RAINING DATA CORP
Form 10QSB
February 14, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

x **Quarterly Report under Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended December 31, 2006

o **Transition Report Pursuant to Section 13 or 15(d) of the Exchange Act**

For the transition period from to
Commission File number 0-16449

RAINING DATA CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**94-3046892**
(State of Incorporation)	(IRS Employer Identification No.)

25A Technology Drive
Irvine, CA 92618

(Address of principal executive offices)

(949) 442-4400

(Registrant s telephone number)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of December 31, 2006, there were 21,148,837 shares of registrant s Common Stock, $.10 par value, outstanding.

Transitional Small Business Disclosure Format (Check one): Yes o No x

RAINING DATA CORPORATION
INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

RAINING DATA CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2006 (In thousands)	March 31, 2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 10,532	$ 10,789
Trade accounts receivable, less allowance for doubtful accounts of $306 in 2006 and $182 in 2005	2,191	2,019
Other current assets	585	355
Total current assets	13,308	13,163
Property, furniture and equipment-net	1,030	1,055
Goodwill	26,788	26,845
Other assets	101	96
Total assets	$ 41,227	$ 41,159
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 230	$ 399
Accrued liabilities	2,409	2,885
Deferred revenue	5,005	4,886
Total current liabilities	7,644	8,170
Long-term debt-net of discount	23,835	22,893
Total liabilities	31,479	31,063
Commitments and contingencies		
Stockholders equity		
Preferred stock		
Common stock	2,115	2,064
Additional paid-in-capital	101,102	99,341
Accumulated other comprehensive income	1,418	1,234
Accumulated deficit	(94,887)	(92,543)
Total stockholders equity	9,748	10,096
Total liabilities and stockholders equity	$ 41,227	$ 41,159

See accompanying notes to the unaudited condensed consolidated financial statements.

3

RAINING DATA CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Three Months Ended December 31, 2006	Three Months Ended December 31, 2005	Nine Months Ended December 31, 2006	Nine Months Ended December 31, 2005
Net revenues				
Licenses	$ 1,793	$ 2,334	$ 5,133	$ 6,271
Services	2,983	2,965	8,911	8,930
Total net revenues	4,776	5,299	14,044	15,201
Operating expenses				
Cost of license revenues	28	27	68	78
Cost of service revenues	442	542	1,583	1,745
Selling and marketing	1,387	1,337	4,204	3,923
Research and development	2,175	2,429	7,052	7,062
General and administrative	962	986	2,843	2,823
Total operating expenses	4,994	5,321	15,750	15,631
Operating loss	(218)	(22)	(1,706)	(430)
Other expense				
Interest expense-net	(205)	(239)	(636)	(728)
Other (expense) income-net	19	(7)	55	(79)
Total other expense	(186)	(246)	(581)	(807)
Loss before income taxes	(404)	(268)	(2,287)	(1,237)
Provision for income taxes	17		57	
Net loss	$ (421)	$ (268)	$ (2,344)	$ (1,237)
Basic and diluted net loss per share	$ (0.02)	$ (0.01)	$ (0.11)	$ (0.06)
Shares used in computing basic and diluted net loss per share	21,142	20,485	20,928	20,065

See accompanying notes to the unaudited condensed consolidated financial statements.

RAINING DATA CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended December 31, 2006	2005
	(In thousands)	
Cash flows from operating activities:		
Net loss	$ (2,344)	$ (1,237)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of long-lived assets	232	206
Provision for bad debt	105	33
Note payable discount amortization	62	62
Stock-based compensation expense	695	10
Income tax expense	57	
Change in assets and liabilities:		
Trade accounts receivable	(299)	(392)
Other current and non-current assets	(218)	(23)
Accounts payable	(182)	(317)
Accrued liabilities	328	869
Deferred revenue	243	(396)
Net cash used in operating activities	(1,321)	(1,185)
Cash flows used in investing activities-purchase of property, furniture and equipment	(139)	(421)
Cash flows from financing activities:		
Proceeds from exercise of stock options and warrants	1,005	716
Proceeds from issuance of common stock	112	65
Net cash provided by financing activities	1,117	781
Effect of exchange rate changes on cash	86	(66)
Net decrease in cash and cash equivalents	(257)	(891)
Cash and cash equivalents at beginning of period	10,789	10,625
Cash and cash equivalents at end of period	$ 10,532	$ 9,734
Non-cash financing activities:		
Accrued interest added to long-term debt	$ 863	$ 821
Conversion of preferred stock to common stock		$ 300

See accompanying notes to the unaudited condensed consolidated financial statements.

RAINING DATA CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

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 the consolidated financial position of Raining Data Corporation and its subsidiaries (collectively, the Company), the results of the operations and the cash flows for the dates and periods presented and to make such information presented not misleading. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to SEC rules and regulations; 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, 2006, contained in the Company s Annual Report on Form 10-KSB. The results of operations for the three and nine months ended December 31, 2006, are not necessarily indicative of results to be expected for any other interim period or the fiscal year ending March 31, 2007.

Certain amounts in the prior period s consolidated financial statements have been reclassified to be consistent with the current year presentation.

2. STOCK-BASED COMPENSATION

The Company has a stock option plan (1999 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 (ESPP) which allows employees to purchase the Company s common stock at at discount. A total of 7.1 million shares of common stock have been authorized for issuance under the 1999 plan.

Adoption of SFAS No. 123(R)

Prior to April 1, 2006, the Company s stock-based compensation plans were accounted for in accordance with Accounting Principles Board Opinion No. 25 (APB No. 25), *Accounting for Stock Issued to Employees,* by applying the intrinsic value method to account for employee fixed stock-based awards. Under this method, deferred stock-based compensation is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. Deferred stock-based compensation is then amortized using the straight-line method over the vesting term of the underlying option. Additionally, the ESPP qualified as a non-compensatory plan under APB 25; therefore, no compensation cost was recorded in relation to the discount offered to employees for purchases made under the ESPP. The Company disclosed pro forma net income (loss) and earnings (loss) per share as if compensation for its stock options were determined based on the estimated fair value at the grant date in accordance with Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation* .

Effective April 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R) (SFAS No. 123 (R)), *Share-Based Payment*, which is a revision of SFAS No. 123. SFAS No. 123(R) supersedes APB No. 25, and amends SFAS No. 95, *Statement of Cash Flows*. SFAS No. 123(R) generally requires share-based payments to employees, including grants of employee stock options and other equity awards, to be recognized in the statement of operations based on their fair values. In addition, SFAS No. 123(R) requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow, rather than as an operating cash flow as prescribed under previous accounting rules. In its adoption, the Company elected to use the modified prospective method, under which compensation expense is recognized for all share-based awards granted after March 31, 2006 and for all awards granted to employees prior to April 1, 2006, that were unvested on the date of adoption, as adjusted for estimated forfeitures. Accordingly, prior period amounts have not been restated.

Additionally, under SFAS No. 123(R), the Company s ESPP is considered a compensatory plan and requires recognition of compensation expense for purchases of common stock made under the ESPP. The Company recognizes compensation expense for stock option and ESPP awards ratably over the vesting period and purchase period, respectively.

Determining Fair Value

Valuation Method - The Company estimates the fair value of stock options granted and ESPP purchase rights using the Black-Scholes option-pricing model and a single option award approach. Under this approach, the compensation expense for awards that have a graded vesting schedule is recognized on a straight-line basis over the requisite service period.

Expected Term - The expected term represents the period the Company s stock-based awards are expected to be outstanding and was determined based on historical experience with similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior as influenced by changes to the terms of its stock-based awards.

Expected Volatility - The computation of expected volatility is based on historical volatility.

Risk-Free Interest Rate - The risk-free interest rate used in the Black-Scholes valuation method is based on the yield currently available on U.S. Treasury securities with an equivalent remaining term.

Expected Dividend - No dividends are expected to be paid.

Estimated Forfeitures - When estimating forfeitures, the Company considers voluntary termination behavior as well as analysis of actual option forfeitures.

The Company estimated the fair value of its stock options and ESPP purchase rights using the Black-Scholes option-pricing model, by using the following assumptions for the nine months ended December 31, 2006:

	Stock options		**ESPP purchase rights**	
Dividend yield	0	%	0	%
Expected volatility	62	%	55	%
Risk-free interest rate	4.7	%	4.9	%
Estimated life	6.1 Years		0.5 Years	
Forfeiture rate	11	%	0	%

Total stock-based compensation expense included in the unaudited condensed consolidated statements of operations for the three and nine months ended December 31, 2006 (in thousands) was as follows:

	Three months ended December 31, 2006		**Nine months ended**	
Operating expense:				
Selling and marketing	$	93	$	275
Research and development	69		212	
General and administrative	76		208	
Total stock-based compensation expense	238		695	
Income tax benefit				
Net stock-based compensation expense	$	238	$	695

Stock options

Stock options are generally granted with an exercise price equal to the stock s fair market value at the date of grant. All options under the 1999 Plan have ten-year terms and generally vest ratably over a period of four years. As of December 31, 2006, there were 1,950,803 shares available for future option grants under the 1999 Plan.

A summary of changes in common stock options is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
Options outstanding as of March 31, 2006	4,190,691	$ 2.75		
Granted	760,000	$ 3.42		
Exercised	(453,959)	$ 2.21		
Forfeited	(230,879)	$ 2.80		
Expired	(127,174)	$ 4.44		
Options outstanding as of December 31, 2006	4,138,679	$ 2.87	6.3	$ 4,977,024
Vested and expected to vest at December 31, 2006	3,951,665	$ 2.86	6.1	$ 4,836,245
Exercisable at December 31, 2006	2,815,359	$ 2.77	5.0	$ 3,918,101

The aggregate intrinsic value in the table above represents the difference between the exercise price of the underlying awards and the quoted price of our common stock for the options that were in-the-money at December 31, 2006. During the nine months ended December 31, 2006, the aggregate intrinsic value of options exercised under the 1999 plan was $829,233, determined as of the date of option exercise. Weighted-average grant-date fair values of the options granted during the nine months ended December 31, 2006 and 2005 were $2.10 and $2.04, respectively.

Employee Stock Purchase Plans

Under the ESPP, eligible employees may authorize payroll deductions of up to 10% of their regular base salary to purchase shares at the lower of 85% of the closing price of the Company s common stock on the first or last day of the six-month purchase period. In the three months ended December 31, 2006, no shares of common stock were issued under the ESPP. For the nine months end December 31, 2006, 50,302 shares of common stock were issued under the ESPP. As of December 31, 2006, employee withholdings under the ESPP aggregated $76,493.

Pro-forma Disclosure under SFAS No. 123 for Periods prior to Fiscal 2006

The following table illustrates the effect on net loss and net loss per share as if we had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation during the three and nine months ended December 31, 2005 (in thousands, except per share amounts):

	Three Months Ended December 31, 2005	Nine Months Ended
Net loss, as reported	$ (268)	$ (1,237)
Add:		
Stock-based compensation expense included in reported net loss		10
Less:		
Total stock-based employee compensation expense determined under fair value based methods for all awards, net of tax	(303)	(981)
Pro forma net loss	$ (571)	$ (2,208)
Basic and diluted loss per share		
As reported	$ (0.01)	$ (0.06)
Pro forma	$ (0.03)	$ (0.11)

8

3. RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements,* which becomes effective for the first fiscal year ending after November 15, 2006. SAB No. 108 provides guidance on the consideration of the effects of prior period misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB No. 108 requires an entity to evaluate the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on current year financial statements. If a misstatement is material to the current year financial statements, the prior year financial statements should also be corrected, even though such revision was, and continues to be, immaterial to the prior year financial statements. Correcting prior year financial statements for immaterial errors would not require previously filed reports to be amended. Such corrections could be made in the current period filings. We are currently evaluating the impact of adopting SAB No. 108.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurement*. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. It also applies under other accounting pronouncements that require or permit fair value measurement as a relevant attribute. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and all interim periods within that fiscal year. Management of the Company is evaluating the impact of this pronouncement on the Company s consolidated results of operations and financial condition.

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes.* This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes.* This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 will become effective for the Company in fiscal year 2008. Management of the Company does not expect the impact of this pronouncement to be material on the Company s consolidated results of operations and financial condition.

In June 2006, the FASB s Emerging Issues Task Force (EITF) issued EITF Issue No. 06-3 (EITF No. 06-3), *How Taxes Collected from Customers and Remitted to Governmental Authorities should be presented in the Income Statement (That is, Gross versus Net Presentation).* The scope of EITF No. 06-3 includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer may include, but are not limited to, sales, use, value added, and some excise taxes. EITF No. 06-3 allows for the presentation of such taxes on either a gross (included in revenues and costs) or a net (excluded from revenues) basis and requires the accounting policy to be disclosed pursuant to APB Opinion No. 22. EITF No. 06-3 applies to financial reports for interim and annual reporting periods beginning after December 15, 2006. Management of the Company does not expect the impact of EITF No. 06-3 to be material on the Company s consolidated results of operations and financial condition.

In November 2005, the FASB issued FSP SFAS 123(R)-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*, which allows an entity up to one year from the later of its initial adoption of SFAS No. 123(R) or the effective date of FSP SFAS 123(R)-3 to evaluate its available transition alternatives in calculating the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of SFAS No. 123(R) for recognition purposes (the APIC pool) and to make its one-time election. The available transition alternatives allow an entity to elect either the transition guidance in paragraph 81 of SFAS No. 123(R) or the alternative transition method described in FSP SFAS 123(R)-3, which comprises (a) a computational component that establishes a beginning balance of the APIC pool related to the employee compensation and (b) a simplified method to determine the subsequent impact on the APIC pool of employee awards that are fully vested and outstanding upon the adoption of SFAS No. 123(R). Management of the Company is in the process of evaluating its available transition alternatives and the Company will make its one-time election prior to March 31, 2007.

4. LONG-TERM DEBT

Long-term debt of the Company, including the Convertible Subordinated Note payable to Astoria Capital Partners, L.P. (Astoria), the Company s controlling stockholder, as of December 31, 2006 and March 31, 2006, is as follows (in thousands):

	December 31, 2006	March 31, 2006
Subordinated convertible note payable to Astoria	$ 23,648	$ 22,785

Plus accrued interest	298	281
Less unamortized discount	(111)	(173)
Total long-term debt	$ 23,835	$ 22,893

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 dilutive potential common shares outstanding during the period when the potential common shares are not anti-dilutive. Potential dilutive common shares include outstanding stock options and convertible debt. There were outstanding options to purchase 4,138,679 shares of the Company s common stock with exercise prices ranging from $0.75 to $17.00 per share as of December 31, 2006. There were outstanding options to purchase 4,121,067 shares of the Company s common stock with exercise prices ranging from $0.75 to $33.13 per share as of December 31, 2005, respectively. There was convertible debt outstanding at December 31, 2006 and 2005, which was convertible into 4,729,600 and 4,500,283 shares of common stock, respectively. The effects of these items were not included in the computation of diluted earnings per share because their effect would have been anti-dilutive.

The change in accumulated other comprehensive income during the three and nine month periods ended December 31, 2006 and 2005 is the result of the effect of foreign exchange rate changes. The following table reconciles net loss as reported with total comprehensive loss (in thousands):

	Three Months ended December 31,		**Nine Months ended December 31,**	
	2006	**2005**	**2006**	**2005**
Net loss reported	$ (421)	$ (268)	$ (2,344)	$ (1,237)
Translation adjustments net	100	54	184	(96)
Total comprehensive loss	$ (321)	$ (214)	$ (2,160)	$ (1,333)

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 of America combined with local maintenance revenue. The following table summarizes consolidated financial information of the Company s operations by geographic location (in thousands):

	Three months ended December 31,		**Nine months ended December 31,**	
Net revenue	**2006**	**2005**	**2006**	**2005**
North America	$ 3,314	$ 3,577	$ 9,750	$ 10,576
Europe/Africa	1,462	1,722	4,294	4,625
Total	$ 4,776	$ 5,299	$ 14,044	$ 15,201

Long-lived assets	**December 31,2006**	**March 31,2006**
North America	$ 26,999	$ 27,170
Europe/Africa	920	826
Total	$ 27,919	$ 27,996

The Company is engaged in the design, development, sale and support of software infrastructure. The Company divides its products into two main categories: (1) Pick-based database technology (Databases), which includes Multi-dimensional Database Management Systems, XML Data Management Servers and the Pick Data Provider for the Microsoft .NET development environment; and (2) Rapid Application Development software tools (RAD Tools). The following table represents the net revenue from the Company s segment by product line (in thousands):

Net revenue	**Three months ended December 31, 2006**	**2005**	**Nine months ended December 31, 2006**	**2005**
Databases	$ 3,644	$ 3,503	$ 10,916	$ 11,874
RAD Tools	1,132	1,796	$ 3,129	3,327
Total	$ 4,776	$ 5,299	$ 14,044	$ 15,201

7. COMMITMENTS AND CONTINGENCIES

The Company is subject from time to time to litigation, claims and suits arising in the ordinary course of business. The Company is currently a party to the following legal proceedings:

1. Raining Data v. Intrametrics. On or about January 19, 2007, the Company filed a complaint in Orange County Superior Court that sets forth allegations that Intrametrics threatens to and has misappropriated the Company s trade secrets. The Company s allegations in the complaint include that Intrametrics has obtained the Company s source code in violation of the Parties OEM (Original Equipment Manufacturer) Distribution Agreement and in violation of California s laws prohibiting the misappropriation of trade secrets. The Company seeks injunctive relief from Intrametrics, including, but not limited to, compelling Intrametrics to fully comply with all of the termination provisions set forth in the OEM Agreement; enjoining Intrametrics and its employees and agents from using or disclosing the Company s trade secrets; prohibiting Intrametrics from soliciting the Company's current or potential customers for 3 years, and from soliciting or employing certain of Company's former employees for 3 years. The Company is prepared to file a motion for a preliminary injunction to ensure the non-use by Intrametrics of the Company s trade secret information and licenses. The Company will also proceed with discovery in this litigation.

2. Raining Data v. Soheil Raissi (formerly the Company s Vice President, Product Development and Professional Services), Mario Barrenechea (formerly the Company s Senior Vice President, Worldwide Sales and Marketing, Pick and Omnis Products), and Adevnet. On or about December 8, 2006, the Company filed a complaint in Orange County Superior Court that sets forth allegations that the defendants threaten to and have missappropriated the Company s trade secrets. The Company s allegations in the complaint include that the individual defendants have used and/or disclosed the Company s trade secrets (in the form of source code and licenses and other trade secret information) in violation of their agreements with the Company to maintain the confidentiality of such trade secret information, and in violation of California laws prohibiting the misappropriation of trade secrets. The Company seeks injunctive relief from the defendants, including, but not limited to, compelling the defendants to immediately return all of the Company's trade secrets and property; enjoining the defendants and their employees and agents from using or disclosing the Company's trade secrets, including the Company's source code; ordering the defendants to disclose all gains and profits they have derived from the misappropriation of the Company's trade secrets; enjoining the defendants from directly or indirectly supplying, selling or promoting any product that incorporates the Company's trade secrets. The Company is prepared to proceed with discovery in this litigation.

3. Cross-Complaint by Soheil Raissi, Mario Barrenechea and Adevnet v. Raining Data: On or about January 10, 2007, the defendants in the case above filed a cross-complaint, alleging several claims against the Company and Carlton Baab, the Company s President and Chief Executive Officer: unfair business practices, violation of civil rights, intentional interference with prospective economic advantage, negligent interference with prospective economic advantage, malicious prosecution, abuse of process, negligence, civil conspiracy, and injunctive relief. Cross-complainants allege general, compensatory, special, and punitive and exemplary damages in amounts "according to proof", and seek to enjoin the Company from engaging in improper and unlawful conduct. The Company and Carlton Baab assert that all of the claims are baseless, and will vigorously defend all allegations.

An unfavorable resolution of these legal proceedings could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

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. 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 licenese and service agreements.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

This Form 10-QSB 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-look 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 2 of this Form 10-QSB and elsewhere in this Form 10-QSB. The forward-looking statements contained in this Form 10-QSB 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 competitive ability and position, (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 research and development costs, (10) our general and administrative costs, (11) the possibility that we may experience transaction gains or losses in future periods, (12) the possibility that we may seek to take advantage of opportunities in the equity and capital markets, (13) our belief that our existing cash balances combined with our cash flow from operating activities will be sufficient to meet our operating and capital expenditure requirements for the remainder of the fiscal year ending March 31, 2007 and through the foreseeable future, (14) our belief that our credit facility is not required for liquidity purposes or to meet our cash flow needs for the foreseeable future, (15) our focus on the continued development and enhancement of the TigerLogic XDMS product line, identification of new and emerging application areas and discussions with channel partners for the sale and distribution of the TigerLogic product line and (16) litigation matters. 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.

Products

Our principal business is the design, development, sale and support of software infrastructure. Our products allow customers to create and enhance flexible software applications for their own needs, and our software may be categorized into three product lines: XML data management systems (XDMS), Multi-dimensional database management systems (MDMS), and Rapid Application Development (RAD) software tools.

Many of our products are based on the Pick Universal Data Model (Pick UDM), which we created, and are capable of handling data from many sources. The Pick UDM is a core component across the XDMS and MDMS product lines.

Beginning in 2001, we began an extensive effort to leverage our time-proven Pick UDM and core intellectual property to create an enterprise class XML database management system for the emerging XML market, the growing need for native XML data stores and the ability to handle structured and unstructured data. This significant investment of time and resources resulted in the TigerLogic XDMS product line. We are focused on the continued development and enhancement of this product line, identification of new and emerging application areas and discussions with channel partners for the sale and distribution of the TigerLogic product line.

TigerLogic XDMS

TigerLogicXML Data Management Server provides high-performance management and query of XML data by leveraging the time-proven Pick UDM. TigerLogic also enables the ability to query external data sources as if they were one logical database and maintains referential integrity across data sources. TigerLogic s patent-pending XML Indexing and Profiling technology enables it to access XML data via XQuery between 10x to 150x faster in internal tests than relational databases, XML repositories or XML Index and Search engines. TigerLogic provides XML, Java, WSDL and SOAP compatibility for simplified plug-in and integration with development environments of choice.

TigerLogic provides an extensible and flexible development and deployment environment. Unlike other XML data management alternatives, TigerLogic XDMS does not need to know the schema or structure of data before processing and storing it. We believe the ability to make XML schemas optional is a vital innovation because the structures of operational systems frequently change, and mapping schemas for the purpose of linking to a new data source is both difficult and time-consuming. The system also enables support for schema versioning, which is critical when addressing evolving standards and XML schemas. The General Availability Release of TigerLogic XDMS version 2.1, which included many feature enhancements and the full implementation of our XQuery engine, was released in May 2005, and Version 2.5, which included platform support for Linux in addition to Windows and Solaris, was released in October 2005. In September 2005, we announced our first commercial OEM agreement for TigerLogic XDMS.

Multi-dimensional Databases (MDMS)

The MDMS product line consists principally of the D3 Data Base Management System (D3), which runs on many operating systems such as IBM AIX, Linux and Windows NT. D3 allows application programmers to create new business solution software in less time than it normally takes in many other environments. This can translate into lower costs for the developer, lower software prices for the customer and reduced costs of ownership for both the developer and end user. 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.

MDMS components include the Pick Data Provider for .Net (PDP) and our Pick Reporting Services Connector. The PDP component for the Microsoft .NET Framework is tightly integrated with Microsoft Visual Studio .NET. It allows software developers using IBM s Universe and Unidata databases and our D3 database platform to build client/server applications, Web applications or Web services using any of the languages and technologies that run on the Microsoft .NET Framework, such as Microsoft ASP.NET, Visual Basic .NET, Visual C# .NET and Visual J# .NET. Our Pick Reporting Services Connector enables a data connection that allows Pick database users to unlock the benefits of Microsoft Reporting Services to take advantage of a comprehensive, server-based reporting solution that can author, manage, and deliver both paper-oriented and interactive, Web-based reports. This solution also allows access to IBM UniVerse, IBM UniData and Pick D3 data. 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.

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 include Omnis Studio, Omnis Studio for SAP and Omnis Classic, and are object-oriented and component-based, providing the ability to deploy applications on operating system platforms such as Windows, Unix and Linux, as well as database environments such as MySQL, Oracle, DB2, Sybase, Microsoft SQL Server and other Open Data Base Connectivity (ODBC) compatible database management systems.

Technical Support

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 customer 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.

Sales and Distribution

In the United States, we sell our products through established distribution channels consisting of OEMs, system integrators, specialized vertical application software developers and consulting organizations. We also sell our products directly through our sales personnel to end user organizations. Outside the United States, we maintain direct sales offices in the United Kingdom, France and Germany. Approximately 31% of our revenue came from sales through our offices located outside the United States for the three and nine months ended December 31, 2006, compared to 32% and 30% for the same periods in 2005.

We sell our products in U.S. Dollars in North America, British Pounds Sterling in the United Kingdom and Euros in France and Germany. Because we recognize revenue and expense in these various currencies but report our financial results in U.S. Dollars, changes in exchange rates may cause variances in our period-to-period revenue and results of operations in future periods. Recorded foreign exchange gains and losses have not been material to our performance to date.

We license our software on a per-CPU, per-server, per-port or per-user basis. Therefore, the addition of CPU s, servers, ports or users to existing systems increases our revenue from our installed base of licenses. In addition to software products, we provide continuing maintenance and other services to our customers including professional services, technical support and training to help plan, analyze, implement and maintain application software based on our products.

Customers

Our customers may be classified into two general categories:

- Independent Software Vendors and Software Developers. The majority of our revenue is derived from independent software vendors, which typically write their own vertical application software that they sell as a complete package to end user customers. This category includes value added resellers (VARs) and software-consulting companies that provide contract programming services to their customers.

- Corporate Information Technology (IT) Departments.

For each of the three and nine months ended December 31, 2006 and 2005, no single customer accounted for more than 10% of our revenue.

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 a strong development effort with respect to both our existing and new products. These development efforts have resulted in updates and upgrades to existing MDMS and RAD products and the launch of new products including the XDMS product line. New product releases in all of our product lines are currently in progress. We expect to continue our research and development efforts in all product lines for the foreseeable future. We intend for these efforts to improve our future operating results and increase cash flow. However, such efforts may not result in additional new products or revenue, and we can make no assurances that the recently announced products or future products will be successful. We spent $2.1 million and $6.8 million on research and development (excluding SFAS No. 123(R) stock option expense) for the three and nine months ended December 31, 2006, respectively, compared to $2.4 million and $7.0 million for the three and nine months ended December 31, 2005, 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 IBM. Our RAD products currently encounter competition from several direct competitors including Microsoft, and competing development environments including JAVA. Competition is developing and evolving in the XML market for which our XDMS products are intended. Companies that do or are expected to compete in this market include Oracle, IBM, Microsoft and Sybase, as well as a number of smaller companies with products that directly and indirectly compete with our XDMS products. 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 MDMS, RAD, and XDMS 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.

Intellectual Property and Other Proprietary Rights

We rely primarily on a combination of trade secret, copyright and trademark laws and contractual provisions to protect our intellectual property and proprietary rights. Our trademarks include Raining Data, Pick, TigerLogic, D3, Omnis, Omnis Studio, mvEnterprise, mvBase, and mvDesigner, among others. We also have one pending U.S. patent application as of December 31, 2006.

We license our products to end users on a right to use basis pursuant to a perpetual license agreement that restricts use of products to a specified number of users. We generally rely on click-wrap licenses that become effective when a customer downloads and installs the software on its system. In order to retain exclusive ownership rights to our software and technology, we generally provide our software in object code only, with contractual restrictions on copying, disclosure, and transferability. There can be no assurance that these protections will be adequate, or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology. See footnote 7, Commitments and Contingencies for current legal proceedings relating to our intellectual property and other proprietary rights.

Backlog

We generally ship software products as orders are received and have historically operated with little backlog. As a result, our license revenue in any given quarter is dependent upon orders received and product shipped during the quarter. Historically, there has been a short cycle between receipt of an order and shipment. Consequently, we do not believe that our backlog as of any particular date is meaningful.

Employees

At December 31, 2006, we had 119 employees worldwide of which 87 were in the United States and 32 were in our international offices. Of the 119 employees, 113 are full-time and approximately 47% are in research and development, 17% in technical support, 21% in sales and marketing and 15% in general and administrative functions.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been 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 intangible assets and goodwill. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

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 condensed consolidated financial statements:

REVENUE RECOGNITION. We recognize revenue using the residual method pursuant to the requirements of Statement of Position No. 97 2, *Software Revenue Recognition* (SOP 97 2), as amended. Under the residual method, revenue is recognized for multiple element arrangement when company-specific objective evidence of fair value exists for all of the undelivered elements in the arrangement, but does not exist for one or more of the delivered elements in the arrangement. At the outset of the arrangement with the customer, we defer revenue for the fair value of our undelivered elements (e.g., maintenance) based on company-specific objective evidence of the amount such items are sold individually to our customers and recognize revenue for the remainder of the arrangement fee attributable to the elements initially delivered in the arrangement (e.g., software license) when the basic criteria in SOP 97 2 have been met.

Under SOP 97 2, revenue attributable to an element in a customer arrangement is recognized when persuasive evidence of an arrangement exists and delivery has occurred, provided the fee is fixed or determinable, collectibility is probable and the arrangement does not require significant customization of the software. 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.

Service revenue relates primarily to consulting services, maintenance and training. Maintenance revenue is initially deferred and then recognized ratably over the term of the maintenance contract, typically 12 months. Consulting and training revenue is recognized as the services are performed and is usually calculated on a time and materials basis. Such services primarily consist of implementation services related to the installation of our products and do not include significant customization to or development of the underlying software code. We do not have price protection programs, conditional acceptance agreements or warranty programs, and sales of our products are made without right of return.

15

For contracts that require significant modification or customization to the software in accordance with customers specifications, we recognize revenue using the completed-contract method pursuant to the requirements of Statement of Position No. 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts.* Under this method, revenue and expenses are deferred until customer acceptance of the finished product occurs. Additionally, arrangements that include services that are essential to the functionality of the software element require the application of contract accounting to the software and service elements included in the arrangement.

GOODWILL. We assess the impairment of long-lived assets and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We also assess the value of goodwill at least annually. Factors we consider to be important which could 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 relative to net book value.

When we determine that the carrying value of long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment and the carrying value of the asset cannot be recovered from projected undiscounted cash flows, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in the current business model. Significant management judgment is required in determining whether an indicator of impairment exists and in projecting cash flows.

In accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), we do not amortize goodwill, but test for goodwill impairment following a two-step process. The first step is used to identify potential impairment by comparing the fair value of a reporting unit with its net book value (or carrying amount), including goodwill. If the fair value exceeds the carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit s goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit s goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit. Currently, we have one reporting unit for goodwill impairment testing.

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. Estimates of fair value are based on our stock price as reported by Nasdaq.

Results of Operations

The following table sets forth certain Condensed Consolidated Statement of Operations data in total dollars, as a percentage of total net revenues and as a percentage change from the same period 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 Condensed Consolidated Financial Statements included elsewhere in this Form 10-QSB.

	Three Months Ended December 31, 2006			**Three Months Ended December 31, 2005**		**Nine Months Ended December 31, 2006**			**Nine Months Ended December 31, 2005**	
		% of Net	**Percent**		**% of Net**		**% of Net**	**Percent**		**% of Net**

	Results	Revenues	Change	Results	Revenues	Results	Revenues	Change	Results	Revenues
Net revenues										
Licenses	$ 1,793	37.5%	(23.2)%	$ 2,334	44.0%	$ 5,133	36.5%	(18.1)%	$ 6,271	41.3%
Services	2,983	62.5%	0.6%	2,965	56.0%	8,911	63.5%	(0.2)%	8,930	58.7%
Total net revenues	4,776	100.0%	(9.9)%	5,299	100.0%	14,044	100.0%	(7.6)%	15,201	100.0%
Operating expense										
Cost of revenues:										
Cost of license revenues (as a % of license revenues)	28	1.6%	3.7%	27	1.2%	68	1.3%	(12.8)%	78	1.2%
Cost of service revenues (as a % of service revenues)	442	14.8%	(18.5)%	542	18.3%	1,583	17.8%	(9.3)%	1,745	19.5%
Selling and marketing	1,387	29.0%	3.7%	1,337	25.2%	4,204	29.9%	7.2%	3,923	25.8%
Research and development	2,175	45.5%	(10.5)%	2,429	45.8%	7,052	50.2%	(0.1)%	7,062	46.5%
General and administrative	962	20.1%	(2.4)%	986	18.6%	2,843	20.2%	0.7%	2,823	18.6%
Total operating expenses	4,994	104.6%	(6.1)%	5,321	100.4%	15,750	112.1%	0.8%	15,631	102.8%
Operating loss	(218)	(4.6)%	890.9%	(22)	(0.4)%	(1,706)	(12.1)%	296.7%	(430)	(2.8)%
Other expense-net	(186)	(3.9)%	(24.4)%	(246)	(4.6)%	(581)	(4.1)%	(28.0)%	(807)	(5.3)%
Loss before income taxes	(404)	(8.5)%	50.7%	(268)	(5.1)%	(2,287)	(16.3)%	84.9%	(1,237)	(8.1)%
Provision for income taxes	17	0.4%	100.0%		0.0%	57	0.4%	100.0%		0.0%
Net loss	$ (421)	(8.8)%	57.1%	$ (268)	(5.1)%	$ (2,344)	(16.7)%	89.5%	$ (1,237)	(8.1)%

16

REVENUE

NET REVENUE. Our revenue is derived principally from two sources: fees from software licensing and fees for post contract technical support. We license our software on a per-CPU, per-server, per-port or per-user basis. Therefore, the addition of CPU s, servers, ports or users to existing systems increases our revenue from our installed base of licenses. We view the MDMS and RAD markets in which we operate to be relatively stable and consistent from period to period and anticipate that our revenue on an annual basis from those products will remain stable for the foreseeable future. Fluctuations in revenue between quarters or year-to-year are primarily the result of the timing of orders and customer ordering patterns. We do not view the decrease in year-to-year revenues for the nine month periods ended December 31, 2006 and 2005, to be representative of immediate market trends. In the longer term, we expect that the MDMS and RAD markets will eventually contract as customers adopt newer technologies, and, therefore, the revenue generated from sales of our MDMS and RAD products is expected to decrease.

We have been actively developing and marketing our XDMS product line. Should our development efforts and the adoption of these product lines be successful, we anticipate additional revenues in future periods related to the sale of these products. However, we can give no assurances as to customer acceptance of any new products or services, or the ability of the current or any new products and services to generate revenue. While we are committed to research and development efforts that are intended to allow us to penetrate new markets and generate new sources of revenue, such efforts may not result in additional products, services or revenue. In September 2005, we announced our first commercial OEM agreement for TigerLogic XDMS.

OPERATING EXPENSES

COST OF LICENSE REVENUE. Cost of license revenue is comprised of direct costs associated with software license sales including software packaging, documentation, physical media costs and royalties. Cost of license revenue decreased in the nine-month period ended December 31, 2006, as compared to the same period in the prior year due to reduced royalties. We anticipate that the cost of license revenue, as a percentage of license revenue and in absolute dollars, will be relatively stable in future periods.

COST OF SERVICE REVENUE. Cost of service revenue includes primarily personnel costs relating to providing consulting, technical support and training services. Cost of service revenue decreased for three and nine month period ended December 31, 2006, as compared to the same periods in the prior year due to reduced headcount. We anticipate that the cost of service revenue, as a percentage of service revenue and in absolute dollars, will be relatively stable in future periods.

OPERATING EXPENSES

SELLING AND MARKETING. Selling and marketing expense consists primarily of salaries, benefits, advertising, tradeshows, travel and overhead costs for our sales and marketing personnel. The increase in selling and marketing expense in the three and nine month periods ended December 31, 2006, compared to the same periods in prior year included the adoption of SFAS No. 123(R) pursuant to which stock option compensation is required to be recorded as an expense, partially offset by reduced headcount. We anticipate that selling and marketing costs related to XDMS products may increase as we further develop the sales channel for these products and if customer acceptance of these products increases. In addition, if our continued research and development efforts are successful, including with respect to our XDMS products, and new products or services are created, we may incur increased sales and marketing expense to promote those new products in future periods.

RESEARCH AND DEVELOPMENT. Research and development expense consists primarily of salaries and other personnel-related expenses and overhead costs for engineering personnel including employees in the US and the UK and contractors in the US and India. The decrease in selling and marketing expense in the three month period ended December 31, 2006, as compared to the same periods in the prior year was mainly due to reduced headcount and consulting expense partially offset by the adoption of SFAS No. 123(R). We are committed to our research and development efforts and expect research and development expense will remain at the current level in future periods or increase if we believe that additional spending is warranted. Such efforts may not result in additional new products and any new products, including the XDMS products, may not generate sufficient revenue, if any, to offset the research and development expense.

GENERAL AND ADMINISTRATIVE. General and administrative expense consists primarily of costs associated with our finance, human resources, legal and other administrative functions. These costs consist principally of salaries and other personnel-related expenses, professional fees, depreciation and overhead costs. The decrease to general and administrative expense in the three month period ended December 31, 2006, as compared to the same period in prior year was primarily due to reduced employee and office expenses partially offset by SFAS No. 123(R) expense. The increase to general and administrative expense in the nine month period ended December 31, 2006, as compared to the same periods in prior year was mainly due to costs incurred relating to the restatement of our 10-KSB for the year ended March 31, 2006, and the adoption of SFAS No. 123(R).

OTHER EXPENSE. Other expense consists primarily of net interest expense and, to a much lesser extent, gains and losses on foreign currency transactions. The decrease in other expense during three and nine month period ended December 31, 2006, as compared to the same period in the prior year was due to higher interest income as a result of higher investment balances. Due to the uncertainty in exchange rates, we may experience transaction gains or losses in future periods, the effect of which cannot be determined at this time.

PROVISION FOR INCOME TAXES. Our effective tax rate was 4.2% and 2.5% for the three and nine months ended December 31, 2006, respectively. The provision for income taxes reflects the tax on earnings from foreign subsidiaries. The Company is able to reduce the current tax liability at foreign subsidiaries with net operating loss carryforwards. However, certain carryforwards were acquired in our 2000 acquisition. Therefore, the benefit realized from utilizing those net operating loss carryforwards reduced goodwill instead of income tax expense. Due to uncertainties surrounding the timing of realizing the benefits of the net operating loss carryforwards in the future, the Company has established a full valuation allowance against its net deferred tax assets.

LIQUIDITY AND CAPITAL RESOURCES

In connection with the acquisition of PickAx, we assumed a Secured Promissory Note issued to Astoria Capital Partners, L.P. (Astoria) dated November 30, 2000, in the amount of $18.5 million. In January 2003, we entered into a Note Exchange Agreement (the Exchange Agreement) with Astoria to replace the existing Secured Promissory Note, as amended, with a Convertible Subordinated Note. Under the terms of the Exchange Agreement, the Secured Promissory Note was exchanged and replaced with a Convertible Subordinated Note having a principal amount of $22.1 million, which principal amount was equal to the outstanding principal and accrued interest payable on the Secured Promissory Note as of the date of the Exchange Agreement. In October 2005, Astoria assigned a portion of its common stock holdings totaling 870,536 shares and a portion of the Subordinated Convertible Note, totaling $1,751,832, to two of its limited partners. As such, we issued an Amended and Restated Note to Astoria for $20,749,581 and corresponding notes directly to the limited partners for $862,979 and $888,853, respectively. The Convertible Subordinated Notes are convertible into common stock at any time, at the option of the holder, at a price of $5.00 per share. The Convertible Subordinated Notes mature on May 30, 2008, extending the May 30, 2003, maturity date of the Secured Promissory Note. The interest rate of the Convertible Subordinated Notes is 5% per annum as compared to an interest rate of 10% per annum under the Secured Promissory Note. The interest is payable quarterly at our option in cash or through increases to the outstanding principal of the Convertible Subordinated Notes.

On December 14, 2004, we entered into an Agreement Regarding Amended and Restated Common Stock Purchase Warrant and 5% Convertible Subordinated Note Due 2008 with Astoria whereby we could redeem, in part, the Convertible Subordinated Note in advance of January 30, 2005. On December 14, 2004, Astoria exercised its warrant in the amount of $2,670,904. In lieu of a cash payment, we used the proceeds of the exercise to pay down a portion of the indebtedness to Astoria. The pay down consisted of $247,129 for accrued and unpaid interest, and $2,423,775 as a reduction of principal of the Convertible Subordinated Note. For the foreseeable future, we expect to increase the principal of the Convertible Subordinated Notes in lieu of cash payments for the interest. If the Convertible Subordinated Notes are converted into common stock, our stockholders may experience substantial dilution. Unlike the Secured Promissory Note, the Convertible Subordinated Notes are not secured by our assets.

If our future financial performance improves, we may seek to take advantage of opportunities in the equity and capital markets to raise additional funds for operating needs or to pay down our debt to Astoria and others. There can be no assurances that such opportunities will arise. In addition to holding the majority of the Convertible Subordinated Notes, Astoria is a major stockholder of ours, holding a majority of our outstanding common stock. Richard W. Koe, Chairman of the Board of Directors, serves as the Managing General Partner for Astoria. Carlton H. Baab, our President, Chief Executive Officer, and Director, served as a Managing Principal of Astoria Capital Management, which is a general partner of Astoria, until taking a formal leave of absence to join us in August 2001. Gerald F. Chew, a member of our Board of Directors, is the cousin of Mr. Koe.

At December 31, 2006, we had $10.5 million in cash. We believe that our existing cash balances combined with our cash flow from operating activities will be sufficient to meet our operating and capital expenditure requirements for the remainder of the fiscal year ending March 31, 2007 and through the foreseeable future. We are committed to research and development 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 efforts have required, and will continue to require, cash outlays without the immediate or short-term receipt of related revenue. Our ability to service our long-term debt and meet our expenditure requirements is dependent upon our future financial performance, which will be affected by, among other things, prevailing economic conditions, our ability to penetrate new markets and attract new customers, market acceptance of our new and existing products and services, the success of research and development efforts and other factors beyond our control.

On February 11, 2004, we entered into a two year credit facility with Silicon Valley Bank which provided us with the ability to borrow up to $1.5 million at an annual interest rate of Prime plus 1.0%, provided that the annual interest rate shall never be less than 5%. We renewed this credit facility on February 11, 2006. The credit facility is collateralized by our assets and expires in February 2008. The credit facility contains financial and reporting covenants that require us to maintain certain financial ratios only when we have outstanding borrowings on the line. There were no outstanding borrowings at December 31, 2006. Upon expiration of the term of this facility we will assess our credit and liquidity needs in relation to market factors. However, we believe that the facility is not required for liquidity purposes or to meet our cash flow needs for the foreseeable future.

On November 9, 2004, we entered into a lease agreement with The Irvine Company whereby we leased one building in Irvine, California, comprising approximately 29,000 square feet, to replace our then headquarters facility. The lease commenced in November 2005 and has a five-year term. If certain conditions are met, we have the option to extend the term of the lease for an additional thirty-six months. The total basic rent over the five-year term is approximately $2.6 million, which represents a lower per square foot cost than our prior property lease. The annual basic rent during the five-year term ranges from approximately $475,000 during the first year to approximately $545,000 during the fifth year. The rent expense is being recognized on a straight line basis over the lease term.

We had no material commitments for capital expenditures at December 31, 2006.

Net cash used in operating activities was $1.3 million and $1.2 million for the nine-month periods ended December 31, 2006 and 2005, respectively. The increase in net cash used in operating activities was due to an increase in research and development expense coupled with higher audit expenses related to restating prior year s financial statements. Cash used in investing activities decreased due to fewer purchases of equipment in the current year. The increase in cash provided by financing activities was due to proceeds received from stock option exercises and employee s ESPP purchases.

Our earnings before interest, taxes, depreciation and amortization (EBITDA) was $0.1 million, or 2% of total net revenue for the three months ended December 31, 2006, and ($0.8) million, or (6%) of total net revenue for the nine months ended December 31, 2006. Our EBITDA was breakeven for the three months ended December 31, 2005, and ($0.2) million, or (1%) of total net revenue for the nine months ended December 31, 2005. The increase in EBITDA for the three months ended December 31, 2006 compared to the same period in prior year was a result of reduced personnel costs in the third quarter of fiscal year 2007. The decrease in EBITDA for the nine months ended December 31, 2006 compared to the same period in prior year was a result of decreased license revenue. EBITDA is defined as net loss with an add-back for depreciation and amortization, non-cash stock-based compensation expense, interest expense, other income and expense, and income taxes. The following table reconciles EBITDA to the reported net loss:

RECONCILIATION OF EBITDA TO NET LOSS
(in thousands)

	Three Months Ended December 31, 2006	2005	Nine Months Ended December 31, 2006	2005
Reported net loss	$ (421)	$ (268)	$ (2,344)	$ (1,237)
Depreciation and amortization	78	59	232	206
Stock-based compensation	238		695	10
Interest expense-net	205	239	636	728
Other expense (income)-net	(19)	7	(55)	79
Provision for income taxes	17		57	
EBITDA	$ 98	$ 37	$ (779)	$ (214)

EBITDA does not represent funds available for management s discretionary use and is not intended to represent cash flow from operations. EBITDA should not be construed as a substitute for net loss or as a better measure of liquidity than cash flow from operating activities, which are determined in accordance with United States generally accepted accounting principles (GAAP). EBITDA excludes components that are significant in understanding and assessing our results of operations and cash flows. In addition, EBITDA is not a term defined by GAAP and as a result our measure of EBITDA might not be comparable to similarly titled measures used by other companies.

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

Our EBITDA financial information is also comparable to net cash used in operating activities. The table below reconciles EBITDA to the GAAP disclosure of net cash used in operating activities:

RECONCILIATION OF EBITDA TO NET CASH USED IN OPERATING ACTIVITIES
(in thousands)

	Nine Months Ended December 31, 2006	2005
Net cash used in operating activities	$ (1,321)	$ (1,185)
Interest expense-net	636	728
Other expense (income)-net	(55)	79
Change in accounts receivable	299	392
Change in other current and non-current assets	218	23
Change in accounts payable	182	317
Change in accrued liabilities	(328)	(869)
Change in deferred revenue	(243)	396
Note payable discount amortization	(62)	(62)
Provision for bad debt	(105)	(33)
EBITDA	$ (779)	$ (214)

RISK FACTORS

We operate in a rapidly changing environment that involves numerous risks and uncertainties. The following section lists some, but not all, of these risks and uncertainties that may have a material adverse effect on our business, financial condition or results of operation.

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

We have devoted significant resources to the research and development of products and technologies. We believe that our future success will depend in large part on a strong research and development effort with respect to both our existing and new products. Beginning in 2001, we began an extensive effort to leverage our time-proven Pick UDM and core intellectual property to create an enterprise class XML database management server for the emerging XML market. This significant investment of time and resources resulted in the TigerLogic XDMS product line. While we intend for these efforts to improve our future operating results and increase cash flow, such efforts may not result in new products or revenue, and any new products that do result may not be successful. 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 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.

OUR FAILURE TO COMPETE EFFECTIVELY MAY HAVE AN ADVERSE IMPACT ON OUR OPERATING RESULTS.

The market for our products is highly competitive, diverse and subject to rapid change. Our products and services compete on the basis of the following key characteristics: performance; inter-operability; scalability; functionality; reliability; pricing; post sale customer support; quality; compliance with industry standards; and overall total cost of ownership.

The application development tools software market is rapidly changing and intensely competitive. Our MDMS products compete with products developed by companies such as Oracle, Microsoft and IBM. Our RAD products currently encounter competition from several direct competitors, including Microsoft, and competing development environments, including JAVA. Competition is developing and evolving in the XML market for which our XDMS products are intended. Companies that do or are expected to compete in this market include Oracle, IBM, Microsoft and Sybase, as well as a number of smaller companies with products that directly and indirectly compete with our XDMS products. Additionally, as we expand our business, we expect to compete with a different group of companies including smaller, highly focused companies offering single products.

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. While we currently believe that our products and services compete favorably in the marketplace, our products and services could fall behind marketplace demands at any time. If we fail to address the competitive challenges, our business would suffer materially.

BECAUSE THE MARKET FOR OUR MDMS AND RAD PRODUCTS IS RELATIVELY STABLE OR MAY BE DECLINING, OUR REVENUE MAY DECLINE IF WE CANNOT MAINTAIN OUR SALES TO EXISTING CUSTOMERS OR GENERATE SALES TO NEW CUSTOMERS.

We believe that the markets for our MDMS and RAD products are relatively stable and consistent from period to period. As a result, to maintain or grow our revenue in these markets, we will need to maintain our sales to existing customers and to generate sales to new customers, including corporate development teams, commercial application developers, system integrators, independent software vendors and independent consultants. If we fail to attract new customers, if we lose our customers to competitors, or if the MDMS or RAD markets decline, our revenue may be adversely affected. In the longer term, it is expected that the MDMS and RAD markets will eventually decline as customers adopt newer technologies.

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

The sales cycle for our MDMS and RAD products typically ranges from three to nine months or longer and the sales cycle for our XDMS products is anticipated to be significantly longer since these markets are emerging and the products are still in the process of being adopted by the marketplace. Our products are typically used by application developers, system integrators and value added resellers to develop applications that are critical to their corporate end user s business. Because our products are often part of an end user s larger business process, re-engineering initiative, or implementation of client/server or web-based computing, the end users frequently view the purchase of our products as part of a long-term strategic decision regarding the management of their workforce-related operations and expenditures. Thus, this sometimes results in end users taking a significant period of time to assess alternative solutions by competitors or to defer a purchase decision as a result of an unrelated strategic issue beyond our control. As a result, a significant period of time may elapse between our research and development efforts and recognition of revenue, if any.

IF WE FAIL TO INCREASE REVENUE OR IMPROVE OUR OPERATING RESULTS, WE MAY NOT BE ABLE TO REPAY OUR DEBT TO ASTORIA AND OTHERS.

We believe that our cash and cash flow from operating activities will be sufficient to meet our operating and capital expenditure requirements at least through the foreseeable future. Our ability to meet our expenditures and service our debt obligations is dependent upon our future financial performance, which will be affected by, among other things, prevailing economic conditions, our ability to penetrate new markets and attract new customers, market acceptance of our new and existing products and services, the success of research and development efforts and other factors beyond our control. As previously noted, in January 2003, we entered into the Exchange Agreement with Astoria to replace the existing Secured Promissory Note, which was due May 2003, with a Convertible Subordinated Note, which is due and payable in May 2008. The Convertible Subordinated Notes bear interest at 5% per annum and are convertible into common stock at any time at a price of $5.00 per share. If we are unable to penetrate new markets, generate new sources of revenue or otherwise improve our operating results, we may be unable to repay our debt to Astoria and others or to access opportunities in the equity and capital markets to raise additional funds for operating needs.

THE CONCENTRATION OF OUR STOCK OWNERSHIP AND THE DEBT OWED TO ASTORIA GIVE CERTAIN STOCKHOLDERS SIGNIFICANT CONTROL OVER OUR BUSINESS.

As of December 31, 2006, Astoria beneficially owned approximately 58% of our outstanding common stock. In addition, as of December 31, 2006, the Convertible Subordinated Note issued to Astoria had a balance of approximately $23.8 million in principal and accrued interest maturing on May 30, 2008. Richard W. Koe, Chairman of the Board of Directors, serves as the Managing General Partner for Astoria Capital Management, which is a general partner of Astoria. Carlton H. Baab, our President, Chief Executive Officer, and Director, served as a Managing Principal of Astoria Capital Management until taking a formal leave of absence to join us in August 2001. This concentration of stock ownership, together with the outstanding debt, would allow Astoria, acting alone, to block any actions that require approval of our stockholders, including the election of members to the Board of Directors and the approval of significant corporate transactions. Moreover, this concentration of ownership may delay or prevent a change in control.

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

We expect to continue to spend substantial amounts of money in the area of research and development, sales and marketing and operations in order to promote new product development and introduction. Because the expenses associated with these activities are relatively fixed in the short-term, we may be unable to timely adjust spending to offset any unexpected shortfall in revenue growth or any decrease in revenue levels. Operating results may also fluctuate due to factors such as:

- the size and timing of customer orders;
- changes in pricing policies by us or our competitors;
- our ability to develop, introduce, and market new and enhanced versions of our products;
- the number, timing, and significance of product enhancements and new product announcements by our competitors;
- the demand for our products;

- non-renewal of customer support agreements;
- software defects and other product quality problems; and
- personnel changes.

We operate without a significant backlog of orders. As a result, the quarterly sales and operating results in any given quarter are dependent, in large part, upon the volume and timing of orders booked and products shipped during that quarter. Accordingly, we may be unable to adjust spending in a timely manner to compensate for any unanticipated decrease in orders, sales or shipments. Therefore, any decline in demand for our products and services, in relation to the forecast for any given quarter, could materially and negatively impact the results of our operations. As a result, our quarterly operating results may fluctuate, which may cause 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.

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

The majority of our executive officers joined us subsequent to the acquisition of PickAx, including our President, Chief Executive Officer, and Director, Carlton H. Baab, who joined us in August 2001. The loss of one or more of these or other executives could adversely affect our business. In addition, we believe that our future success will depend to a significant extent on our ability to recruit, hire and retain highly skilled management and employees with experience in engineering, product management, business development, sales, marketing and customer service. Competition for such personnel in the software industry can be intense, and there can be no assurance that we will be successful in attracting and retaining such personnel. If we are unable to do so, we may experience inadequate levels of staffing to develop and license our products and perform services for our customers, which could adversely affect our business.

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

Our ability to compete successfully will depend, in part, on our ability to protect our proprietary technology and operations without infringing upon the rights of others. We may fail to do so. In addition, the laws of certain countries in which our products are, or may be, licensed may not protect our proprietary rights to the same extent as the laws of the United States. We rely primarily on a combination of trade secret, copyright and trademark laws and contractual provisions to protect our intellectual property and proprietary rights. Our trademarks include Raining Data, Pick, D3, Omnis, Omnis Studio, mvEnterprise, mvBase, mvDesigner and TigerLogic, among others. We also have one pending U.S. patent application as of December 31, 2006. In addition to trademark and copyright protections, we license our products to end users on a right to use basis pursuant to a perpetual license agreement that restricts use of products to a specified number of users.

We generally rely on click-wrap licenses that become effective when a customer downloads and installs software on its system. In order to retain exclusive ownership rights to our software and technology, we generally provide our software in object code only, with contractual restrictions on copying, disclosure and transferability. There can be no assurance that these protections will be adequate, or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology.

OUR PRODUCTS MAY CONTAIN SOFTWARE DEFECTS WHICH COULD HARM OUR BUSINESS.

Our enterprise applications software may contain undetected errors or failures. This includes our XDMS products, which are at higher risk given these products are in the earliest stages of the product life cycle. This may result in loss of, or delay in, customer acceptance of our products and could harm our reputation and our business. Undetected errors or failures in computer software programs are not uncommon. While we make every effort to thoroughly test our software, in the event that we experience significant software errors, we could experience delays in release, customer dissatisfaction and lost revenue. Any of these errors or defects could harm our business.

IF THE REGISTRATION RIGHTS HELD BY ASTORIA AND OTHER SECURITIES HOLDERS ARE EXERCISED, OR THESE SECURITIES HOLDERS SELL A SUBSTANTIAL AMOUNT OF RESTRICTED SECURITIES IN THE OPEN MARKET, OUR STOCK PRICE MAY DECLINE.

As of December 31, 2006, we had 21,148,837 outstanding shares of common stock, of which approximately 9,700,000 shares were restricted securities held by Astoria and other holders. Restricted securities may be sold in the public market only if they are registered or if they qualify for an exemption from registration promulgated under the Securities Act of 1933, as amended. At present, all of our outstanding restricted securities are either entitled to registration rights or eligible for public sale under Rule 144, subject to volume limitations and other requirements of Rule 144. If Astoria or other holders decide to exercise their demand registration rights, we would incur costs and expenses associated with the registration of securities.

Furthermore, sales of a substantial number of shares 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, which may have an adverse effect on 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, India and Europe. Approximately 31% of our revenue for the three and nine months ended December 31, 2006 was generated from our international offices. We face several risks inherent in conducting business internationally, including but not limited to the following:

- fluctuations in interest rates or currency exchange rates;
- language and cultural differences;
- local and governmental requirements;
- difficulties and costs of staffing and managing international operations;
- 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.

Any of these factors could harm our international operations and, consequently, affect the international growth or maintenance of our business. These factors or any combination of these factors may adversely affect our revenue or our overall financial performance.

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

A key factor in our future success will continue to be the ability of our products to operate and perform well with existing and future leading, industry-standard enterprise software applications intended to be used in connection with our MDMS, RAD, and XDMS 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.

24

THIRD PARTIES COULD ASSERT THAT OUR SOFTWARE PRODUCTS AND SERVICES INFRINGE ON THEIR INTELLECTUAL PROPERTY RIGHTS, WHICH COULD RESULT IN COSTLY LITIGATION, CAUSE PRODUCT SHIPMENT DELAYS, PROHIBIT PRODUCT LICENSING OR REQUIRE US TO ENTER INTO ROYALTY OR LICENSING AGREEMENTS.

There has been a substantial amount of litigation in the software industry regarding intellectual property rights. Third parties may claim that our current or potential future products and services infringe upon their intellectual property. We expect that software product developers and providers of software applications will increasingly be subject to infringement claims as the number of products and competitors in our industry segment grow and the functionality of products in different industry segments overlap. Any claims, with or without merit, could be time consuming, result in costly litigation, cause product shipment delays, prohibit product licensing or require us to enter into royalty or licensing agreements. Royalty or licensing agreements, if required, may not be available on terms acceptable to us or at all, which could seriously harm our business.

ITEM 3. 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 report. 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 Securities and Exchange Commission rules and accumulated and communicated to the Company s management, including its principal executive officer and principal financial officer, 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 has been detected.

Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is subject from time to time to litigation, claims and suits arising in the ordinary course of business. The Company is currently a party to the following legal proceedings.:

1. Raining Data v. Intrametrics. On or about January 19, 2007, the Company filed a complaint in Orange County Superior Court that sets forth allegations that Intrametrics threatens to and has misappropriated the Company s trade secrets. The Company s allegations in the complaint include that Intrametrics has obtained the Company s source code in violation of the Parties OEM (Original Equipment Manufacturer) Distribution Agreement and in violation of California s laws prohibiting the misappropriation of trade secrets. The Company seeks injunctive relief from Intrametrics, including, but not limited to, compelling Intrametrics to fully comply with all of the termination provisions set forth in the OEM Agreement; enjoining Intrametrics and its employees and agents from using or disclosing the Company s trade secrets; prohibiting Intrametrics from soliciting the Company's current or potential customers for 3 years, and from soliciting or employing certain of Company's former employees for 3 years. The Company is prepared to file a motion for a preliminary injunction to ensure the non-use by Intrametrics of the Company s trade secret information and licenses. The Company will also proceed with discovery in this litigation.

2. Raining Data v. Soheil Raissi (formerly the Company s Vice President, Product Development and Professional Services), Mario Barrenechea (formerly the Company s Senior Vice President, Worldwide Sales and Marketing, Pick and Omnis Products), and Adevnet. On or about December 8, 2006, the Company filed a complaint in Orange County Superior Court that sets forth allegations that the defendants threaten to and have missappropriated the Company s trade secrets. The Company s allegations in the complaint include that the individual defendants have used and/or disclosed the Company s trade secrets (in the form of source code and licenses and other trade secret information) in violation of their agreements with the Company to maintain the confidentiality of such trade secret information, and in violation of California laws

prohibiting the misappropriation of trade secrets. The Company seeks injunctive relief from the defendants, including, but not limited to, compelling the defendants to immediately return all of the Company's trade secrets and property; enjoining the defendants and their employees and agents from using or disclosing the Company's trade secrets, including the Company's source code; ordering the defendants to disclose all gains and profits they have derived from the misappropriation of the Company's trade secrets; enjoining the defendants from directly or indirectly supplying, selling or promoting any product that incorporates the Company's trade secrets. The Company is prepared to proceed with discovery in this litigation.

25

3. Cross-Complaint by Soheil Raissi, Mario Barrenechea and Adevnet v. Raining Data: On or about January 10, 2007, the defendants in the case above filed a cross-complaint, alleging several claims against the Company and Carlton Baab, the Company s President and Chief Executive Officer, unfair business practices, violation of civil rights, intentional interference with prospective economic advantage, negligent interference with prospective economic advantage, malicious prosecution, abuse of process, negligence, civil conspiracy, and injunctive relief. Cross-complainants allege general, compensatory, special, and punitive and exemplary damages in amounts "according to proof", and seek to enjoin the Company from engaging in improper and unlawful conduct. The Company and Carlton Baab assert that all of the claims are baseless, and will vigorously defend all allegations.

An unfavorable resolution of these legal proceedings could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

ITEM 6. EXHIBITS

Exhibits:

31.1	Certification of Chief Executive Officer.
31.2	Certification of Chief Financial Officer.
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 14, 2007

RAINING DATA CORPORATION

/s/ Thomas Lim
Thomas Lim
Chief Financial Officer and Duly Authorized Officer

EXHIBIT INDEX

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.