

TigerLogic CORP  
Form 10-Q  
November 08, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark one)

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from            to

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# TIGERLOGIC CORPORATION

(Name of Registrant as Specified in Its Charter)

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**Delaware**  
(State of Incorporation)

**94-3046892**  
(I.R.S. Employer ID. No.)

**25A Technology Drive Suite 100,**

**Irvine, California**  
(Address of Principal Executive Offices)

**92618**  
(Zip Code)

**(949) 442-4400**

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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  NO

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

Smaller reporting company

(Do not check if a smaller reporting company)

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

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As of October 31, 2013, the Registrant had 30,083,120 shares of its common stock outstanding.

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**TIGERLOGIC CORPORATION**

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****TIGERLOGIC CORPORATION AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands)

	September 30, 2013	March 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash	\$ 4,881	\$ 6,465
Trade accounts receivable, less allowance for doubtful accounts of \$24 and \$24, respectively	1,675	986
Other current assets	527	561
Total current assets	7,083	8,012
Property, furniture and equipment, net	572	551
Goodwill	31,656	31,656
Intangible assets, net	551	593
Deferred tax assets	229	228
Other assets	86	111
Total assets	\$ 40,177	\$ 41,151
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 443	\$ 388
Accrued liabilities	1,658	1,294
Deferred revenue	4,490	4,342
Total current liabilities	6,591	6,024
Other long-term liabilities	144	137
Total liabilities	6,735	6,161
Commitments and contingencies		
Stockholders' equity:		
Preferred Stock		
Common Stock	3,007	2,993
Additional paid-in-capital	142,283	141,478
Accumulated other comprehensive income	2,306	2,257
Accumulated deficit	(114,154)	(111,738)
Total stockholders' equity	33,442	34,990

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Total liabilities and stockholders' equity	\$	40,177	\$	41,151
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See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents**TIGERLOGIC CORPORATION AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS****(In thousands, except per share data)**

	Three Months Ended September 30,		Six Months Ended September 30,	
	2013	2012	2013	2012
<b>Net revenues:</b>				
Licenses	\$ 1,357	\$ 910	\$ 2,655	\$ 1,905
Services	2,482	2,246	4,909	4,535
Total net revenues	3,839	3,156	7,564	6,440
<b>Operating expenses:</b>				
Cost of license revenues	66	2	84	4
Cost of revenue-amortization of intangible asset	19		38	
Cost of service revenues	524	400	1,013	824
Selling and marketing	1,505	1,056	3,103	2,113
Research and development	1,528	1,264	2,976	2,499
General and administrative	1,279	915	2,416	1,952
Acquisition related costs			209	
Total operating expenses	4,921	3,637	9,839	7,392
Operating loss	(1,082)	(481)	(2,275)	(952)
<b>Other expense:</b>				
Interest expense-net	(1)	(1)	(2)	(4)
Other expense-net	(29)	(11)	(21)	(27)
Total other expense	(30)	(12)	(23)	(31)
Loss before income taxes	(1,112)	(493)	(2,298)	(983)
Income tax provision	66	19	118	22
Net loss	\$ (1,178)	\$ (512)	\$ (2,416)	\$ (1,005)
<b>Other comprehensive loss:</b>				
Foreign currency translation adjustments	57	30	49	27
Total comprehensive loss	\$ (1,121)	\$ (482)	\$ (2,367)	\$ (978)
Basic and diluted net loss per share	\$ (0.04)	\$ (0.02)	\$ (0.08)	\$ (0.04)
Shares used in computing basic and diluted net loss per share	30,042	28,210	29,997	28,200

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents**TIGERLOGIC CORPORATION AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)**

	<b>Six Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (2,416)	\$ (1,005)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Depreciation and amortization of long-lived assets	94	66
Recovery from bad debt		(7)
Stock-based compensation expense	763	500
Foreign currency exchange loss	28	33
<b>Change in assets and liabilities:</b>		
Trade accounts receivable	(645)	(98)
Other current assets	148	(15)
Accounts payable	(38)	(62)
Accrued liabilities	333	(314)
Deferred revenue	88	(419)
Net cash used in operating activities	(1,645)	(1,321)
<b>Cash used in investing activities-purchase of property, furniture and equipment</b>		
	(33)	(27)
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of stock options	32	24
Proceeds from issuance of common stock	24	23
Net cash provided by financing activities	56	47
<b>Effect of exchange rate changes on cash</b>		
	38	(26)
Net decrease in cash	(1,584)	(1,327)
Cash at beginning of the period	6,465	8,918
Cash at end of the period	\$ 4,881	\$ 7,591

See accompanying notes to the unaudited condensed consolidated financial statements.



Table of Contents**TIGERLOGIC CORPORATION AND SUBSIDIARIES****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2013****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, 2013, contained in the Company s Annual Report on Form 10-K filed with the SEC on July 11, 2013. The results of operations for the three and six months ended September 30, 2013, are not necessarily indicative of results to be expected for any other interim period or the fiscal year ending March 31, 2014.

**2. BUSINESS ACQUISITION**

On January 17, 2013, the Company completed its acquisition of Storycode, Inc., a privately held mobile application publishing company. The acquisition was structured as a non-taxable transaction. Pursuant to the terms of the Agreement and Plan of Merger dated December 27, 2012, as amended (the Merger Agreement ), Storycode became a wholly-owned subsidiary of the Company as of January 17, 2013. The Company has been incorporating Storycode s expertise in mobile application development, user experience, and design into its Postano social media visualization platform to create a new kind of social platform with unique mobile distribution capabilities and allow brands to use original and fan-generated content to develop engaging experiences across the worldwide web, live events, and mobile environment.

In accordance with the Merger Agreement, the Company issued an aggregate of 1,696,329 shares of its common stock with a fair value of approximately \$3.3 million and may issue an additional 444,468 shares with a fair value as of the acquisition closing date of approximately \$861,000, subject to an 18-month holdback for general indemnification purposes pursuant to the Merger Agreement, which holdback share number may be adjusted from time to time. The Company also substituted 822,320 options to purchase its common stock for options to purchase Storycode s common stock of which value of approximately \$949,000 was allocated to the purchase price as of the acquisition closing date. In addition, the Company made cash payments aggregating approximately \$499,000. Total consideration to acquire Storycode was approximately \$5.6 million and comprised of the following (in thousands):

Fair value of common stock issued at closing	\$	3,285
Fair value of common stock issuable-subject to the 18-month holdback		861
Fair value of stock options assumed		949
Cash consideration paid		499
Total purchase price	\$	5,594

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The fair value of shares issued and issuable is based on the closing price of the Company's common stock on the acquisition closing date of \$2.28 per share. However, all of the shares issued or issuable are subject to a one-year lock up agreement that resulted in an adjustment to the estimated fair value of the common stock to \$1.94 per share. Cash consideration includes a bridge loan from the Company to Storycode made during the quarter ended December 31, 2012 as well as legal and accounting fees incurred by Storycode and reimbursed by the Company. The Company incurred approximately \$497,000 in direct transaction costs relating to this acquisition. Of this amount, approximately \$288,000 was incurred in the fiscal year ended March 31, 2013 and approximately \$209,000 was incurred in the six months ended September 30, 2013.

In connection with the acquisition, each Storycode stock option that was outstanding and unexercised as of the acquisition date was assumed and converted into an option to purchase TigerLogic common stock based on a conversion ratio of 0.43085. Based on Storycode's stock options outstanding at January 17, 2013, the Company converted options to purchase 1,908,583 shares of Storycode common stock into options to purchase 822,320 shares of TigerLogic common stock. The estimated value of the assumed stock options included in the purchase price equals the fair value of the fully vested stock options assumed plus the fair value of the portion of the partially vested stock options assumed attributable to pre-combination services.

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The portion of the estimated fair value of the partially vested replacement stock options that was considered unearned compensation as of the date of acquisition was approximately \$393,000, which is being recognized as stock-based compensation expense on a straight line basis over the remaining vesting periods of the respective awards.

*Purchase Price Allocation*

The total purchase price was allocated to Storycode's net tangible and intangible assets based upon their estimated fair values as of the acquisition date. The excess purchase price over the value of the net tangible liabilities and identifiable intangible assets was recorded as goodwill. The table below represents the allocation of the purchase price to the acquired net assets of Storycode based on their estimated fair values as of the acquisition date and the associated estimated useful lives at that date.

	Amount	Useful Life (years)
Identifiable intangible assets:		
Trade and domain names	\$ 80	10
Technology	530	7
Goodwill	5,268	N/A
Net tangible liabilities	(284)	N/A
Total purchase price allocation	\$ 5,594	

*Pro Forma Results*

The following pro forma combined results of operations for the three and six month periods ended September 30, 2012 assumes the acquisition had taken place as of April 1, 2012, and combines the Company's historical results of operations for the periods ended September 30, 2012, with Storycode's unaudited historical results of operations for the periods ended September 30, 2012. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place on April 1, 2012 or the results that may occur in the future.

	Three Months Ended September 30, 2012	Six Months Ended September 30, 2012
	(in thousands, except per share data) (unaudited)	
Net revenue	\$ 3,557	\$ 7,089
Net loss	\$ 786	\$ 1,730
Net loss per basic and diluted share	\$ (0.03)	\$ (0.06)

**3. STOCK-BASED COMPENSATION**

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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 comprehensive loss for the three and six months ended September 30, 2013 and 2012, was as follows (in thousands):

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	Three Months ended September 30,		Six Months ended September 30,	
	2013	2012	2013	2012
Cost of revenue	\$ 37	\$ 21	\$ 82	\$ 45
Operating expense:				
Selling and marketing	93	60	219	92
Research and development	122	61	217	114
General and administrative	112	134	245	249
Total stock-based compensation expense	364	276	763	500
Income tax benefit				
Net stock-based compensation expense	\$ 364	\$ 276	\$ 763	\$ 500

As of September 30, 2013, there was approximately \$1.6 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 1.80 years.

#### 4. FAIR VALUE MEASUREMENT

The Company maintains all of its cash on deposit at financial institutions. As such, there were no cash equivalents on the Company's balance sheets as of September 30, 2013 or March 31, 2013. There were no nonfinancial assets or liabilities that required recognition or disclosure at fair value on a nonrecurring basis in the Company's balance sheets as of September 30, 2013 or March 31, 2013.

#### 5. STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE

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 consist of outstanding stock options.

Weighted outstanding options to purchase 3,793,782 shares and 3,951,538 shares of the Company's common stock for the three and six month periods ended September 30, 2013, respectively, and 3,277,796 shares and 3,250,295 shares for the three and six month periods ended September 30, 2012, respectively, have been excluded from the computation of diluted net loss per share because the effect of their inclusion would have been anti-dilutive.

The change in accumulated other comprehensive income during the three and six month periods ended September 30, 2013 and 2012 is the result of the effect of foreign exchange rate changes.

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

Net revenue	Three Months Ended September 30,		Six Months Ended September 30,	
	2013	2012	2013	2012
United States	\$ 2,867	\$ 2,366	\$ 5,454	\$ 4,631
Europe	972	790	2,110	1,809
Total	\$ 3,839	\$ 3,156	\$ 7,564	\$ 6,440

Long-lived assets	September 30,		March 31,	
	2013		2013	
United States	\$ 32,476	\$ 32,507		
Europe	389	405		
Total	\$ 32,865	\$ 32,912		

For the three and six months ended September 30, 2013 and 2012, the Company was engaged in the design, development, sale, and support of the following software product lines: 1) Multidimensional Database Management Systems ( MDMS ), 2) Rapid Application Development ( RAD ) software, and 3) Social and Mobile Platform, consisting of our Postano, Storycode, and yolink products and services. The following table represents the Company's net revenue by product line (in thousands):

Net revenue	Three Months Ended September 30,		Six Months Ended September 30,	
	2013	2012	2013	2012
Databases	\$ 2,308	\$ 2,327	\$ 4,668	\$ 4,634
RAD Software Tools	989	810	2,017	1,787
Social and Mobile Platform	542	19	879	19
Total	\$ 3,839	\$ 3,156	\$ 7,564	\$ 6,440

**7. 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, 2013.

*Indemnification*

The Company's standard customer license and software agreements contain indemnification and warranty provisions 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 the standard form of indemnification agreement with each of its directors and executives.

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**8. SUBSEQUENT EVENTS**

On October 16, 2013, the Company and Rocket Software, Inc. (the Buyer) entered into an Asset Purchase Agreement (the Purchase Agreement). Pursuant to the terms of the Purchase Agreement, the Buyer will purchase the Company's business dedicated to the multidimensional database management system and related connectivity products known as the MDMS family of products, including D3, mvBase, mvEnterprise and the Pick connectivity products (the MDMS Business), and the related underlying enterprise resource planning (ERP) platform required to support the MDMS Business, for a total purchase price of approximately \$22 million in cash. The Purchase Agreement further provides that \$2.2 million of the purchase price will be deposited at closing of the sale with a third party escrow agent for 18 months to serve as security for the Company's indemnification obligations pursuant to the Purchase Agreement.

Consummation of the sale is subject to various closing conditions, including: (i) the absence of any order, decree, injunction, or law enjoining or prohibiting the sale, (ii) the accuracy of the representations and warranties made by the parties and (iii) the performance by the parties in all material respects of their covenants, obligations and agreements under the Purchase Agreement, including obtaining certain third party consents to assignment, including consent to the assignment of the lease for the Company's facilities in Irvine, California, among others.

Subject to certain exceptions and limitations, either party may terminate the Purchase Agreement if the sale is not consummated by November 30, 2013.

In connection with the sale, the parties also agreed to enter, at closing, into several ancillary and related agreements, including a transition services agreement designed to facilitate the transition of the MDMS Business to the Buyer and minimize disruptions to the Company's retained businesses, and an intellectual property license agreement, which will permit Buyer to use certain intellectual property owned by the Company and will permit the Company to use certain intellectual property to be owned by the Buyer following the sale.

Pending the close of the sale of the MDMS Business, expenses will be reduced significantly due to the associated reduction in support and engineering personnel for the MDMS Business.

**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. We 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,*



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*(9) our general and administrative costs, (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 combined with our cash flow from operating activities will be sufficient to meet our operating and capital expenditure requirements for the remainder of the fiscal year ending March 31, 2014 and through the foreseeable future, (14) our focus on the continued development and enhancement of new product lines, including social media content aggregation platform and applications, 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, (16) our ability to successfully integrate recent acquisitions, and (17) the possibility that we may seek to take advantage of strategic acquisition or disposition 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 Quarterly Report on Form 10-Q means TigerLogic Corporation and our subsidiaries.

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On January 17, 2013, we completed our acquisition of Storycode, Inc, a privately held mobile application publishing company. Pursuant to the terms of the Agreement and Plan of Merger dated December 27, 2012, as amended (the Merger Agreement ), Storycode became a wholly-owned subsidiary of ours. Since the closing of the acquisition, we began incorporating Storycode's expertise in mobile application development, user experience, and design into our Postano social media visualization platform to create, what we believe, will be a new kind of social platform with unique mobile distribution capabilities. This new platform is being designed to allow brands to use original and fan-generated content to develop engaging experiences across the worldwide web, live events, and mobile environment.

On October 16, 2013, we entered into an Asset Purchase Agreement (the Purchase Agreement ) with Rocket Software, Inc. (the Buyer ). Pursuant to the terms of the Purchase Agreement, the Buyer will purchase our MDMS family of products, including D3, mvBase, mvEnterprise and the Pick connectivity products (the MDMS Business ), and the related ERP platform required to support the MDMS Business, for a total purchase price of approximately \$22 million in cash. The Purchase Agreement further provides that \$2.2 million of the purchase price will be deposited at closing of the sale with a third party escrow agent for 18 months to serve as security for our indemnification obligations pursuant to the Purchase Agreement.

Consummation of the sale is subject to various closing conditions, including: (i) the absence of any order, decree, injunction, or law enjoining or prohibiting the sale, (ii) the accuracy of the representations and warranties made by the parties and (iii) the performance by the parties in all material respects of their covenants, obligations and agreements under the Purchase Agreement, including obtaining certain third party consents to assignment, including consent to the assignment of the lease for our facilities in Irvine, California, among others. Subject to certain exceptions and limitations, either party may terminate the Purchase Agreement if the sale is not consummated by November 30, 2013.

In connection with the sale, the parties also agreed to enter, at closing, into several ancillary and related agreements, including a transition services agreement designed to facilitate the transition of the MDMS Business to the Buyer and minimize disruptions to our retained businesses, and an intellectual property license agreement, which will permit Buyer to use certain intellectual property owned by us and will permit us to use certain intellectual property to be owned by the Buyer following the sale.

### **Products**

Our principal business currently consists of: 1) the design, development, sale, and support of software infrastructure; and 2) a social and mobile platform, which includes a social media content aggregation and visualization platform, Internet search enhancement tools, and the design and development of mobile applications and digital publications. 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. 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 Postano product is a real-time social media content aggregation and visualization platform. 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 mobile solutions include the design and hosting of mobile applications, and digital publishing solutions such as interactive catalogs and retail applications.

Pending the completion of the transactions contemplated by the Purchase Agreement described above, our business will no longer include the design, development, sale, and support of MDMS software.

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We primarily sell our database and rapid application development software products through established distribution channels consisting of original equipment manufacturers ( OEMs ), system integrators, specialized vertical application software developers and consulting organizations, as well as through our sales personnel. Our Internet search enhancement tools and social media content aggregation platform are generally sold through our sales personnel and web sites, as well as

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through co-marketing arrangements with third parties. Our mobile applications and digital publishing solutions are generally sold through our sales personnel. 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 products at prices based on usage measured in a variety of ways. We generally license our Postano platform on a time-based subscription basis. We may make both our yolink and Postano products available to users for free under certain circumstances. We generally sell our mobile application design and digital publishing services on a project fee basis, and charge monthly fees for hosting mobile applications. We also provide continuing software maintenance and support, and other professional services relating to our products, including consulting and training services. The majority of our revenue to date has been principally derived from MDMS and RAD software products. Approximately 25% and 28% of our revenue came from sales through our offices located outside the United States for the three and six month periods ended September 30, 2013, respectively.

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, such as the recent acquisition of Storycode. We continually evaluate and explore strategic opportunities as they arise, including business combination transactions, strategic partnerships, and the purchase or sale of assets, such as the transactions contemplated by the Purchase Agreement, including tangible and intangible assets such as intellectual property.

*TigerLogic Postano*

Postano is a real-time social content aggregation and visualization platform, bringing together social media conversations and content streams from around the web. The Postano platform includes Postano Mobile, Postano Events, Postano Retail, Postano Social Hub, and the built-in Postano Monitoring dashboard capabilities. Postano aggregates social content across Twitter, Tumblr, Facebook, Instagram, Pinterest, and other social platforms. Within Postano, these content streams can be moderated, curated, analyzed, and then displayed in physical store locations, at events to increase brand awareness, on website social hubs to amplify engagement, and on hashtag campaign landing pages to create brand conversation and increase participation. Postano is designed primarily for commercial use, with pricing based on a number of factors, including the type of Postano, the number of Postanos, features, and support levels desired.

*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](http://www.yolink.com).

*Multi-dimensional Databases (MDMS)*

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Our MDMS products deliver a powerful development environment for today's business-critical transactional applications. The MDMS product line consists of the D3 Database Management System ( D3 ), which runs on popular operating systems, including IBM AIX, Linux and Windows, with data and applications being fully portable from one environment to another, and mvBase, a Multidimensional Database Management system that runs on Windows.

Built on the Multidimensional Database Model, our MDMS products are simplistic in structure but allow for complex definitions of data structures and program logic. This helps developers meet ever-changing business needs by providing the ability to rapidly build critical business applications in a fraction of the time as compared to other database environments. Our MDMS products are used by direct users and value added resellers who have developed various applications that serve a large variety of vertical markets, including manufacturing, distribution, healthcare, government, retail and transportation.

Version 9.1 of D3, released in February 2013, and version 3.1 of mvBase, released in March 2012, added enhanced security, licensing and additional enhancements to the .NET and Java APIs, providing developers a cost effective solution for developing applications utilizing Microsoft Visual Studio; and bundled support for Java, allowing development of applications utilizing Java. Version 9.1 of D3 for AIX, released to beta in January 2013, introduced the first 64-bit version of our MDMS products.

The MVS Toolkit, released in February 2012, enables developers to easily create and deploy Web Services for D3 and mvBase, exposing data stored in the MDMS via Web Services. The MVS Toolkit allows interaction with other applications in a Service Oriented Architecture (SOA) environment.

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*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.

In June 2013, we released version 6.0 of Omnis Studio featuring major new enhancements to its JavaScript Client platform that enables developers to create and deploy highly interactive web and mobile enterprise applications for Android, iOS, BlackBerry, and Windows based devices, all from one code base. The JavaScript Client technology in Omnis Studio 6.0 achieves tighter integration with native device functionality, resulting in a richer and more engaging mobile experience for end users. Omnis Studio 6.0 uses scripting compatible with HTML5 and CSS3 to enable support for all popular browsers and devices, including tablets, smartphones, desktops, and web-enabled TVs. Omnis-based applications are developed once and deployed to any device, on any platform, with no plug-in installation required.

*Technical Support*

Many of our products are used by our customers to build and deploy applications that may become a critical component of their business operations. As a result, continuing to provide customers with technical support services is an important element of our business strategy. Customers who participate in our support programs receive periodic maintenance and upgrade releases on a when-and-if available basis and direct technical support when required.

*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 Postano social media and yolink search technology product lines. New product updates and upgrades in our RAD and Postano product lines are currently in progress and we expect to continue our research and development efforts in these product lines for the foreseeable future. We intend for these efforts to improve our future operating results and increase cash flows. However, such efforts may not result in additional new products or revenue, and we can make no assurances that any announced products or future products will be successful. We spent approximately \$1.5 million and \$3.0 million on research and development during the three and six months ended September 30, 2013, respectively. Pending the completion of the asset sale of the MDMS Business, we expect research and development expenses to decrease significantly in the near term due to the reduction of engineering personnel for the MDMS Business.

*Competition*

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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 Rocket Software. Our RAD products currently encounter competition from several direct competitors, including Microsoft, and competing development environments, including JAVA. Our Postano social media visualization product competes with products developed by companies such as Facebook and Twitter, as well as a number of smaller companies in the emerging social media marketplace. 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 Storycode technology include companies such as Salesforce and Oracle. Most of our competitors have significantly more financial, technical, marketing, and other resources than we do. As a result, our 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. We believe that our ability to compete in the various product markets depends on factors both within and outside our control, including the timing of release, performance and price of new products developed by both us and our competitors. Although we believe that we currently compete favorably with respect to most of these factors, we may not be able to maintain our competitive position against current and potential competitors, especially those with greater resources.

We continue to focus on growth in new market opportunities, such as the mobile applications for our Postano platform, while also continuing to meet the needs of our loyal customer base by investing in the development of new upgrades and updates for our existing product lines. While we have experienced lower license revenue for our MDMS and RAD product lines in past periods, we believe that, pending the completion of the transactions contemplated by the Purchase Agreement, our relatively stable services revenue and prudent management of expenditures will continue to provide sufficient working capital balances to fund new product initiatives aimed at increasing stockholder value.

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*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 and intangible assets. 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.

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

- Revenue Recognition
- Business Combination and 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, 2013 and there have been no changes in our application of these policies during the period ended September 30, 2013.

*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, 2013			Three Months Ended September 30, 2012		Six Months Ended September 30, 2013			Six Months Ended September 30, 2012	
	Results (In thousands)	% of Net Revenues	Percent Change	Results (In thousands)	% of Net Revenues	Results (In thousands)	% of Net Revenues	Percent Change	Results (In thousands)	% of Net Revenues
Net revenues										
Licenses	\$ 1,357	35%	49%	\$ 910	29%	\$ 2,655	35%	39%	\$ 1,905	30%
Services	2,482	65%	11%	2,246	71%	4,909	65%	8%	4,535	70%
Total net revenues	3,839	100%	22%	3,156	100%	7,564	100%	17%	6,440	100%
Operating expenses										
Cost of revenues:										
Cost of license revenues (as a % of license revenues)	85	6%	4150%	2	0%	122	5%	2950%	4	0%
Cost of service revenues (as a % of service revenues)	524	21%	31%	400	18%	1,013	21%	23%	824	18%
Selling and marketing	1,505	39%	43%	1,056	33%	3,103	41%	47%	2,113	33%
Research and development	1,528	40%	21%	1,264	40%	2,976	39%	19%	2,499	39%
General and administrative	1,279	33%	40%	915	29%	2,625	35%	34%	1,952	30%
Total operating expenses	4,921	128%	35%	3,637	115%	9,839	130%	33%	7,392	115%
Operating loss	(1,082)	-28%	125%	(481)	-15%	(2,275)	-30%	139%	(952)	-15%
Other expense-net	(30)	-1%	150%	(12)	0%	(23)	0%	-26%	(31)	0%
Loss before income taxes	(1,112)	-29%	126%	(493)	-16%	(2,298)	-30%	134%	(983)	-15%
Income tax provision	66	2%	247%	19	1%	118	2%	436%	22	0%
Net loss	\$ (1,178)	-31%	130%	\$ (512)	-16%	\$ (2,416)	-32%	140%	\$ (1,005)	-16%

**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 by \$0.7 million or 22% and \$1.1 million or 17% for the three and six month periods ended September 30, 2013, respectively, when compared to the

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same periods in the prior year mainly due to higher license revenues from Postano subscriptions. License revenue for the three and six month periods ended September 30, 2013 increased approximately \$0.4 million or 49% and \$0.8 million or 39%, respectively, when compared to the same periods in the prior year primarily due to higher Postano subscription revenue. Services revenue for the three and six month periods ended September 30, 2013 increased by \$0.2 million or 11% and \$0.4 million or 8%, respectively, when compared to the same periods in the prior year primarily due to higher professional services for creating, customizing, and monitoring Postanos and for digital publishing projects.

The MDMS Business represents a significant portion of our historical revenues, and as a result, net revenue is expected to decrease significantly in the near term after the close of the pending sale of the MDMS Business. We have been actively developing and marketing our newer product lines, including our Postano social media visualization platform, Storycode mobile applications and digital publication solutions, and yolink technology. 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. We can give no assurances as to customer acceptance of any new products or services, or the ability of the current or any new products and services to generate revenue. While sales of our retained and newer product lines have increased in the current quarter ended September 30, 2013, there can be no assurances that we will be able to fully replace the MDMS revenue from our retained or newly developed products quickly, or at all.

***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, amortization of intangible assets, and royalties. Cost of license revenue increased \$83,000 and \$118,000 for the three and six month periods ended September 30, 2013, respectively when compared to the same periods in the prior year mainly due to revenue sharing arrangements in our Social and Mobile platform and amortization expense for the technology intangible assets acquired from the Storycode acquisition.

**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, 2013 increased \$0.1 million or 31% and \$0.2 million and 23%, respectively, when compared to the same periods in the prior year due to the addition of Storycode personnel, and higher stock compensation expense due to new options issued during the quarters ended March 31, 2013 and June 30, 2013. Pending the close of the asset sale of the MDMS Business, cost of service revenue is expected to decrease significantly in the near term due to the reduction of associated customer support personnel and related expenses.

**SELLING AND MARKETING.** Selling and marketing expense consists primarily of salaries, benefits, advertising, tradeshow, travel and overhead costs for our sales and marketing personnel. Selling and marketing expense for the three and six month periods ended September 30, 2013 increased \$0.4 million or 43% and \$1.0 million or 47%, respectively, when compared to the same periods in the prior year mainly due to the addition of Storycode personnel and higher marketing expenses for our Social and Mobile products. We anticipate that selling and marketing costs related to our Social and Mobile product lines may increase as we further develop the sales channels for these products, and as customer acceptance of these products increases.

**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 consultants in the United States. Research and development expense for the three and six month periods ended September 30, 2013 increased approximately \$0.2 million or 21% and \$0.5 million or 19%, respectively, when compared to the same periods in the prior year mainly due to the addition of Storycode personnel and higher expenses for the continued development of our Postano product. We are committed to our research and development

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efforts and expect research and development expenses to increase in future periods as we continue to enhance our Postano platform, investigate further applications and delivery options for our products, and as we build new technology platforms for our RAD 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. The expected future increase in research and development expenses for Postano and RAD products will be largely offset by the reduction in costs from the pending asset sale of the MDMS Business.

**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 and six month periods ended September 30, 2013 increased approximately \$0.4 million or 40% and \$0.7 million or 34%, respectively when compared to the same periods in the prior year mainly due to professional expense incurred in connection with the acquisition of Storycode and pending asset sale of our MDMS Business.

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OTHER EXPENSE-NET: Other expense-net consists primarily of interest income and interest expense, and gains and losses on foreign currency transactions. Other expense-net increased by of \$18,000 for the three months ended September 30, 2013 and decreased by \$8,000 for the six months ended September 30, 2013. This increase is 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 (5.9)% and (5.1)% for the three and six month periods ended September 30, 2013, respectively, and (3.9)% and (2.2)% for the three and six month periods ended September 30, 2012, respectively. The provision for income taxes for the three and six month periods ended September 30, 2013 and 2012 reflected the 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.

*Liquidity and Capital Resources*

As of September 30, 2013, we had \$4.9 million in cash, of which approximately \$0.7 million was held by our foreign subsidiaries and, if repatriated, would not be subject to material tax consequences. In connection with the closing of the Storycode acquisition on January 17, 2013, we made cash payments in the aggregate amount of approximately \$0.5 million, and we subsequently incurred additional expenses associated with integration costs and other transaction-related expenses of approximately \$0.5 million, which was paid as of September 30, 2013. We believe that our existing cash balances and cash flow from sales will be sufficient to meet our operating and capital expenditure requirements for the remainder of the fiscal year ending March 31, 2014 and through the foreseeable future. We also entered into the Purchase Agreement to sell our MDMS Business assets to Rocket Software, Inc. for a total purchase price of approximately \$22 million in cash, subject to a \$2.2 million escrow for 18 months to serve as security for our indemnification obligations pursuant to the Purchase Agreement. The MDMS Business represents a significant portion of our historical revenues, and if the transactions contemplated by the Purchase Agreement proceed to close, there can be no assurances that we will be able to replace those revenues with revenues from our retained or newly developed products quickly, or at all. For the three and six months ended September 30, 2013 our MDMS Business represented 60% and 62% of total net revenue, respectively. For the three and six months ended September 30, 2012, our MDMS Business represented 74% and 72% of total net revenue, respectively. Pending the close of the sale of the MDMS Business, expenses will also be reduced significantly due to the associated reduction in support and engineering personnel for the MDMS Business.

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 integrate and grow the Storycode business, penetrate new markets, attract new customers, and achieve market acceptance of our new and existing products and services, the success of research and development efforts and other factors beyond our control.

We had no material commitments for capital expenditures as of September 30, 2013.

Net cash used in operating activities was \$1.6 million and \$1.3 million for the six month periods ended September 30, 2013 and 2012, respectively. The increase in net cash used in operating activities for the six month period ended September 30, 2013 as compared to the same period in the prior year was primarily due to higher operating and personnel expenses in the six months ended September 30, 2013 due to higher personnel cost as a result of Storycode acquisition, and expenses relating to the pending asset sale of our MDMS Business, which is anticipated

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to be completed during the quarter ending December 31, 2013. Net cash used in investing activities was \$33,000 and \$27,000 for the six month periods ended September 30, 2013 and 2012, respectively, for purchases of furniture and equipment. Net cash provided by financing activities was \$56,000 and \$47,000 for the six month periods ended September 30, 2013 and 2012, respectively, as a result of proceeds derived from the exercise of stock options and related issuance of common stock.

There was no outstanding line of credit during the three and six month periods ended September 30, 2013 or 2012.

### *Off-Balance Sheet Arrangements*

We did not have any off-balance sheet liabilities or transactions as of September 30, 2013.

Table of Contents**Non-GAAP Financial Information**

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 \$0.7 million or negative 18% of total net revenue for the three month period ended September 30, 2013, and negative \$1.4 million or negative 19% of total net revenue for the six month period ended September 30, 2013. Our Adjusted EBITDA was negative \$0.2 million or negative 6% of total net revenue for the three month period ended September 30, 2012, and negative \$0.4 million or negative 6% of total net revenue for the six month period ended September 30, 2012. The decrease in Adjusted EBITDA for the three and six month periods ended September 30, 2013 was a result of higher operating expenses in the current periods due mainly to higher personnel cost as a result of our acquisition of Storycode completed on January 17, 2013, and higher professional services expense relating to the pending asset sale of our MDMS Business, which is anticipated to be completed during the quarter ending December 31, 2013. The following table reconciles Adjusted EBITDA to the GAAP reported net loss:

**RECONCILIATION OF ADJUSTED EBITDA TO NET LOSS****(In thousands)**

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2013	2012	2013	2012
Reported net loss	\$ (1,178)	\$ (512)	\$ (2,416)	\$ (1,005)
Depreciation and amortization	45	31	94	66
Stock-based compensation	364	276	763	500
Interest expense-net	1	1	2	4
Other expense-net	29	11	21	27
Income tax provision	66	19	118	22

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Adjusted EBITDA	\$	(673)	\$	(174)	\$	(1,418)	\$	(386)
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Our Adjusted EBITDA financial information can also be reconciled to net cash used in operating activities as follows:

	<b>For the Six Months Ended</b>	
	<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>
Net cash used in operating activities	\$ (1,645)	\$ (1,321)
Interest expense-net	2	4
Other expense-net	21	27
Income tax provision	118	22
Change in trade accounts receivable	645	98
Change in other current assets	(148)	15
Change in accounts payable	38	62
Change in accrued liabilities	(333)	314
Change in deferred revenue	(88)	419
Foreign currency exchange loss	(28)	(33)
Recovery from bad debt	7	7
Adjusted EBITDA	\$ (1,418)	\$ (386)

#### **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.





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**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, 2013 and in our other public filings, including our Annual Report on Form 10-K for the fiscal year ended March 31, 2013. 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, ENHANCE EXISTING PRODUCTS TO KEEP PACE WITH RAPIDLY CHANGING TECHNOLOGY AND INDUSTRY STANDARDS, AND SUCCESSFULLY INTEGRATE ACQUIRED PRODUCTS AND TECHNOLOGIES, OUR REVENUE MAY DECLINE.**

We have devoted significant resources to the research and development, as well as acquisitions, 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, as well as the integration of newer technologies. We have made extensive efforts to leverage our Pick UDM and core intellectual property to create new product lines, including our yolink search technology and our Postano social media visualization platform, which we have enhanced by incorporating Storycode's expertise in mobile application development, user experience, and design to create, what we believe, will be a new kind of social platform with mobile distribution capabilities. In furtherance of that strategy, in October 2013, we entered into the Purchase Agreement to sell our MDMS Business to Rocket Software, Inc., designed to enable us to continue to invest additional resources into our other products, such as Postano and RAD products. If the transactions contemplated by the Purchase Agreement do not close in a timely manner, or at all, our resources available to fund further development of our products will continue to be limited.

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. There can be no assurance that we will successfully integrate acquired products and technologies, identify new product opportunities, develop and bring new products to market in a timely manner, or achieve market acceptance of our products or that products and technologies developed by others will not render our products or technologies obsolete or noncompetitive. In addition, if we do not timely optimize complementary product lines and services, or if we fail to adequately support or enhance acquired product lines or services, our business may be adversely affected.

**ACQUISITIONS PRESENT MANY RISKS, AND WE MAY NOT REALIZE THE FINANCIAL AND STRATEGIC GOALS AND SYNERGIES THAT WERE CONTEMPLATED OR ANTICIPATED AT THE TIME OF AN ACQUISITION.**

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. Risks we may face in connection with any such acquisitions include the following:

- Our ongoing business may be disrupted and our management's attention may be diverted by acquisition, transition or integration activities;

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- An acquisition may not further our business strategy as we expected, we may not integrate an acquired company or technology as successfully as we anticipated or we may overpay for, or otherwise not realize the expected return on, our investments;
- We may have difficulties in: (i) managing an acquired company's technologies or lines of business or (ii) entering new markets where we have no or limited direct prior experience or where competitors may have stronger market positions;
- Our operating results or financial condition may be adversely impacted by claims or liabilities that we assume from an acquired company or technology or that are otherwise related to an acquisition, including claims from government agencies, terminated employees, current or former customers, former stockholders or other third parties and intellectual property claims or disputes;
- We may fail to identify or assess the magnitude of certain liabilities, shortcomings or other circumstances prior to acquiring a company or technology, which could result in unexpected litigation or regulatory exposure, unfavorable revenue recognition or other accounting treatment, unexpected increases in taxes due, a loss of anticipated tax benefits or other adverse effects on our business, operating results or financial condition;
- We may not realize the anticipated synergies or increases in our revenues for a number of reasons, including if we fail to engage new customers or enter new markets with our integrated products, if we are unable to sell the acquired products to our existing customer base or if contract models of an acquired company do not allow us to recognize revenues on a timely basis;
- We may have difficulty incorporating acquired technologies or products with our existing product lines and maintaining uniform standards, architecture, controls, procedures and policies;
- We may have multiple product lines as a result of our acquisitions that are offered, priced and supported differently, which could cause customer confusion and delays;
- We may incur higher than anticipated costs in continuing support and development of acquired products, and in administrative functions that support new business models, or in compliance with associated regulations that are more complicated than we had anticipated;
- We may be unable to successfully integrate and retain the acquired companies' employees and other personnel;
- Our use of cash to pay for acquisitions may limit other potential uses of our cash and may deplete our cash reserves;

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- To the extent that we issue a significant amount of equity securities in connection with future acquisitions, existing stockholders may be diluted and earnings per share may decrease; and

- We are required to account for our acquisitions pursuant to U.S. generally accepted accounting principles, including recording goodwill and intangible assets that are subject to impairment testing on a regular basis and potential periodic impairment charges, incurring amortization expenses related to certain intangible assets, incurring write-offs, restructuring or other related expenses and accounting for arrangements that we assume from an acquisition.

Mergers, acquisitions, and dispositions of high-technology companies are inherently risky and subject to many factors outside of our control. No assurance can be given that our previous or future acquisitions or dispositions will be successful and will not materially adversely affect our business, results of operations, financial condition or cash flows. Failure to manage and successfully integrate acquisitions could materially harm our business and operating results. Even when an acquired company has already developed and marketed products, there can be no assurance that product enhancements will be made in a timely fashion or that pre-acquisition due diligence will have identified all possible issues that might arise with respect to such products. In addition, accounting for acquisitions may result in charges during a particular quarter, causing variability in our quarterly earnings. Our effective tax rate for future periods is uncertain and could be impacted by mergers and acquisitions.

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**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 Rocket Software. Our RAD products currently encounter competition from several direct competitors, including Microsoft, and competing development environments, including JAVA. Direct competitors of our Postano social media visualization product include Facebook and Twitter, as well as numerous smaller companies in the emerging social media marketplace. 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 Storycode products and services include companies such as Salesforce and Oracle. Additionally, as we expand our business and integrate acquired products and technologies, 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 and cash flows.

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 and operating results 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 market will eventually decline as customers adopt newer technologies.

**ADVERSE ECONOMIC CONDITIONS COULD CONTINUE TO HARM OUR BUSINESS.**

Our operations and performance depend significantly on global economic conditions. Instability in the global credit markets, including European economic and financial turmoil related to sovereign debt issues in certain countries, may continue to put pressure on global economic conditions.

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If economic conditions remain uncertain in key markets, including without limitation the United States and Western Europe where we derive a majority of our revenue, we will continue to experience adverse impacts on our business, operating results, and financial condition. 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 WILL CONTINUE TO INCUR SIGNIFICANT LOSSES IN THE FUTURE.**

We incurred net losses of approximately \$1.2 million and \$2.4 million for the three and six month periods ended September 30, 2013, respectively. We had an accumulated deficit of approximately \$114.1 million as of September 30, 2013. We expect that we will continue to incur significant losses in the future for a number of reasons, including uncertainty as to: (i) the level of our future revenues; (ii) our efforts to monetize newer technologies we have developed, including Postano, Storycode, and yolink; and (iii) our efforts to integrate acquired products and technologies. We plan to continue to pursue strategic opportunities, including investment in new product development, and evaluation of strategic acquisitions and dispositions of assets and technologies, such as the transactions contemplated by the Purchase Agreement to sell our MDMS Business. MDMS Business represents a significant portion of our historical revenues, and if the transactions contemplated by

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the Purchase Agreement proceed to close, there can be no assurances that we will be able to replace those revenues with revenues from our retained or newly developed products quickly, or at all. Forecasting our revenues and profitability for our 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 RECOGNITION 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 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 visualization platform 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 October 31, 2013, Astoria Capital Partners, L.P. ( Astoria ) beneficially owned approximately 49.5% of our outstanding common stock. Richard W. Koe, Chairman of the Board of Directors and our 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 potentially block or delay 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 integrate acquired products and technology and 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;
- our ability to integrate acquired products and technologies;
- our ability to realize the anticipated synergies from the businesses we acquire;
- 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;
- the timing and significance of acquisition-related expenses and accounting charges;

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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 Officer in February 2009, and in connection with the acquisition of Storycode in January 2013, Mr. Koe's title was modified to eliminate the interim references, and he continues to serve as our President and Chief Executive Officer. 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. For example, in June 2013, we announced the appointment of Thomas O'Keefe as our Senior Vice President, Mobile and Social, to replace James McDermott, who left our company to pursue other interests. In addition, we appointed Justin Garrity, who joined us as part of the acquisition of Storycode, Inc., as our Senior Vice President, Product and Marketing. Also in June 2013, our Board of Directors accepted the resignation of Gerald S. Chew from the position of Senior Vice President, Corporate and Product Development, effective July 31, 2013. Mr. Chew will continue to serve as a director where he has served since joining our Board in 1998. 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.**

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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. We rely primarily on a combination of patent, trade secret, copyright and trademark laws and contractual provisions to protect our intellectual property and proprietary rights. Our trademarks include TigerLogic, Postano, yolink, Pick, D3, Omnis, Omnis Studio, mvEnterprise, mvBase, mvDesigner, and Storycode, among others. We have eleven issued U.S. patents and six pending U.S. patent applications as of September 30, 2013. Although we have been issued various patents and other patent applications are currently pending, there can be no assurance that any of these patents or other proprietary rights will not be challenged, invalidated, or circumvented or that our rights will, in fact, provide competitive advantages to us. In addition, there can be no assurance that patents will be issued from pending applications or that claims allowed on any patents will be sufficiently broad to protect our technology. Further, the laws of some foreign countries may not protect our proprietary rights to the same extent as do the laws of the United States. The outcome of any actions taken in these foreign countries may be different than if such actions were determined under the laws of the United States. Although we are not dependent on any individual patents or group of patents for particular segments of the business for which we compete, if we are unable to protect our proprietary rights to the totality of the features (including aspects of products protected other than by patent rights) in a market, we may find ourselves at a competitive disadvantage to others who need not incur the substantial expense, time, and effort required to create innovative products. 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.

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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 REQUIREMENTS 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, including our acquired products and technologies, 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 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. Because of the existence of a large number of patents in the software field, the secrecy of some pending patents, and the rapid rate of issuance of new patents, it is not economically practical or even possible to determine in advance whether a product or any of its components infringes or will infringe on the patent rights of others. The asserted claims and/or initiated litigation can include claims against us or our suppliers or customers, alleging infringement of their proprietary rights with respect to our existing or future products or components of those products. Regardless of the merit of these claims, they can be time-consuming, result in costly litigation and diversion of technical and management personnel, or require us to develop a non-infringing technology or enter into royalty or licensing agreements. Where claims are made by customers, resistance even to unmeritorious claims could damage customer relationships. There can be no assurance that licenses will be available on acceptable terms and conditions, if at all, or that our indemnification by our suppliers will be adequate to cover our costs if a claim were brought directly against us or our customers. Furthermore, because of the potential for high court awards that are not necessarily predictable, it is not unusual to find even arguably unmeritorious claims settled for significant amounts. If any infringement or other intellectual property claim made against us by any third party is successful, if we are required to indemnify a customer with respect to a claim against the customer, or if we fail to develop non-infringing technology or license the proprietary rights on commercially reasonable terms and conditions, our business, operating results, and financial condition could be materially and adversely affected.

**OUR PRODUCTS MAY CONTAIN SOFTWARE DEFECTS POTENTIALLY HARMING OUR BUSINESS.**

Our enterprise applications development software, search technology, social media, and mobile application and digital publication 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, and especially our recently acquired Storycode business. 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, including products integrated with our acquired technologies. 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 October 31, 2013, we had 30,083,120 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.

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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, including shares we issued in connection with the Storycode acquisition, 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 28% of our revenue for the six month period ended September 30, 2013 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 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.

**CHANGES IN OUR PROVISION FOR INCOME TAXES OR ADVERSE OUTCOMES RESULTING FROM EXAMINATION OF OUR INCOME TAX RETURNS COULD ADVERSELY AFFECT OUR OPERATING RESULTS**

Our provision for income taxes is subject to volatility and could be adversely affected by earnings being lower than anticipated in countries that have lower tax rates and higher than anticipated in countries that have higher tax rates; by changes in the valuation of our deferred tax assets and liabilities; by expiration of or lapses in the R&D tax credit laws; by transfer pricing adjustments, including our intercompany cost sharing arrangements and legal structure; by tax effects of nondeductible compensation; by tax costs related to intercompany realignments; by changes in accounting principles; or by changes in tax laws and regulations, including possible U.S. changes to the taxation of earnings of our foreign subsidiaries, the deductibility of expenses attributable to foreign income, or the foreign tax credit rules. Significant judgment is required to determine the recognition and measurement attribute prescribed in the accounting guidance for uncertainty in income taxes. The accounting guidance for uncertainty in income taxes applies to all income tax positions, including the potential recovery of previously paid taxes, which if settled unfavorably could adversely impact our provision for income taxes or additional paid-in capital. In addition, we have and may become subject to the examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these examinations will not have an adverse effect on our operating results and financial condition.

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**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**

<b>Exhibit:</b>	<b>Description</b>
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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**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 8, 2013

**TIGERLOGIC CORPORATION**

/s/ Thomas Lim

**Thomas Lim**  
**Chief Financial Officer and Duly Authorized Officer**

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