

TigerLogic CORP  
Form 10-Q  
August 10, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark one)

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

For the quarterly period ended June 30, 2010

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)

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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)

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  (Do not check if a smaller reporting company)

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

As of July 31, 2010, the Registrant had 27,983,571 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)**

	<b>June 30, 2010</b>	<b>March 31, 2010</b>
<b>ASSETS</b>		
Current assets		
Cash	\$ 11,488	\$ 12,492
Trade accounts receivable, less allowance for doubtful accounts of \$24 and \$26, respectively.	838	954
Other current assets	411	412
Total current assets	12,737	13,858
Property, furniture and equipment-net	855	766
Goodwill	26,388	26,388
Deferred tax assets	441	379
Other assets	121	113
Total assets	\$ 40,542	\$ 41,504
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities		
Accounts payable	\$ 401	\$ 192
Accrued liabilities	1,405	1,686
Deferred revenue	4,155	4,314
Total current liabilities	5,961	6,192
Commitments and contingencies		
Stockholders' equity		
Preferred stock		
Common stock	2,794	2,793
Additional paid-in-capital	132,848	132,543
Accumulated other comprehensive income	2,248	2,246
Accumulated deficit	(103,309)	(102,270)
Total stockholders' equity	34,581	35,312
Total liabilities and stockholders' equity	\$ 40,542	\$ 41,504

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	<b>Three Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
Net revenues		
Licenses	\$ 927	\$ 1,092
Services	2,319	2,495
Total net revenues	3,246	3,587
Operating expenses		
Cost of license revenues	2	21
Cost of service revenues	411	398
Selling and marketing	1,161	926
Research and development	1,506	1,578
General and administrative	1,139	1,156
Total operating expenses	4,219	4,079
Operating loss	(973)	(492)
Other income (expense)		
Interest expense-net		(1)
Other income (expense)-net	(46)	793
Total other income (expense)	(46)	792
Income (loss) before income taxes	(1,019)	300
Income tax provision	20	3
Net income (loss)	\$ (1,039)	\$ 297
Basic net income (loss) per share	\$ (0.04)	\$ 0.01
Diluted net income (loss) per share	\$ (0.04)	\$ 0.01
Shares used in computing basic net income (loss) per share	27,933	26,742
Shares used in computing diluted net income (loss) per share	27,933	27,090

See accompanying notes to the unaudited condensed consolidated financial statements.

**Table of Contents****TIGERLOGIC CORPORATION AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Three Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (1,039)	\$ 297
<b>Adjustments to reconcile net income (loss) to net cash used in operating activities:</b>		
Depreciation and amortization of long-lived assets	97	95
Provision for (recovery from) bad debt	3	(24)
Stock-based compensation expense	275	213
Change in deferred tax assets	20	3
Foreign currency exchange (gain) loss	46	(693)
<b>Change in assets and liabilities:</b>		
Trade accounts receivable	84	(67)
Other current and non-current assets	(102)	(35)
Accounts payable	176	369
Accrued liabilities	(318)	(518)
Deferred revenue	(97)	(165)
<b>Net cash used in operating activities</b>	<b>(855)</b>	<b>(525)</b>
Cash used in investing activities-purchase of property, furniture and equipment	(116)	(88)
Cash from financing activities-proceeds from exercise of stock options	32	14
Effect of exchange rate changes on cash	(65)	97
<b>Net decrease in cash</b>	<b>(1,004)</b>	<b>(502)</b>
Cash at beginning of period	12,492	12,282
<b>Cash at end of period</b>	<b>\$ 11,488</b>	<b>\$ 11,780</b>

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****JUNE 30, 2010****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 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, 2010, contained in the Company's Annual Report on Form 10-K filed with the SEC on June 22, 2010. The results of operations for the three month period ended June 30, 2010, are not necessarily indicative of results to be expected for any other interim period or the fiscal year ending March 31, 2011.

**2. STOCK-BASED COMPENSATION**

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

Total stock-based compensation expense included in the unaudited condensed consolidated statements of operations for the three months ended June 30, 2010 and 2009, was as follows (in thousands):

	<b>Three Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
Cost of revenue	\$ 17	\$ 19
Operating expense:		
Selling and marketing	99	32
Research and development	73	110
General and administrative	86	52
Total stock-based compensation expense	275	213
Income tax benefit		
Net stock-based compensation expense	\$ 275	\$ 213

As of June 30, 2010, there was approximately \$1.6 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans. That cost is expected to be recognized over a weighted-average period of 2.7 years.

**3. RECENTLY ISSUED ACCOUNTING GUIDANCE**

In April 2010, the FASB issued an update to existing guidance on milestone revenue recognition for research or development transactions. Research or development arrangements frequently include payment provisions whereby a portion or all of the consideration is contingent upon milestone events such as successfully completion of a phase or achieving a specific result from the research or development efforts. This update provides guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. A vendor can recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone meets all criteria to be considered substantive. The amendments in this update are effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. The

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Company does not expect this guidance to have a material impact on the consolidated financial statements.



**Table of Contents****TIGERLOGIC CORPORATION AND SUBSIDIARIES****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2010**

In April 2010, the FASB issued an update to existing guidance to clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity security trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The amendments in this update should be applied by recording a cumulative effect adjustment to the opening balance of retained earnings. The Company does not expect this guidance to have an impact on the consolidated financial statements.

In October 2009, the FASB issued an update to existing guidance on revenue recognition for certain arrangements with multiple deliverables that are not subject to the software revenue recognition accounting guidance. The amendments to this update will allow companies to allocate consideration received for qualified separate deliverables using estimated selling price for both delivered and undelivered items when vendor-specific objective evidence or third-party evidence is unavailable. Additional disclosures discussing the nature of multiple element arrangements, the types of deliverables under the arrangements, the general timing of their delivery, and significant factors and estimates used to determine estimated selling prices are required. The Company plans to adopt this update prospectively for new revenue arrangements entered into or materially modified in the fiscal year beginning April 1, 2011. The Company does not expect this guidance to have a material impact on the consolidated financial statements.

In October 2009, the FASB issued an update to existing guidance on software revenue recognition. The existing software revenue recognition guidance applied to revenue arrangement for products or services that include software that is more-than-incidental to the products or services as a whole. This update excludes from its scope tangible products that contain both software and non-software components that function together to deliver a product's essential functionality. The Company plans to adopt this update prospectively for new revenue arrangements entered into or materially modified in fiscal year beginning April 1, 2011. The Company does not expect this guidance to have a material impact on the consolidated financial statements.

**4. FAIR VALUE MEASUREMENT**

During fiscal year 2009, the Company converted all of its investment balances in money market mutual funds into cash. As such, there were no cash equivalents in our balance sheets as of June 30, 2010 or March 31, 2010. The carrying amounts of accounts receivable and accounts payable approximate fair value because of the short-term maturity of these instruments. There were no nonfinancial assets or liabilities that required recognition or disclosure at fair value on a nonrecurring basis in our balance sheets as of June 30, 2010 or March 31, 2010.

**5. STOCKHOLDERS' EQUITY**

The following table sets forth the computation of basic and diluted net income (loss) per share:

	Three Months Ended	
	2010	2009
	June 30,	
	(In thousands, except per share amounts)	
Net income (loss)	\$ (1,039)	\$ 297
Shares:		
Weighted-average shares outstanding-basic	27,933	26,742
Potential dilutive common shares, using treasury stock method		348
Weighted-average shares outstanding-diluted	27,933	27,090

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Net income (loss) per share:

Basic	\$	(0.04)	\$	0.01
Diluted	\$	(0.04)	\$	0.01

**Table of Contents****TIGERLOGIC CORPORATION AND SUBSIDIARIES****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2010**

Basic income (loss) per share is computed using the net loss and the weighted average number of common shares outstanding during the period. Diluted income (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 not anti-dilutive. Potential dilutive common shares include outstanding stock options.

Weighted outstanding options to purchase 1,500,099 shares and 2,893,254 shares of the Company's common stock have been excluded from the computation of diluted net income (loss) per share for the three month periods ended June 30, 2010 and 2009, respectively, because the effect of their inclusion would have been anti-dilutive.

The change in accumulated other comprehensive loss during the three month periods ended June 30, 2010 and 2009 is the result of the effect of foreign exchange rate changes. The following table reconciles net loss as reported with total comprehensive loss (in thousands):

	<b>Three Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
Net income (loss) reported	\$ (1,039)	\$ 297
Translation adjustments-net	2	(608)
<b>Total comprehensive loss</b>	<b>\$ (1,037)</b>	<b>\$ (311)</b>

Until December 2009, the Company has been recording the intercompany transaction gains and losses in accordance with applicable accounting guidance in determining net income for the period in which exchange rates change. Intercompany transactions and balances for which settlement is not planned or anticipated in the foreseeable future are considered to be part of the net investment and related gains or losses are to be accumulated in a separate component of equity as part of other comprehensive loss. Beginning in December 2009, the effect of foreign exchange on intercompany balance outstanding as of December 8, 2009, denominated in British Pounds, are accumulated in a separate component of equity as part of other comprehensive loss based on the Company's determination that the settlement of this intercompany balance is not planned or anticipated in the foreseeable future and is therefore considered of long-term investment nature.

**Table of Contents****TIGERLOGIC CORPORATION AND SUBSIDIARIES****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2010****6. BUSINESS SEGMENT**

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

	<b>Three Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Net revenue</b>		
North America	\$ 2,288	\$ 2,439
Europe/Africa	958	1,148
<b>Total</b>	<b>\$ 3,246</b>	<b>\$ 3,587</b>
	<b>June 30,</b>	<b>March 31,</b>
	<b>2010</b>	<b>2010</b>
<b>Long-lived assets</b>		
North America	\$ 27,345	\$ 27,180
Europe/Africa	460	466
<b>Total</b>	<b>\$ 27,805</b>	<b>\$ 27,646</b>

The Company is engaged in the design, development, sale, and support of four product lines: 1) Yolink, 2) XDMS, 3) MDMS, and 4) RAD software tools. To date, we have not recognized any revenue relating to our Yolink product line and revenue from our XDMS product line has been insignificant. The following table represents the net revenue by product line (in thousands):

	<b>Three Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Net revenue</b>		
Databases (XDMS and MDMS)	\$ 2,347	\$ 2,707
RAD Software Tools	899	880
<b>Total</b>	<b>\$ 3,246</b>	<b>\$ 3,587</b>

**7. RELATED PARTY TRANSACTIONS**

The Company has entered into an expense reimbursement agreement with Astoria Capital Partners, L.P. (Astoria), its largest stockholder, in connection with Richard Koe's appointment as Interim President and Chief Executive Officer, pursuant to which the Company agreed to reimburse Astoria for a portion of overhead costs and expenses related to the use by Mr. Koe of Astoria's premises and office equipment while performing his employment duties for the Company. The agreement will terminate 90 days after Mr. Koe is either no longer employed by the Company or is no longer performing services for the Company from Astoria's premises. Mr. Koe also serves as President of Astoria. Since the start of the agreement on April 1, 2009, the Company has reimbursed Astoria approximately \$7,500 per month, and the Company does not anticipate any material changes in this monthly amount.

**8. COMMITMENTS AND CONTINGENCIES**

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The Company is subject from time to time to litigation, claims and suits arising in the ordinary course of business. There were no ongoing legal proceedings as of June 30, 2010.

### ***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.

**Table of Contents****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, 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 quarterly report on Form 10-Q and, elsewhere in this Form 10-Q. The forward-looking statements contained in this Form 10-Q include, but are not limited to statements about the following: (1) our future success, (2) our research and development efforts, (3) our future operating results and cash flow, (4) our ability to compete, (5) the markets in which we operate, (6) our revenue, (7) cost of license revenue and cost of service revenue, (8) our selling and marketing costs, (9) our general and administrative expenses (10) our research and development expenses, (11) the effect of critical accounting policies, (12) 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.*

**Overview**

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

**Products**

Our principal business 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. 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.

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. We generally license our software on a per-CPU, per-server, per-port or per-user basis. We also provide continuing software maintenance and support, and other professional services relating to our products, including consulting and training services. All of our revenue to date has been principally derived from MDMS and RAD software products.

In addition, one of the elements of our business strategy involves expansion through the 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.

**TigerLogic Yolink**

Yolink is a next-generation search enhancement technology that increases the effectiveness of search 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. To facilitate the user's review, 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.



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Yolink technology can be applied to many platforms and Internet delivery methodologies. Yolink application programming interfaces ( 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). Through June 30, 2010, 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. TigerLogic XDMS can be utilized for high performance content search, data integration and caching, Web service development and geospatial data management.

TigerLogic XDMS version 3.1, which includes support for an adapter for access to multi-dimensional data sources and a new enhanced administration/development console was released for beta testing in November 2009. Through June 30, 2010, 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. D3 allows application programmers to create new business solution software in less time than it normally takes in many other environments. Our MDMS products also include mvEnterprise, a scalable multi-dimensional database solution that allows the user to leverage the capabilities of the UNIX operating system, and mvBase, a multi-dimensional database solution that runs on all Windows platforms.

Version 9.0 of D3 and version 3.0 of mvBase were released for beta testing in January 2010. Both releases include bundled support for ..NET, providing developers a cost effective solution for developing applications utilizing Microsoft Visual Studio; bundled support for Java, which allows development of applications utilizing Java; and support for integration with our TigerLogic XDMS product.

### *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.

### ***Research and Development***

Our research and development efforts include updates and upgrades to existing MDMS and RAD products and the continued development of the newer Yolink and XDMS products. We expect to continue research and development efforts in all product lines for the foreseeable future. We spent approximately \$1.5 million and \$1.6 million on research and development during the three months ended June 30, 2010 and 2009, respectively.

### ***Competition***

Competition for our MDMS, XML, and RAD products include companies such as Oracle, Microsoft, IBM, Sybase, and JAVA. Direct competitors of our Yolink search 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 product.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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

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



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may differ from these estimates under different assumptions or conditions. As of June 30, 2010, the fair value of the reporting unit substantially exceeded its carrying value.

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

Revenue Recognition

Goodwill

Employee Stock-Based Compensation

Income Taxes

These critical accounting policies are described in our Form 10-K for the fiscal year ended March 31, 2010 and there have been no changes in our application of these policies during the period ended June 30, 2010.

**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 period 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.

	Three Months Ended June 30, 2010			Three Months Ended June 30, 2009	
	Results (In thousands)	% of Net Revenues	Percent Change	Results (In thousands)	% of Net Revenues
Net revenues					
Licenses	\$ 927	29%	(15)%	\$ 1,092	30%
Services	2,319	71%	(7)%	2,495	70%
Total net revenues	3,246	100%	(10)%	3,587	100%
Operating expenses					
Cost of revenues:					
Cost of license revenues (as a % of license revenues)	2	0%	(90)%	21	2%
Cost of service revenues (as a % of service revenues)	411	18%	3%	398	16%
Selling and marketing	1,161	36%	25%	926	26%
Research and development	1,506	46%	(5)%	1,578	44%
General and administrative	1,139	35%	(1)%	1,156	32%
Total operating expenses	4,219	130%	3%	4,079	114%
Operating loss	(973)	(30)%	98%	(492)	(14)%
Other income (expense)-net	(46)	(1)%	(106)%	792	22%
Income (loss) before income taxes	(1,019)	(31)%	(440)%	300	8%
Income tax provision	20	1%	567%	3	0%
Net income (loss)	\$ (1,039)	(32)%	(450)%	\$ 297	8%

**REVENUE**

NET REVENUE. Our revenue is derived principally from two sources: fees from software licensing and fees for post contract technical support. We license our software primarily 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 licensees. Similarly, the reduction of CPU's, servers, ports or users to existing systems decreases our revenue from our installed base of licensees. The timing of orders and customer ordering patterns has resulted in fluctuations in license revenue between quarters and year-to-year. Total revenue decreased \$0.3 million or 10% for the three month period ended June 30, 2010, as compared to the same period in the prior year, primarily due to lower orders of licenses and reduction or non-renewal of support services from our existing customer base as a result of the current adverse global economic conditions and customers moving to other platforms. We anticipate that revenue will continue to be adversely affected until global economic conditions improve.

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We have been actively developing and marketing our TigerLogic product line. Should our development efforts and the adoption of these product lines be successful, we anticipate additional revenues in future periods related to these products. However, 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 we are committed to research and development efforts that are intended to allow us to penetrate new markets and generate new sources of revenue, such efforts may not result in additional products, services or revenue.

**OPERATING EXPENSES**

**COST OF LICENSE REVENUE.** Cost of license revenue is comprised of direct costs associated with software license sales including software packaging, documentation, physical media costs and royalties. Cost of license revenue as a percentage of license revenue for the three months ended June 30, 2010 decreased slightly when compared with the same period in prior year due to lower royalties.

**COST OF SERVICE REVENUE.** Cost of service revenue includes primarily personnel costs relating to providing consulting, technical support and training services. The slight increase in cost of service revenue for the three months ended June 30, 2010 when compared to the same period in prior year was mainly due to foreign currency translation effect from the British Pound into the U.S. Dollar.

**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 month period ended June 30, 2010 increased \$0.2 million or 25% when compared to the same period in prior year due to higher headcount and higher consulting and tradeshow expenses. We anticipate that selling and marketing costs related to the TigerLogic product line may increase as we further develop the sales channel for these products and if customer acceptance of these products increases. In addition, if our continued research and development efforts are successful, including with respect to our TigerLogic product line, and new products or services are created, we may incur increased sales and marketing expense to promote those new products in future periods.

**RESEARCH AND DEVELOPMENT.** Research and development expense consists primarily of salaries and other personnel-related expenses and overhead costs for engineering personnel including employees in the US and the UK and contractors in the US. Research and development expense for the three month period ended June 30, 2010 decreased \$0.1 million or 5% when compared to the same period in the prior year mainly due to lower facility lease rates, and lower stock-based compensation expense. We are committed to our research and development efforts and expect research and development expense will remain at the current level in future periods or increase if we believe that additional spending is warranted. Such efforts may not result in additional new products and any new products, including the TigerLogic product line, may not generate sufficient revenue, if any, to offset the research and development expense.

**GENERAL AND ADMINISTRATIVE.** General and administrative expense consists primarily of costs associated with our finance, human resources, legal and other administrative functions. These costs consist principally of salaries and other personnel-related expenses, professional fees, depreciation and overhead costs. General and administrative expense for the three month period ended June 30, 2010 was consistent with the same period in the prior year.

**OTHER INCOME (EXPENSE).** Other income (expense) consists primarily of gains and losses on foreign currency transactions. Until December 2009, the Company has been recording the intercompany transaction gains and losses in accordance with applicable accounting guidance in determining net income for the period in which exchange rates change. Intercompany transactions and balances for which settlement is not planned or anticipated in the foreseeable future are considered to be part of the net investment and related gains or losses are to be accumulated in a separate component of equity as part of other comprehensive loss. Beginning in December 2009, the effect of foreign exchange on intercompany balance outstanding as of December 8, 2009, denominated in British Pounds, are accumulated in a separate component of equity as part of other comprehensive loss based on the Company's determination that the settlement of this intercompany balance is not planned or anticipated in the foreseeable future and is therefore considered of long-term investment nature. Due to this change, other income (expense) during the three month period ended June 30, 2010 decreased from \$0.8 million income in the prior period to \$0.1 million expense in the current period. 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 (2.0%) and 1.0% for the three month periods ended June 30, 2010 and 2009, respectively. The provision for income taxes in the current period reflected the income tax on net earnings from foreign subsidiaries, net of the release of valuation allowance related to Germany's deferred tax assets, as discussed below. The provision for income taxes in prior period reflected income tax on net earnings from foreign subsidiaries, net of the refundable research and development credit.



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In July 2008, the Housing Assistance Act of 2008 introduced a refundable research and development credit that could be claimed in lieu of special bonus depreciation as enacted by the Economic Stimulus Act of 2008. Since our initial adoption of the Housing Assistance Act of 2008 on April 1, 2008 total cash refund calculated as of June 30, 2010 is approximately \$34,000 and total refund received was approximately \$25,000. Total remaining refund receivable as of June 30, 2010 was approximately \$9,000.

## **LIQUIDITY AND CAPITAL RESOURCES**

As of June 30, 2010, we had \$11.5 million in cash. We believe that our existing cash balances will be sufficient to meet our operating and capital expenditure requirements for the remainder of the fiscal year ending March 31, 2011 and through the foreseeable future. We are committed to research and development and marketing efforts that are intended to allow us to penetrate new markets and generate new sources of revenue and improve operating results. However, our research and development and marketing efforts have required, and will continue to require, cash outlays without the immediate or short-term receipt of related revenue. Our ability to meet our expenditure requirements is dependent upon our future financial performance, which will be affected by, among other things, prevailing economic conditions, our ability to penetrate new markets and attract new customers, market acceptance of our new and existing products and services, the success of research and development efforts and other factors beyond our control.

On November 9, 2004, we entered into a lease agreement with The Irvine Company whereby we leased one building in Irvine, California, comprising approximately 29,000 square feet, to replace our then headquarters facility. The lease commenced in November 2005 and had a five-year term. The total base rent over the five-year term was approximately \$2.6 million. The annual base rent during the five-year term ranged from approximately \$475,000 during the first year to approximately \$545,000 during the fifth year. On December 7, 2009, we entered into an amendment to this lease agreement modifying certain terms of the original lease as follows: (a) the lease term was extended to October 31, 2015 instead of ending on October 31, 2010; (b) the lease completely terminated as to an approximate 14,000 square foot portion of the premises and (c) commencing on March 1, 2010, the total base rent over the new lease amendment term became approximately \$1.5 million. The annual base rent ranges from approximately \$215,000 during the first year to approximately \$299,000 during the last year of the lease amendment. The rent expense is being recognized on a straight line basis over the new lease term.

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

We had no material commitments for capital expenditures as of June 30, 2010.

Net cash used in operating activities was \$0.9 million and \$0.5 million for the three month periods ended June 30, 2010 and 2009, respectively. The increase in net cash used in operating activities for the three month period ended June 30, 2010 as compared to the same period in prior year was primarily due to higher selling and marketing expense. Net cash used in investing activities was \$0.1 million for the three month periods ended June 30, 2010 and 2009, respectively due to expenditures related to furniture and equipment purchased. Net cash provided by financing activities was less than \$0.1 million for the three month periods ended June 30, 2010 and 2009, respectively. Net cash provided by financing activities was due to proceeds derived from the exercise of stock options and related issuance of common stock.

There was no outstanding line of credit during the three months ending June 30, 2010 or 2009.

## **OFF-BALANCE SHEET ARRANGEMENTS**

We did not have any off-balance sheet liabilities or transactions as of June 30, 2010.

## **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.

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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, 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 \$0.6 million or negative 19% of total net revenue for the three month period ended June 30, 2010 as compared to negative \$0.2 million or negative 5% for the same period in prior year. The decrease in Adjusted EBITDA was a result of lower revenues and higher selling and marketing expense in the current year. The following table reconciles Adjusted EBITDA to the GAAP reported net income (loss):

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

	<b>For the Three Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
Reported net income (loss)	\$ (1,039)	\$ 297
Depreciation and amortization	97	95
Stock-based compensation	275	213
Interest expense-net		1
Other (income) expense-net	46	(793)
Income tax provision	20	3
<b>Adjusted EBITDA</b>	<b>\$ (601)</b>	<b>\$ (184)</b>

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

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

	<b>For the Three Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
Net cash used in operating activities	\$ (855)	\$ (525)
Interest expense-net		1
Other (income) expense-net	46	(793)
Change in trade accounts receivable	(84)	67
Change in other current and non-current assets	102	35
Change in accounts payable	(176)	(369)
Change in accrued liabilities	318	518
Change in deferred revenue	97	165
Foreign currency exchange gain (loss)	(46)	693
Provision for/(recovery) from bad debt	(3)	24
<b>Adjusted EBITDA</b>	<b>\$ (601)</b>	<b>\$ (184)</b>





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**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 June 30, 2010 and in our other public filings, including our Annual Report on Form 10-K for the fiscal year ended March 31, 2010. If any of such risks and uncertainties actually occurs, our business, financial condition or operating results could differ materially from the plans, projections and other forward-looking statements included in the section titled Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report and in our other public filings. In addition, if any of the following risks and uncertainties, or if any other risks and uncertainties, actually occurs, our business, financial condition or operating results could be harmed substantially, potentially causing the market price of our stock to decline, perhaps significantly. The following section lists some, but not all, of these risks and uncertainties that may have a material adverse effect on our business, financial condition or results of operation.*

**IF WE DO NOT DEVELOP NEW PRODUCTS AND ENHANCE EXISTING PRODUCTS TO KEEP PACE WITH 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 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. In addition, if we acquire new technologies in the future, they could prove difficult to integrate and may disrupt our business, dilute stockholders' value and adversely affect our operating results.

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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 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. Direct competitors of our Yolink search application 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 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 CONTINUE TO HARM OUR BUSINESS.**

Our operations and performance depend significantly on worldwide economic conditions and these have deteriorated significantly in many countries and regions, including without limitation the United States and Western Europe where we derive a majority of our revenue. Unfavorable changes in economic conditions, including recession, rising inflation, diminished credit availability, declining valuation of investments or other changes in economic conditions have resulted in lower information technology spending and have adversely affected our revenue. For example, current or potential customers may have been unable to fund software purchases, potentially causing them to delay, decrease or cancel purchases of our products and services or to not pay us or to delay paying us for previously purchased products and services. Further, since we generally license our 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 continue to have a material adverse effect on demand for our products and services and on our financial results.

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

We incurred net losses of approximately \$1.0 million for the quarter ended June 30, 2010. We had an accumulated deficit of approximately \$103.3 million as of June 30, 2010. We may continue to incur significant losses in the future for a number of reasons, including uncertainty as to the level of our future revenues and our efforts to monetize newer technologies we have developed, including the Yolink and XDMS product lines. We plan to continue to pursue strategic opportunities and invest in new product development. Forecasting our revenues and profitability for these new business models is inherently uncertain and volatile. We will need to generate significant increases in our revenues to achieve and maintain profitability, particularly given the current small size of our business relative to the costs associated with being a public reporting company. If our revenue fails to grow or grows more slowly than we currently anticipate or our operating expenses exceed our expectations, our losses would significantly increase which could harm our business and operating results.

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**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 June 30, 2010, Astoria beneficially owned approximately 53% 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, Inc., a general partner of Astoria. This concentration of stock ownership allows Astoria, acting alone, to block any actions that require approval of our stockholders, including the election of members to our Board of Directors and the approval of significant corporate transactions. Moreover, this concentration of ownership may delay or prevent a change in control.

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

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

the size and timing of customer orders;

changes in pricing policies by us or our competitors;

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

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

the demand for our products;

non-renewal of customer support agreements;

software defects and other product quality problems; and

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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.

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### **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. The loss of one or more of our executives could adversely affect our business. In addition, we have in the past restructured or made other adjustments to our workforce in response to management changes, product changes, performance issues, acquisitions and other internal and external considerations. Workforce restructurings could result in a temporary lack of focus and reduced productivity, negatively affecting our revenues.

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

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

Our ability to compete successfully will depend, in part, on our ability to protect our proprietary technology and operations without infringing upon the rights of others. We may fail to do so. In addition, the laws of certain countries in which our products are, or may be, licensed may not protect our proprietary rights to the same extent as the laws of the United States. We rely primarily on a combination of trade secret, copyright and trademark laws and contractual provisions to protect our intellectual property and proprietary rights. Our trademarks include TigerLogic, Yolink, ChunkIt!, Pick, D3, Omnis, Omnis Studio, mvEnterprise, mvBase, and mvDesigner, among others. We have one issued U.S. patent and thirteen pending U.S. patent applications as of June 30, 2010. In addition to trademark and copyright protections, we generally 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, that our license agreements will be enforceable in the United States or foreign jurisdictions or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology.

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

There has been a substantial amount of litigation in the software and online services industry regarding intellectual property rights and there is significant uncertainty in our industry as many of the legal principles associated with software and online services continue to evolve rapidly. Third parties may claim that our current or potential future products or services infringe upon their intellectual property rights. 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 higher risk XDMS and Yolink products given these products are in the early stages of the product life cycle. This may result in loss of, or delay in, customer acceptance of our products and could harm our reputation and our business. Undetected errors or failures in computer software programs are not uncommon.

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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 June 30, 2010, we had 27,939,044 outstanding shares of common stock, of which approximately 15 million shares were restricted securities held by Astoria and other holders. Restricted securities may be sold in the public market only if they are registered or if they qualify for an exemption from registration promulgated under the Securities Act. At present, all of our outstanding restricted securities may be registered or are eligible for public sale under Rule 144, subject to volume limitations and other requirements of Rule 144.

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

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

We operate on a global basis with offices or distributors in Europe, Africa, Asia, Latin America, South America, Australia and North America and development efforts in North America and Europe. Approximately 30% of our revenue for the quarter ended June 30, 2010 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.



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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, 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 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 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 we no longer qualify for the smaller reporting company classification and become an accelerated filer, which may occur if the trading price of our stock and, therefore our public float, increase significantly, which we are required to calculate on an annual basis, we will become subject to the requirement of Section 404(b) in future 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.

**ITEM 6. EXHIBITS**

**Exhibits:**

- 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.

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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: August 10, 2010

**TIGERLOGIC CORPORATION**

*/s/* Thomas Lim  
**Thomas Lim**

**Chief Financial Officer and Duly Authorized Officer**

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