TigerLogic CORP
Form 10-Q
August 14, 2014
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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 June 30, 2014

OR

o 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 (State of Incorporation)	**94-3046892** (I.R.S. Employer ID. No.)
2855 Michelle Drive Suite 190, Irvine, California (Address of Principal Executive Offices)	**92606** (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 o

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 x NO o

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 o	Accelerated filer o
Non-accelerated filer o (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 o NO x

As of July 31, 2014, the Registrant had 30,940,463 shares of its common stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TIGERLOGIC CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	June 30, 2014	March 31, 2014
ASSETS		
Current assets:		
Cash	$ 15,357	$ 18,602
Trade accounts receivable, less allowance for doubtful accounts of $36 and $43, respectively	889	934
Receivable from sale of MDMS busines	2,200	2,200
Other current assets	480	553
Total current assets	18,926	22,289
Property, furniture and equipment,net	790	575
Goodwill	18,183	18,183
Intangible assets, net	489	510
Deferred tax assets	109	109
Other assets	73	73
Total assets	$ 38,570	$ 41,739
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 626	$ 349
Accrued liabilities	1,514	1,892
Deferred revenue	1,746	1,599
Total current liabilities	3,886	3,840
Other long-term liabilities	121	122
Total liabilities	4,007	3,962
Commitments and contingencies		
Stockholders equity:		
Preferred stock		
Common stock	3,013	3,012
Additional paid-in-capital	143,031	142,848
Accumulated other comprehensive income	2,398	2,360
Accumulated deficit	(113,879)	(110,443)
Total stockholders equity	34,563	37,777

Total liabilities and stockholders equity	$ 38,570	$ 41,739

See accompanying notes to the unaudited condensed consolidated financial statements.

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TIGERLOGIC CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands, except per share data)

	Three Months Ended June 30,	
	2014	**2013**
Net revenues:		
Licenses	$ 745	$ 649
Services	1,024	718
Total net revenues	1,769	1,367
Operating expenses:		
Cost of license revenue-amortization of technology intangible asset	19	19
Cost of service revenues	253	143
Selling and marketing	1,915	1,480
Research and development	1,086	999
General and administrative	1,887	1,286
Total operating expenses	5,160	3,927
Operating loss	(3,391)	(2,560)
Other income (expense):		
Interest expense-net	(1)	(1)
Other income (expense)-net	(32)	8
Total other income (expense)-net	(33)	7
Loss before income taxes from continuing operations	(3,424)	(2,553)
Income tax provision (benefit)	12	(517)
Net loss from continuing operations	$ (3,436)	$ (2,036)
Discontinued operations:		
Net income from discontinued operations, net of tax		798
Net loss	$ (3,436)	$ (1,238)
Other comprehensive loss:		
Foreign currency translation adjustments	38	(8)
Total comprehensive loss	$ (3,398)	$ (1,246)
Basic and diluted net income (loss) per share:		
Loss from continuing operations	$ (0.11)	$ (0.07)
Income from discontinued operations	$	$ 0.03
Net loss	$ (0.11)	$ (0.04)
Shares used in computing net loss from continuing operations per share, income from discontinued operations per share, and net loss per share	30,130	29,933

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)

	Three Months Ended June 30,	
	2014	**2013**
Cash flows from operating activities:		
Net loss	$ (3,436)	$ (1,238)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of long-lived assets	58	49
Recovery from bad debt	(9)	
Stock-based compensation expense	173	399
Foreign currency exchange (gain) loss	32	(8)
Change in assets and liabilities:		
Trade accounts receivable	53	(362)
Other current and non-current assets	12	117
Accounts payable	253	(105)
Accrued liabilities	(318)	203
Deferred revenue	149	304
Net cash used in operating activities	(3,033)	(641)
Cash used in investing activities-purchase of property, furniture and equipment	(222)	(17)
Cash from financing activities-proceeds from exercise of stock options	12	12
Effect of exchange rate changes on cash	(2)	6
Net decrease in cash	(3,245)	(640)
Cash at beginning of the period	18,602	6,465
Cash at end of the period	$ 15,357	$ 5,825

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, 2014

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 unaudited condensed consolidated financial statements should be read in conjunction with the Company s audited financial statements for the year ended March 31, 2014, contained in the Company s Annual Report on Form 10-K filed with the SEC on June 27, 2014. The results of operations for the three months ended June 30, 2014, are not necessarily indicative of results to be expected for any other interim period or the fiscal year ending March 31, 2015.

On November 15, 2013, the Company completed the sale of its assets dedicated to the multidimensional database management system (MDMS) and related connectivity products known as the MDMS family of products, including D3, mvBase, mvEnterprise and the Pick connectivity products (the MDMS Business), and the related underlying enterprise resource planning (ERP) platform required to support the MDMS Business, to Rocket Software, Inc. (Rocket). As a result of this divestiture, the historical results of the MDMS Business has been reclassified and presented as discontinued operations for prior year period presented. See Note 2 for additional information related to the disposition of the MDMS Business. Unless otherwise noted, all reported amounts are from continuing operations.

2. DISCONTINUED OPERATIONS - BUSINESS DIVESTITURE

Over the last several years, the Company began to shift its strategy to focus primarily on growth opportunities in the mobile and social media industries. Consistent with this strategy, on November 15, 2013, the Company completed the sale of the MDMS Business, and the related underlying ERP platform required to support the MDMS Business, to Rocket for a total sale price of approximately $22.0 million (the Sale), of which approximately $19.8 million was received at closing and approximately $2.2 million is being held by a third party escrow agent for 12 months to serve as security for the Company s general indemnification obligations. As a result of this divestiture, the historical results of the MDMS Business has been reclassified and presented as discontinued operations for all periods presented. Also, in connection with, and effective on, the closing of the Sale, the Company assigned to Rocket its Lease Agreement with The Irvine Company, dated November 9, 2004, as amended by the First Amendment thereto dated December 7, 2009. The lease was for approximately 15,000 square feet of office space in Irvine, California and runs through October 2015. Rocket had agreed to allow the Company to continue to occupy a portion of the space until April 2014 when the Company relocated to a new facility to accommodate the personnel previously employed at the premises and continuing with the Company following the Sale.

In connection with the Sale, the parties also entered, at closing, into several ancillary and related agreements, including a transition services agreement designed to facilitate the transition of the MDMS Business to Rocket and minimize disruptions to the Company s retained businesses, and an intellectual property license agreement, which will permit Rocket to use certain intellectual property owned by the Company and will permit the Company to use certain intellectual property owned by Rocket following the Sale. The costs of providing these services were considered immaterial and therefore were not included in discontinued operations on the unaudited condensed consolidated statements of comprehensive loss.

As of June 30, 2014, the Company has not had and does not anticipate generating any future cash flows related to the MDMS Business other than the $2.2 million cash expected to be received from escrow.

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The financial results of the discontinued operations for the three months ended June 30, 2013 were as follows (in thousands):

(In thousands except per share data)

	Three Months Ended June 30, 2013
Revenue of discontinued operations	$ 2,358
Income from discontinued operations	1,367
Income tax expense	569
Income from discontinued operations, net of tax	$ 798

3. 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 comprehensive loss for the three months ended June 30, 2014 and 2013, was as follows (in thousands):

	Three Months Ended June 30, 2014	2013
Cost of revenue	$	$ 4
Operating expense:		
Selling and marketing	68	121
Research and development	34	56
General and administrative	71	131
Total stock-based compensation expense	173	312
Income tax benefit		
Net stock-based compensation expense	$ 173	$ 312

Excluded from the table above was stock-based compensation expense related to discontinued operations of approximately $87,000 for the three months period ended June 30, 2013.

As of June 30, 2014, there was approximately $1.2 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 2.7 years.

4. FAIR VALUE MEASUREMENT

The Company maintains all of its cash on deposit at financial institutions. As such, there were no cash equivalents on the Company s balance sheets as of June 30, 2014 or March 31, 2014. The Company s financial assets and liabilities measured at fair value on a recurring basis consist of accounts receivable, receivable from the sale of the MDMS Business, and accounts payable and accrued liabilities and their carrying amounts approximate fair value due to their short term nature. There were no financial or 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, 2014 or March 31, 2014.

5. STOCKHOLDERS EQUITY AND EARNINGS PER SHARE

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

Weighted outstanding options to purchase 3,251,384 shares and 4,557,681 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, 2014 and 2013, 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, 2014 and 2013 is the result of the effect of foreign exchange rate changes.

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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):

	Three Months Ended June 30,	
	2014	2013
Net revenue		
United States	$ 863	$ 550
Europe	906	817
Total	$ 1,769	$ 1,367

	June 30, 2014	March 31, 2014
Long-lived assets		
United States	$ 19,114	$ 18,928
Europe	421	413
Total	$ 19,535	$ 19,341

The Company engages in the design, development, sale, and support of the following product lines: 1) Rapid Application Development (RAD) software, and 2) Social and Mobile Platform, consisting of Postano, Storycode, and yolink products and services. The following table represents the Company s net revenue by product line (in thousands):

	Three Months Ended June 30,	
	2014	2013
RAD Software	$ 1,170	$ 1,029
Social and Mobile Platform	599	338
Total	$ 1,769	$ 1,367

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, 2014.

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 general indemnification agreement with each of its directors and executives. In addition, the terms of the sale of the Company s MDMS Business include certain general indemnification obligations of the Company in favor of Rocket. However, as these relate to standard representations and warranties, the Company currently does not expect to incur any significant obligations related to the indemnification and has recorded amounts placed in escrow related to the indemnification as a receivable from Rocket at the date of sale.

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8. SUBSEQUENT EVENT

In conjunction with the Company s acquisition of Storycode, Inc. in January 2013, pursuant to the terms of the merger agreement, the Company issued an aggregate of 800,687 additional shares of its common stock to certain former stockholders of Storycode, Inc. The shares were issued on July 24, 2014 following the expiration of the 18-month escrow period.

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 Quarterly Report on Form 10-Q. The forward-looking statements contained in this Quarterly Report on 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 anticipated cash needs for at least the next 12 months, (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.

This discussion and analysis of the financial statements and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements, including the related notes thereto, contained elsewhere in this Quarterly Report on Form 10-Q

Unless noted otherwise, management s discussion and analysis of financial condition and results of operations pertain to our continuing operations.

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 November 15, 2013, we completed the sale of our assets dedicated to the multidimensional database management system (MDMS) and related connectivity products known as the MDMS family of products, including D3, mvBase, mvEnterprise and the Pick connectivity products (the MDMS Business), and the related underlying enterprise resource planning (ERP) platform required to support the MDMS Business, to Rocket Software, Inc. (Rocket) for a total sale price of approximately $22 million (the Sale), of which approximately $19.8 million was received at closing and approximately $2.2 million is being held by a third party escrow agent for 12 months to serve as security for our general indemnification obligations. As a result of this divestiture, the historical results of the MDMS Business has been reclassified and presented as discontinued operations for all periods presented. Also, in connection with, and effective on, the closing of the Sale, we assigned to Rocket our Lease Agreement with The Irvine Company, dated November 9, 2004, as amended on December 7, 2009. The lease was for approximately 15,000 square feet of office space in Irvine, California and ran through October 2015.

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The divestiture is a very important step forward towards our transformation to take advantage of what we believe to be great opportunities for our social and mobile products. We believe the sale of the MDMS Business will allow us to better focus our resources, and provide the capital to accelerate the development, marketing and sales of our Postano, Storycode and Omnis platforms.

As a result of the divestiture, we anticipate that our financial results will be impacted in the near term. As the MDMS Business represented a significant portion of historical revenue, revenue will decline significantly in the near term until we are able to increase sales from our continuing or newly developed product lines. There can be no assurances that we will be able to fully replace the MDMS revenue with revenue from our retained or newly developed products quickly, or at all.

Products

Our principal continuing business consists of: 1) the design, development, sale, and support of rapid application development software; and 2) a social and mobile platform, which includes a social media content aggregation and visualization platform, Internet search enhancement tools, and the design and development of mobile applications and digital publications. Our products allow customers to create and enhance flexible software applications for their own needs. Our Omnis Rapid Application Development (RAD) software is a development platform that allows mobile centric developers the ability to build a software code once and quickly deploy an application cross-platform in any environment. Our Postano product is a real-time social media content aggregation, activation, and visualization platform. Our Internet search enhancement tools include the yolink browser plug-in, yolink API for web sites, and yolink search plug-in for WordPress sites. Our mobile solutions include the design and hosting of mobile applications and digital publishing solutions, such as interactive marketing collaterals, brochures, and retail applications.

We primarily sell our RAD 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 social media content aggregation platform and Internet search enhancement tools are generally sold through our sales personnel and web sites, as well as through co-marketing arrangements with third parties. Our mobile applications and digital publishing solutions are generally sold through our sales personnel. Outside the United States, we maintain direct sales offices in the United Kingdom, France, and Germany. Approximately 51% and 60% of our revenue from continuing operations came from sales through our offices located outside the United States for the three months ended June 30, 2014, and 2013, respectively. We generally license our RAD software on a per-CPU, per-server, per-port or per-user basis. We generally license our hosted Postano platform on a time-based subscription basis. We license our yolink products at prices based on usage measured in a variety of ways. We generally sell our mobile application design and digital publishing services on a project fee basis, and charge monthly fees for hosting mobile applications. In addition to software products and hosted services, we provide continuing software maintenance and support and, to a limited extent, other professional services to our customers, including consulting and training services to help plan, analyze, implement and maintain application software based on our products. For each of the three months ended June 30, 2014, and 2013, no single customer accounted for more than 10% of our revenue.

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 our acquisition of privately-held Storycode, Inc., a mobile applications development and publishing company in January 2013. 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 our recently completed divestiture of the MDMS Business.

TigerLogic Postano

Postano is a real-time hosted social content aggregation, activation, and visualization platform, bringing together social media conversations and content streams from around the web to strengthen fan engagement. 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 venues ranging from retail stores to stadiums, 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 displayed, the number of Postano displays, features, display customization and support levels desired.

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In November 2013, we released version 2.0 of Postano, a significant update to provide marketers the ability to see fan activity across all major social networks and to easily curate and publish selected content into social hubs, event displays, in-store displays, command centers, and within mobile apps. Customers value Postano for its power to immediately source content from a wide variety of social networks and its ability to aggregate and curate that content for engaging fan experiences. Major feature updates to Postano 2.0 include a single dashboard to provide visibility across all social streams, rapid moderation workflow for efficient social curation, native mobile moderation apps for iPhone and Android, and advanced social visualizations built entirely with customizable HTML5 for content that can be displayed on every size screen from smartphones to the largest LED screen arrays.

In July 2014, we released version 2.5 of Postano that includes advanced social filtering options, a Style Editor for custom visualizations, new dynamic data visualizations, and other product enhancements. Together these additions create a powerful advanced platform for brands to discover their fans, and quickly curate and publish selected fan content all from a single dashboard. With Postano 2.5, brands now have the ability to quickly customize their visualizations with added intelligence for approving content. In addition, the Postano 2.5 release includes new data visualizations, a new photo mosaic visualization, local browser caching to prevent internet disconnects from affecting displays, easier social monitoring organization capabilities, and speed improvements.

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.

Storycode

Our Storycode team provides creative, interactive, and dynamic mobile communication solutions for enterprises to engage customers and drive sales. Storycode is one of six Adobe Digital Publishing Suite Solutions partners in the United States and the only partner on the West Coast. As a mobile partner with expertise in developing cross-platform mobile applications, Storycode focuses on design and user experience. Storycode leverages interactivity, multimedia and native applications to create experiences that engage readers while providing complete, scalable services for the creation of digital publications. Storycode helps corporate customers publish their content by creating annual reports, sales collateral, and other materials specifically for use through mobile devices including tablets and smart phones. Storycode helps clients engage with their audience through push notification, updating content on the fly, producing different versions for different audiences, and with different levels of distribution and password protection.

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.

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Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, prepared in accordance with accounting principles generally accepted in the United States. 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. Revenue attributable to an element in a customer arrangement is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is probable. If, at the outset of the customer arrangement, we determine that the arrangement fee is not fixed or determinable, we defer the revenue and recognize the revenue when the arrangement fee becomes due and payable. We do not have price protection programs or conditional acceptance agreements, and sales of our products are made without right of return.

For contracts with multiple software and software-related elements, we recognize revenue for the delivered elements, generally software licenses, using the residual value method when vendor-specific objective evidence (VSOE) of fair value exists for all undelivered elements, consisting primarily of post-contract customer support (PCS). PCS is recognized ratably over the support term.

For our hosted software subscription arrangements, services revenue is recognized ratably over the subscription period. We also have services revenue consisting of consulting and training services that are either recognized as the services are performed or upon the completion of the services depending on the nature of the services. When subscription arrangements involve multiple elements that qualify as separate units of accounting, we allocate arrangement consideration to all deliverables based on the relative stand-alone selling price method in accordance with the selling price hierarchy, which includes: (i) VSOE if available; (ii) third-party evidence (TPE) if VSOE is not available; and (iii) best estimate of selling price (BESP) if neither VSOE nor TPE is available. Revenue allocated to each deliverable, limited to the amount not contingent on future performance, is then recognized when the basic revenue recognition criteria are met for the respective deliverables.

We determine whether VSOE can be established based on our historical pricing and discounting practices for the specific deliverable when sold separately. In determining VSOE, we require that a substantial majority of the selling prices fall within a reasonably narrow pricing range. We have established VSOE for our PCS included in our software arrangements, but have not yet been able to establish VSOE for our subscription or other services.

When VSOE cannot be established for our subscription and other services, we apply judgment with respect to whether we can establish a selling price based on TPE. TPE is determined based on third party pricing practices for similar deliverables when sold separately. Generally, our pricing strategy differs from that of our peers and our offerings contain a significant level of differentiation such that the comparable pricing of services with similar functionality cannot be obtained. Furthermore, typically, we are unable to reliably determine what similar competitors services selling prices are on a stand-alone basis. As a result, we have not been able to establish selling prices based on TPE.

When we are unable to establish a selling price for our subscription and other services using VSOE or TPE, we use BESP in our allocation of arrangement consideration. The objective of BESP is to determine the price at which we would transact a sale if the respective elements were sold on a stand-alone basis. We estimate BESP for services by considering multiple factors including, but not limited to, prices charged for similar offerings, market conditions, competitive landscape, costs of providing the services, and our overall pricing practices. We currently use BESP in order to allocate the selling price to our deliverables in multiple element subscription arrangements.

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BUSINESS COMBINATIONS AND GOODWILL. We have entered into certain acquisitions, and in the future may make further acquisitions. The application of the purchase method of accounting for business combinations requires the use of significant estimates and assumptions in the determination of the fair value of assets acquired and liabilities assumed in order to properly allocate the purchase price consideration between depreciable assets, assumed liabilities, intangibles, and goodwill. Our estimates of the fair values of assets and liabilities acquired are based upon assumptions that we believe to be reasonable and include assistance from independent third-party appraisal firms. When equity instruments are issued as part of the purchase price consideration, we measure them at fair value as of the date of the acquisition.

We assess the impairment of goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable and at least annually during the fourth quarter of each fiscal year. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit s carrying amount, including goodwill, to its fair value. For purposes of this analysis, we consider ourselves a single reporting unit. Factors we consider to be important that would trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Timing of our revenue, significant changes in the manner of use of the acquired assets or the strategy for the overall business;
- Significant negative industry or economic trends;
- Significant decline in our stock price for a sustained period; and
- Our market capitalization falling below our net book value for a sustained period.

Determining the fair value of a reporting unit under the first step of the goodwill impairment test and determining the fair value of individual assets and liabilities of a reporting unit (including unrecognized intangible assets) under the second step of the goodwill impairment test is judgmental in nature and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and the magnitude of any such charge. Given our single reporting unit structure, a key input in estimating of our reporting unit fair value is our stock price as reported by Nasdaq and our related market capitalization. No impairment of goodwill has been identified during any of the periods presented as our market capitalization had exceeded our net book value. Our stock price has been volatile and, on some days during the fiscal quarter ended June 30, 2014, our market capitalization fell slightly below our net book value. We continue to monitor our stock price and to the extent it continues to fall below our net book value for sustained periods of time, it may trigger an additional goodwill impairment test such that we may be required to obtain an independent third party valuation to incorporate other relevant factors in estimating the fair value of our Company including but not limited to, any control premium. To the extent the fair value of our Company is below its carrying amount, we would be required to perform the second step of the goodwill impairment test to measure any impairment of goodwill.

Intangible assets with finite useful life are amortized using the straight-line method over their estimated period of economic benefit. Our intangible assets were acquired in connection with our acquisition of Storycode in January 2013. We estimate that our technology intangible asset has a useful life of seven years and our trade and domain names intangible asset has a useful life of ten years. We evaluate our intangible assets for impairment whenever events and change in circumstances occur which may warrant revised estimate of useful lives or recognition of an impairment loss.

RECENT ACCOUNTING PRONOUNCEMENT. In May 2014, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides guidance for revenue recognition. This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets. This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchanged for those goods or services. The new standard is effective for our company in fiscal 2018. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

In April 2014, the FASB issued ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360),* which provides guidance for reporting discontinued operations and disclosures of disposals of components of an entity. This ASU affects an entity that has either a component that is disposed of or meets the criteria to be classified as held for sale. The core principle of the guidance is that a disposal of a component, or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift and has (or will have) a major effect on an entity s operations and financial results. This standard is effective for annual reporting periods beginning after December 15, 2014, including interim periods within that reporting period (our fiscal 2016). We do not expect the adoption of this ASU to have a material impact on our financial position and results of operations.

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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 Quarterly Report on Form 10-Q.

	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013	
	Results (In thousands)	% of Net Revenues	Percent Change	Results (In thousands)	% of Net Revenues
Net revenues					
Licenses	$ 745	42%	15%	$ 649	47%
Services	1,024	58%	43%	718	53%
Total net revenues	1,769	100%	29%	1,367	100%
Operating expenses					
Cost of revenues:					
Cost of license revenues (as a % of license revenues)	19	3%	0%	19	3%
Cost of service revenues (as a % of service revenues)	253	25%	77%	143	20%
Selling and marketing	1,915	108%	29%	1,480	108%
Research and development	1,086	61%	9%	999	73%
General and administrative	1,887	107%	47%	1,286	94%
Total operating expenses	5,160	292%	31%	3,927	287%
Operating loss	(3,391)	-192%	32%	(2,560)	-187%
Other income (expense)-net	(33)	-2%	-571%	7	1%
Loss before income taxes	(3,424)	-194%	34%	(2,553)	-187%
Income tax provision (benefit)	12	1%	-102%	(517)	-38%
Net loss from continuing operations	$ (3,436)	-194%	69%	$ (2,036)	-149%

Revenue

NET REVENUE. Net revenues include software licensing, hosted subscription services, post contract technical support, and professional services for our Omnis, Postano, and Storycode products and services. We generally license our Omnis RAD software primarily on a per-CPU, per-server, per-port or per-user basis. Therefore, the addition of CPUs, servers, ports or users to existing systems increases our revenue from our installed base of licenses. Similarly, the reduction of CPUs, servers, ports or users from existing systems decreases our revenue from our installed base of customers. Our hosted Postano platform is generally sold on a time-based subscription basis and may additionally include professional services fees. Our Storycode digital publishing professional services are generally sold on a project basis. The timing of orders and customer ordering patterns has resulted in fluctuations in revenue between quarters and year-to-year. Total revenue increased by approximately $0.4 million or 29% for three months ended June 30, 2014 when compared to three months ended June 30, 2013. License revenue, which relates to our Omnis software, increased by approximately $0.1 million or 15% for the three months ended June 30, 2014 when compared to the same period in the prior year mainly due to higher sales of runtime licenses in the current year. Service revenue increased approximately $0.3 million or 43% for the three months ended June 30, 2014 when compared to the same period in the prior year mainly due to higher sales of subscriptions and services of our hosted Postano platform, and increased sales of our Storycode digital publishing services.

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Along with developing upgrades to our Omnis software, we have been actively developing and marketing our newer product lines, including our Postano social media visualization platform and Storycode digital publishing solutions. While we are committed to research and development efforts that are intended to allow us to penetrate new markets and generate new sources of revenue, such efforts may not result in additional products, services or revenue. We can give no assurances as to customer acceptance of any new products or services, or the ability of the current or any new products and services to generate revenue. There can be no assurances that we will be able to fully replace the revenue from the MDMS Business we sold in November 2013 with revenue from our retained or newly developed products quickly, or at all.

Operating Expenses

COST OF LICENSE REVENUE. Cost of license revenue is comprised of direct costs associated with software license sales including software packaging, documentation, physical media costs, amortization of intangible assets, and royalties. Cost of license revenue remains consistent with prior year and comprises of amortization expense for the technology intangible assets acquired from the Storycode acquisition.

COST OF SERVICE REVENUE. Cost of service revenue includes primarily data center hosting and personnel costs relating to hosting, consulting, technical support, professional and training services. Cost of service revenue for the three months ended June 30, 2014 increased approximately $0.1 million or 77% from the same period in the prior year mainly due to higher personnel costs relating to our social and mobile platform during the three months ended June 30, 2014 as more headcount was added, and higher professional service expenses from our Storycode digital publishing projects, and higher hosting cost from increased Postano sales.

SELLING AND MARKETING. Selling and marketing expense consists primarily of salaries, benefits, advertising, trade shows, travel and overhead costs for our sales and marketing personnel. Selling and marketing expense for the three months ended June 30, 2014 increased by approximately $0.4 million or 29% mainly due to higher consulting expense for our Omnis and Postano product lines, higher commission expense related to increased Postano sales, and higher travel related expense for Postano events and trade shows.

We anticipate that selling and marketing costs related to our Postano product lines may continue to increase as we further develop the sales channels for these products, and as customer acceptance of these products increases.

RESEARCH AND DEVELOPMENT. Research and development expense consists primarily of salaries and other personnel-related expenses and overhead costs for engineering personnel, including employees in the United States and the United Kingdom and contractors in the United States. Research and development expense for the three months ended June 30, 2014 increased by approximately $0.1 million or 9%, when compared to the same period in the prior year mainly due to higher personnel cost as we added more headcount to our Postano product lines in the current year, and higher consulting expense relating to product 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 RAD products and the launch of new products including the Postano social media and yolink search technology product lines. New product updates and upgrades in our RAD and Postano product lines are currently in progress and we expect to continue our research and development efforts in these product lines for the foreseeable future. We intend for these efforts to improve our future operating results and increase cash flows. However, such efforts may not result in additional new products or revenue, and we can make no assurances that

any announced products or future products will be successful.

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 months ended June 30, 2014 increased by approximately $0.6 million or 47% when compared to the same period in the prior year mainly due to higher salary expense due to new hires, and higher legal and financial advisory services expense related to the evaluation of any proposed sale of our common stock by our largest stockholder, as well as the evaluation of other strategic alternatives available to the Company.

OTHER INCOME (EXPENSE)-NET: Other income (expense) consists primarily of interest income (expense) and gains and losses on foreign currency transactions. Other income (expense)-net decreased from approximately $7,000 of income for the three months ended June 30, 2013 to approximately $33,000 of net expense for the three months ended June 30, 2014 mainly due to less favorable exchange rates for the Euro and British Pound in the three months ended June 30, 2014 as compared to the same period in the prior year.

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PROVISION FOR INCOME TAXES. Our effective tax rate from continuing operations was (0.3)% and 20.2% for the three months ended June 30, 2014, and 2013, respectively. Our effective tax rate from discontinued operations was 0% and 41.6% for the three months ended June 30, 2014 and 2013, respectively. Our total effective tax rate was (0.3)% and (4.4)% for the three months ended June 30, 2014 and 2013, respectively. The provision for income taxes for continuing operations for the three months ended June 30, 2014 and 2013 reflected the income tax on net earnings from foreign subsidiaries.

Realization of deferred tax assets depends upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, we have offset our net deferred tax assets in our U.S. and UK subsidiaries, which are not more-likely-than-not to be realized, with a valuation allowance. The utilization of our net operating losses could be subject to substantial annual limitation as a result of certain future events, such as acquisition or other significant equity events, which may be deemed as a change in ownership under the provisions of the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitations could result in the expiration of net operating losses and tax credits before utilization.

Liquidity and Capital Resources

As of June 30, 2014, we had $15.4 million in cash, of which approximately $1.0 million was held by our foreign subsidiaries and, if repatriated, would not be subject to material tax consequences. On November 15, 2013, we sold our MDMS Business assets to Rocket for a total sale price of approximately $22.0 million, subject to a $2.2 million escrow for 12 months to serve as security for our general indemnification obligations. The $15.4 million cash balance at June 30, 2014 does not include the $2.2 million amount held in escrow. In connection with the closing of the sale of our MDMS Business, we made cash payments in the aggregate amount of approximately $1.3 million for transaction related expenses. In connection with the closing of the Storycode acquisition in January 2013, we subsequently incurred additional expenses associated with integration costs and other transaction-related expenses of approximately $0.2 million during the three months ended June 30, 2013. We believe that our existing cash balances and cash flow from operations, and the remaining $2.2 million receivable from the sale of our MDMS Business will be sufficient to meet our anticipated cash needs for at least the next twelve months. The MDMS Business represented a significant portion of our historical revenues and there can be no assurances that we will be able to replace those revenues with revenues from our retained or newly developed products quickly, or at all. For the three months ended June 30, 2013, our MDMS Business represented 80% of total net revenue, respectively.

We are committed to research and development and marketing efforts that are intended to allow us to penetrate new markets and generate new sources of revenue and improve operating results. However, our research and development and marketing efforts have required, and will continue to require, cash outlays without the immediate or short-term receipt of related revenue. Our ability to meet our expenditure requirements is dependent upon our future financial performance, and this will be affected by, among other things, prevailing economic conditions, penetrating new markets, attracting new customers, and achieving market acceptance of our new and existing products and services, the success of research and development efforts and other factors beyond our control.

We had no material commitments for capital expenditures as of June 30, 2014.

Net cash used in operating activities was $3.0 million and $0.6 million for the three month periods ended June 30, 2014 and 2013, respectively. The increase in net cash used in operating activities for the three month period ended June 30, 2014 as compared to the same period in the prior year, was primarily due to higher marketing and professional services expenses relating to Postano and RAD product lines, higher personnel costs for Postano due to additional hires, and higher legal and consulting expense for strategic planning of our company. Net cash used in investing activities was $0.2 million for the three month period ended June 30, 2014 was mainly due to the purchases of furniture and

equipment. Net cash used in investing activities for the three month period ended June 30, 2013 was immaterial. Net cash provided by financing activities was $12,000 and $12,000 for the three month periods ended June 30, 2014 and 2013, respectively, as a result of proceeds derived from the exercise of stock options and related issuance of common stock.

There was no outstanding line of credit during the three months periods ended June 30, 2014 or 2013.

Off-Balance Sheet Arrangements

As of June 30, 2014, we did not have any off-balance sheet arrangements, as defined in the SEC regulations, which have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues, or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to the investors.

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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. generally accepted accounting principles (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 capital expenditure and working capital requirements.

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

Our Adjusted EBITDA was negative $3.2 million or negative 179% of total net revenue for the three month period ended June 30, 2014, and negative $0.7 million or negative 54% of total net revenue for the three month period ended June 30, 2013. The decrease in Adjusted EBITDA for the three months periods ended June 30, 2014 was a result of higher operating and personnel expenses as we expanded our sales and marketing efforts for Postano and higher legal and financial advisory services expense related to the evaluation of any proposed sale of our common stock by our largest stockholder, as well as the evaluation of other strategic alternatives available to the Company.

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 June 30,	
	2014	**2013**
Reported net loss	$ (3,436)	$ (1,238)
Depreciation and amortization	58	49
Stock-based compensation	173	399
Interest expense-net	1	1

Other (income) expense-net		32		(8)
Income tax provision		12		52
Adjusted EBITDA	$	(3,160)	$	(745)

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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 Three Months Ended June 30,	
	2014	**2013**
Net cash used in operating activities	$ (3,033)	$ (641)
Interest expense-net	1	1
Other (income) expense-net	32	(8)
Income tax provision	12	52
Change in trade accounts receivable	(53)	362
Change in other current and non-current assets	(12)	(117)
Change in accounts payable	(253)	105
Change in accrued liabilities	318	(203)
Change in deferred revenue	(149)	(304)
Foreign currency exchange gain (loss)	(32)	8
Recovery from bad debt	9	
Adjusted EBITDA	$ (3,160)	$ (745)

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our principal executive officer and principal financial officer evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective, as of the end of the period covered by this report, to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

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

Changes in Internal Control over Financial Reporting

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

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PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

We operate in a rapidly changing environment that involves numerous risks and uncertainties. A description of the risks and uncertainties associated with our business is set forth below. You should carefully consider such risks and uncertainties, together with the other information contained in this Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2014 and in our other public filings, including our Annual Report on Form 10-K for the fiscal year ended March 31, 2014. If any of such risks and uncertainties actually occurs, our business, financial condition or operating results could differ materially from the plans, projections, and other forward-looking statements included in the section titled Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report and in our other public filings. In addition, if any of the following risks and uncertainties, or if any other risks and uncertainties, actually occurs, our business, financial condition or operating results could be harmed substantially, potentially causing the market price of our stock to decline, perhaps significantly. The following section lists some, but not all, of these risks and uncertainties that may have a material adverse effect on our business, financial condition or results of operation.

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

We have devoted significant resources to the research and development, as well as acquisitions, of products and technologies. We believe that our future success will depend in large part on strong research and development efforts with respect to both our existing and new products, as well as the integration of newer technologies. We have made extensive efforts to leverage our core intellectual property to create new product lines, including our yolink search technology and our Postano social media visualization platform, which we have enhanced by incorporating Storycode s expertise in mobile application development, user experience, and design to create, what we believe, is a new kind of social platform with mobile distribution capabilities. In furtherance of that strategy, in November 2013, we completed the sale of our MDMS Business to Rocket, to enable us to continue to invest additional resources into our other products, such as Postano and RAD products.

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 MDMS Business represented a significant portion of our historical revenues and there can be no assurances that we will be able to replace those revenues with revenues from our retained or newly developed products quickly, or at all. A large portion of the MDMS Business consisted of the sale of annual software maintenance and support services, which provided a historically relatively stable revenue stream. The lower sales volume of annual software maintenance and support services from our retained RAD products, combined with the longer sales cycle of our newer Postano and Storycode products and services, may result in larger fluctuations in revenue.

The development of new or enhanced software products is a complex and uncertain process requiring high levels of innovation, as well as accurate anticipation of customer and technical trends. In developing new products and services, we may fail to develop and market products that respond to technological changes or evolving industry standards in a timely or cost-effective manner or experience difficulties that could delay or prevent the successful development, introduction and marketing of these new products. The development and introduction of new or enhanced products also requires us to manage the transition from older products in order to minimize disruptions in customer ordering patterns and to ensure that adequate supplies of new products can be delivered to meet customer demand. Failure to develop and introduce new products or enhancements to existing products, in a timely and cost-effective manner in response to changing market conditions or customer requirements or lack of customer acceptance of our products, will materially and adversely affect our business, results of operations and financial condition.

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

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 RAD products currently encounter competition from several direct competitors, including Microsoft, and competing development environments, including JAVA. Direct competitors of our Postano social media visualization platform include Facebook and Twitter, as well as numerous smaller companies in the emerging social media marketplace. Direct competitors of our yolink search technology include Google, Yahoo, Microsoft, AOL, and Ask, as well as a number of smaller companies with products that directly and indirectly compete with our yolink search technology. Direct competitors of our Storycode products and services include companies such as Salesforce, Oracle, and large marketing agencies. Additionally, as we expand our business and integrate acquired products and technologies, we expect to compete with a different group of companies, including smaller, highly focused companies offering single products.

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

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

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

We face very strong competition from much larger and better known companies in the markets for our RAD and social and mobile 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 RAD and social and mobile markets decline, our revenue will be adversely affected.

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

One of the elements of our business strategy involves expansion through the acquisition of businesses, assets, products or technologies that allow us to complement our existing product offerings, expand our market coverage or enhance our technological capabilities. Risks we may face in connection with any such acquisitions include the following:

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

• An acquisition may not further our business strategy as we expected, we may not integrate an acquired company or technology as successfully as we anticipated or we may overpay for or otherwise not realize the expected return on, our investments;

• We may have difficulties in: (i) managing an acquired company s technologies or lines of business or (ii) entering new markets where we have no or limited direct prior experience or where competitors may have stronger market positions;

• Our operating results or financial condition may be adversely impacted by claims or liabilities that we assume from an acquired company or technology or that are otherwise related to an acquisition, including claims from government agencies, terminated employees, current or former customers, former stockholders or other third parties and intellectual property claims or disputes;

• We may fail to identify or assess the magnitude of certain liabilities, shortcomings or other circumstances prior to acquiring a company or technology, which could result in unexpected litigation or regulatory exposure, unfavorable revenue recognition or other accounting treatment, unexpected increases in taxes due, a loss of anticipated tax benefits or other adverse effects on our business, operating results or financial condition;

• We may not realize the anticipated synergies or increases in our revenues for a number of reasons, including if we fail to engage new customers or enter new markets with our integrated products, if we are unable to sell the acquired products to our existing customer base or if contract models of an acquired company do not allow us to recognize revenues on a timely basis;

• We may have difficulty incorporating acquired technologies or products with our existing product lines and maintaining uniform standards, architecture, controls, procedures and policies;

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• We may have multiple product lines as a result of our acquisitions that are offered, priced and supported differently, which could cause customer confusion and delays;

• We may incur higher than anticipated costs in continuing support and development of acquired products, and in administrative functions that support new business models or in compliance with associated regulations that are more complicated than we had anticipated;

• We may be unable to successfully integrate and retain the acquired companies employees and other personnel;

• Our use of cash to pay for acquisitions may limit other potential uses of our cash and may deplete our cash reserves;

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

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

Mergers, acquisitions, and dispositions of high-technology companies are inherently risky and subject to many factors outside of our control. No assurance can be given that our previous or future acquisitions or dispositions will be successful and will not materially adversely affect our business, results of operations, financial condition or cash flow. In connection with the sale of our MDMS Business to Rocket, we have agreed to indemnify Rocket under certain circumstances. As security for certain of such indemnification obligations, approximately $2.2 million of the total purchase price is being held by a third party escrow agent for 12 months. Should Rocket bring an indemnification claim against us, we may not be able to recover any of the funds currently held in escrow and may have additional indemnification obligations in some circumstances. In addition, failure to manage and successfully integrate acquisitions could materially harm our business and operating results. Even when an acquired company has already developed and marketed products, there can be no assurance that product enhancements will be made in a timely fashion or that pre-acquisition due diligence will have identified all possible issues that might arise with respect to such products. In addition, accounting for acquisitions may result in charges during a particular quarter, causing variability in our quarterly earnings. Our effective tax rate for future periods is uncertain and could be impacted by mergers and acquisitions.

ADVERSE ECONOMIC CONDITIONS COULD CONTINUE TO HARM OUR BUSINESS.

Our operations and performance depend significantly on global economic conditions. Instability in the global credit markets, including European economic and financial turmoil related to sovereign debt issues in certain countries, may continue to put pressure on global economic conditions. If economic conditions remain uncertain in key markets, including without limitation the United States and Western Europe where we derive a majority of our revenue, we will continue to experience adverse impacts on our business, operating results, and financial condition. Unfavorable changes in economic conditions, including recession, rising inflation, diminished credit availability, declining valuation of investments or other

changes in economic conditions have resulted in lower information technology spending and have adversely affected our revenue. For example, current or potential customers may have been unable to fund software purchases, potentially causing them to delay, decrease or cancel purchases of our products and services or to not pay us or to delay paying us for previously purchased products and services. Further, since we generally license our RAD software on a per-CPU, per-server, per-port or per-user basis, any decrease in CPUs, servers, ports or users by our customers would result in a decrease in our revenue. These and other economic factors could continue to have a material adverse effect on demand for our products and services and on our financial results.

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

We recorded net loss of approximately $3.4 million for the three months ended June 30, 2014 and had an accumulated deficit of approximately $113.9 million as of June 30, 2014. We expect that we will continue to incur significant losses in the future for a number of reasons, including uncertainty as to: (i) the level of our future revenues; (ii) our efforts to monetize newer technologies and services we have developed, including Postano, Storycode, and yolink; and (iii) our efforts to integrate acquired products and technologies. We plan to continue to pursue strategic opportunities, including investment in new product development, and evaluation of strategic acquisitions and dispositions of assets and technologies, such as the

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recently completed sale of our MDMS Business. There can be no assurances that we will be able to replace the MDMS revenues with revenues from our retained or newly developed products quickly, or at all. Forecasting our revenues and profitability for our new business models is inherently uncertain and volatile. We will need to generate significant increases in our revenues to achieve and maintain profitability, particularly given the current small size of our business relative to the costs associated with being a public reporting company. If our revenue fails to grow or grows more slowly than we currently anticipate or our operating expenses exceed our expectations, our losses would significantly increase which could harm our business and operating results.

IF OUR GOODWILL AND INTANGIBLE ASSETS BECOME IMPAIRED WE MAY BE REQUIRED TO RECORD A SIGNIFICANT NON-CASH CHARGE TO EARNINGS WHICH WOULD MATERIALLY AND ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.

We had goodwill and intangible assets of $18.7 million at June 30, 2014. Under accounting principles generally accepted in the United States, we review our goodwill for impairment annually in the fourth quarter of each fiscal year, or more frequently if events or changes in circumstances indicate the carrying value may not be fully recoverable. We review our intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The carrying value of our goodwill and intangible assets may not be recoverable due to factors such as a significant decline in our stock price and market capitalization, reduced estimates of future revenues or cash flows, timing of our revenues, significant changes in the strategy for the overall business, or significant negative trends in our industry or the economy in general. Estimates of future revenues and cash flows are based on a long-term financial outlook of our operations. Actual performance in the near-term or long-term could be materially different from these forecasts, which could impact future estimates and the recorded value of the intangibles. In addition, we have only one reporting unit, and the estimated fair value of the reporting unit is currently based primarily on our market capitalization as determined through quoted stock trading prices on Nasdaq. At the time of our annual impairment testing in March 2014, we determined that the fair value of our reporting unit was in excess of our net book value, and therefore there was no impairment of goodwill at that time. However, our stock price has been volatile and on some days during the fiscal quarter ended June 30, 2014 our market capitalization fell slightly below our net book value. A further sustained decline in our stock price and erosion of our market capitalization may trigger an additional goodwill impairment test such that we may be required to obtain an independent third party valuation of the Company to incorporate other relevant factors in estimating the fair value of the Company including, but not limited to, any control premium. Should impairment of our goodwill and intangible assets be determined to exist, we may be required to recognize a significant charge to earnings in our consolidated financial statements during that period. In the event we need to reduce the carrying value of our goodwill or intangible assets, any such impairment charge would materially and adversely affect our results of operations.

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

The sales cycle for our RAD products typically ranges from three to nine months or longer. Our products are typically used by application developers, system integrators and value added resellers to develop applications that are critical to their end user s business. Because our products are often part of an end user s larger business process, re-engineering initiative, or implementation of client/server or web-based computing, the end users frequently view the purchase of our products as part of a long-term strategic decision regarding the management of their workforce-related operations and expenditures. Thus, this sometimes results in end users taking a significant period of time to assess alternative solutions by competitors or to defer a purchase decision as a result of an unrelated strategic issue beyond our control.

The sales cycle for our Postano social media visualization platform typically ranges from one to six months or longer. Market adoption of newer social media platforms such as Postano is still at a relatively early stage as brands are discovering and learning how to leverage fan generated social content for marketing and customer engagement. Since we typically sell time based subscriptions to the Postano platform, revenue is generally recognized ratably over the subscription term, which may not begin immediately. In addition, the social media market has much larger

direct competitors such as Facebook and Twitter, which sometimes results in customers taking a significant period of time to evaluate other solutions before making purchasing decisions. The adoption cycle for our yolink search technology is anticipated to be long since the search market currently has much larger direct competitors such as Google, Yahoo, Microsoft, AOL, and Ask. 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 June 30, 2014, Astoria Capital Partners, L.P. (Astoria) beneficially owned approximately 49.5% of our outstanding common stock. Richard W. Koe, Chairman of the Board of Directors and our President and Chief Executive Officer, serves as the President of Astoria Capital Management, a general partner of Astoria. This concentration of stock ownership allows Astoria, acting alone, to potentially block or delay any actions that require approval of our stockholders, including the election of members to our Board of Directors and the approval of significant corporate transactions. Moreover, this concentration of ownership may delay or prevent a change in control. Astoria has announced that it is in the process of winding down and is working on identifying strategic block purchasers for its holdings of our common stock, but the timing and the outcome of this process remains uncertain. The Board of Directors of the Company has formed a special committee of independent directors, which committee has engaged its own legal and financial advisors, to evaluate any proposed sale of Astoria s shares of our common stock that may be presented to the Company as well as other strategic alternatives available to the Company.

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

We expect to continue to spend substantial amounts of money in the area of research and development, sales and marketing, and operations in order to integrate acquired products and technology and to promote new product development and introduction. Because the expenses associated with these activities are relatively fixed in the short-term, we may be unable to timely adjust spending to offset any unexpected shortfall in revenue growth or any decrease in revenue levels. The MDMS Business represented a significant portion of our historical revenues and there can be no assurances that we will be able to replace those revenues with revenues from our retained or newly developed products quickly, or at all. Operating results may also fluctuate due to factors such as:

- the size and timing of customer orders;
- changes in pricing policies by us or our competitors;
- our ability to develop, introduce, and market new and enhanced versions of our products;
- our ability to integrate acquired products and technologies;
- our ability to realize the anticipated synergies from the businesses we acquire;

- the number, timing, and significance of product enhancements and new product announcements by our competitors;
- the demand for our products;
- non-renewal of customer support agreements;
- the timing and significance of acquisition-related expenses and accounting charges;
- 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, products shipped, subscription periods initiated, and professional services rendered during that quarter. Accordingly, we may be unable to adjust spending in a timely manner to compensate for any unanticipated decrease in orders, sales, subscriptions, or professional services. Therefore, any decline in demand for our products and services, in relation to the forecast for any given quarter, could materially and negatively impact the results of our operations. As a result, our quarterly operating results may fluctuate, potentially causing our stock price to be volatile. In addition, we believe that period-to-period comparisons of our operating results should not be relied upon as indications of future performance.

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We have experienced a sustained decrease in the trading price of our stock over the last several months. 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. In addition, if our stock price continues to decline we may have difficulty maintaining Nasdaq listing or be required to undertake steps to improve the trading price, such as effecting a reverse stock split.

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

Mr. Koe was appointed Interim President and Chief Executive Officer in February 2009, and in connection with the acquisition of Storycode in January 2013, Mr. Koe s title was modified to eliminate the interim references, and he continues to serve as our President and Chief Executive Officer. The loss of one or more of our executives could adversely affect our business. In addition, we have in the past restructured or made other adjustments to our workforce in response to management changes, product changes, performance issues, acquisitions, and other internal and external considerations. Workforce restructurings could result in a temporary lack of focus and reduced productivity, negatively affecting our revenues.

We believe that our future success will depend to a significant extent on our ability to recruit, hire, and retain highly skilled management and employees with experience in engineering, product management, business development, sales, marketing, and customer service. For example, in June 2013, we appointed Justin Garrity, who joined us as part of the acquisition of Storycode, as our Senior Vice President, Product and Marketing. Mr. Garrity was promoted to the position of Senior Vice President, Postano, in January 2014. 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. We rely primarily on a combination of patent, trade secret, copyright and trademark laws, and contractual provisions to protect our intellectual property and proprietary rights. Our trademarks include TigerLogic, Postano, yolink, Omnis, Omnis Studio, mvDesigner, and Storycode, among others. We have thirteen issued U.S. patents and four pending U.S. patent applications as of June 10, 2014. Although we have been issued various patents and other patent applications are currently pending, there can be no assurance that any of these patents or other proprietary rights will not be challenged, invalidated or circumvented or that our rights will, in fact, provide competitive advantages to us. In addition, there can be no assurance that patents will be issued from pending applications or that claims allowed on any patents will be sufficiently broad to protect our technology. Further, the laws of some foreign countries may not protect our proprietary rights to the same extent as do the laws of the United States. The outcome of any actions taken in these foreign countries may be different than if such actions were determined under the laws of the United States. Although we are not dependent on any individual patents or group of patents for particular segments of the business for which we compete, if we are unable to protect our proprietary rights to the totality of the features (including aspects of products protected other than by patent rights) in a market, we may find ourselves at a competitive disadvantage to others who need not incur the substantial expense, time, and effort required to create innovative products. In addition to trademark and copyright protections, we generally license our products to end users on a right to use basis pursuant to license agreements that restrict use of products to a specified number of users or a specified usage.

We generally rely on click-wrap licenses that become effective when a customer downloads and installs software on its system or accesses and uses our software. In order to retain exclusive ownership rights to our software and technology, we generally provide our software in object code only, with contractual restrictions on copying, disclosure, and transferability. We generally sell time-based subscriptions to access our hosted Postano platform on a terms of service basis. We generally rely on click-through licenses that become effective when the subscription begins and to a lesser extent, master services agreements. We protect our Postano technology by controlling access to the hosted platform; without such access, any links to the platform, such as those in our Postano Social Hub offering, would not function. 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.

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THIRD PARTIES COULD FILE CLAIMS ASSERTING THAT OUR SOFTWARE PRODUCTS OR SERVICES INFRINGE ON THEIR INTELLECTUAL PROPERTY RIGHTS, RESULTING IN POTENTIALLY COSTLY LITIGATION, PRODUCT SHIPMENT DELAYS, PRODUCT LICENSING PROHIBITIONS OR REQUIREMENTS TO ENTER INTO ROYALTY OR LICENSING AGREEMENTS.

There has been a substantial amount of litigation in the software and online services industry regarding intellectual property rights and there is significant uncertainty in our industry as many of the legal principles associated with software and online services continue to evolve rapidly. Third parties may file claims against us or our customers asserting that our current or potential future products or services, including our acquired products and technologies, infringe upon their intellectual property rights. Third parties on occasion have and may continue to assert that our products and technologies are subject to license requirements. We may be periodically involved in any number of ordinary course of business proceedings of this type. We expect that software product developers and providers of software applications, and online services will increasingly be subject to infringement claims as the number of products, services, and competitors in our industry segment grow and the functionality of products and services in different industry segments overlap. Because of the existence of a large number of patents in the software field, the secrecy of some pending patents, and the rapid rate of issuance of new patents, it is not economically practical or even possible to determine in advance whether a product or any of its components infringes or will infringe on the patent rights of others. The asserted claims and/or initiated litigation can include claims against us or our suppliers or customers, alleging infringement of their proprietary rights with respect to our existing or future products or components of those products. Regardless of the merit of these claims, they can be time-consuming, result in costly litigation and diversion of technical and management personnel or require us to develop a non-infringing technology, enter into royalty or licensing agreements, or be subject to requests for injunctive remedies. Where claims are made by customers, resistance even to unmeritorious claims could damage customer relationships. There can be no assurance that licenses will be available on acceptable terms and conditions, if at all or that our indemnification by our suppliers will be adequate to cover our costs if a claim were brought directly against us or our customers. Furthermore, because of the potential for high court awards that are not necessarily predictable, it is not unusual to find even arguably unmeritorious claims settled for significant amounts. If any infringement or other intellectual property claim made against us by any third party is successful, if we are required to indemnify a customer with respect to a claim against the customer or if we fail to develop non-infringing technology or license the proprietary rights on commercially reasonable terms and conditions, our business, operating results, and financial condition could be materially and adversely affected.

OUR PRODUCTS MAY CONTAIN SOFTWARE DEFECTS POTENTIALLY HARMING OUR BUSINESS.

Our enterprise applications development software, search technology, social media, and mobile application and digital publication products may contain undetected errors or failures. This includes our higher risk yolink and Postano products because they are in the early stages of the product life cycle, and especially our recently acquired Storycode business. This may result in loss of or delay in, customer acceptance of our products and could harm our reputation and our business. Undetected errors or failures in computer software programs are not uncommon.

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

IF ASTORIA OR OTHER SECURITIES HOLDERS REQUEST REGISTRATION OF THEIR RESTRICTED SECURITIES OR THESE SECURITIES HOLDERS SELL A SUBSTANTIAL AMOUNT OF RESTRICTED SECURITIES IN THE OPEN MARKET,

OUR STOCK PRICE MAY DECLINE.

As of June 30, 2014, we had 30,134,026 outstanding shares of common stock, of which approximately 15.1 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 under the Securities Act. At present, all of our outstanding restricted securities may be registered or are eligible for public sale under Rule 144 promulgated under the Securities Act, subject to volume limitations and other requirements of Rule 144.

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

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

We operate on a global basis with offices or distributors in Europe, Africa, Asia, Latin America, South America, Australia, and North America and development efforts in North America and Europe. Approximately 51% of our revenue for the three months ended June 30, 2014 was generated from our international offices. We face several risks inherent in conducting business internationally, including but not limited to the following:

- general economic conditions in each country or region;
- fluctuations in interest rates or currency exchange rates;
- language and cultural differences;
- local and governmental requirements;
- political or social unrest;
- difficulties and costs of staffing and managing international operations;
- potentially adverse tax consequences;
- differences in intellectual property protections;
- difficulties in collecting accounts receivable and longer collection periods;
- seasonal business activities in certain parts of the world; and
- trade policies.

In addition, compliance with international and U.S. laws and regulations that apply to our international operations increases our cost of doing business in foreign jurisdictions. These laws and regulations include data privacy requirements, labor relations laws, tax laws, anti-competition regulations, import and trade restrictions, export requirements, U.S. laws such as the Foreign Corrupt Practices Act, and also local laws prohibiting corrupt payments to governmental officials. Violations of these laws and regulations could result in fines, criminal sanctions against us, our officers or our employees, and prohibitions on the conduct of our business. Any such violations could include prohibitions on our ability to offer our products and services in one or more countries, could delay or prevent potential acquisitions, and could also materially damage our reputation, our brand, our international expansion efforts, our ability to attract and retain employees, our business, and our operating results. Our

success depends, in part, on our ability to anticipate these risks and manage these difficulties. These factors or any combination of these factors may adversely affect our revenue or our overall financial performance.

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

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

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THE FAILURE OF OUR PRODUCTS TO CONTINUE TO CONFORM TO INDUSTRY STANDARDS MAY HARM OUR OPERATING RESULTS.

A key factor in our future success will continue to be the ability of our products to operate and perform well with existing and future, industry-standard enterprise software applications intended to be used in connection with our RAD and social and mobile products. Inter-operability may require third party licenses, which may not be available to us on favorable terms or at all. Failure to meet existing or future inter-operability and performance requirements of industry standard applications in a timely manner could adversely affect our business. Uncertainties relating to the timing and nature of new product announcements or introductions or modifications of third party software applications could delay our product development, increase our product development expense or cause customers to delay evaluation, purchase, and deployment of our products.

INEFFECTIVE INTERNAL CONTROLS COULD IMPACT OUR BUSINESS AND OPERATING RESULTS.

Our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. As a smaller reporting company under the SEC rules and regulations, we are currently not subject to the requirements of independent auditor attestation of management s assessment of our internal controls over financial reporting set forth in Section 404(b) of the Sarbanes Oxley Act of 2002 because the Dodd Frank Wall Street Reform and Consumer Protection Act signed into law on July 21, 2010 permanently exempted companies that are not accelerated filers or large accelerated filers under the SEC rules from Section 404(b) requirements. If, in the future, we no longer qualify as a smaller reporting company and become an accelerated filer or a large accelerated filer (which may occur if the trading price of our stock, and therefore, our public float, increase significantly, as calculated on an annual basis), we will become subject to the requirements of Section 404(b) in such fiscal years. If such audit identifies any material weaknesses in our internal control over financial reporting, we may be required to provide appropriate disclosures and implement costly and time consuming remedial measures. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls or if we experience difficulties in implementation, our business and operating results could be harmed and we could fail to meet our financial reporting obligations.

BUSINESS DISRUPTIONS COULD HURT OUR ABILITY TO EFFECTIVELY PROVIDE OUR PRODUCTS AND SERVICES, DAMAGING OUR REPUTATION AND HARMING OUR OPERATING RESULTS.

The availability of our products and services depends on the continuing operation of our information technology systems. Our business operations are vulnerable to damage or interruption from earthquakes, terrorist attacks, floods, fires, power loss, telecommunication failures, computer viruses, computer denial of service attacks or other attempts to harm our systems. A significant portion of our research and development activities and certain other critical business operations are located in areas with a high risk of major earthquakes. Although we maintain crisis management and disaster response plans, such events could make it difficult or impossible for us to deliver our services to our customers, and could decrease demand for our services, which could damage our reputation and harm our operating results.

A BREACH IN INFORMATION PRIVACY COULD NEGATIVELY IMPACT OUR OPERATIONS.

The protection of our customer, employee and company data is critically important to us. We utilize customer data captured through our online activities. Our customers have a high expectation that we will adequately safeguard and protect their personal information. A significant breach of customer, employee or company data could damage our reputation and relationships with our customers and result in lost revenues, fines and lawsuits.

WE OUTSOURCE SOME TECHNOLOGY-RELATED BUSINESS PROCESSES TO THIRD PARTY VENDORS, WHICH SUBJECTS US TO RISKS, INCLUDING DISRUPTIONS IN BUSINESS AND INCREASED COSTS.

These include credit card authorization and processing, payroll processing, record keeping for retirement and benefit plans and certain information technology functions. In addition, we review outsourcing alternatives on a regular basis and may decide to outsource additional business processes in the future. We try to ensure that all providers of outsourced services are observing proper internal control practices, such as redundant processing facilities; however, there are no guarantees that failures will not occur. Failure of third parties to provide adequate services could have an adverse effect on our results of operations or ability to accomplish our financial and management reporting.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Pursuant to the terms of that certain Agreement and Plan of Merger, dated as of December 27, 2012, as amended, by and between us and Storycode, Inc. (Storycode), on July 24, 2014, we issued an aggregate of 800,687 shares of our common stock (the Holdback Shares) to certain former stockholders of Storycode (the Common Holders) in connection with the release of such shares following the expiration of the 18-month escrow period. The Holdback Shares issued to the Common Holders have not been and will not be registered under the Securities Act, or any state securities laws in reliance on the exemption from the registration requirements of the Securities Act by virtue of Section 4(2) thereof and the rules and regulations promulgated thereunder based on the following factors: (i) the number of Common Holders, (ii) the absence of general solicitation, (iii) representations obtained from the Common Holders with respect to their investment experience and ability to bear economic risk, and (iv) the placement of restrictive legends on the stock certificates.

ITEM 6. EXHIBITS

Exhibit:	Description
31.1	Certification of Chief Executive Officer.
31.2	Certification of Chief Financial Officer.
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 14, 2014

TIGERLOGIC CORPORATION

/s/ Thomas Lim

Thomas Lim
Chief Financial Officer and Duly Authorized Officer

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