TigerLogic CORP
Form 10-Q
November 14, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from to

Commission File Number 0-16449

TIGERLOGIC CORPORATION

(Name of Registrant as Specified in Its Charter)

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

(949) 442-4400

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

As of October 31, 2014, the Registrant had 30,946,817 shares of its common stock outstanding.

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TIGERLOGIC CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TIGERLOGIC CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	September 30, 2014	March 31, 2014
ASSETS		
Current assets:		
Cash	$ 12,582	$ 18,602
Trade accounts receivable, less allowance for doubtful accounts of $36 and $43, respectively	967	934
Receivable from sale of MDMS busines	2,200	2,200
Other current assets	484	553
Total current assets	16,233	22,289
Property, furniture and equipment,net	748	575
Goodwill	18,183	18,183
Intangible assets, net	468	510
Deferred tax assets	108	109
Other assets	70	73
Total assets	$ 35,810	$ 41,739
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 683	$ 349
Accrued liabilities	1,364	1,892
Deferred revenue	1,601	1,599
Total current liabilities	3,648	3,840
Other long-term liabilities	112	122
Total liabilities	3,760	3,962
Commitments and contingencies		
Stockholders equity:		
Preferred stock		
Common stock	3,015	3,012
Additional paid-in-capital	143,228	142,848
Accumulated other comprehensive income	2,311	2,360
Accumulated deficit	(116,504)	(110,443)
Total stockholders equity	32,050	37,777

Total liabilities and stockholders equity	$	35,810	$	41,739

See accompanying notes to the unaudited condensed consolidated financial statements.

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TIGERLOGIC CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands, except per share data)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Six Months Ended September 30, 2014	Six Months Ended September 30, 2013
Net revenues:				
Licenses	$ 592	$ 615	$ 1,337	$ 1,263
Services	1,236	902	2,260	1,620
Total net revenues	1,828	1,517	3,597	2,883
Operating expenses:				
Cost of license revenue-amortization of technology intangible asset	19	19	38	38
Cost of service revenues	357	201	610	344
Selling and marketing	1,504	1,366	3,419	2,846
Research and development	1,143	1,090	2,229	2,089
General and administrative	1,452	1,219	3,339	2,504
Total operating expenses	4,475	3,895	9,635	7,821
Operating loss	(2,647)	(2,378)	(6,038)	(4,938)
Other income (expense):				
Interest expense-net	(1)	(1)	(2)	(2)
Other income (expense)-net	41	(29)	9	(21)
Total other income (expense)-net	40	(30)	7	(23)
Loss before income taxes from continuing operations	(2,607)	(2,408)	(6,031)	(4,961)
Income tax provision (benefit)	18	(442)	30	(959)
Net loss from continuing operations	$ (2,625)	$ (1,966)	$ (6,061)	$ (4,002)
Discontinued operations:				
Net income from discontinued operations, net of tax		788		1,586
Net loss	$ (2,625)	$ (1,178)	$ (6,061)	$ (2,416)
Other comprehensive loss:				
Foreign currency translation adjustments	(87)	57	(49)	49
Total comprehensive loss	$ (2,712)	$ (1,121)	$ (6,110)	$ (2,367)
Basic and diluted net income (loss) per share:				
Loss from continuing operations	$ (0.09)	$ (0.07)	$ (0.20)	$ (0.13)
Income from discontinued operations	$	$ 0.03	$	$ 0.05
Net loss	$ (0.09)	$ (0.04)	$ (0.20)	$ (0.08)
Shares used in computing net loss from continuing operations per share, income from discontinued operations per share, and net loss per share	30,747	30,042	30,449	29,997

See accompanying notes to the unaudited condensed consolidated financial statements.

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TIGERLOGIC CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended September 30, 2014	2013
Cash flows from operating activities:		
Net loss	$ (6,061)	$ (2,416)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of long-lived assets	123	94
Recovery from bad debt	(58)	
Stock-based compensation expense	361	763
Foreign currency exchange (gain) loss	(10)	28
Change in assets and liabilities:		
Trade accounts receivable	(2)	(645)
Other current and non-current assets	56	148
Accounts payable	334	(38)
Accrued liabilities	(507)	333
Deferred revenue	43	88
Net cash used in operating activities	(5,721)	(1,645)
Cash used in investing activities-purchase of property, furniture and equipment	(258)	(33)
Cash from financing activities		
Proceeds from exercise of stock options	23	32
Proceeds from issuance of common stock		24
Net cash provided by financing activities	23	56
Effect of exchange rate changes on cash	(64)	38
Net decrease in cash	(6,020)	(1,584)
Cash at beginning of the period	18,602	6,465
Cash at end of the period	$ 12,582	$ 4,881

See accompanying notes to the unaudited condensed consolidated financial statements.

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TIGERLOGIC CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

1. INTERIM FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial information furnished herein reflects all adjustments, consisting only of normal recurring items, which in the opinion of management are necessary to fairly state TigerLogic Corporation and its subsidiaries (collectively, the Company or we, us or our) financial position, results of operations and cash flows for the dates and periods presented and to make such information not misleading. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to rules and regulations of the Securities and Exchange Commission (SEC); nevertheless, management of the Company believes that the disclosures herein are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the Company s audited financial statements for the year ended March 31, 2014, contained in the Company s Annual Report on Form 10-K filed with the SEC on June 27, 2014. The results of operations for the three and six months ended September 30, 2014, are not necessarily indicative of results to be expected for any other interim period or the fiscal year ending March 31, 2015.

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

2. DISCONTINUED OPERATIONS - BUSINESS DIVESTITURE

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

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

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

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

	Three Months Ended September 30, 2013	Six Months Ended September 30, 2013
Revenue of discontinued operations	$ 2,322	$ 4,680
Income from discontinued operations	1,296	2,663
Income tax expense	508	1,077
Income from discontinued operations, net of tax	$ 788	$ 1,586

3. STOCK-BASED COMPENSATION

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

Total stock-based compensation expense included in the unaudited condensed consolidated statements of comprehensive loss for the three and six months ended September 30, 2014 and 2013, was as follows (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
Cost of revenue	$ 9	$ 4	$ 10	$ 7
Operating expense:				
Selling and marketing	62	91	130	211
Research and development	32	91	66	147
General and administrative	85	110	155	241
Total stock-based compensation expense	188	296	361	606
Income tax benefit				
Net stock-based compensation expense	$ 188	$ 296	$ 361	$ 606

Excluded from the table above was stock-based compensation expense related to discontinued operations of approximately $68,000 and $156,000 for the three and six months period ended September 30, 2013.

As of September 30, 2014, there was approximately $1.7 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans. That cost is expected to be recognized over a weighted-average period of 3.16 years.

4. FAIR VALUE MEASUREMENT

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

5. STOCKHOLDERS EQUITY AND EARNINGS PER SHARE

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

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Weighted outstanding options to purchase 3,816,622 shares and 3,737,985 shares of the Company s common stock for the three and six month periods ended September 30, 2014, respectively, and 3,793,782 shares and 3,951,538 shares for the three and six month periods ended September 30, 2013, respectively, have been excluded from the computation of diluted net loss per share because the effect of their inclusion would have been anti-dilutive.

The change in accumulated other comprehensive income during the three and six month periods ended September 30, 2014 and 2013 is the result of the effect of foreign exchange rate changes.

6. BUSINESS SEGMENT

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

Net revenue	**Three Months Ended September 30, 2014**	**2013**	**Six Months Ended September 30, 2014**	**2013**
United States	$ 1,202	$ 885	$ 2,065	$ 1,434
Europe	626	632	1,532	1,449
Total	$ 1,828	$ 1,517	$ 3,597	$ 2,883

Long-lived assets	**September 30, 2014**	**March 31, 2014**
United States	$ 19,073	$ 18,928
Europe	396	413
Total	$ 19,469	$ 19,341

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

	Three Months Ended September 30, 2014	**2013**	**Six Months Ended September 30, 2014**	**2013**
Omnis Software	$ 960	$ 991	$ 2,130	$ 2,019
Social and Mobile Platform	868	526	1,467	864
Total	$ 1,828	$ 1,517	$ 3,597	$ 2,883

7. RELATED PARTY TRANSACTIONS

Following the retirement of Richard Koe from the position of Chief Executive Officer effective September 7, 2014, the Company entered into an expense reimbursement agreement with Mr. Koe where the Company agreed to reimburse Astoria Capital Management (ACM), an entity controlled by Mr. Koe, a monthly amount of $2,000 as rental fee for the use of ACM s furniture in the Company s Portland office. This agreement will continue for such time as the Company continues to make use of ACM s furniture and will terminate upon written notice from the Company. Mr. Koe continues to serve as a member of the Company s Board of Directors and remains a non-executive employee of the Company pursuant to the terms and conditions of Mr. Koe s resignation and transition agreement dated September 7, 2014.

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8. COMMITMENTS AND CONTINGENCIES

The Company is subject from time to time to litigation, claims and suits arising in the ordinary course of business. There were no ongoing material legal proceedings as of September 30, 2014.

Indemnification

The Company s standard customer license and software agreements contain indemnification and warranty provisions which are generally consistent with practice in the Company s industry. The duration of the Company s service warranties generally does not exceed 30 days following completion of its services. The Company has not incurred significant obligations under customer indemnification or warranty provisions historically and does not expect to incur significant obligations in the future. Accordingly, the Company does not maintain accruals for potential customer indemnification or warranty-related obligations. The maximum potential amount of future payments that the Company could be required to make is generally limited under the indemnification provisions in its customer license and service agreements. The Company has entered into the standard form of general indemnification agreement with each of its directors and executives. In addition, the terms of the sale of the Company s MDMS Business include certain general indemnification obligations of the Company in favor of Rocket. However, as these relate to standard representations and warranties, the Company currently does not expect to incur any significant obligations related to the indemnification and has recorded amounts placed in escrow related to the indemnification as a receivable from Rocket at the date of sale.

9. GOODWILL IMPAIRMENT TEST

The Company reviews goodwill and other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. During the fiscal quarter ended September 30, 2014, the Company s market capitalization fell below its net book value. As a result, the first step of goodwill impairment test was conducted as of September 30, 2014 by the Company s management with the assistance of an independent valuation consultant utilizing both a market capitalization approach, including an estimated control premium, as well as a discounted cash flow approach, with key assumptions including projected future cash flows and a risk-adjusted discount rate. Both approaches resulted in an estimated fair value of the Company s reporting unit in excess of net book value that, when weighted, indicated that the fair value of the Company s reporting unit exceeded its net book value by approximately 12% as of September 30, 2014. Therefore, the Company determined that no goodwill impairment existed at that time. However, the Company s stock price has continued to decline after September 30, 2014. The Company continues to monitor the stock price and a further sustained decline in the Company s stock price and erosion of the Company s market capitalization would trigger an additional goodwill impairment test in future periods. To the extent the fair value of the Company s reporting unit is below its carrying amount, the Company would be required to perform the second step of the goodwill impairment test to measure any impairment of goodwill.

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

The section entitled Management s Discussion and Analysis set forth below contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange

Act). These statements may generally be identified by the use of such words as expect, anticipate, believe, intend, plan, will, or shall, or the negative of those terms. We have based these forward-looking statements on our current expectations and projections about future events. Forward-looking statements involve certain risks and uncertainties and actual results may differ materially from those discussed in any such statement. Factors that could cause actual results to differ materially from such forward-looking statements include the risks described under the heading Risk Factors in Item 1A of this Quarterly Report on Form 10-Q and, elsewhere in this Quarterly Report on Form 10-Q. The forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to statements about the following: (1) our future success, (2) our research and development efforts, (3) our future operating results and cash flow, (4) our ability to compete, (5) the markets in which we operate, (6) our revenue, (7) cost of license revenue and cost of service revenue, (8) our selling and marketing costs, (9) our general and administrative costs, (10) our research and development expenses, (11) the effect of critical accounting policies, (12) the possibility that we may seek to take advantage of opportunities in the equity and capital markets, (13) our belief that our existing cash balances combined with our cash flow from operating activities will be sufficient to meet our anticipated cash needs for at least the next 12 months, (14) our focus on the continued development and enhancement of new product lines, including social media content aggregation platform and applications, and identification of new and emerging technology areas and discussions with channel partners for the sale and distribution of new product lines, (15) the effect of recent changes in tax laws on our financial statements, (16) our ability to successfully integrate recent acquisitions, and (17) the possibility that we may seek to take advantage of strategic acquisition or disposition opportunities. All forward-looking statements in this document are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement.

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

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

Overview

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

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

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

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

Products

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

We primarily sell our Omnis software products through established distribution channels consisting of original equipment manufacturers (OEMs), system integrators, specialized vertical application software developers and consulting organizations, as well as through our sales personnel. Our social media content aggregation platform and Internet search enhancement tools are generally sold through our sales personnel and web sites, as well as through co-marketing arrangements with third parties. Our mobile applications and digital publishing solutions are generally sold through our sales personnel. Outside the United States, we maintain direct sales offices in the United Kingdom, France, and Germany. Approximately 34% and 43% of our revenue from continuing operations came from sales through our offices located outside the United States for the three and six months ended September 30, 2014, respectively. We generally license our Omnis software on a per-CPU, per-server, per-port or per-user basis. We generally license our hosted Postano platform on a time-based subscription basis. We license our yolink products at prices based on usage measured in a variety of ways. We generally sell our mobile application design and digital publishing services on a project fee basis, and charge monthly fees for hosting mobile applications. In addition to software products and hosted services, we provide continuing

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software maintenance and support and, to a limited extent, other professional services to our customers, including consulting and training services to help plan, analyze, implement and maintain application software based on our products. For each of the three and six months ended September 30, 2014, and 2013, no single customer accounted for more than 10% of our revenue.

In addition, one of the elements of our business strategy involves expansion through the acquisition of businesses, assets, products or technologies that allow us to complement our existing product offerings, expand our market coverage or enhance our technological capabilities, such as our acquisition of privately-held Storycode, Inc., a mobile applications development and publishing company in January 2013. We continually evaluate and explore strategic opportunities as they arise, including business combination transactions, strategic partnerships, and the purchase or sale of assets, including tangible and intangible assets, such as our divestiture of the MDMS Business.

TigerLogic Postano

Postano is a real-time hosted social content aggregation, activation, and visualization platform, bringing together social media conversations and content streams from around the web to strengthen fan engagement. The Postano platform includes Postano Mobile, Postano Events, Postano Retail, Postano Social Hub, Postano Command Center, and the built-in Postano Monitoring dashboard capabilities. Postano aggregates social content across Twitter, Tumblr, Facebook, Instagram, Pinterest, and other social platforms. Within Postano, these content streams can be moderated, curated, analyzed, and then displayed in venues ranging from retail stores to stadiums, at events to increase brand awareness, on website social hubs to amplify engagement, and on hashtag campaign landing pages to create brand conversation and increase participation. Major Postano features include native mobile moderation apps for iPhone and Android, and advanced social visualizations built entirely with customizable HTML5 for content that can be displayed on every size screen from smartphones to the largest LED screen arrays. Postano is designed primarily for commercial use, with pricing based on a number of factors, including the type of Postano displayed, the number of Postano displays, features, display customization and support levels desired.

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

Omnis Rapid Application Development Tools

Our Omnis products support the full life cycle of software application development and are designed for rapid prototyping, development, and deployment of graphical user interface (GUI) client/server and web applications. The Omnis products - Omnis Studio and Omnis Classic - are object-oriented and component-based, providing the ability to deploy cross-platform applications on operating system platforms and database environments. Omnis Studio s JavaScript Client platform enables developers to create and deploy highly interactive web and mobile enterprise applications for Android, iOS, BlackBerry, and Windows based devices, all from one code base. Omnis Studio 6.0 uses scripting compatible with HTML5 and CSS3 to enable support for all popular browsers and devices, including tablets, smartphones, desktops, and web-enabled TVs. Omnis-based applications are developed once and deployed to any device, on any platform, with no plug-in installation required.

Storycode

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

TigerLogic Yolink

Yolink is a next-generation search enhancement technology that increases the effectiveness of search functionality across web sites and services. Yolink can search both structured markup, such as HTML, and binary code documents as well as unstructured, raw text documents by layering a common semantic model across them, and using this to organize and effect full-text searches across

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documents. Yolink searches behind links and through web sites to retrieve content based on keyword search terms. To facilitate the user s review of search results, each keyword is highlighted with a unique color. This capability is especially useful for reviewing and searching through the many web pages that contain hundreds, if not thousands, of embedded hyperlinks. Yolink technology can be applied to many platforms and Internet delivery methodologies. Yolink application programming interfaces (known as APIs) allow developers to integrate yolink search technologies with their web sites, services or applications. Yolink is available for download at www.yolink.com.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent liabilities.

On an on-going basis, we evaluate our estimates, including those related to revenue recognition and accounting for goodwill and intangible assets. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

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

REVENUE RECOGNITION. Revenue attributable to an element in a customer arrangement is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is probable. If, at the outset of the customer arrangement, we determine that the arrangement fee is not fixed or determinable, we defer the revenue and recognize the revenue when the arrangement fee becomes due and payable. We do not have price protection programs or conditional acceptance agreements, and sales of our products are made without right of return.

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

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

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

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

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

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

We generally assess goodwill for potential impairments in the fourth quarter of each fiscal year, or during the year if an event or other circumstance indicates that we may not be able to recover the carrying amount of the asset. In evaluating goodwill for impairment, we first assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. If we conclude that it is not more likely than not that the fair value of a reporting unit is less than its carrying value, then no further testing of the goodwill assigned to the reporting unit is required. However, if we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying value, we then perform a two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment to be recognized, if any.

In the first step of the review process, we compare the estimated fair value of the reporting unit with its carrying value. If the estimated fair value of the reporting unit exceeds its carrying amount, no further analysis is needed.

If the estimated fair value of the reporting unit is less than its carrying amount, we proceed to the second step of the review process to calculate the implied fair value of the reporting unit goodwill in order to determine whether any impairment is required. We calculate the implied fair value of the reporting unit goodwill by allocating the estimated fair value of the reporting unit to all of the assets and liabilities of the reporting unit as if the reporting unit had been acquired in a business combination. If the carrying value of the reporting unit s goodwill exceeds the implied fair value of the goodwill, we recognize an impairment loss for that excess amount. In allocating the estimated fair value of the reporting unit to all of the assets and liabilities of the reporting unit, we use industry and market data, as well as knowledge of the industry and our past experiences.

Determining the fair value of a reporting unit under the first 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. We base our calculation of the estimated fair value of a reporting unit on multiple approaches: market approach under the guideline public company method, market approach under the market capitalization method, and income approach. For the income approach, we use internally developed discounted cash flow models that include, among others, the following assumptions: projections of revenues and expenses and related cash flows based on assumed long-term growth rates and demand trends; expected future investments to grow new units; and estimated discount rates. We base these assumptions on our historical data and experience, third-party appraisals, industry projections, micro and macro general economic condition projections, and our expectations.

For purposes of our goodwill analysis, we consider ourselves a single reporting unit. Factors we consider to be important that would trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Timing of our revenue, significant changes in the manner of use of the acquired assets or the strategy for the overall business;

- Significant negative industry or economic trends;
- Significant decline in our stock price for a sustained period; and
- Our market capitalization falling below our net book value for a sustained period.

Given our single reporting unit structure, a key input in estimating of our reporting unit fair value is our stock price as reported by Nasdaq and our related market capitalization. Our stock price has been volatile and during the fiscal quarter ended September 30, 2014 our market capitalization fell below our net book value. As a result, the first step of goodwill impairment test was conducted as of September 30, 2014 by our management with the assistance of an independent valuation consultant utilizing both a market capitalization approach, including an estimated control premium, as well as a discounted cash flow approach, with key assumptions including projected future cash flows and a risk-adjusted discount rate. Both approaches resulted in an estimated fair value of our reporting unit in excess of net book value that, when weighted, indicated that the fair value of our reporting unit exceeded our net book value by approximately 12% as of September 30, 2014. Therefore, we determined that no goodwill impairment existed at that

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time. However, our stock price has continued to decline after September 30, 2014. We continue to monitor our stock price and a further sustained decline in our stock price and erosion of our market capitalization would trigger additional goodwill impairment testing in future periods. To the extent the fair value of our reporting unit is below its carrying amount, we would be required to perform the second step of the goodwill impairment test to measure any impairment of goodwill.

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

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

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

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

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Results of Operations

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

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		Six Months Ended September 30, 2014			Six Months Ended September 30, 2013	
	Results (In thousands)	% of Net Revenues	Percent Change	Results (In thousands)	% of Net Revenues	Results (In thousands)	% of Net Revenues	Percent Change	Results (In thousands)	% of Net Revenues
Net revenues										
Licenses	$ 592	32%	-4%	$ 615	41%	$ 1,337	37%	6%	$ 1,263	44%
Services	1,236	68%	37%	902	59%	2,260	63%	40%	1,620	56%
Total net revenues	1,828	100%	21%	1,517	100%	3,597	100%	25%	2,883	100%
Operating expenses										
Cost of revenues:										
Cost of license revenues (as a % of license revenues)	19	3%	0%	19	3%	38	3%	0%	38	3%
Cost of service revenues (as a % of service revenues)	357	29%	78%	201	22%	610	27%	77%	344	21%
Selling and marketing	1,504	82%	10%	1,366	90%	3,419	95%	20%	2,846	99%
Research and development	1,143	63%	5%	1,090	72%	2,229	62%	7%	2,089	72%
General and administrative	1,452	79%	19%	1,219	80%	3,339	93%	33%	2,504	87%
Total operating expenses	4,475	245%	15%	3,895	257%	9,635	268%	23%	7,821	271%
Operating loss	(2,647)	-145%	11%	(2,378)	-157%	(6,038)	-168%	22%	(4,938)	-171%
Other income (expense)-net	40	2%	-233%	(30)	-2%	7	0%	-130%	(23)	-1%
Loss before income taxes	(2,607)	-143%	8%	(2,408)	-159%	(6,031)	-168%	22%	(4,961)	-172%
Income tax provision (benefit)	18	1%	-104%	(442)	-29%	30	1%	-103%	(959)	-33%
Net loss from continuing operations	$ (2,625)	-144%	33%	$ (1,966)	-130%	$ (6,061)	-169%	51%	$	