNT OF RESTRICTED SECURITIES IN THE OPEN MARKET, OUR STOCK PRICE MAY DECLINE.

As of September 30, 2011, we had 28,149,347 outstanding shares of common stock, of which approximately 15 million shares were restricted securities held by Astoria and other holders. Restricted securities may be sold in the public market only if they are registered or if they qualify for an exemption from registration promulgated under the Securities Act. At present, all of our outstanding restricted securities may be registered or are eligible for public sale under Rule 144, subject to volume limitations and other requirements of Rule 144.

Sales of a substantial number of shares of common stock by Astoria or other securities holders in the public market, or the perception that those sales may occur, could cause the market price of our common stock to decline. In addition, if we register shares of our common stock in connection with a public offering of securities, we may be required to include shares of restricted securities in the registration, possibly adversely affecting our ability to raise capital.

OUR GLOBAL OPERATIONS EXPOSE US TO ADDITIONAL RISKS AND CHALLENGES ASSOCIATED WITH CONDUCTING BUSINESS INTERNATIONALLY.

We operate on a global basis with offices or distributors in Europe, Africa, Asia, Latin America, South America, Australia and North America and development efforts in North America and Europe. Approximately 34% and 33% of our revenue for the three and six months ended September 30, 2011, respectively, was generated from our international offices. We face several risks inherent in conducting business internationally, including but not limited to the following:

- general economic conditions in each country or region;
- fluctuations in interest rates or currency exchange rates;
- language and cultural differences;
- local and governmental requirements;
- political or social unrest;
- difficulties and costs of staffing and managing international operations;
- potentially adverse tax consequences;
- differences in intellectual property protections;
- difficulties in collecting accounts receivable and longer collection periods;

- seasonal business activities in certain parts of the world; and
- trade policies.

In addition, compliance with international and U.S. laws and regulations that apply to our international operations increases our cost of doing business in foreign jurisdictions. These laws and regulations include data privacy requirements, labor relations laws, tax laws, anti-competition regulations, import and trade restrictions, export requirements, U.S. laws such as the Foreign Corrupt Practices Act, and also local laws prohibiting corrupt payments to governmental officials. Violations of

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these laws and regulations could result in fines, criminal sanctions against us, our officers or our employees, and prohibitions on the conduct of our business. Any such violations could include prohibitions on our ability to offer our products and services in one or more countries, could delay or prevent potential acquisitions, and could also materially damage our reputation, our brand, our international expansion efforts, our ability to attract and retain employees, our business and our operating results. Our success depends, in part, on our ability to anticipate these risks and manage these difficulties. These factors or any combination of these factors may adversely affect our revenue or our overall financial performance.

THE FAILURE OF OUR PRODUCTS TO CONTINUE TO CONFORM TO INDUSTRY STANDARDS MAY HARM OUR OPERATING RESULTS.

A key factor in our future success will continue to be the ability of our products to operate and perform well with existing and future, industry-standard enterprise software applications intended to be used in connection with our MDMS and RAD products. Inter-operability may require third party licenses, which may not be available to us on favorable terms or at all. Failure to meet existing or future inter-operability and performance requirements of industry standard applications in a timely manner could adversely affect our business. Uncertainties relating to the timing and nature of new product announcements or introductions or modifications of third party software applications could delay our product development, increase our product development expense or cause customers to delay evaluation, purchase, and deployment of our products.

INEFFECTIVE INTERNAL CONTROLS COULD IMPACT OUR BUSINESS AND OPERATING RESULTS.

Our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. As a smaller reporting company under the SEC rules and regulations, we are currently not subject to the requirements of independent auditor attestation of management's assessment of our internal controls over financial reporting set forth in Section 404(b) of the Sarbanes Oxley Act of 2002 because the Dodd Frank Wall Street Reform and Consumer Protection Act signed into law on July 21, 2010 permanently exempted companies that are not “accelerated filers” or “large accelerated filers” under the SEC rules from Section 404(b) requirements. If, in the future, we no longer qualify as a smaller reporting company and become an accelerated filer or a large accelerated filer (which may occur if the trading price of our stock, and therefore, our public float, increase significantly, as calculated on an annual basis), we will become subject to the requirements of Section 404(b) in such fiscal years. If such audit identifies any material weaknesses in our internal control over financial reporting, we may be required to provide appropriate disclosures and implement costly and time consuming remedial measures. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in implementation, our business and operating results could be harmed and we could fail to meet our financial reporting obligations.

BUSINESS DISRUPTIONS COULD HURT OUR ABILITY TO EFFECTIVELY PROVIDE OUR PRODUCTS AND SERVICES, DAMAGING OUR REPUTATION AND HARMING OUR OPERATING RESULTS.

The availability of our products and services depends on the continuing operation of our information technology systems. Our business operations are vulnerable to damage or interruption from earthquakes, terrorist attacks, floods, fires, power loss, telecommunication failures, computer viruses, computer denial of service attacks, or other attempts to harm our systems. A significant portion of our research and development activities and certain other critical business operations are located in areas with a high risk of major earthquakes. Although we maintain crisis management and disaster response plans, such events could make it difficult or impossible for us to deliver our services to our customers, and could decrease demand for our services, which could damage our reputation and harm our operating results.

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ITEM 6. EXHIBITS

Exhibit:	Description
10.12*	Offer letter, dated August 31, 2011 between the Registrant and Gerald F. Chew (included as Exhibit 10.12 to the Registrant's Form 8-K filed with the Commission on September 2, 2011 and incorporated herein by reference)
31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS†	XBRL Instance Document
101.SCH†	XBRL Taxonomy Extension Schema Document
101.CAL†	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF†	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB†	XBRL Taxonomy Extension Label Linkbase Document
101.PRE†	XBRL Taxonomy Extension Presentation Linkbase Document

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* Indicates management contract or compensatory plan, contract or arrangement.

†XBRL information is furnished and not filed for purposes of Section 11 and 12 of the Securities Act and Section 18 of the Exchange Act, and is not subject to liability under these sections, is not part of any registration statement or prospectus to which it relates and is not incorporated or deemed to be incorporated by reference into any registration statement, prospectus or other document.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 10, 2011

TIGERLOGIC CORPORATION

/S/ THOMAS LIM
Thomas Lim
Chief Financial Officer and Duly Authorized Officer

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