TigerLogic CORP
Form 10-Q
January 29, 2016

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, 2015

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.)
1532 SW Morrison Street, Suite 200, **Portland, Oregon** (Address of Principal Executive Offices)	**97205** (Zip Code)

(503) 488-6988

(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 25, 2016, the Registrant had 30,960,013 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, 2015	March 31, 2015
ASSETS		
Current assets:		
Cash	$ 6,487	$ 10,251
Trade accounts receivable, less allowance for doubtful accounts of $1 and $0, respectively	954	1,291
Other current assets	449	460
Total current assets	7,890	12,002
Property, furniture and equipment, net	584	869
Intangible assets, net	306	363
Deferred tax assets	95	94
Other assets	51	54
Total assets	$ 8,926	$ 13,382
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 250	$ 295
Accrued liabilities	824	1,525
Deferred revenue	1,568	1,905
Total current liabilities	2,642	3,725
Other long-term liabilities	144	101
Total liabilities	2,786	3,826
Commitments and contingencies		
Stockholders equity:		
Preferred stock		
Common stock	3,096	3,096
Additional paid-in-capital	143,712	143,389
Accumulated other comprehensive income	2,178	2,174
Accumulated deficit	(142,846)	(139,103)
Total stockholders equity	6,140	9,556
Total liabilities and stockholders equity	$ 8,926	$ 13,382

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)

	For the Three Months Ended December 31, 2015	For the Three Months Ended December 31, 2014	For the Nine Months Ended December 31, 2015	For the Nine Months Ended December 31, 2014
Net revenues:				
Licenses	$ 599	$ 515	$ 1,380	$ 1,845
Subscription	813	532	2,356	1,415
Services	399	866	1,267	2,250
Total net revenues	1,811	1,913	5,003	5,510
Operating expenses:				
Cost of subscription revenues	199	206	474	546
Cost of service revenues	141	102	374	410
Selling and marketing	697	1,260	2,444	4,679
Research and development	688	780	1,966	3,009
General and administrative	895	1,729	3,413	5,068
Impairment of goodwill		18,183		18,183
Total operating expenses	2,620	22,260	8,671	31,895
Operating loss	(809)	(20,347)	(3,668)	(26,385)
Other income (expense):				
Interest expense-net			(2)	(2)
Other income (expense)-net	6	33	(8)	42
Total other income (expense)-net	6	33	(10)	40
Loss before income taxes	(803)	(20,314)	(3,678)	(26,345)
Income tax provision	55	78	65	108
Net loss	(858)	(20,392)	(3,743)	(26,453)
Other comprehensive income:				
Foreign currency translation adjustments	(21)	(66)	4	(115)
Total comprehensive loss	$ (879)	$ (20,458)	$ (3,739)	$ (26,568)
Basic and diluted net loss per share	$ (0.03)	$ (0.65)	$ (0.12)	$ (0.85)
Weighted average shares used in computing basic and diluted net loss per share	30,960	31,560	30,958	31,109

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)

	For the Nine Months Ended December 31, 2015	2014
Cash flows from operating activities:		
Net loss	$ (3,743)	$ (26,453)
Adjustments to reconcile net loss to net cash used in operating activities:		
Impairment of goodwill		18,183
Depreciation and amortization of long-lived assets	348	261
Provision for (recovery of) bad debt	1	(71)
Stock-based compensation expense	322	531
Change in deferred tax assets	(3)	
Foreign currency exchange gain	(5)	(47)
Change in operating assets and liabilities:		
Trade accounts receivable	343	173
Other current assets	17	21
Accounts payable	(93)	17
Accrued liabilities and other long term liabilites	(464)	(272)
Deferred revenue	(339)	57
Net cash used in operating activities	(3,616)	(7,600)
Cash flows from investing activities:		
Purchases of property, furniture and equipment	(159)	(264)
Net cash used in investing activities	(159)	(264)
Cash flows from financing activities:		
Proceeds from exercise of stock options		16
Proceeds from issuance of common stock	1	7
Proceeds from sale of discontinued operations		2,200
Net cash provided by financing activities	1	2,223
Effect of exchange rate changes on cash	10	(115)
Net decrease in cash	(3,764)	(5,756)
Cash at beginning of the period	10,251	18,602
Cash at end of the period	$ 6,487	$ 12,846
Supplemental disclosures:		
Cash paid for income taxes	$ 81	$

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, 2015

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, 2015, contained in the Company s Annual Report on Form 10-K filed with the SEC on June 18, 2015. The results of operations for the three and nine months ended December 31, 2015, are not necessarily indicative of results to be expected for any other interim period or the fiscal year ending March 31, 2016.

Certain amounts in prior year s unaudited condensed consolidated statements of comprehensive loss have been reclassified to conform to current year s financial statement presentation.

2. STOCK-BASED COMPENSATION

The Company has a stock option plan that provides for the granting of stock options and restricted stock 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 and nine months ended December 31, 2015 and 2014, was as follows (in thousands):

	Three Months Ended December 31, 2015	Three Months Ended December 31, 2014	Nine Months Ended December 31, 2015	Nine Months Ended December 31, 2014
Cost of service revenue	$ 6	$ 7	$ 19	$ 16
Operating expense:				
Selling and marketing	13	2	30	132
Research and development	31	24	88	90
General and administrative	68	137	185	293
	118	170	322	531

Total stock-based compensation expense								
Income tax benefit								
Net stock-based compensation expense	$	118	$	170	$	322	$	531

As of December 31, 2015, there was approximately $0.9 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 2.66 years.

3. 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, 2015 or March 31, 2015. 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, 2015 or March 31, 2015.

4. STOCKHOLDERS EQUITY AND LOSS 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 consist of outstanding stock options.

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Options to purchase 4,273,744 shares and 4,276,777 shares of the Company s common stock for the three and nine month periods ended December 31, 2015, respectively, and 4,770,892 shares and 4,057,098 shares for the three and nine month periods ended December 31, 2014, 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 income during the three and nine month periods ended December 31, 2015 and 2014 results from translation of our foreign operations.

5. BUSINESS SEGMENT

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

	For the Three Months Ended December 31,				For the Nine Months Ended December 31,			
Net revenue	**2015**		**2014**		**2015**		**2014**	
United States	$	1,197	$	1,283	$	3,406	$	3,346
Europe		614		630		1,597		2,164
Total	$	1,811	$	1,913	$	5,003	$	5,510

Long-lived assets	**December 31, 2015**		**March 31, 2015**	
United States	$	632	$	936
Europe		354		350
Total	$	986	$	1,286

The Company engages in the design, development, sale and support of rapid application development software known as Omnis and a subscription based social media visualization platform known as Postano. The following table represents the Company s net revenue by product line (in thousands):

	For the Three Months Ended December 31,				For the Nine Months Ended December 31,			
Net revenue	**2015**		**2014**		**2015**		**2014**	
Omnis products	$	928	$	872	$	2,399	$	3,002
Postano products		883		1,041		2,604		2,508
Total	$	1,811	$	1,913	$	5,003	$	5,510

6. RELATED PARTY TRANSACTIONS

Following the retirement of Richard Koe from the position of Chief Executive Officer effective September 7, 2014, the Company entered into an expense reimbursement agreement with Mr. Koe where the Company agreed to pay Astoria Capital Management (ACM), an entity controlled by Mr. Koe, a rental fee for the use of ACM s furniture in the Company s Portland, Oregon office. Beginning in May 2015, the rental fee was reduced from $2,000 per month to $1,000 per month. This agreement will continue for such time as the Company continues to make use of ACM s furniture and will terminate upon written notice from the Company. Mr. Koe continues to serve as a member of the Company s Board of Directors.

7. GOODWILL IMPAIRMENT

The Company reviews goodwill and other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. During the fiscal quarter ended December 31, 2014, the Company s market capitalization fell below its net book value for an extended period of time. The Company operates as a single reporting unit. As a result, Company management conducted the first step of a goodwill impairment test as of December 31, 2014 with the assistance of an independent valuation consultant utilizing both a market capitalization approach, including an estimated control premium, as well as a discounted cash flow approach, with key assumptions including projected future cash flows and a risk-adjusted discount rate. Both approaches resulted in an estimated fair value of the Company s reporting unit below net book value as of December 31, 2014. As such, the Company initiated the second step of the goodwill impairment test to measure the amount of

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impairment. The Company analyzed the fair value of certain assets including its developed technology, trade names, customer relationships, and property. Based on the work performed, the Company concluded that an impairment loss is probable and can be reasonably estimated. Accordingly, the Company recorded a non-cash goodwill impairment charge to fully write-off the book value of its goodwill in the amount of approximately $18.2 million during the quarter ended December 31, 2014. Also, prior to performing the second step in the goodwill impairment analysis, the Company assessed long-lived assets including property and equipment and intangible assets for impairment. The Company s conclusion was that such long-lived assets were not impaired as of December 31, 2014.

8. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases office space and certain equipment under non-cancelable operating lease agreements with terms expiring through 2020. Rent expense related to operating these leases is recognized ratably on a straight-line basis over the entire lease term. The Company is required to pay property taxes, insurance and normal maintenance costs.

As a result of moving its corporate headquarters to Portland, Oregon, the Company vacated its former premises in Irvine, California and subleased the facility for the remainder of the lease term. As a result, the Company recorded a lease loss during its second fiscal quarter totaling $109,000 reflecting the difference between ongoing committed operating lease costs for the facility and sublease income expected to be received over the life of the lease. In addition, the Company accelerated depreciation on property and equipment totaling $125,000 located in the Irvine office upon vacating the premises.

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 a standard form of indemnification agreement with each of its directors and executives.

9. SUBSEQUENT EVENTS

Legal Settlement

On July 2, 2015, the Company was sued for patent infringement by Monster Patents, LLC (Monster) in the United States District Court Southern District of New York. The complaint alleged that the Company s Postano products infringe a single patent owned by Monster. On January 14, 2016, the Company entered into a settlement agreement with Monster (the Settlement Agreement), pursuant to which all outstanding litigation with Monster was settled and the parties stipulated to dismissal of the action with prejudice. Under the terms of the Settlement Agreement, Monster granted the Company a fully paid, worldwide, perpetual license to the Monster patent portfolio in exchange for a cash payment and a limited subscription to the Postano platform for a two-year period. The remaining terms of the Settlement Agreement are confidential. The Company has included the costs of settlement in its financial results for the quarter ended December 31, 2015.

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

The section entitled Management s Discussion and Analysis set forth below contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These statements may generally be identified by the use of such words as expect, anticipate, believe, intend, plan, will, or shall, or the negative of those terms. We have based these forward-looking statements on our current expectations and projections about future events. Forward-looking statements involve certain risks and uncertainties and actual results may differ materially from those discussed in any such statement. Many factors could cause actual results to differ materially from those projected in forward-looking statements, including the risks described in Part II, Item 1A, Risk Factors, 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) our 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) our belief that our existing cash balances combined with our cash flow from operating activities will be sufficient to meet our operating and capital expenditure requirements for the fiscal year ending March 31, 2016, (13) the impact of litigation on our operating results, and (14) the effect of changes in tax laws on our financial statements. 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 and our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2015.

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.

Today, our business consists of the design, development, sale and support of Omnis, a rapid application development software platform, and Postano, a social media content aggregation and visualization platform.

Products

Our business consists of the design, development, sale and support of Omnis, a rapid application development software platform that allows application developers the ability to build a software code once and quickly deploy an application cross-platform in any environment, and Postano, a real-time social media content aggregation, activation, and visualization platform used by our customers for fan engagement.

We primarily sell our Omnis software products through established distribution channels consisting of original equipment manufacturers (OEMs), system integrators, consulting organizations and specialized vertical application software developers, as well as through our sales personnel in the United States and Europe. We maintain direct sales offices in the United Kingdom, France and Germany, which are primarily focused on the sale of Omnis products. We generally license our Omnis software on a per-CPU, per-server, per-port or per-user basis. Postano is generally sold through our sales personnel located in the United States, as well as through co-marketing arrangements with third parties. We generally license our hosted Postano platform as a time-based subscription.

In addition to software product sales and subscriptions, we provide continuing software maintenance, support and other professional services to our Omnis and Postano customers.

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. Postano aggregates social content from multiple sources including Twitter, Facebook, Instagram, Tumblr, Pinterest and others. 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 increased participation. Major Postano features include native mobile moderation apps for iPhone and Android, and advanced social

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visualizations built entirely with customizable HTML5 for content that can be displayed on every size screen from smartphones to the largest LED screen arrays. Postano is designed primarily for commercial use, with pricing based on a number of factors, including the type and number of Postano visualizations displayed, and the specific features, display customization and support levels desired.

In October 2015, we launched a new Postano product, Hashtag Analytics, a self-service solution that provides brand marketers and agencies with deep, real-time, visual, cross-network social analytics, specifically around hashtags, to help them better track and analyze social campaigns.

Omnis

Our Omnis 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 Omnis products Omnis Studio and Omnis Classic are object-oriented and component-based, providing the ability to deploy applications across operating system platforms and database environments. Omnis Studio s JavaScript Client platform 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. 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.

Omnis Studio 6.1 offers an advanced Omnis development environment with greater overall performance for building and deploying highly interactive enterprise web and mobile applications across multiple platforms and operating systems, including Android and iOS based devices. In addition to its support of representational state transfer (REST) based web services, Omnis Studio 6.1 includes a new 64-bit implementation, creating faster access for developers and end users to deployed Omnis web and mobile applications. Additional enhancements to the already feature-rich Omnis JavaScript Client technology include new native JavaScript components that firmly adapt to the familiar look and feel of the device on which they are running, resulting in a richer and more engaging mobile application experience for end users.

Critical Accounting Policies and Estimates

Our critical accounting policies and estimates related to revenue recognition and goodwill and intangible assets are described in our Annual Report on Form 10-K for the fiscal year ended March 31, 2015. There have been no changes to our critical accounting policies since March 31, 2015.

Recent Accounting Policies

In May 2014, the FASB issued 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 exchange for those goods or services. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU No. 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 July 2015, the FASB agreed to defer the effective date of this ASU for one year. The new standard is effective for our fiscal year 2019.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern* (ASU 2014-15). This ASU is intended to define management s responsibility to evaluate whether there is substantial doubt about an organization s ability to continue as a going concern and to provide related footnote disclosures. The amendments in this ASU are effective for reporting periods beginning after December 15, 2016, with early adoption permitted. We are evaluating the effect that ASU No. 2014-15 will have on our consolidated financial statements and related disclosures.

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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 subscription 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 in Item 1 in this Quarterly Report on Form 10-Q.

	Three Months Ended December 31, 2015			Three Months Ended December 31, 2014		Nine Months Ended December 31, 2015			Nine Months Ended December 31, 2014	
	Results (In thousands)	% of Net Revenues	Percent Change	Results (In thousands)	% of Net Revenues	Results (In thousands)	% of Net Revenues	Percent Change	Results (In thousands)	% of Net Revenues
Net revenues										
Licenses	$ 599	33%	16%	$ 515	27%	$ 1,380	29%	-25%	$ 1,845	33%
Subscription	813	45%	53%	532	28%	2,356	47%	67%	1,415	26%
Services	399	22%								