

TigerLogic CORP  
Form 10-K  
June 24, 2009  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark one)

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

For the fiscal year ended March 31, 2009

or

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

For the transition period from            to            .

Commission file number 0-16449

**TIGERLOGIC CORPORATION**

(Name of Registrant as Specified in Its Charter)

Edgar Filing: TigerLogic CORP - Form 10-K

**Delaware**  
(State of Incorporation)

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

**25A Technology Drive, Irvine, California**  
(Address of Principal Executive Offices)

**92618**  
(Zip Code)

**(949) 442-4400**  
(Issuer's Telephone Number, Including Area Code)

**Securities registered under Section 12(b) of the Exchange Act:**

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
<b>Common Stock \$0.10 par value</b>	<b>The NASDAQ Stock Market LLC</b>

**Securities registered under Section 12(g) of the Exchange Act:**

**None**

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

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

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

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

## Edgar Filing: TigerLogic CORP - Form 10-K

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant was \$42,880,181 on September 30, 2008 based on the closing sale price of such stock on Nasdaq on that date.

As of May 31, 2009, the Registrant had 26,743,355 shares of its common stock outstanding.

### **DOCUMENTS INCORPORATED BY REFERENCE**

None.

**Table of Contents**

**TIGERLOGIC CORPORATION**  
**FISCAL YEAR 2009 FORM 10-K ANNUAL REPORT**

**INDEX**

**PART I**

Item 1.	<u>Business</u>	1
Item 1A.	<u>Risk Factors</u>	5
Item 2.	<u>Properties</u>	9
Item 3.	<u>Legal Proceedings</u>	10
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	10

**PART II**

Item 5.	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	11
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 8.	<u>Financial Statements and Supplementary Data</u>	19
Item 9.	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	20
Item 9A(T).	<u>Controls and Procedures</u>	20
Item 9B.	<u>Other Information</u>	20

**PART III**

Item 10.	<u>Directors, Executive Officers, and Corporate Governance</u>	20
Item 11.	<u>Executive Compensation</u>	22
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	26
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	28
Item 14.	<u>Principal Accounting Fees and Services</u>	29

**PART IV**

Item 15.	<u>Exhibits, Financial Statement Schedules</u>	29
	<u>Signatures</u>	32
	<u>Consolidated Financial Statements</u>	34

---

**Table of Contents**

**PART I**

**IMPORTANT NOTE ABOUT FORWARD-LOOKING STATEMENTS.** This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, 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 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 Part I, Item 1A of this Form 10-K and elsewhere in this Form 10-K. The forward-looking statements contained in this Form 10-K include, but are not limited to statements about the following: (1) our future success, (2) our research and development efforts, (3) our future operating results and cash flow, (4) our ability to compete, (5) the markets in which we operate, (6) our revenue, (7) cost of license revenue and cost of service revenue, (8) our selling and marketing costs, (9) our general and administrative 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, 2010 and through the foreseeable future, (14) our focus on the continued development and enhancement of the TigerLogic product line, and identification of new and emerging application areas and discussions with channel partners for the sale and distribution of the TigerLogic product line, and (15) the possibility that we may seek to take advantage of strategic acquisition opportunities. All forward-looking statements in this document are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement.

**ITEM 1. Business**  
**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 Annual Report on Form 10-K mean TigerLogic Corporation and our subsidiaries.

**Products**

Our principal business is the design, development, sale and support of software infrastructure. Our products allow customers to create and enhance flexible software applications for their own needs. Our software may be categorized into the following product lines: Yolink, XML data management servers ( XDMS ), Multidimensional Database Management Systems ( MDMS ), and Rapid Application Development ( RAD ) software tools. All of our revenue to date has been derived from XDMS, MDMS and RAD software products.

Many of our products are based on the proprietary Pick Universal Data Model ( Pick UDM ) and are capable of handling data from many sources. The Pick UDM is a core component across the XDMS and MDMS product lines.

Beginning in 2001, we began an extensive effort to leverage our Pick UDM and core intellectual property to create the TigerLogic technology product line, which includes an internet browser-based search application called Yolink (formerly known as ChunkIt!) designed to enhance the search experience and productivity of any Web user, and an enterprise class XML Database Management Server for the emerging XML market to address the growing need for managing and querying native XML data and the ability to handle structured and unstructured data. We are focused on the continued development and enhancement of this product line, identification of new and emerging technology areas and discussions with channel partners for the sale and distribution of the TigerLogic product line.

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

## Edgar Filing: TigerLogic CORP - Form 10-K

### *TigerLogic Yolink*

In May 2009, we released Yolink 2.0, a replacement for ChunkIt! 1.0 which was released in October 2008. Yolink is a simple and easy to use browser-based search enhancement tool. This application is designed to enhance the search experience and productivity of any Web user. As an application that sits inside a Web browser, its function is to identify and display information containing keywords in the user's search query from embedded hyperlinks that are commonly found on Web pages. To facilitate the user's review, each keyword is highlighted with a unique color.

---

## **Table of Contents**

This capability is especially useful for reviewing and searching through the many Web pages that contain hundreds, if not thousands of embedded hyperlinks. With a single click, Yolink delivers users the benefit of being able to quickly search through and preview links that contain information pertinent to their interest. Yolink can save users the time of having to click through a multitude of irrelevant links, and from having to manage multiple windows and tabs.

Yolink is available for download at [www.yolink.com](http://www.yolink.com). To date, we have not recognized any revenue from the Yolink product.

### ***TigerLogic XDMS***

TigerLogic® XDMS is a high performance, scalable, enterprise native XML database management server with both data- and document-centric capabilities. We believe the TigerLogic XDMS difference comes from its core technology, a highly flexible data model that is optimal for managing and storing any kind of XML or non-XML data and its high performance, extensible XQuery Engine. TigerLogic XDMS provides a level of efficient persistence that XML applications and transactions require, offering the benefits of roles-based security, XA-compliant transactions, replication and high-availability for enhanced reliability. TigerLogic XDMS provides the benefits of an enterprise-scalable system that allows on the fly changes to content, recursion, and automatically optimizes storage.

TigerLogic XDMS supports an extensible and flexible development and deployment environment. Unlike other XML data management alternatives, TigerLogic XDMS does not need to know the schema or structure of data before processing and storing it. We believe the ability to make XML schemas optional is a vital innovation because the structures of operational systems frequently change, and mapping schemas for the purpose of linking to a new data source is both difficult and time-consuming. The system also enables support for schema versioning, which is critical when addressing evolving standards and XML schemas. The General Availability Release of TigerLogic XDMS version 2.6, which included support for enhanced XQuery features, including XQuery stored procedures and full-text search and support for high availability clustering, was released in July 2006. Version 3.0, which is the third generation release of the product, includes compliance with the XML Query 1.0 specification was released in January 2007. Cache management of data sources, in-memory cache, support for geospatial data, enhanced application programming interfaces ( APIs ) and data replication was released for beta testing in June 2007. To date, our revenue from TigerLogic XDMS has been less than \$300,000.

### ***Multi-dimensional Databases (MDMS)***

The MDMS product line consists principally of the D3 Data Base Management System ( D3 ), which runs on many operating systems, including IBM AIX, Linux and Windows NT. D3 allows application programmers to create new business solution software in less time than it normally takes in many other environments. This can translate into lower costs for the developer, lower software prices for the customer and reduced costs of ownership for both the developer and end user. Our MDMS products also include mvEnterprise, a scalable multi-dimensional database solution that allows the user to leverage the capabilities of the UNIX operating system, and mvBase, a multi-dimensional database solution that runs on all Windows platforms.

MDMS components include FlashCONNECT, a Web application programming interface which enables programmers to quickly implement a Web browser interface for Internet, intranet and extranet for their applications; OpenDB and Open Data Base Connectivity ( ODBC ) connectors that allow the MDMS products to talk to ODBC-compliant databases; the Pick Data Provider for .Net ( PDP ); and our Pick Reporting Services Connector. The PDP component for the Microsoft .NET Framework is tightly integrated with Microsoft Visual Studio .NET. It allows software developers using IBM s Universe and Unidata databases and our D3 database platform to build client/server applications, Web applications or Web services using any of the languages and technologies that run on the Microsoft .NET Framework, such as Microsoft ASP.NET, Visual Basic .NET, Visual C# .NET and Visual J# .NET. Our Pick Reporting Services Connector enables a data connection that allows Pick database users to unlock the benefits of Microsoft Reporting Services to take advantage of a comprehensive, server-based reporting solution that can author, manage, and deliver both paper-oriented and interactive, Web-based reports. This solution also allows access to IBM UniVerse, IBM UniData and Pick D3 data.

### ***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 applications on operating system platforms such as Windows, Unix and Linux, as well as database environments such as MySQL, Oracle, DB2, Sybase, Microsoft SQL Server and other ODBC compatible database management systems.



## **Table of Contents**

### **Technical Support**

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 technical support services is an important element of our business strategy. Customers who participate in our support programs receive periodic maintenance releases on a when-and-if available basis and direct technical support when required.

### **Sales and Distribution**

In the United States, we sell our products through established distribution channels consisting of OEMs, system integrators, specialized vertical application software developers and consulting organizations. We also sell our products directly through our sales personnel to end user organizations. Outside the United States, we maintain direct sales offices in the United Kingdom, France and Germany. Approximately 32%, 34%, and 31% of our revenue came from sales through our offices located outside the United States for the twelve months ended March 31, 2009, 2008 and 2007, respectively.

We sell our products in U.S. Dollars in North America, British Pounds Sterling in the United Kingdom and Euros in France and Germany. Because we recognize revenue and expense in these various currencies but report our financial results in U.S. Dollars, changes in exchange rates may cause variances in our period-to-period revenue and results of operations in future periods.

We generally license our software on a per-CPU, per-server, per-port or per-user basis. Therefore, the addition of CPU s, servers, ports or users to existing systems increases our revenue from our installed base of licenses. Similarly, a decrease in CPU s, servers, ports or users would result in a decrease in our revenue. In addition to software products, we provide continuing software maintenance and support and, to a limited extent, other professional services to our customers, including consulting and training services to help plan, analyze, implement and maintain application software based on our products.

### **Customers**

Our customers may be classified into two general categories:

Independent Software Vendors and Software Developers. The majority of our revenue is derived from independent software vendors, which typically write their own vertical application software that they sell as a complete package to end user customers. This category includes value added resellers ( VARs ) and software-consulting companies that provide contract programming services to their customers.

Corporate Information Technology ( IT ) Departments.

For each of the three years ended March 31, 2009, 2008 and 2007, no single customer accounted for more than 10% of our revenue.

### **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 TigerLogic product line. New product releases in all of our product lines are currently in progress. We expect to continue our research and development efforts in all product lines for the foreseeable future. We intend for these efforts to improve our future operating results and increase cash flow. However, such efforts may not result in additional new products or revenue, and we can make no assurances that the recently announced products or future products will be successful. We spent \$7.6 million, \$7.8 million and \$9.3 million on research and development in fiscal years 2009, 2008 and 2007, respectively.

### **Competition**

The application development tools software market is rapidly changing and intensely competitive. Our MDMS products compete with products developed by companies such as Oracle, Microsoft and IBM. Our RAD products currently encounter competition from several direct competitors, including Microsoft, and competing development environments, including JAVA. Competition is developing and evolving in the XML market for which our XDMS products are intended. Companies that do or are expected to compete in this market include Oracle, IBM,

## Edgar Filing: TigerLogic CORP - Form 10-K

Microsoft and Sybase, as well as a number of smaller companies with products that directly and indirectly compete with our XDMS products. Our Yolink search application will encounter competition from several direct competitors including Google, Yahoo, Microsoft, AOL and Ask, as well as a number of smaller companies with products that directly and indirectly compete with our Yolink product. 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.

## **Table of Contents**

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 preparing the Company for growth in new market opportunities, such as the Yolink and XDMS product lines, while also continuing to meet the needs of our loyal customer base by investing in the development of new updates and releases for our existing MDMS and RAD product lines. While the current adverse worldwide economic conditions have resulted in lower revenue, we believe that our relatively stable services revenue and lower expenditures will continue to result in sufficient working capital balances to fund growth initiatives aimed at increasing stockholder value.

### **Intellectual Property and Other Proprietary Rights**

We rely primarily on a combination of trade secret, patent, copyright and trademark laws and contractual provisions to protect our intellectual property and proprietary rights. Our trademarks include TigerLogic, Yolink, ChunkIt!, Raining Data, Pick, D3, Omnis, Omnis Studio, mvEnterprise, mvBase, and mvDesigner, among others. We also have thirteen pending U.S. patent applications as of March 31, 2009.

We license our products to end users on a right to use basis pursuant to a perpetual license agreement that restricts use of products to a specified number of users. We generally rely on click-wrap licenses that become effective when a customer downloads and installs the software on its system. 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, or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology.

### **Backlog**

We generally ship software products as orders are received and have historically operated with little backlog. As a result, our license revenue in any given quarter is dependent upon orders received and product shipped during the quarter. Historically, there has been a short cycle between receipt of an order and shipment. Consequently, we do not believe that our backlog as of any particular date is meaningful.

### **Employees**

At March 31, 2009, we had 102 employees worldwide of which 74 were in the United States and 28 were in our international offices. Of the 102 employees, 80 are full-time and approximately 37% are in research and development, 21% in technical support, 27% in sales and marketing and 15% in general and administrative functions. None of our employees are represented by a labor union, and we consider our employee relations to be good. Competition for qualified personnel in our industry is intense. We believe that our future success will continue to depend, in part, on our continued ability to attract, hire and retain qualified personnel.

### **Executive Officers**

The following sets forth certain information regarding our executive officers as of March 31, 2009:

<b>Name</b>	<b>Age</b>	<b>Position(s)</b>
Richard W. Koe	52	Interim President and Chief Executive Officer
Thomas Lim	40	Chief Financial Officer, VP of Finance, and Secretary
John H. Bramley	52	Vice President, Operations
Jeffrey L. Wong	51	Vice President of Marketing

Mr. Koe was appointed Interim President and Chief Executive Officer on February 26, 2009. Mr. Koe joined the Board of Directors in January 2003 and has served as Chairman since December 2004. Mr. Koe has served as Managing General Partner for Astoria Capital Partners, L.P. and Montavilla Partners, L.P., both of which are investment partnerships, and as President of Astoria Capital Management, since July 1991. Astoria Capital Partners, L.P. is a significant stockholder of the Company, holding a majority of the Company's outstanding common stock. Mr. Koe serves as Chairman of the Compensation Committee and the Nominating and Corporate Governance Committee and is the sole member of the Stock Committee, a subcommittee of the Compensation Committee. Mr. Koe holds a B.A. in History from the University of Oregon.

## Edgar Filing: TigerLogic CORP - Form 10-K

Mr. Lim has served as our Chief Financial Officer and Vice President of Finance since May 2006, and as Secretary since August 2006. Prior to joining TigerLogic, from March 2004 to May 2006, Mr. Lim served as the Director of Finance and Controller of

---

## **Table of Contents**

WageWorks, Inc., an employee benefits administration firm. Mr. Lim served as the Director of Finance of DNA Sciences, Inc., a bio-research company, from October 2002 to January 2004, and as the Corporate Controller of Certive Corporation, a software company, from June 2000 to September 2002. Mr. Lim graduated from the University of California at Berkeley, Haas School of Business with a B.S. in accounting and finance and received his M.B.A. from the University of California at Berkeley, Haas School of Business. Mr. Lim is a Certified Public Accountant.

Mr. Bramley has served as our Vice President, Operations since July 2008. From February 2007 to July 2008, Mr. Bramley served as our Vice President of Product Development. From April 2001 to February 2007, Mr. Bramley held various corporate technical positions involved with the development, marketing and support of TigerLogic's XDMS technology. From November 1996 to April 2001, Mr. Bramley served as Vice President, Engineering responsible for the product development and technical support for TigerLogic's MDMS products. From January 1987 to November 1996, Mr. Bramley was involved in the management and development of the Pick database management system at Sequoia Systems, a vendor of fault tolerant hardware products. Mr. Bramley holds a B.S. degree in Computer Science from the State University of New York, Plattsburgh, NY.

Mr. Wong joined us in July 2007 as our Vice President of Marketing. From July 2002 to June 2007, Mr. Wong served in various management roles with Genesys Conferencing, a publicly-traded company offering integrated Web, audio and video conferencing services, including Director of Technical Applications Management, Director of National Account Sales Eastern Region, and Global Director of Product Management. From June 1999 to July 2002, Mr. Wong served as the Director of Product Marketing with Placeware, Inc., a Web conferencing services company. Mr. Wong holds a B.S. in Civil Engineering from the University of California, Berkeley, a M.S. in Materials Engineering from L'École Supérieure de Soudure Autogène in Paris, France, and a M.B.A. from the University of California, Los Angeles, Anderson School of Management. On May 19, 2009, Mr. Wong submitted his notice of resignation from TigerLogic Corporation. We have accepted Mr. Wong's resignation which will become effective June 19, 2009.

### **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 Annual Report on Form 10-K for the fiscal year ended March 31, 2009 and in our other public filings. 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, which could cause the market price of our stock to decline, perhaps significantly. The following section lists some, but not all, of these risks and uncertainties that may have a material adverse effect on our business, financial condition or results of operation.*

### **IF WE DO NOT DEVELOP NEW PRODUCTS AND ENHANCE EXISTING PRODUCTS TO KEEP PACE WITH RAPIDLY CHANGING TECHNOLOGY AND INDUSTRY STANDARDS, OUR REVENUE MAY DECLINE.**

We have devoted significant resources to the research and development of products and technologies. We believe that our future success will depend in large part on strong research and development efforts with respect to both our existing and new products. Beginning in 2001, we began an extensive effort to leverage our time-proven Pick UDM and core intellectual property to create the TigerLogic product line, which includes an internet browser-based search application called Yolink and an enterprise class XML database management server for the emerging XML market. 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.

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

## Edgar Filing: TigerLogic CORP - Form 10-K

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.

---

## **Table of Contents**

The application development tools software market is rapidly changing and intensely competitive. Our MDMS products compete with products developed by companies such as Oracle, Microsoft and IBM. Our RAD products currently encounter competition from several direct competitors, including Microsoft, and competing development environments, including JAVA. Competition is developing and evolving in the XML market for which our XDMS products are intended. Companies that do or are expected to compete in this market include Oracle, IBM, Microsoft and Sybase, as well as a number of smaller companies with products that directly and indirectly compete with our XDMS products. Our Yolink search application will encounter competition from several direct competitors including Google, Yahoo, Microsoft, AOL and Ask, as well as a number of smaller companies with products that directly and indirectly compete with our Yolink product. Additionally, as we expand our business, we expect to compete with a different group of companies, including smaller, highly focused companies offering single products.

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

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

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

### **ADVERSE ECONOMIC CONDITIONS COULD HARM OUR BUSINESS.**

Our operations and performance depend significantly on worldwide economic conditions, which have deteriorated significantly in many countries and regions, including without limitation the United States and Western Europe from which we derive a majority of our revenue. Unfavorable changes in economic conditions, including recession, rising inflation, diminished credit availability, declining valuation of investments or other changes in economic conditions may result in lower information technology spending and may adversely affect our revenue. For example, current or potential customers may be unable to fund software purchases, which could cause 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 software on a per-CPU, per-server, per-port or per-user basis, any decrease in CPU's, servers, ports or users by our customers would result in a decrease in our revenue. These and other economic factors could have a material adverse effect on demand for our products and services and on our financial results.

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

The sales cycle for our MDMS and RAD products typically ranges from three to nine months or longer and the sales cycle for our XDMS products is anticipated to be significantly longer since these markets are emerging and the products are still in the process of being adopted by the marketplace. The adoption cycle for our Yolink product is anticipated to be long since the search market currently has much larger direct competitors such as Google, Yahoo, Microsoft, AOL and Ask. Our products are typically used by application developers, system integrators and value added resellers to develop applications that are critical to their corporate end user's business. Because our products are often part of an end user's larger business process, re-engineering initiative, or implementation of client/server or web-based computing, the end users frequently view the purchase of our products as part of a long-term strategic decision regarding the management of their workforce-related operations and expenditures. Thus, this sometimes results in end users taking a significant period of time to assess alternative solutions by competitors or to defer a purchase decision as a result of an unrelated strategic issue beyond our control. 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 March 31, 2009, Astoria beneficially owned approximately 56% of our outstanding common stock. Richard W. Koe, Chairman of the Board of Directors and Interim President and Chief Executive Officer, serves as the Managing General Partner for Astoria Capital Management,

## Edgar Filing: TigerLogic CORP - Form 10-K

Inc. ( ACM ), which is a general partner of Astoria. This concentration of stock ownership allows Astoria, acting alone, to block any actions that require approval of our stockholders, including the election of members to our Board of Directors and the approval of significant corporate transactions. Moreover, this concentration of ownership may delay or prevent a change in control.

**Table of Contents**

**WE MAY EXPERIENCE QUARTERLY FLUCTUATIONS IN OPERATING RESULTS, WHICH MAY RESULT IN VOLATILITY OF OUR STOCK PRICE.**

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

the size and timing of customer orders;

changes in pricing policies by us or our competitors;

our ability to develop, introduce, and market new and enhanced versions of our products;

the number, timing, and significance of product enhancements and new product announcements by our competitors;

the demand for our products;

non-renewal of customer support agreements;

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, which may cause 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.

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

Mr. Koe was appointed Interim President and Chief Executive Office in February 2009, following the resignation of Carlton H. Baab. We are in the process of conducting a search for a permanent President and Chief Executive Officer. Our Vice President of marketing, Mr. Wong, submitted his notice of resignation from TigerLogic Corporation on May 19, 2009. We have accepted Mr. Wong's resignation which will become effective June 19, 2009. The loss of one or more of our executives could adversely affect our business. In addition, we have in the past restructured or made other adjustments to our workforce in response to management changes, product changes, performance issues, acquisitions and other internal and external considerations. Workforce restructurings could result in a temporary lack of focus and reduced productivity, which could negatively affect our revenues.

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

for our customers, which could adversely affect our business.

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

Our ability to compete successfully will depend, in part, on our ability to protect our proprietary technology and operations without infringing upon the rights of others. We may fail to do so. In addition, the laws of certain countries in which our products are, or may be, licensed may not protect our proprietary rights to the same extent as the laws of the United States. We rely primarily on a combination of trade secret, copyright and trademark laws and contractual provisions to protect our intellectual property and proprietary rights. Our trademarks include TigerLogic, Yolink, ChunkIt!, Pick, D3, Omnis, Omnis Studio, mvEnterprise, mvBase, and mvDesigner, among others. We also have thirteen pending U.S. patent applications as of March 31, 2009. In addition to trademark and copyright protections, we license our products to end users on a right to use basis pursuant to a perpetual license agreement that restricts use of products to a specified number of users.

We generally rely on click-wrap licenses that become effective when a customer downloads and installs software on its system. 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, or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology.

---

**Table of Contents**

As further described in Part I, Item 3 of this Form 10-K, we have filed complaints in Orange County Superior Court that set forth allegations that certain parties threaten to and have misappropriated our trade secrets, including the possible release of certain source code.

**THIRD PARTIES COULD ASSERT THAT OUR SOFTWARE PRODUCTS AND/OR SERVICES INFRINGE ON THEIR INTELLECTUAL PROPERTY RIGHTS, WHICH COULD RESULT IN COSTLY LITIGATION, CAUSE PRODUCT SHIPMENT DELAYS, PROHIBIT PRODUCT LICENSING OR REQUIRE US TO ENTER INTO ROYALTY OR LICENSING AGREEMENTS.**

There has been a substantial amount of litigation in the software and online services industry regarding intellectual property rights and there is significant uncertainty in our industry as many of the legal principles associated with software and online services continue to evolve rapidly. Third parties may claim that our current or potential future products or services infringe upon their intellectual property rights. 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. Any claims, with or without merit, could be time consuming, result in costly litigation, divert management's attention, cause product shipment delays, prohibit product licensing or require us to enter into royalty or licensing agreements. Royalty or licensing agreements, if required, may not be available on terms acceptable to us or at all, which could seriously harm our business.

**OUR PRODUCTS MAY CONTAIN SOFTWARE DEFECTS WHICH COULD HARM OUR BUSINESS.**

Our enterprise applications software and internet browser-based search application may contain undetected errors or failures. This includes our XDMS and Yolink products, which are at higher risk given these products are in the earliest stages of the product life cycle. This may result in loss of, or delay in, customer acceptance of our products and could harm our reputation and our business. Undetected errors or failures in computer software programs are not uncommon.

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

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

As of March 31, 2009, we had 26,730,230 outstanding shares of common stock, of which approximately 15 million shares were restricted securities held by Astoria and other holders. Restricted securities may be sold in the public market only if they are registered or if they qualify for an exemption from registration promulgated under the Securities Act. At present, all of our outstanding restricted securities may be registered or are eligible for public sale under Rule 144, subject to volume limitations and other requirements of Rule 144.

Sales of a substantial number of shares of common stock by Astoria or other securities holders in the public market, or the perception that those sales may occur, could cause the market price of our common stock to decline. In addition, if we register shares of our common stock in connection with a public offering of securities, we may be required to include shares of restricted securities in the registration, which may have an adverse effect on 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 32% of our revenue for year ended March 31, 2009 was generated from our international offices. We face several risks inherent in conducting business internationally, including but not limited to the following:

fluctuations in interest rates or currency exchange rates;



---

**Table of Contents**

language and cultural differences;

local and governmental requirements;

difficulties and costs of staffing and managing international operations;

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 local laws which also prohibit 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.

**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, RAD, and TigerLogic 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 THE COMPANY'S 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. If we fail to maintain the adequacy of its 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.

**ITEM 2. *Properties***

We currently lease approximately 29,000 square feet of office space in Irvine, California. The lease commenced in November 2005, has a five year term and provides for a base monthly rent of approximately \$43,000. The facility accommodates our engineering, technical support, sales, marketing, and general and administrative personnel.

## Edgar Filing: TigerLogic CORP - Form 10-K

We own a building consisting of approximately 5,900 total square feet located on approximately six acres of land in Suffolk, England. The facility houses engineering, marketing, and technical support personnel.

We currently lease approximately 9,000 square feet of office space in San Jose, California which houses engineering, business development, marketing, and general and administrative personnel.

We also lease a sales and support office in each of the UK, France and Germany.

We believe that our facilities are suitable and adequate for our current needs.

---

**Table of Contents**

**ITEM 3. Legal Proceedings**

The Company is subject from time to time to litigation, claims and suits arising in the ordinary course of business. As of May 22, 2009, the Company has the following outstanding legal proceedings:

1. *Raining Data v. Intrametrix*. On or about January 19, 2007, the Company filed a complaint in Orange County Superior Court that sets forth allegations that Intrametrix threatens to and has misappropriated our trade secrets. The Company alleged that Intrametrix obtained our source code in breach of a Distribution Agreement between the parties, and in violation of California's laws prohibiting the misappropriation of trade secrets. Intrametrix contested the court's jurisdiction over the dispute, and a hearing was set to occur in May 2007. On the eve of the hearing, Intrametrix filed for Chapter 11 bankruptcy in Houston, Texas, effectively staying the litigation in Orange County, California. The Company proceeded with further discovery in the Bankruptcy Court in Houston, and Intrametrix subsequently filed Chapter 7.

On March 12, 2009, the Bankruptcy Court entered an Order approving a settlement between the Company and the Chapter 7 Trustee for Intrametrix, resulting in a mutual release of claims between the parties.

2. *Raining Data v. Soheil Raissi (formerly the Company's Vice President of Product Development and Professional Services), Mario Barrenechea (formerly the Company's Senior Vice President, Worldwide Sales and Marketing, Pick and Omnis Products), and Adevnet*. On or about December 8, 2006, the Company filed a complaint in Orange County Superior Court that sets forth allegations that the defendants threaten to and have misappropriated the Company's trade secrets. The Company's allegations in the complaint include that the individual defendants have used or disclosed the Company's trade secrets (in the form of source code and licenses and other trade secret information) in violation of their agreements with the Company to maintain the confidentiality of such trade secret information, and in violation of California laws prohibiting the misappropriation of trade secrets. The Company seeks injunctive relief from the defendants, including, but not limited to, compelling the defendants to immediately return all of the Company's trade secrets and property; enjoining the defendants and their employees and agents from using or disclosing our trade secrets, including the Company's source code; ordering the defendants to disclose all gains and profits they have derived from the misappropriation of the Company's trade secrets; enjoining the defendants from directly or indirectly supplying, selling or promoting any product that incorporates the Company's trade secrets. On June 27, 2008, the Court granted our Motion to File a Second Amended Complaint, adding claims for Breach of the Duty of Loyalty and for Unjust Enrichment against the Defendants.

In January of 2007, the Defendants filed the Cross-Complaint set forth below, and the Company filed a Special Motion to Strike (an anti-SLAPP motion) the Cross-Complaint, which the Court granted in June of 2008, striking the entire Cross-Complaint and awarding the Company its attorney's fees in bringing the motion, which the Company has collected. The Defendants then appealed both Orders. The Company then proceeded with discovery on the Second Amended Complaint.

The Company reached a settlement with Defendant Soheil Raissi on May 8, 2009, which has included the Company's dismissal of the Second Amended Complaint against Raissi, and Raissi's dismissal of his appeals of the trial court's orders granting the anti-SLAPP motion and the award of attorney fees to the Company for bringing its anti-SLAPP motion. The Company has instructed counsel to continue to pursue its action against Defendant Mario Barrenechea, and discovery continues in that matter. Defendant Adevnet, LLC has been dismissed because it is no longer a viable entity.

3. *Cross-Complaint by Soheil Raissi, Mario Barrenechea and Adevnet v. Raining Data*. On or about January 10, 2007, the defendants in the case above filed a cross-complaint, alleging several claims against the Company and Carlton H. Baab, the Company's former President and Chief Executive Officer. The Company and Carlton H. Baab asserted that all of the claims in the Cross-Complaint are baseless, and filed a special motion to strike the entire Cross-Complaint, which the Court granted in June of 2008. The Court subsequently granted the Company's motion for its attorney fees incurred in bringing its motion to strike, which the Company has collected.

The Defendants then appealed the Court's decisions granting the special motion to strike and the attorney fees. Pursuant to the Company's settlement agreement with Raissi set forth above, Raissi has dismissed his appeal, and Barrenechea's appeal remains.

**ITEM 4. Submission of Matters to a Vote of Security Holders**

At the Annual Meeting of the Company's Stockholders held on February 25, 2009 (the Meeting), three proposals were submitted. No other proposals were put before the Meeting. The proposal and voting results were as follows:

## Edgar Filing: TigerLogic CORP - Form 10-K

1. To elect two (2) Class I directors of the Company to serve a term of three (3) years or until their successors are duly elected and qualified:

DOUGLAS G. MARSHALL	FOR: 25,885,925	WITHHELD: 19,847
PHILIP D. BARRETT	FOR: 25,885,925	WITHHELD: 19,847

**Table of Contents**

The terms of office of the following three directors continued after the meeting: Richard W. Koe, Carlton H. Baab, and Gerald F. Chew.

2. To ratify the appointment of KPMG LLP as independent auditors of the Company for the fiscal year ending March 31, 2009:

FOR: 25,728,072    AGAINST: 173,230    ABSTAIN: 4,470    BROKER NON-VOTE: 0

3. To approve the TigerLogic Corporation 2009 Equity Incentive Plan

FOR: 17,621,590    AGAINST: 679,169    ABSTAIN: 28,687    BROKER NON-VOTE: 0

All proposals were approved by the requisite number of votes.

**PART II**

**ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**  
**Market Information**

Effective April 21, 2008, our common stock is traded on the Nasdaq Capital Market under the symbol TIGR. Prior to this date, our common stock was traded on the Nasdaq Capital Market under the symbol RDTA.

The following table sets forth the high and low closing prices for our common stock for the periods indicated, as reported by Nasdaq:

	High	Low
<b>Fiscal Year 2008</b>		
First Quarter	\$ 3.35	\$ 2.15
Second Quarter	\$ 4.60	\$ 2.85
Third Quarter	\$ 6.48	\$ 4.17
Fourth Quarter	\$ 6.00	\$ 4.42
<b>Fiscal Year 2009</b>		
First Quarter	\$ 10.49	\$ 4.91
Second Quarter	\$ 5.09	\$ 3.79
Third Quarter	\$ 3.75	\$ 1.40
Fourth Quarter	\$ 2.18	\$ 1.55

On March 31, 2009, the closing price for our common stock on the Nasdaq Capital Market was \$1.89 and there were approximately 135 holders of record of our common stock.

There were no sales of unregistered securities during fiscal year 2009.

There were no repurchases of shares during the fourth quarter of fiscal year 2009.

**Dividends**

We have never declared or paid dividends on our common stock. We intend to retain earnings, if any, for the operation and expansion of our business, and therefore do not anticipate paying any cash dividends in the foreseeable future.

**Securities Authorized For Issuance under Equity Compensation Plans**

The information required by this item regarding equity compensation plans is incorporated by reference to the information set forth in Part III, Item 12 of this Annual Report on Form 10-K.

**Table of Contents****ITEM 7. 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, 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 Annual Report on Form 10-K and, elsewhere in this Form 10-K. The forward-looking statements contained in this Form 10-K include, but are not limited to statements about the following: (1) our future success, (2) our research and development efforts, (3) our future operating results and cash flow, (4) our ability to compete, (5) the markets in which we operate, (6) our revenue, (7) cost of license revenue and cost of service revenue, (8) our selling and marketing costs, (9) our backlog, (10) our research and development expenses, (11) the effect of critical accounting policies, (12) our belief that our existing cash balances will be sufficient to meet our operating and capital expenditure requirements through the foreseeable future, (13) our focus on the continued development and enhancement of the TigerLogic product line, and identification of new and emerging technology areas and discussions with channel partners for the sale and distribution of the TigerLogic product line, (14) the effect of recent changes in tax laws on our financial statements and (15) the possibility that we may seek to take advantage of strategic acquisition opportunities. All forward-looking statements in this document are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement.

*This discussion and analysis of the financial statements and results of operations should be read in conjunction with our audited consolidated financial statements, including the related notes thereto, contained elsewhere in this Form 10-K.*

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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

On an on-going basis, we evaluate our estimates, including those related to revenue recognition and accounting for goodwill. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

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.** We recognize revenue using the residual method pursuant to the requirements of Statement of Position No. 97-2, *Software Revenue Recognition* (SOP 97-2), as amended. Under the residual method, revenue is recognized in a multiple element arrangement when company-specific objective evidence of fair value exists for all of the undelivered elements in the arrangement, but does not exist for one or more of the delivered elements in the arrangement. At the outset of the arrangement with the customer, we defer revenue for the fair value of our undelivered elements (e.g., maintenance) based on company-specific objective evidence of the amount such items are sold individually to our customers and recognize revenue for the remainder of the arrangement fee attributable to the elements initially delivered in the arrangement (e.g., software license) when the basic criteria in SOP 97-2 have been met.

Under SOP 97-2, revenue attributable to an element in a customer arrangement is recognized when persuasive evidence of an arrangement exists and delivery has occurred, provided the fee is fixed or determinable, collectibility is probable and the arrangement does not require significant customization of the software. If, at the outset of the customer arrangement, we determine that the arrangement fee is not fixed or determinable, we defer the revenue and recognize the revenue when the arrangement fee becomes due and payable. Service revenue relates primarily to consulting services, maintenance and training. Maintenance revenue is initially deferred and then recognized ratably over the term of the maintenance contract, typically 12 months. Consulting and training revenue is recognized as the services are performed and is usually calculated on a time and materials basis. Such services primarily consist of implementation services related to the installation of our products and do not include significant customization to or development of the underlying software code. We do not have price protection programs, conditional acceptance agreements, and sales of