TigerLogic CORP
Form 10-Q
February 11, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended December 31, 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)

Delaware	**94-3046892**
(State of Incorporation)	**(I.R.S. Employer ID. No.)**
25A Technology Drive Suite 100,	
Irvine, California	**92618**
(Address of Principal Executive Offices)	**(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 x 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	x

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

As of January 31, 2011, the Registrant had 28,065,548 shares of its common stock outstanding.

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TIGERLOGIC CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TIGERLOGIC CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31, 2010	March 31, 2010
ASSETS		
Current assets		
Cash	$ 11,375	$ 12,492
Trade accounts receivable, less allowance for doubtful accounts of $23 and $26, respectively	1,245	954
Other current assets	396	412
Total current assets	13,016	13,858
Property, furniture and equipment-net	730	766
Goodwill	26,388	26,388
Deferred tax assets	269	379
Other assets	109	113
Total assets	$ 40,512	$ 41,504
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 281	$ 192
Accrued liabilities	1,686	1,686
Deferred revenue	4,363	4,314
Total current liabilities	6,330	6,192
Commitments and contingencies		
Stockholders equity		
Preferred stock		
Common stock	2,803	2,793
Additional paid-in-capital	133,581	132,543
Accumulated other comprehensive income	2,263	2,246
Accumulated deficit	(104,465)	(102,270)
Total stockholders equity	34,182	35,312
Total liabilities and stockholders equity	$ 40,512	$ 41,504

See accompanying notes to the unaudited condensed consolidated financial statements.

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TIGERLOGIC CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009	Nine Months Ended December 31, 2010	Nine Months Ended December 31, 2009
Net revenues				
Licenses	$ 1,348	$ 1,118	$ 3,354	$ 3,122
Services	2,353	2,393	6,965	7,338
Total net revenues	3,701	3,511	10,319	10,460
Operating expenses				
Cost of license revenues	4	4	10	28
Cost of service revenues	428	445	1,279	1,245
Selling and marketing	1,216	1,332	3,524	3,196
Research and development	1,479	1,581	4,481	4,698
General and administrative	965	1,048	3,030	3,107
Total operating expenses	4,092	4,410	12,324	12,274
Operating loss	(391)	(899)	(2,005)	(1,814)
Other income (expense)				
Interest expense-net	(1)	(1)	(2)	(1)
Other income (expense)-net	(7)	153	(19)	826
Total other income (expense)	(8)	152	(21)	825
Loss before income taxes	(399)	(747)	(2,026)	(989)
Income tax provision (benefit)	52	(44)	169	(26)
Net loss	$ (451)	$ (703)	$ (2,195)	$ (963)
Basic and diluted net loss per share	$ (0.02)	$ (0.03)	$ (0.08)	$ (0.04)
Shares used in computing basic and diluted net loss per share	28,024	27,707	27,981	27,105

See accompanying notes to the unaudited condensed consolidated financial statements.

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TIGERLOGIC CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended December 31, 2010	Nine Months Ended December 31, 2009
Cash flows from operating activities:		
Net loss	$ (2,195)	$ (963)
Adjustments to reconcile net loss to net cash used in operating activites:		
Depreciation and amortization of long-lived assets	276	294
Provision for bad debt	3	12
Stock-based compensation expense	777	792
Change in deferred tax assets	169	(26)
Foreign currency exchange (gain) loss	17	(695)
Change in assets and liabilities:		
Trade accounts receivable	(288)	(259)
Other current and non-current assets	(41)	14
Accounts payable	80	72
Accrued liabilities	4	(536)
Deferred revenue	51	(172)
Net cash used in operating activities	(1,147)	(1,467)
Cash used in investing activities-purchase of property, furniture and equipment	(225)	(111)
Cash flows from financing activities:		
Proceeds from exercise of stock options	240	1,849
Proceeds from issuance of common stock	32	38
Net cash provided by financing activities	272	1,887
Effect of exchange rate changes on cash	(17)	110
Net increase (decrease) in cash	(1,117)	419
Cash at beginning of period	12,492	12,282
Cash at end of period	$ 11,375	$ 12,701

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

DECEMBER 31, 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 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, 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 and nine month periods ended December 31, 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 and nine months ended December 31, 2010 and 2009, was as follows (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2010	2009	2010	2009
Cost of revenue	$ 17	$ 14	$ 51	$ 47
Operating expense:				
Selling and marketing	71	61	270	120
Research and development	79	93	231	304
General and administrative	61	171	225	321
Total stock-based compensation expense	228	339	777	792
Income tax benefit				
Net stock-based compensation expense	$ 228	$ 339	$ 777	$ 792

As of December 31, 2010, there was approximately $1.3 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans. That cost is expected to be recognized over a weighted-average period of 2.4 years.

3. RECENTLY ADOPTED ACCOUNTING GUIDANCE

The SEC recently issued an interpretive release to give additional guidance about existing liquidity and capital resources disclosure requirements in management discussion and analysis (MD&A). The guidance addresses new funding methods and cash management tools used, and intra-period trends in borrowing and repurchase agreements. The disclosures should provide transparent information about short-term and long-term liquidity and capital needs to help investors assess off-balance-sheet arrangements. This interpretative guidance is effective immediately. The Company s disclosure of liquidity and capital resources is consistent with this guidance, to the extent applicable.

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4. RECENTLY ISSUED ACCOUNTING GUIDANCE

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.

5. 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 December 31, 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 December 31, 2010 or March 31, 2010.

6. 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 not anti-dilutive. Potential dilutive common shares include outstanding stock options.

Weighted outstanding options to purchase 1,433,911 shares and 1,305,418 shares of the Company s common stock have been excluded from the computation of diluted net loss per share for the three and nine month periods ended December 31, 2010, respectively, and 2,108,416 shares and 2,946,742 shares for the three and nine month periods ended December 31, 2009, respectively, because the effect of their inclusion would have been anti-dilutive.

The change in accumulated other comprehensive loss during the three and nine month periods ended December 31, 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):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2010	2009	2010	2009
Net loss reported	$ (451)	$ (703)	$ (2,195)	$ (963)
Translation adjustments-net	(23)	(160)	17	(588)
Total comprehensive loss	$ (474)	$ (863)	$ (2,178)	$ (1,551)

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 to be long-term in nature.

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7. 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 and support revenue. The following table summarizes consolidated financial information of the Company s operations by geographic location (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2010	**2009**	**2010**	**2009**
Net revenue				
North America	$ 2,420	$ 2,380	$ 7,085	$ 7,079
Europe/Africa	1,281	1,131	3,234	3,381
Total	$ 3,701	$ 3,511	$ 10,319	$ 10,460

	December 31, 2010	March 31, 2010
Long-lived assets		
North America	$ 27,031	$ 27,180
Europe/Africa	465	466
Total	$ 27,496	$ 27,646

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, revenue from each of our Yolink and XDMS product lines has been insignificant. The following table represents the net revenue by product line (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2010	**2009**	**2010**	**2009**
Net revenue				
Databases (XDMS and MDMS)	$ 2,577	$ 2,375	$ 7,273	$ 7,489
RAD Software Tools	1,124	1,136	3,046	2,971
Total	$ 3,701	$ 3,511	$ 10,319	$ 10,460

8. 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 $7,300 per month, and the Company does not anticipate any material changes in this monthly amount.

9. COMMITMENTS AND CONTINGENCIES

The Company is subject from time to time to litigation, claims and suits arising in the ordinary course of business. There were no ongoing material legal proceedings as of December 31, 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.

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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, 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. In December 2010, we launched a new product called PostPost. PostPost is a real-time Facebook newspaper that collects and curates posts shared by users Facebook friends into an easy-to-read newspaper layout, and is integrated with our Yolink search technology. Through December 31, 2010, we have not recognized any revenue from the PostPost product.

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. 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. Through December 31, 2010, revenue recognized from the Yolink product has been immaterial.

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 an enhanced administration and development console, was released for beta testing in November 2009. Through December 31, 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 general availability in September 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.

Version 5.1 of Omnis Studio, released for general availability in October 2010, includes functionality for developers to create mobile applications for Apple iOS devices including the iPhone, iPad, and iPod touch.

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 $4.5 million and $4.7 million on research and development during the nine months ended December 31, 2010 and 2009, respectively.

Competition

Competition for our MDMS, XML, and RAD products include companies such as Oracle, Microsoft, IBM, SAP, 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 may differ from these estimates under different assumptions or conditions. As of December 31, 2010, the fair value of the reporting unit substantially exceeded its carrying value.

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

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

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

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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 December 31, 2010			Three Months Ended December 31, 2009		Nine Months Ended December 31, 2010			Nine Months Ended December 31, 2009	
	Results (In thousands)	% of Net Revenues	Percent Change	Results (In thousands)	% of Net Revenues	Results (In thousands)	% of Net Revenues	Percent Change	Results (In thousands)	% of Net Revenues
Net revenues										
Licenses	$ 1,348	36%	21%	$ 1,118	32%	$ 3,354	33%	7%	$ 3,122	30%
Services	2,353	64%	-2%	2,393	68%	6,965	67%	-5%	7,338	70%
Total net revenues	3,701	100%	5%	3,511	100%	10,319	100%	-1%	10,460	100%
Operating expenses										
Cost of revenues:										
Cost of license revenues (as a % of license revenues)	4	0%	0%	4	0%	10	0%	-64%	28	1%
Cost of service revenues (as a % of service revenues)	428	18%	-4%	445	19%	1,279	18%	3%	1,245	17%
Selling and marketing	1,216	33%	-9%	1,332	38%	3,524	34%	10%	3,196	31%
Research and development	1,479	40%	-6%	1,581	45%	4,481	43%	-5%	4,698	45%
General and administrative	965	26%	-8%	1,048	30%	3,030	29%	-2%	3,107	30%
Total operating expenses	4,092	111%	-7%	4,410	126%	12,324	119%	0%	12,274	117%
Operating loss	(391)	-11%	-57%	(899)	-26%	(2,005)	-19%	11%	(1,814)	-17%
Other income (expense)-net	(8)	0%	-105%	152	4%	(21)	0%	-103%	825	8%
Loss before income taxes	(399)	-11%	-47%	(747)	-21%	(2,026)	-20%	105%	(989)	-9%
Income tax provision (benefit)	52	1%	-218%	(44)	-1%	169	2%	-750%	(26)	0%
Net loss	$ (451)	-12%	-36%	$ (703)	-20%	$ (2,195)	-21%	128%	$ (963)	-9%

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 CPUs, servers, ports or users to existing systems increases our revenue from our installed base of licensees. Similarly, the reduction of CPUs, 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 increased by $0.2 million or 5% for the three month period ended December 31, 2010 mainly due to higher license revenues from existing customers when compared to the same period in the prior year. Services revenue for the three month period ended December 31, 2010 remained consistent on a dollar amount basis when compared to the same period in the prior year. Total revenue for the nine months ended December 31, 2010 decreased $0.1 million or 1% when compared to the same period in the prior year, primarily due to the decrease in service revenue of $0.3 million or 5% resulting from to the reduction or non-renewal of support services from our existing customer base as a result of adverse global economic conditions and customers moving to other platforms, offset by higher license revenue of approximately $0.2 million or 7%. While revenue for the three month period ended December 31, 2010 increased from prior quarters, we anticipate that revenue will continue to be adversely affected unless global economic conditions continue to improve.

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 remained consistent for the three month period ended December 31, 2010 when compared to the same period in prior year. Cost of license revenue as a percentage of license revenue decreased slightly for the nine month period ended December 31, 2010 when compared with the same period in the prior year due to lower royalties.

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COST OF SERVICE REVENUE. Cost of service revenue includes primarily personnel costs relating to consulting, technical support and training services. Cost of service revenue for the three and nine month periods ended December 31, 2010 remained consistent on a dollar amount basis when compared to the same periods in prior year.

SELLING AND MARKETING. Selling and marketing expense consists primarily of salaries, benefits, advertising, tradeshows, travel and overhead costs for our sales and marketing personnel. Selling and marketing expense for the three month period ended December 31, 2010 decreased $0.1 million or 9% when compared to the same period in the prior year due to lower conference-related expenses, partially offset by higher headcount and consulting expenses. Selling and marketing expense for the nine month period ended December 31, 2010 increased $0.3 million or 10% when compared to the same period in the prior year due to higher personnel and consulting expenses, partially offset by lower conference-related 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 December 31, 2010 decreased by $0.1 million or 6% when compared to the same period in the prior year due to lower headcount. Research and development expense for the nine month period ended December 31, 2010 decreased $0.2 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, partially offset by higher consulting 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 and nine month periods ended December 31, 2010 was generally consistent on a dollar amount basis with the same periods 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 in the foreign subsidiaries and the related adjustments 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 long-term in nature. Due to this change and the fluctuation in British Pound exchange rates, other income (net) for the three month period ended December 31, 2010 decreased $0.2 million or 105% and other income (net) for the nine month period ended December 31, 2010 decreased $0.8 million or 103% when compared to the same periods in the prior year. 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 (13.0%) and (8.3%) for the three and nine month periods ended December 31, 2010, respectively, as compared to 5.9% and 2.6% for the three and nine month periods ended December 31, 2009, respectively. The provision for income taxes for the three and nine month periods ended December 31, 2010 reflected the income tax on net earnings from foreign subsidiaries. A $51,000 provision-to-return true up for the French subsidiary was reflected in the provision for the nine months ended December 31, 2010. The provision for income taxes for the three and nine month periods ended December 31, 2009 reflected income tax on net earnings from foreign subsidiaries, net of the refundable research and development credit.

As a result of our analysis of all available evidence, both positive and negative, at the end of the quarter ended June 30, 2010, and including sustained historical profitability of the German subsidiary, we determined that the German subsidiary would generate enough future earnings to support the release of the valuation allowance related to its deferred tax assets. As such, the balance of approximately $17,000 of the deferred tax assets was released in the quarter ended June 30, 2010. Due to uncertainties surrounding the timing of realizing the benefits of the net operating loss carryforwards in the future, we continue to carry a full valuation allowance against net deferred tax assets for our subsidiaries in the United States and United Kingdom.

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LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2010, we had $11.4 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, and 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 December 31, 2010.

Net cash used in operating activities was $1.1 million and $1.5 million for the nine month periods ended December 31, 2010 and 2009, respectively. The decrease in net cash used in operating activities for the nine months period ended December 31, 2010 as compared to the same period in the prior year was primarily due to payments made in the prior year related to the separation and consulting agreement with our former President and CEO, partially offset by higher selling and marketing expense and lower revenue in the nine months ended December 31, 2010. Net cash used in investing activities was $0.2 million and $0.1 million for the nine month periods ended December 31, 2010 and 2009, respectively, for expenditures related to furniture and equipment purchased. Net cash provided by financing activities was $0.3 million and $1.9 million for the nine month periods ended December 31, 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 nine months ending December 31, 2010 or 2009.

OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet liabilities or transactions as of December 31, 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.

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

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

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Our Adjusted EBITDA was negative $0.1 million or negative 2% of total net revenue for the three month period ended December 31, 2010, and negative $1.0 million or negative 9% of total net revenue for the nine month period ended December 31,

2010. Our Adjusted EBITDA was negative $0.5 million, or negative 13% of total net revenue for the three month period ended December 31, 2009, and negative $0.7 million or negative 7% for the nine month period ending December 31, 2009. The increase in Adjusted EBITDA for the three months ended December 31, 2010 when compared to the same period in the prior year was a result of higher revenues and lower selling and marketing expense in the current year. The decrease in Adjusted EBITDA for the nine months ended December 31, 2010 when compared to the same period in the prior year was due to slightly lower revenue and higher marketing expense in the current year. The following table reconciles Adjusted EBITDA to the GAAP reported net loss:

RECONCILIATION OF ADJUSTED EBITDA TO NET LOSS

(In thousands)

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2010	2009	2010	2009
Reported net loss	$ (451)	$ (703)	$ (2,195)	$ (963)
Depreciation and amortization	89	109	276	294
Stock-based compensation	228	339	777	792
Interest expense-net	1	1	2	1
Other (income) expense-net	7	(153)	19	(826)
Income tax provision (benefit)	52	(44)	169	(26)
Adjusted EBITDA	$ (74)	$ (451)	$ (952)	$ (728)

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)

	For the Nine Months Ended December 31,	
	2010	2009
Net cash used in operating activities	$ (1,147)	$ (1,467)
Interest expense-net	2	1
Other (income) expense-net	19	(826)
Change in trade accounts receivable	288	259
Change in other current and non-current assets	41	(14)
Change in accounts payable	(80)	(72)
Change in accrued liabilities	(4)	536
Change in deferred revenue	(51)	172
Foreign currency exchange gain (loss)	(17)	695
Provision for bad debt	(3)	(12)
Adjusted EBITDA	$ (952)	$ (728)

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.

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

Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

We operate in a rapidly changing environment that involves numerous risks and uncertainties. A description of the risks and uncertainties associated with our business is set forth below. You should carefully consider such risks and uncertainties, together with the other information contained in this Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 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.

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.

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

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 CPUs, servers, ports or users by our customers would result in a decrease in our revenue. These and other economic factors could continue to have a material adverse effect on demand for our products and services and on our financial results.

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

We incurred net losses of approximately $2.2 million for the nine months ended December 31, 2010. We had an accumulated deficit of approximately $104 million as of December 31, 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.

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.

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

As of December 31, 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
- personnel changes.

We operate without a significant backlog of orders. As a result, the quarterly sales and operating results in any given quarter are dependent, in large part, upon the volume and timing of orders booked and products shipped during that quarter. Accordingly, we may be unable to adjust spending in a timely manner to compensate for any unanticipated decrease in orders, sales or shipments. Therefore, any decline in demand for our products and services, in relation to the forecast for any given quarter, could materially and negatively impact the results of our operations. As a result, our quarterly operating results may fluctuate, potentially causing our stock price to be volatile. In addition, we believe that period-to-period comparisons of our operating results should not be relied upon as indications of future performance.

A significant drop in our stock price could also expose us to the risk of securities class actions lawsuits, which could result in substantial costs and divert management s attention and resources, which could adversely affect our business.

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

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

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

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

Our ability to compete successfully will depend, in part, on our ability to protect our proprietary technology and operations without infringing upon the rights of others. We may fail to do so. In addition, the laws of certain countries in which our products are, or may be, licensed may not protect our proprietary rights to the same extent as the laws of the United States. We rely primarily on a combination of trade secret, copyright and trademark laws and contractual provisions to protect our intellectual property and proprietary rights. Our trademarks include TigerLogic, Yolink, 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 December 31, 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.

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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, and we may be periodically involved in any number of ordinary course of business proceedings of this type. We expect that software product developers and providers of software applications and online services will increasingly be subject to infringement claims as the number of products, services and competitors in our industry segment grow and the functionality of products and services in different industry segments overlap. 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.

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 December 31, 2010, we had 28,035,190 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 31% of our revenue for the nine months ended December 31, 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.

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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.

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 requirements 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.

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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: February 11, 2011	**TIGERLOGIC CORPORATION**
	/s/ THOMAS LIM
	Thomas Lim
	Chief Financial Officer and Duly Authorized Officer

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