

TigerLogic CORP  
Form 10-Q  
August 09, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark one)

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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# TIGERLOGIC CORPORATION

(Name of Registrant as Specified in Its Charter)

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**Delaware**  
(State of Incorporation)

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

**25A Technology Drive Suite 100,**

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

**92618**  
(Zip Code)

**(949) 442-4400**

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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As of July 31, 2013, the Registrant had 30,044,905 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)

	June 30, 2013	March 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash	\$ 5,825	\$ 6,465
Trade accounts receivable, less allowance for doubtful accounts of \$24 and \$24, respectively	1,356	986
Other current assets	520	561
Total current assets	7,701	8,012
Property, furniture and equipment, net	541	551
Goodwill	31,656	31,656
Intangible assets, net	572	593
Deferred tax assets	228	228
Other assets	112	111
Total assets	\$ 40,810	\$ 41,151
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 358	\$ 388
Accrued liabilities	1,500	1,294
Deferred revenue	4,657	4,342
Total current liabilities	6,515	6,024
Other long-term liabilities	139	137
Total liabilities	6,654	6,161
Commitments and contingencies		
Stockholders' equity:		
Preferred Stock		
Common Stock	2,995	2,993
Additional paid-in-capital	141,888	141,478
Accumulated other comprehensive income	2,249	2,257
Accumulated deficit	(112,976)	(111,738)
Total stockholders' equity	34,156	34,990

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Total liabilities and stockholders' equity	\$	40,810	\$	41,151
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See accompanying notes to the unaudited condensed consolidated financial statements.

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

	<b>Three Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
Net revenues:		
Licenses	\$ 1,298	\$ 995
Services	2,427	2,289
Total net revenues	3,725	3,284
Operating expenses:		
Cost of license revenues	18	2
Cost of revenue-amortization of intangible asset	19	
Cost of service revenues	489	424
Selling and marketing	1,598	1,057
Research and development	1,448	1,235
General and administrative	1,137	1,037
Acquisition related costs	209	
Total operating expenses	4,918	3,755
Operating loss	(1,193)	(471)
Other income (expense):		
Interest expense-net	(1)	(3)
Other income (expense)-net	8	(16)
Total other income (expense)	7	(19)
Loss before income taxes	(1,186)	(490)
Income tax provision	52	3
Net loss	\$ (1,134)	\$ (500)
Other comprehensive loss:		
Foreign currency translation adjustments	(8)	(3)
Total comprehensive loss	\$ (1,142)	\$ (503)
Basic and diluted net loss per share	\$ (0.04)	\$ (0.02)
Shares used in computing basic and diluted net loss per share	29,933	28,190

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	<b>Three Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (1,238)	\$ (493)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Depreciation and amortization of long-lived assets	49	35
Recovery from bad debt		(6)
Stock-based compensation expense	399	225
Change in deferred tax assets		3
Foreign currency exchange (gain) loss	(8)	17
<b>Change in assets and liabilities:</b>		
Trade accounts receivable	(362)	118
Other current assets	117	38
Accounts payable	(105)	1
Accrued liabilities	203	(176)
Deferred revenue	304	(121)
Net cash used in operating activities	(641)	(359)
Cash used in investing activities-purchase of property, furniture and equipment	(17)	(13)
Cash from financing activities-proceeds from exercise of stock options	12	24
Effect of exchange rate changes on cash	6	(40)
Net decrease in cash	(640)	(388)
Cash at beginning of the period	6,465	8,918
Cash at end of the period	\$ 5,825	\$ 8,530

See accompanying notes to the unaudited condensed consolidated financial statements.



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**TIGERLOGIC CORPORATION AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2013**

**1. INTERIM FINANCIAL STATEMENTS**

The unaudited interim condensed consolidated financial information furnished herein reflects all adjustments, consisting only of normal recurring items, which in the opinion of management are necessary to fairly state TigerLogic Corporation and its subsidiaries (collectively, the Company or we, us or our) financial position, results of operations and cash flows for the dates and periods presented and to make such information not misleading. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to rules and regulations of the Securities and Exchange Commission (SEC); nevertheless, management of the Company believes that the disclosures herein are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended March 31, 2013, contained in the Company's Annual Report on Form 10-K filed with the SEC on July 11, 2013. The results of operations for the three months ended June 30, 2013, are not necessarily indicative of results to be expected for any other interim period or the fiscal year ending March 31, 2014.

**2. BUSINESS ACQUISITION**

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

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

Fair value of common stock issued at closing	\$	3,285
Fair value of common stock issuable-subject to the 18-month holdback		861
Fair value of stock options assumed		949

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Cash consideration paid		499
Total purchase price	\$	5,594

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

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

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

*Purchase Price Allocation*

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

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

*Pro Forma Results*

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

	Three Months Ended June 30, 2012 (in thousands, except per share data) (unaudited)	
Net revenue	\$	3,532
Net loss	\$	(978)
Net loss per basic and diluted share	\$	(0.03)

**3. STOCK-BASED COMPENSATION**

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

Total stock-based compensation expense included in the unaudited condensed consolidated statements of comprehensive loss for the three months ended June 30, 2013 and 2012, was as follows (in thousands):

	Three Months Ended June 30,	
	2013	2012
Cost of revenue	\$ 45	\$ 24
Operating expense:		
Selling and marketing	126	33
Research and development	95	53
General and administrative	133	115
Total stock-based compensation expense	399	225
Income tax benefit		
Net stock-based compensation expense	\$ 399	\$ 225

As of June 30, 2013, there was approximately \$1.8 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans. That cost is expected to be recognized over a weighted-average period of 1.81 years.

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

**5. STOCKHOLDERS' EQUITY**

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

Weighted outstanding options to purchase 4,557,681 shares and 3,244,907 shares of the Company's common stock have been excluded from the computation of diluted net loss per share for the three month periods ended June 30, 2013 and 2012, respectively, because the effect of their inclusion would have been anti-dilutive.

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

**6. BUSINESS SEGMENT**

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

Net revenue	Three Months Ended June 30,	
	2013	2012
United States	\$ 2,587	\$ 2,265
Europe	1,138	1,019
Total	\$ 3,725	\$ 3,284

Long-lived assets	June 30, 2013	March 31, 2013
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United States	\$	32,481	\$	32,507
Europe		400		405
Total	\$	32,881	\$	32,912

The Company is engaged in the design, development, sale, and support of the following software product lines: 1) Multidimensional Database Management Systems ( MDMS ), 2) Rapid Application Development ( RAD ) software tools, 3) Postano, and 4) yolink. On January 17, 2013, the Company completed its acquisition of Storycode, Inc., a privately held company that designs and hosts mobile applications, and designs and develops digital publications. To date, revenue from Postano, yolink, and Storycode products has not been significant. The following table represents the Company's net revenue by product line (in thousands):

Net revenue	Three Months Ended June 30,			
	2013		2012	
Databases	\$	2,697	\$	2,307
RAD Software Tools		1,028		977
Total	\$	3,725	\$	3,284

### 7. COMMITMENTS AND CONTINGENCIES

The Company is subject from time to time to litigation, claims and suits arising in the ordinary course of business. There were no ongoing material legal proceedings as of June 30, 2013.

#### *Indemnification*

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

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

*The section entitled Management's Discussion and Analysis set forth below contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These statements may generally be identified by the use of such words as expect, anticipate, believe, intend, plan, will, or shall, or the negative of those terms. We have based these forward-looking statements on our current expectations and projections about future events. Forward-looking statements involve certain risks and uncertainties and actual results may differ materially from those discussed in any such statement. Factors that could cause actual results to differ materially from such forward-looking statements include the risks described under the heading Risk Factors in Item 1A of this Form 10-Q and elsewhere in this Form 10-Q. The forward-looking statements contained in this Form 10-Q include, but are not limited to statements about the following: (1) our future success, (2) our research and development efforts, (3) our future operating results and cash flow, (4) our ability to compete, (5) the markets in which we operate, (6) our revenue, (7) cost of license revenue and cost of service revenue, (8) our selling and marketing costs, (9) our general and administrative costs, (10) our research and development expenses, (11) the effect of critical accounting policies, (12) the possibility that we may seek to take advantage of opportunities in the equity and capital markets, (13) our belief that our existing cash balances combined with our cash flow from operating activities will be sufficient to meet our operating and capital expenditure requirements for the remainder of the fiscal year ending March 31, 2014 and through the foreseeable future, (14) our focus on the continued development and enhancement of new product lines, including social media content aggregation platform and applications, and identification of new and emerging technology areas and discussions with channel partners for the sale and distribution of new product lines, (15) the effect of recent changes in tax laws on our financial statements, (16) our ability to successfully integrate recent acquisitions, and (17) the possibility that we may seek to take advantage of strategic acquisition or disposition opportunities. All forward-looking statements in this document are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement.*

**Overview**

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

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

**Products**

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Our principal business consists of: 1) the design, development, sale, and support of software infrastructure; 2) a social media content aggregation and visualization platform; 3) Internet search enhancement tools; and 4) the design and development of mobile applications and digital publications. Our products allow customers to create and enhance flexible software applications for their own needs. Our database and rapid application development software may be categorized into the following product lines: Multidimensional Database Management Systems ( MDMS ) and Rapid Application Development ( RAD ) software tools. Many of our database software products are based on the proprietary Pick Universal Data Model ( Pick UDM ) and are capable of handling data from many sources. Our Postano product is a real-time social media content aggregation and visualization platform. Our Internet search enhancement tools include the yolink browser plug-in, yolink API for web sites, and yolink search plug-in for WordPress sites. Our Storycode business includes the design and hosting of mobile applications, and digital publishing solutions such as interactive e-books.

We primarily sell our database and rapid application development software products through established distribution channels consisting of original equipment manufacturers ( OEMs ), system integrators, specialized vertical application software developers and consulting organizations, as well as through our sales personnel. Our Internet search enhancement tools and social media content aggregation platform are generally sold through our sales personnel and web sites, as well as through co-marketing arrangements with third parties. Our Storycode mobile applications and digital publishing solutions are generally sold through our sales personnel. Outside the United States, we maintain direct sales offices in the United Kingdom, France and Germany. We generally license our database and rapid application development software on a per-CPU, per-server, per-port or per-user basis. We license our yolink products at prices based on usage measured in a variety of ways. We generally license our Postano platform on a time-based subscription basis. We may make both our yolink and Postano products available to users for free under certain circumstances. We generally sell our Storycode mobile application design and digital publishing services on a project fee basis, and charge monthly fees for hosting mobile applications. We also provide continuing software maintenance and support, and other professional services relating to our products, including consulting and training services. The majority of our revenue to date has been principally derived from MDMS and RAD software products. Approximately 31% of our revenue came from sales through our offices located outside the United States for each of the quarters ended June 30, 2013, and 2012.

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



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*TigerLogic Postano*

Postano is a real-time social content aggregation and visualization platform, bringing together social media conversations and content streams from around the web. The Postano platform includes Postano Mobile, Postano Events, Postano Retail, Postano Social Hub, and the built-in Postano Monitoring dashboard capabilities. Postano aggregates social content across Twitter, Tumblr, Facebook, Instagram, Pinterest, and other social platforms. Within Postano, these content streams can be moderated, curated, analyzed, and then displayed in physical store locations, at events to increase brand awareness, on website social hubs to amplify engagement, and on hashtag campaign landing pages to create brand conversation and increase participation. Postano is designed primarily for commercial use, with pricing based on a number of factors, including the type of Postano, the number of Postanos, features, and support levels desired. Through June 30, 2013, revenue recognized from Postano products has not been significant.

*TigerLogic Yolink*

Yolink is a next-generation search enhancement technology that increases the effectiveness of search functionality across web sites and services. Yolink can search both structured markup, such as HTML, and binary code documents as well as unstructured, raw text documents by layering a common semantic model across them, and using this to organize and effect full-text searches across documents. Yolink searches behind links and through web sites to retrieve content based on keyword search terms. To facilitate the user's review of search results, each keyword is highlighted with a unique color. This capability is especially useful for reviewing and searching through the many web pages that contain hundreds, if not thousands, of embedded hyperlinks. Yolink technology can be applied to many platforms and Internet delivery methodologies. Yolink application programming interfaces (known as APIs) allow developers to integrate yolink search technologies with their web sites, services or applications. Yolink is available for download at [www.yolink.com](http://www.yolink.com). Through June 30, 2013, revenue recognized from the yolink search technology has not been significant.

*Multi-dimensional Databases (MDMS)*

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

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

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

to beta in January 2013, introduced the first 64-bit version of our MDMS products.

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

*Rapid Application Development (RAD) Tools*

Our RAD products support the full life cycle of software application development and are designed for rapid prototyping, development and deployment of graphical user interface ( GUI ) client/server and web applications. The RAD products - Omnis Studio and Omnis Classic - are object-oriented and component-based, providing the ability to deploy cross-platform applications on operating system platforms and database environments.

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

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***Technical Support***

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

***Research and Development***

We have devoted significant resources to the research and development of our products and technology. We believe that our future success will depend largely on strong development efforts with respect to both our existing and new products. These development efforts have resulted in updates and upgrades to existing MDMS and RAD products and the launch of new products including the Postano social media and yolink search technology product lines. New product updates and upgrades in our MDMS, RAD, and Postano 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 any announced products or future products will be successful. We spent approximately \$1.4 million and \$1.2 million on research and development during the three months ended June 30, 2013 and 2012, 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 Rocket Software. Our RAD products currently encounter competition from several direct competitors, including Microsoft, and competing development environments, including JAVA. Our Postano social media visualization product competes with products developed by companies such as Facebook and Twitter, as well as a number of smaller companies in the emerging social media marketplace. Direct competitors of our yolink search technology include Google, Yahoo, Microsoft, AOL, and Ask, as well as a number of smaller companies with products that directly and indirectly compete with our yolink search technology. Direct competitors of our Storycode technology include companies such as Salesforce and Oracle. Most of our competitors have significantly more financial, technical, marketing, and other resources than we do. As a result, our competitors may be able to respond more quickly to new or emerging technologies, evolving markets and changes in customer requirements, and may devote greater resources to the development, promotion, and sale of their products. We believe that our ability to compete in the various product markets depends on factors both within and outside our control, including the timing of release, performance and price of new products developed by both us and our competitors. Although we believe that we currently compete favorably with respect to most of these factors, we may not be able to maintain our competitive position against current and potential competitors, especially those with greater resources.

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

*Critical Accounting Policies and Estimates*

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

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

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

- Revenue Recognition

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- Business Combination and Goodwill
- Employee Stock-Based Compensation
- Income Taxes

These critical accounting policies are described in our Form 10-K for the fiscal year ended March 31, 2013 and there have been no changes in our application of these policies during the period ended June 30, 2013.

### *Results of Operations*

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

	Three Months Ended June 30, 2013			Percent Change	Three Months Ended June 30, 2012	
	Results (In thousands)	% of Net Revenues	Results (In thousands)		% of Net Revenues	
Net revenues						
Licenses	\$ 1,298	35%	30%	\$ 995	30%	
Services	2,427	65%	6%	2,289	70%	
Total net revenues	3,725	100%	13%	3,284	100%	
Operating expenses						
Cost of revenues:						
Cost of license revenues (as a % of license revenues)	37	3%	1750%	2		
Cost of service revenues (as a % of service revenues)	489	20%	15%	424	19%	
Selling and marketing	1,598	43%	51%	1,057	32%	
Research and development	1,448	39%	17%	1,235	38%	
General and administrative	1,346	36%	30%	1,037	32%	
Total operating expenses	4,918	132%	31%	3,755	114%	
Operating loss	(1,193)	-32%	153%	(471)	-14%	
Other income (expense)-net	7		-137%	(19)	-1%	
Loss before income taxes	(1,186)	-32%	142%	(490)	-15%	
Income tax provision	52	1%	1633%	3		
Net loss	\$ (1,238)	-33%	151%	\$ (493)	-15%	