TigerLogic CORP
Form 10-Q
February 12, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended December 31, 2012

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

(949) 442-4400

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO 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 January 31, 2013, the Registrant had 29,914,309 shares of its common stock outstanding.

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TIGERLOGIC CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TIGERLOGIC CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31, 2012	March 31, 2012
ASSETS		
Current assets		
Cash	$ 7,927	$ 8,918
Trade accounts receivable, less allowance for doubtful accounts of $11 and $19, respectively.	890	891
Other current assets	747	632
Total current assets	9,564	10,441
Property, furniture and equipment-net	556	615
Goodwill	26,388	26,388
Deferred tax assets	257	257
Other assets	112	113
Total assets	$ 36,877	$ 37,814
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 322	$ 272
Accrued liabilities	1,566	1,467
Deferred revenue	4,103	4,311
Total current liabilities	5,991	6,050
Commitments and contingencies		
Stockholders equity		
Preferred stock		
Common stock	2,822	2,818
Additional paid-in-capital	136,226	135,438
Accumulated other comprehensive income	2,321	2,304
Accumulated deficit	(110,483)	(108,796)
Total stockholders equity	30,886	31,764
Total liabilities and stockholders equity	$ 36,877	$ 37,814

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 December 31, 2012	Three Months Ended December 31, 2011	Nine Months Ended December 31, 2012	Nine Months Ended December 31, 2011
Net revenues				
Licenses	$ 962	$ 1,027	$ 2,867	$ 3,003
Services	2,246	2,331	6,781	7,058
Total net revenues	3,208	3,358	9,648	10,061
Operating expenses				
Cost of license revenues	2	3	6	9
Cost of service revenues	405	435	1,229	1,394
Selling and marketing	1,062	1,290	3,175	3,850
Research and development	1,284	1,485	3,783	4,353
General and administrative	1,130	890	3,082	2,863
Total operating expenses	3,883	4,103	11,275	12,469
Operating loss	(675)	(745)	(1,627)	(2,408)
Other income (expense)				
Interest expense-net	(1)	(2)	(5)	
Other income (expense)-net	19	(40)	(8)	(69)
Total other income (expense)	18	(42)	(13)	(69)
Loss before income taxes	(657)	(787)	(1,640)	(2,477)
Income tax provision (benefit)	25	(33)	47	144
Net loss	$ (682)	$ (754)	$ (1,687)	$ (2,621)
Basic and diluted net loss per share	$ (0.02)	$ (0.03)	$ (0.06)	$ (0.09)
Shares used in computing basic and diluted net loss per share	28,218	28,163	28,206	28,138
Other comprehensive loss:				
Net loss	$ (682)	$ (754)	$ (1,687)	$ (2,621)
Foreign currency translation adjustments	(10)	(12)	17	(35)
Total comprehensive loss	$ (692)	$ (766)	$ (1,670)	$ (2,656)

See accompanying notes to the unaudited condensed consolidated financial statements.

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TIGERLOGIC CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended December 31, 2012	2011
	(In thousands)	
Cash flows from operating activities:		
Net loss	$ (1,687)	$ (2,621)
Adjustments to reconcile net loss to net cash used in operating activites:		
Depreciation and amortization of long-lived assets	97	119
Provision for (recovery from) bad debt	(7)	4
Stock-based compensation expense	744	990
Change in deferred tax assets		
Foreign currency exchange loss	13	75
Change in assets and liabilities:		
Trade accounts receivable	10	(333)
Other current and non-current assets	(17)	(330)
Accounts payable	53	
Accrued liabilities	103	(99)
Deferred revenue	(203)	(122)
Net cash used in operating activities	(894)	(2,317)
Cash flows from investing activities:		
Acquisition bridge loan	(100)	
Purchases of property, plant and equipment	(34)	(61)
Net cash used for investing activities	(134)	(61)
Cash flows from financing activities:		
Proceeds from exercise of stock options	24	87
Proceeds from issuance of common stock	23	48
Net cash provided by financing activities	47	135
Effect of exchange rate changes on cash	(10)	(117)
Net decrease in cash	(991)	(2,360)
Cash at beginning of period	8,918	11,354
Cash at end of period	$ 7,927	$ 8,994

See accompanying notes to the unaudited condensed consolidated financial statements.

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TIGERLOGIC CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

1. INTERIM FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial information furnished herein reflects all adjustments, consisting only of normal recurring items, which in the opinion of management are necessary to fairly state TigerLogic Corporation and its subsidiaries (collectively, the Company or we, us or our) financial position, results of operations and cash flows for the dates and periods presented and to make such information not misleading. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to rules and regulations of the Securities and Exchange Commission (SEC); nevertheless, management of the Company believes that the disclosures herein are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the Company s audited financial statements for the year ended March 31, 2012, contained in the Company s Annual Report on Form 10-K filed with the SEC on June 26, 2012. The results of operations for the three and nine months ended December 31, 2012, are not necessarily indicative of results to be expected for any other interim period or the fiscal year ending March 31, 2013.

Certain immaterial prior period amounts have been reclassified to conform to current year presentation in the Condensed Consolidated Statements of Cash Flows. The amounts reclassified were within operating activities and had no impact on total cash flows from operating activities.

2. STOCK-BASED COMPENSATION

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

Total stock-based compensation expense included in the unaudited condensed consolidated statements of operations for the three and nine months ended December 31, 2012 and 2011, was as follows (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2012	2011	2012	2011
Cost of revenue	$ 21	$ 38	$ 66	$ 114
Operating expense:				
Selling and marketing	34	112	127	290

Research and development		66		101		180		303
General and administrative		123		110		371		283
Total stock-based compensation expense		244		361		744		990
Income tax benefit								
Net stock-based compensation expense	$	244	$	361	$	744	$	990

As of December 31, 2012, 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 2.2 years.

In February 2012, the stockholders approved an amendment to the Company s 2001 Employee Stock Purchase Plan (2001 Plan), which otherwise was scheduled to expire by its own terms. The main changes in the Company s 2011 Amended and Restated Employee Stock Purchase Plan (Stock Purchase Plan) are: (i) to eliminate the ten-year term limit; (ii) to amend the definition of compensation used under the Stock Purchase Plan to include deferrals made under qualified transportation benefit programs; and (iii) to increase the hours per week that an otherwise eligible employee must work in order to be able to participate in the Stock Purchase Plan from more than ten (10) to more than twenty (20). In addition, the Stock Purchase Plan clarifies certain provisions of the 2001 Plan and amends various technical provisions in order to comply with applicable laws. The total number of shares of the Company s common stock reserved for issuance and available for purchase under the Stock Purchase Plan was not increased from the 2001 Plan and remained at 1,000,000 (less shares already issued under the 2001 Plan).

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3. RECENTLY ADOPTED ACCOUNTING GUIDANCE

In September 2011, the Financial Accounting Standard Board (FASB) issued an update to existing guidance on testing goodwill for impairment. This update permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit s fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it need not perform the two-step impairment test. This update is effective for our fiscal year beginning April 1, 2012. The Company does not expect this guidance to have a material impact on the consolidated financial statements.

In June 2011, the FASB issued an amendment to the existing guidance on the presentation of comprehensive income. This amendment eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity, and instead requires that all non-owner changes in stockholders equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance is effective for our fiscal year beginning April 1, 2012. This guidance did not have a material impact on the consolidated financial statements.

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 December 31, 2012 or March 31, 2012 and no other financial assets or liabilities requiring fair value measurement on a recurring basis. There were no nonfinancial assets or liabilities that required recognition or disclosure at fair value on a nonrecurring basis in the Company s balance sheets as of December 31, 2012 or March 31, 2012.

5. STOCKHOLDERS EQUITY

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

Weighted outstanding options to purchase 3,085,513 shares and 3,195,716 shares of the Company s common stock for the three and nine month periods ended December 31, 2012, respectively; and 3,211,414 shares and 2,995,149 shares for the three and nine month periods ended December 31, 2011, respectively, have been excluded from the computation of diluted net loss per share because the effect of their inclusion would have been anti-dilutive.

The change in accumulated other comprehensive loss during the nine month periods ended December 31, 2012 and 2011 is the result of the effect of foreign exchange rate changes.

6. BUSINESS SEGMENT

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

Net revenue	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Nine Months Ended December 31, 2012	Nine Months Ended December 31, 2011
North America	$ 2,252	$ 2,363	$ 6,883	$ 6,861
Europe/Africa	956	995	2,765	3,200
Total	$ 3,208	$ 3,358	$ 9,648	$ 10,061

Long-lived assets	December 31, 2012	March 31, 2012
North America	$ 26,620	$ 26,658
Europe/Africa	436	458
Total	$ 27,056	$ 27,116

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The Company is engaged in the design, development, sale, and support of the following software product lines: 1) Multidimensional Database Management Systems (MDMS), 2) Rapid Application Development (RAD) software tools, 3) yolink, and 4) Postano. To date, revenue from our yolink and Postano product lines have been immaterial. The following table represents the Company s net revenue by product line (in thousands):

	Three Months Ended December 31,				Nine Months Ended December 31,			
Net revenue		**2012**		**2011**		**2012**		**2011**
Databases (MDMS)	$	2,167	$	2,496	$	6,997	$	7,140
RAD Software Tools		1,041		862		2,651		2,921
Total	$	3,208	$	3,358	$	9,648	$	10,061

7. RELATED PARTY TRANSACTIONS

The Company entered into an expense reimbursement agreement with Astoria Capital Partners, L.P. (Astoria), its largest stockholder, in connection with Richard Koe s appointment as Interim President and Chief Executive Officer, pursuant to which the Company agreed to reimburse Astoria for a portion of overhead costs and expenses related to the use by Mr. Koe of Astoria s premises and office equipment while performing his employment duties for the Company. The agreement terminates 90 days after Mr. Koe is either no longer employed by the Company or is no longer performing services for the Company from Astoria s premises. Mr. Koe also serves as President of Astoria. From the start of the agreement on April 1, 2009 through June 30, 2011, the Company reimbursed Astoria approximately $7,100 per month. Effective April 1, 2011, the Company entered into a new office lease in Portland, Oregon, and as a result, the expense reimbursement agreement with Astoria terminated on June 30, 2011 when the Company moved into its new Portland office. 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.

8. COMMITMENTS AND CONTINGENCIES

The Company is subject from time to time to litigation, claims and suits arising in the ordinary course of business. There were no ongoing material legal proceedings as of December 31, 2012.

Indemnification

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

9. SUBSEQUENT EVENT

On January 17, 2013, the Company completed its acquisition of Storycode, Inc, a privately held mobile app publishing company. Pursuant to the terms of the Agreement and Plan of Merger dated December 27, 2012, as amended (the Merger Agreement), Storycode became a wholly-owned subsidiary of the Company. In accordance with the Merger Agreement, the Company issued an aggregate of 1,696,329 shares of its common stock with a fair value of approximately $3.9 million and may issue an additional 444,468 shares with a fair value as of the acquisition closing date of approximately $1.0 million, subject to an 18-month holdback pursuant to the Merger Agreement, which holdback share number may be adjusted from time to time. The Company also substituted 822,320 options to purchase its common stock for options to purchase Storycode s common stock. In addition, the Company made cash payments aggregating approximately $0.5 million, of which $100,000 was paid to Storycode during the quarter ended December 31, 2012 in the form of a bridge loan and applied to the purchase price at closing. The Company is currently in the process of determining the amount that will be recorded as purchase consideration and the allocation of the total purchase consideration to the tangible and intangible net assets acquired.

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

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

Overview

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

On January 17, 2013, we completed our acquisition of Storycode, Inc, a privately held mobile app publishing company. Pursuant to the terms of the Agreement and Plan of Merger dated December 27, 2012, as amended (the Merger Agreement), Storycode became a wholly-owned subsidiary. In accordance with the Merger Agreement, we issued an aggregate of 1,696,329 shares of our common stock with a fair value of approximately $3.9 million and may issue an additional 444,468 shares with a fair value as of the acquisition closing date of approximately $1.0 million, subject to an 18-month holdback pursuant to the Merger Agreement, which holdback share number may be adjusted from time to time. We also substituted 822,320 options to purchase our common stock for options to purchase Storycode s common stock. In addition, we made cash payments aggregating approximately $0.5 million, of which $100,000 was paid to Storycode during the quarter ended December 31, 2012 in the form of a bridge loan and applied to the purchase price at closing. We are currently in the process of determining the amount that will be recorded as purchase consideration and the allocation of the total purchase consideration to the tangible and intangible net assets acquired. We intend to integrate Storycode s technology into our Postano social media visualization platform to create, what we believe, will be a new kind of social platform with unique mobile distribution capabilities. This new platform will be designed to allow brands to use original and fan-generated content to develop engaging experiences across the worldwide web, live events, and mobile environment. In addition to the complimentary technology, the Storycode team brings to us additional expertise in the areas of user experience, data visualization,and creative services.

Products

Our principal business consists of 1) the design, development, sale, and support of software infrastructure; 2) Internet search enhancement tools; and 3) a social media visualization platform. Our products allow customers to create and enhance flexible software applications for their own needs. Our database and rapid application development software may be categorized into the following product lines: Multidimensional Database Management Systems (MDMS) and Rapid Application Development (RAD) software tools. Many of our database software products are based on the proprietary Pick Universal Data Model (Pick UDM) and are capable of handling data from many sources. Our Internet search enhancement tools include the yolink browser plug-in, yolink API for web sites, and yolink search plug-in for WordPress sites. Our Postano product is a real-time social media visualization platform. We intend to integrate Storycode s mobile app technology into the Postano social media visualization platform to create a new kind of interactive social platform for brands to easily and quickly create immersive mobile applications.

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We primarily sell our database and rapid application development software products through established distribution channels consisting of OEMs, system integrators, specialized vertical application software developers and consulting organizations. Our Internet search enhancement tools and social media visualization platform are generally sold through our web sites, as well as through co-marketing arrangements with third parties. We also sell all of our products directly through our sales personnel to end user organizations. Outside the United States, we maintain direct sales offices in the United Kingdom, France and Germany. We generally license our database and rapid application development software on a per-CPU, per-server, per-port or per-user basis. We license our yolink and Postano product lines at prices based on usage measured in a variety of ways. We may make both our yolink and Postano products available to users for free under certain circumstances. We also provide continuing software maintenance and support, and other professional services relating to our products, including consulting and training services. The majority of our revenue to date has been principally derived from MDMS and RAD software products. For the three and nine months ended December 31, 2012, approximately 30% and 29%, respectively, of our revenue came from sales through our offices located outside the United States, and 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. We continually evaluate and explore strategic opportunities as they arise, including business combination transactions, strategic partnerships, and the acquisitions or dispositions of assets and technology, including tangible and intangible assets such as intellectual property.

TigerLogic Postano and Storycode

Postano is a real-time social media visualization platform, integrated with our yolink search technology that allows companies and individuals to collect content from various social media sources, and to display that content either within existing web pages hosted by us, or within existing web pages hosted by others, or in interactive tabs on Facebook. In addition, brands use Postano during marketing events and promotions to increase audience participation and engagement by displaying fan-generated live tweets, Instagram photos and more, in real-time. Postano is designed primarily for commercial use, with pricing based on a number of factors including, the number of Postanos, features and support levels desired. Through December 31, 2012, revenue recognized from Postano product has been immaterial.

We intend to integrate Storycode s mobile applications technology into the Postano social media visualization platform to create what we believe, will be a new kind of interactive social platform. This new platform will be designed to allow the use of original and fan-generated content to develop interactive experiences for consumers across the web, live events, and mobile environment to drive improved consumer loyalty with visually based engagement in real-time.

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. Through December 31, 2012, revenue recognized from the yolink search technology has been immaterial.

Multi-dimensional Databases (MDMS)

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

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Version 9.0 of D3 and version 3.0 of mvBase, released in September 2010, include bundled support for .NET, providing developers a cost effective solution for developing applications utilizing Microsoft Visual Studio; and bundled support for Java, allowing development of applications utilizing Java.

The TigerLogic Dashboard, released in August 2010, is a development tool that allows Pick UDM developers to create intuitive and web-based graphical displays of multi-value data via dashboard and widget creation utilizing Pick/BASIC programming language.

Rapid Application Development (RAD) Software 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 March 2012, we released version 5.2 of Omnis Studio featuring a new JavaScript based Client technology that enables developers to create leading-edge mobile applications. The Omnis JavaScript Client 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, including Android, iOS, Mac OS, Linux and Windows, with no plug-in installation required.

Technical Support

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

Research and Development

We have devoted significant resources to the research and development of our products and technology. We believe that our future success will depend largely on strong development efforts with respect to both our existing and new products, as well as the efforts to integrate and further develop Storycode technology. These development efforts have resulted in updates and upgrades to existing MDMS and RAD products and the launch of new products including the yolink search technology and Postano social media visualization product lines. We expect to continue our research and development efforts in all product lines for the foreseeable future. We intend for these efforts to improve our future operating results and increase cash flow. However, such efforts may not result in additional new products or revenue, and we can make no assurances that the recently announced products or future products will be successful. Similarly, we can make no assurances that we will be able to successfully integrate Storycode products and technology or that any such products will receive market acceptance or result in revenue growth. We spent approximately $1.3 million and $3.8 million on research and development during the three and nine months ended December 31, 2012, respectively.

Competition

The application development tools software market is rapidly changing and intensely competitive. Our MDMS products compete with products developed by companies such as Oracle, Microsoft, and Rocket Software. Our RAD products currently encounter competition from several direct competitors, including Microsoft, and competing development environments, including JAVA. 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. Our Postano social media visualization product competes with products developed by companies such as Facebook and Twitter, as well as a number of smaller companies in the emerging social media marketplace. Direct competitors of our Storycode technology include companies such as salesforce and Oracle. Most of our competitors have significantly more financial, technical, marketing, and other resources than we do. As a result, 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. We believe that our ability to compete in the various product markets depends on factors both within and outside our control, including the timing of release, performance and price of new products developed by both us and our competitors. Although we believe that we currently compete favorably with respect to most of these factors, we may not be able to maintain our competitive position against current and potential competitors, especially those with greater resources.

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

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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 of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and disclosure of contingent liabilities.

On an on-going basis, we evaluate our estimates, including those related to revenue recognition and accounting for goodwill and income taxes. 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 related to the areas below as the policies critical to our business operations and the understanding of our results of operations and how the related judgments and estimates affect the preparation of our consolidated financial statements:

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

These critical accounting policies are described in our Form 10-K for the fiscal year ended March 31, 2012 and there have been no changes in our application of these policies during the nine months ended December 31, 2012. We anticipate adding accounting policies relating to business combinations and intangible assets for the fiscal year ending March 31, 2013.

Results of Operations

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

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	Three Months Ended December 31, 2012			Three Months Ended December 31, 2011		Nine Months Ended December 31, 2012			Nine Months Ended December 31, 2011	
	Results	% of Net Revenues	Percent Change	Results	% of Net Revenues	Results	% of Net Revenues	Percent Change	Results	% of&nb