

TigerLogic CORP
Form 10-Q
August 13, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from _____ to _____

TIGERLOGIC CORPORATION

(Name of Registrant as Specified in Its Charter)

Delaware
(State of Incorporation)

94-3046892
(I.R.S. Employer ID. No.)

1532 SW Morrison Street, Suite 200,
Portland, Oregon
(Address of Principal Executive Offices)

97205
(Zip Code)

(503) 488-6988

(Registrant's Telephone Number, Including Area Code)

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

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 NO

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

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

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As of July 31, 2015, the Registrant had 30,955,697 shares of its common stock outstanding.

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TIGERLOGIC CORPORATION

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****TIGERLOGIC CORPORATION AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands)

	June 30, 2015	March 31, 2015
ASSETS		
Current assets:		
Cash	\$ 9,456	\$ 10,251
Trade accounts receivable, less allowance for doubtful accounts of \$2 and \$0, respectively	758	1,291
Other current assets	438	460
Total current assets	10,652	12,002
Property, furniture and equipment, net	834	869
Intangible assets, net	344	363
Deferred tax assets	95	94
Other assets	54	54
Total assets	\$ 11,979	\$ 13,382
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 652	\$ 295
Accrued liabilities	1,301	1,525
Deferred revenue	1,817	1,905
Total current liabilities	3,770	3,725
Other long-term liabilities	103	101
Total liabilities	3,873	3,826
Commitments and contingencies		
Stockholders' equity:		
Preferred stock		
Common stock	3,096	3,096
Additional paid-in-capital	143,488	143,389
Accumulated other comprehensive income	2,251	2,174
Accumulated deficit	(140,729)	(139,103)
Total stockholders' equity	8,106	9,556
Total liabilities and stockholders' equity	\$ 11,979	\$ 13,382

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See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents**TIGERLOGIC CORPORATION AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS****(In thousands except per share data)**

	For the Three Months Ended June 30,	
	2015	2014
Net revenues:		
Licenses	\$ 398	\$ 745
Subscription	757	377
Services	445	647
Total net revenues	1,600	1,769
Operating expenses:		
Cost of subscription revenues	134	152
Cost of service revenues	139	120
Selling and marketing	951	1,915
Research and development	595	1,086
General and administrative	1,352	1,887
Total operating expenses	3,171	5,160
Operating loss	(1,571)	(3,391)
Other expense:		
Interest expense-net	(1)	(1)
Other expense-net	(54)	(32)
Total other expense-net	(55)	(33)
Loss before income taxes	(1,626)	(3,424)
Income tax provision		12
Net loss	(1,626)	(3,436)
Other comprehensive income:		
Foreign currency translation adjustments	77	38
Total comprehensive loss	\$ (1,549)	\$ (3,398)
Basic and diluted net loss per share	\$ (0.05)	\$ (0.11)
Shares used in computing basic and diluted net loss per share	30,956	30,130

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents**TIGERLOGIC CORPORATION AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)**

	For the Three Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net loss	\$ (1,626)	\$ (3,436)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of long-lived assets	71	58
Provision for (recovery of) bad debt	2	(9)
Stock-based compensation expense	99	173
Foreign currency exchange (gain) loss	(53)	32
Change in operating assets and liabilities:		
Trade accounts receivable	544	53
Other current assets	28	12
Accounts payable	307	253
Accrued liabilities	(138)	(318)
Deferred revenue	(103)	149
Net cash used in operating activities	(869)	(3,033)
Cash flows from investing activities:		
Purchases of property, furniture and equipment	(51)	(222)
Net cash used in investing activities	(51)	(222)
Cash flows from financing activities:		
Proceeds from exercise of stock options		12
Net cash provided by financing activities		12
Effect of exchange rate changes on cash	125	(2)
Net decrease in cash	(795)	(3,245)
Cash at beginning of the period	10,251	18,602
Cash at end of the period	\$ 9,456	\$ 15,357
Supplemental disclosures:		
Cash paid for income taxes	\$ 17	\$

See accompanying notes to the unaudited condensed consolidated financial statements.

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TIGERLOGIC CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

1. INTERIM FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial information furnished herein reflects all adjustments, consisting only of normal recurring items, which in the opinion of management are necessary to fairly state TigerLogic Corporation and its subsidiaries (collectively, the Company or we, us or our) financial position, results of operations and cash flows for the dates and periods presented and to make such information not misleading. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to rules and regulations of the Securities and Exchange Commission (SEC); nevertheless, management of the Company believes that the disclosures herein are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the Company s audited financial statements for the year ended March 31, 2015, contained in the Company s Annual Report on Form 10-K filed with the SEC on June 18, 2015. The results of operations for the three months ended June 30, 2015, are not necessarily indicative of results to be expected for any other interim period or the fiscal year ending March 31, 2016.

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

2. STOCK-BASED COMPENSATION

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

Total stock-based compensation expense included in the unaudited condensed consolidated statements of comprehensive loss for the three months ended June 30, 2015 and 2014, was as follows (in thousands):

	Three Months Ended June 30,	
	2015	2014
Cost of service revenue	\$ 6	\$
Operating expense:		
Selling and marketing	3	68
Research and development	30	34
General and administrative	60	71

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Total stock-based compensation expense		99		173
Income tax benefit				
Net stock-based compensation expense	\$	99	\$	173

As of June 30, 2015, there was approximately \$1.2 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans. That cost is expected to be recognized over a weighted-average period of 2.9 years.

3. FAIR VALUE MEASUREMENT

The Company maintains all of its cash on deposit at financial institutions. As such, there were no cash equivalents on the Company's balance sheets as of June 30, 2015 or March 31, 2015. There were no nonfinancial assets or liabilities that required recognition or disclosure at fair value on a nonrecurring basis in the Company's balance sheets as of June 30, 2015 or March 31, 2015.

4. STOCKHOLDERS' EQUITY AND LOSS PER SHARE

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

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Weighted outstanding options to purchase 4,354,564 shares and 3,251,384 shares of the Company's common stock for the three-month periods ended June 30, 2015 and 2014, respectively, have been excluded from the computation of diluted net loss per share because the effect of their inclusion would have been anti-dilutive.

The change in accumulated other comprehensive income during the three-month periods ended June 30, 2015 and 2014 is the result of the effect of foreign exchange rate changes.

5. BUSINESS SEGMENT

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

Net revenue	For the Three Months Ended	
	June 30,	
	2015	2014
United States	\$ 1,117	\$ 863
Europe	483	906
Total	\$ 1,600	\$ 1,769

Long-lived assets	June 30,	March 31,
	2015	2015
United States	\$ 895	\$ 936
Europe	379	350
Total	\$ 1,274	\$ 1,286

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

Net revenue	For the Three Months Ended	
	June 30,	
	2015	2014
Omnis products	\$ 736	\$ 1,170
Postano products	864	599
Total	\$ 1,600	\$ 1,769

6. RELATED PARTY TRANSACTIONS

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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 rental fee for the use of ACM's furniture in the Company's Portland office. Beginning in May 2015, the rental fee was reduced from \$2,000 per month to \$1,000 per month. This agreement will continue for such time as the Company continues to make use of ACM's furniture and will terminate upon written notice from the Company. Mr. Koe continues to serve as a member of the Company's Board of Directors.

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7. COMMITMENTS AND CONTINGENCIES

Leases

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

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). In conjunction with the MDMS Business divestiture, the Company assigned a lease to Rocket. Under the terms of that lease, the Company remains liable for the lease obligations through its termination in October 2015, should Rocket cease making lease payments it is obligated to make under the terms of the assignment. As of June 30, 2015, the present value of the lease obligations under the remaining master s lease s primary term is approximately \$102,000. As of June 30, 2015, the Company did not have any lease exposure due to any lack of performance by Rocket, and believes that the likelihood of material liability being triggered under this lease is remote.

Litigation

The Company is subject from time to time to litigation, claims and suits arising in the ordinary course of business. There were no ongoing material legal proceedings as of June 30, 2015.

Indemnification

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

8. SUBSEQUENT EVENTS

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On July 2, 2015, the Company was sued for patent infringement by Monster Patents, LLC (Monster) in the United States District Court Southern District of New York. The complaint alleges that the Company's Postano products infringe a single patent owned by Monster. At this time, the Company is evaluating the claims brought by Monster and it is not possible to predict the outcome of this litigation.

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

The section entitled "Management's Discussion and Analysis" set forth below contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements may generally be identified by the use of such words as "expect," "anticipate," "believe," "intend," "plan," "will," or "shall," or the negative of those terms. We have based these forward-looking statements on our current expectations and projections about future events. Forward-looking statements involve certain risks and uncertainties and actual results may differ materially from those discussed in any such statement. Many factors could cause actual results to differ materially from those projected in forward-looking statements, including the risks described in Part I, Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the fiscal year ended March 31, 2015, as supplemented or modified in our quarterly reports on Form 10-Q. The forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to statements about the following: (1) our future success, (2) our research and development efforts, (3) our future operating results and cash flow, (4) our ability to compete, (5) the markets in which we operate, (6) our revenue, (7) our cost of license revenue and cost of service revenue, (8) our selling and marketing costs, (9) our general and administrative costs, (10) our research and development expenses, (11) the effect of critical accounting policies, (12) our belief that our existing cash balances combined with our cash flow from operating activities will be sufficient to meet our operating and capital expenditure requirements for the fiscal year ending March 31, 2016, (13) the impact of litigation on our operating results, and (14) the effect of changes in tax laws on our financial statements. All forward-looking statements in this document are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement.

This discussion and analysis of the financial statements and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements, including the related notes thereto, contained elsewhere in this Quarterly Report on Form 10-Q and our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2015.

Overview

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

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

Products

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

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

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

Postano

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

Omnis

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

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

Critical Accounting Policies and Estimates

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

Recent Accounting Policies

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides guidance for revenue recognition. This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets. This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, *Revenue Recognition-Construction-Type and Production-Type Contracts*. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU No. 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting. In July 2015, the FASB agreed to defer the effective date of this ASU for one year. The new standard is effective for our fiscal year 2019.

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

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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 subscriptions and service revenues are expressed as a percentage of the related revenues. This information should be read in conjunction with the unaudited Condensed Consolidated Financial Statements included in Item 1 in this Quarterly Report on Form 10-Q.

	Three Months Ended June 30, 2015			Three Months Ended June 30, 2014		
	Results (In thousands)	% of Net Revenues	Percent Change	Results (In thousands)	% of Net Revenues	
Net revenues						
Licenses	\$ 398	25%	-47%	\$ 745	42%	
Subscription	757	47%	101%	377	21%	
Services	445	28%	-31%	647	37%	
Total net revenues	1,600	100%	-10%	1,769	100%	
Operating expenses						
Cost of revenues:						
Cost of subscription revenues (as a % of subscription revenues)	134	18%	-12%	152	20%	
Cost of service revenues (as a % of service revenues)	139	31%	16%	120	19%	
Selling and marketing	951	59%	-50%	1,915	108%	
Research and development	595	37%	-45%	1,086	61%	
General and administrative	1,352	85%	-28%	1,887	107%	
Total operating expenses	3,171	198%	-39%	5,160	292%	
Operating loss	(1,571)	-98%	-54%	(3,391)	-192%	
Other expense-net	(55)	-3%	67%	(33)	-2%	
Loss before income taxes	(1,626)	-102%	-53%	(3,424)	-194%	
Income tax provision			-100%	12	1%	
Net loss	\$ (1,626)	-102%	-53%	\$ (3,436)	-194%	

Revenue

NET REVENUES. Net revenues include software licensing, hosted subscription services, post contract technical support, and professional services for our Omnis and Postano products and services. We generally sell our hosted Postano platform on a time-based subscription basis and offer our customers related professional services for additional fees. We license our Omnis software primarily on a per-CPU, per-server, per-port or per-user basis. Therefore, the addition of CPUs, servers, ports or users to existing systems increases our revenue from our installed base of licenses. Similarly, the reduction of CPUs, servers, ports or users from existing systems decreases our revenue from our installed base of customers.

Total net revenues decreased by approximately \$0.2 million, or 10%, for the three months ended June 30, 2015, when compared to the same period in the prior year, primarily due to a decrease in Omnis license revenue and services revenues for both Omnis and Postano. License revenues from our Omnis software decreased approximately \$0.3 million, or 47%, due to a shift in timing of revenues from our installed base of

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Omnis customers in the quarter ended March 31, 2015, as well as fluctuations associated with our upgrade and update cycles. Service revenue decreased approximately \$0.2 million, or 31%, mainly due the discontinuance of a discrete Postano services offering in the quarter ended December 31, 2014. However, subscriptions revenue from our Postano product increased by approximately \$0.4 million, or 101%, when compared to the prior year. This increase was due to growth in number of new customers, subscription renewals, and an increase in the average size of subscriptions.

Operating Expenses

COST OF SUBSCRIPTION REVENUE. Cost of subscription revenue is comprised of direct costs for Postano subscriptions associated with data center hosting and personnel costs relating to platform access, web embed displays, social content analytic reports and phone support. Cost of subscription revenue decreased approximately \$18,000, or 12%, for the three months ended June 30, 2015, when compared to the same period in the prior year. This decrease was due to savings in hosting cost resulted from bundled pricing obtained from our vendor. This decrease was partially offset by higher headcount in the current year.

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COST OF SERVICE REVENUE. Cost of service revenue primarily includes personnel costs relating to consulting, professional and training services, and service royalties for our Omnis and Postano products. Cost of service revenue for the three months ended June 30, 2015 increased by approximately \$19,000, or 16%, from the prior year due to higher professional cost associated with certain customer events.

SELLING AND MARKETING. Selling and marketing expense consists primarily of salaries, benefits, advertising, trade shows, travel and overhead costs for our sales and marketing personnel. Selling and marketing expense for the three months ended June 30, 2015 decreased by approximately \$1.0 million, or 50%, when compared to the same period in the prior year mainly due to lower headcount and lower marketing expense related to Omnis compared to the prior year.

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

RESEARCH AND DEVELOPMENT. Research and development expense consists primarily of salaries and other personnel-related expenses and overhead costs for engineering personnel, including employees in the United States and the United Kingdom and contractors in the United States. Research and development expense for the three months ended June 30, 2015 decreased by approximately \$0.5 million, or 45%, when compared to the prior year mainly due to lower headcount related to development efforts of our Postano and Omnis products.

We believe that our future success will depend largely on strong development efforts with respect to both our existing and new products. These development efforts have resulted in updates and upgrades to existing Omnis products and the launch of new products including the Postano social media platform. New product updates and upgrades in our Omnis and Postano product lines are currently in progress and we expect to continue our research and development efforts in these product lines for the foreseeable future.

GENERAL AND ADMINISTRATIVE. General and administrative expense consists primarily of costs associated with our executive, finance, human resources, legal and other administrative functions. These costs consist principally of salaries and other personnel-related expenses, professional fees, depreciation and overhead costs. General and administrative expense for the three months ended June 30, 2015 decreased by approximately \$0.5 million, or 28%, when compared to the same period in the prior year mainly due to lower legal, professional services, and financial advisory services related expenses.

OTHER INCOME (EXPENSE)-NET: Other income (expense)-net consists primarily of interest income (expense) and gains and losses on foreign currency transactions and is not significant for any period presented.

PROVISION FOR INCOME TAXES. Our effective tax rate from continuing operations was 0.0% and (0.3)% for the three months ended June 30, 2015 and 2014, respectively. The provision for income taxes for the three months ended June 30, 2015 and 2014 reflected the income tax on net earnings from foreign subsidiaries. During the year ended March 31, 2015, we recorded approximately \$55,000 as a FIN 48 liability related to a potential assessment from the German tax authorities. The assessment of this matter has been finalized with the German tax authorities as of June 30, 2015. As such, this liability has been reduced to the agreed upon assessment amount of approximately \$40,000. Due to uncertainties surrounding the timing and likelihood of realizing the benefits of the net operating loss carryforwards in

the future, we continue to carry a full valuation allowance against net deferred tax assets related to our operations in the U.S. and UK.

Realization of deferred tax assets depends upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, we have offset our net deferred tax assets in our U.S. and UK subsidiaries, with a valuation allowance. The utilization of our net operating losses could be subject to substantial annual limitations as a result of certain future events, such as an acquisition or other significant events, which may be deemed as a change in ownership under the provisions of the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitations could result in the expiration of net operating losses and tax credits before utilization.

Liquidity and Capital Resources

As of June 30, 2015, we had approximately \$9.5 million in cash, of which approximately \$0.4 million was held by our foreign subsidiaries and, if repatriated, would not be subject to material tax consequences due to our net operating loss carry forwards. We believe that our existing cash balances and cash flow from operations will be sufficient to meet our anticipated cash needs for at least the next twelve months.

We are committed to research and development and marketing efforts that are intended to allow us to further penetrate our target markets and grow our revenues and improve operating results. However, our research and development and marketing efforts have required, and will continue to require, cash outlays without the immediate or short-term receipt of related revenue. Our ability to meet

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our future expenditure requirements is dependent upon our future financial performance, and this will be affected by, among other things, prevailing economic conditions, success in penetrating new markets, our ability to attract new customers, and achieving market acceptance of our new and existing products and services, the success of research and development efforts and other factors beyond our control.

We had no material commitments for capital expenditures as of June 30, 2015.

Net cash used in operating activities was approximately \$0.9 million for the three months ended June 30, 2015. Net cash used in operating activities was approximately \$3.0 million for the three months ended June 30, 2014. The decrease in net cash used in operating activities for the three months ended June 30, 2015 as compared to the same period in the prior year, was primarily due to lower net loss due to lower selling and marketing, general and administrative, and research and development expenses. Net cash used in investing activities was \$0.1 million for the three months ended June 30, 2015 mainly due to a payment made for a software license. Net cash used in investing activities was \$0.2 million for the three months ended June 30, 2014, mainly due to purchases of furniture and equipment related to the relocation of our former headquarters in April 2014. There were no financing cash activities for the three months ended June 30, 2015. Net cash provided from financing activities for the three months ended June 30, 2014 was \$12,000 related to proceeds from exercise of stock options of our common stock.

There was no outstanding line of credit or other borrowings during the three-month periods ended June 30, 2015 or 2014.

Off-Balance Sheet Arrangements

As of June 30, 2015 we did not have any off-balance sheet arrangements, as defined in the SEC regulations, which have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues, or expenses, results of operations, liquidity, capital expenditures or capital resources.

Non-GAAP Financial Information

Adjusted EBITDA (as defined below) should not be construed as a substitute for net income (loss) determined in accordance with U.S. generally accepted accounting principles (GAAP). Adjusted EBITDA excludes components that are significant in understanding and assessing our results of operations. Adjusted EBITDA does not represent funds available for management's discretionary use. In addition, Adjusted EBITDA is not a term defined by GAAP and as a result our measure of Adjusted EBITDA might not be comparable to similarly titled measures used by other companies.

However, Adjusted EBITDA is used by management to evaluate, assess and benchmark our operational results and we believe that Adjusted EBITDA is relevant and useful information widely used by analysts, investors and other interested parties in our industry. Accordingly, we are disclosing this information to permit a more comprehensive analysis of our operating performance, and to provide an additional measure of performance.

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Adjusted EBITDA is defined as net income (loss) with adjustments for depreciation and amortization, interest income (expense)-net, and income tax provision (benefit) plus adjustments for other income (expense)-net, non-cash stock-based compensation expense, and other non-recurring items such as income from discontinued operations, goodwill impairment charges and acquisition related costs.

Our Adjusted EBITDA was negative \$1.4 million and negative \$3.2 million for the three months ended June 30, 2015 and 2014, respectively, primarily a result of a smaller net loss driven primarily by lower operating expenses compared to the prior year. The following table reconciles GAAP reported net loss to Adjusted EBITDA:

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	For the Three Months Ended	
	2015	2014
	June 30,	
Reported net loss	\$ (1,626)	\$ (3,436)
Depreciation and amortization	71	58
Stock-based compensation	99	173
Interest expense-net	1	1
Other expense-net	54	32
Income tax provision		12
Adjusted EBITDA	\$ (1,401)	\$ (3,160)

ITEM 4. CONTROLS AND PROCEDURES*Evaluation of Disclosure Controls and Procedures*

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

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

Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On July 2, 2015, the Company was sued for patent infringement by Monster Patents, LLC (Monster) in the United States District Court Southern District of New York. The complaint alleges that the Company's Postano products infringe a single patent owned by Monster. At this time, the Company is evaluating the claims brought by Monster and it is not possible to predict the outcome of this litigation.

ITEM 1A. RISK FACTORS

We operate in a rapidly changing environment that involves numerous risks and uncertainties. A description of the risks and uncertainties associated with our business is set forth below. You should carefully consider such risks and uncertainties, together with the other information contained in this Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2015 and in our other public filings, including our Annual Report on Form 10-K for the fiscal year ended March 31, 2015. If any of such risks and uncertainties actually occurs, our business, financial condition or operating results could differ materially from the plans, projections, and other forward-looking statements included in the section titled Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report and in our other public filings. In addition, if any of the following risks and uncertainties, or if any other risks and uncertainties, actually occurs, our business, financial condition or operating results could be harmed substantially, potentially causing the market price of our stock to decline, perhaps significantly. The following section lists some, but not all, of these risks and uncertainties that may have a material adverse effect on our business, financial condition or results of operation.

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IF OUR NEW PRODUCTS ARE NOT ACCEPTED IN THE MARKETPLACE, OR WE FAIL TO ENHANCE EXISTING PRODUCTS TO KEEP PACE WITH RAPIDLY CHANGING TECHNOLOGY, INDUSTRY STANDARDS AND CUSTOMER PREFERENCES, 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 continued research and development efforts with respect to both our existing and new products, as well as the integration of newer technologies. We have made extensive efforts to leverage our core intellectual property to create new product lines, including our Postano social media visualization platform. There can be no assurance that these new products will be successful or generate significant revenue.

The development of new or enhanced software products is a complex and uncertain process requiring high levels of innovation, as well as accurate anticipation of customer and technical trends. 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. Failure to develop and introduce new products or enhancements to existing products, in a timely and cost-effective manner in response to changing market conditions or customer requirements or lack of customer acceptance of our products, will materially and adversely affect our business, results of operations and financial condition. There can be no assurance that we will successfully integrate any acquired products and technologies, identify new product opportunities, develop and bring new products to market in a timely manner or achieve market acceptance of our products.

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 Omnis products currently encounter competition from several direct competitors, including Microsoft, and competing development environments, including JAVA. Direct competitors of our Postano social media visualization platform include Facebook and Twitter, as well as numerous smaller companies in the emerging social media marketplace. Additionally, as we expand our business and integrate acquired products and technologies, we expect to compete with a different group of companies, including smaller, highly focused companies offering single products.

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

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

WE MAY BE UNABLE TO ATTRACT NEW CUSTOMERS OR MAINTAIN AND GROW OUR SALES TO EXISTING CUSTOMERS, AND WE CANNOT ACCURATELY PREDICT THE IMPACT THAT OUR SALES EFFORTS MAY HAVE ON OUR FUTURE REVENUES AND OPERATING RESULTS.

In order for us to improve our operating results and continue to grow our business, it is important that we continually attract new customers and that we maintain or grow our sales to existing customers. Sales to our existing customers may decline or fluctuate as a result of a number of factors, including, but not limited to, their satisfaction with our products and our customer support, the level of usage of our products, the pricing of our, or competing, software products and related services, and reductions in spending levels or changes in our customers' anticipated usage of our products. Within the Postano business, we have limited historical data with respect to rates of customer renewals, so we may not accurately predict future renewal trends. We cannot assure you that our customers will renew their subscriptions, and if our customers do not renew their agreements or renew on less favorable terms, our revenues may grow more slowly than expected or decline and our revenues may be adversely impacted.

To the extent we are successful in increasing our customer base, we could incur increased losses because costs associated with generating customer agreements and performing services are generally incurred up front, while revenue is recognized ratably over the term of the agreement. This risk is particularly applicable for those customers who choose to deploy our products in the public cloud. If new customers sign agreements with short initial subscription periods and do not renew their subscriptions, our operating results could be negatively impacted due to the upfront expenses associated with our sales and implementation efforts. Alternatively, to the extent we are unsuccessful in increasing our customer base, we could also incur increased losses as costs associated with marketing programs and new products intended to attract new customers would not be offset by future incremental revenues and cash flow.

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In order for us to improve our operating results, it is important that our customers make additional significant purchases of our functionality and offerings. If our customers do not purchase additional functionality or offerings, our revenues may grow more slowly than expected. Additionally, increasing incremental sales to our current customer base may require increasingly sophisticated and costly sales efforts. There can be no assurance that these efforts would result in increased sales to existing customers, or upsells, and additional revenues. If our efforts to upsell to our customers are not successful, our business will suffer.

BECAUSE WE GENERALLY RECOGNIZE REVENUES FROM SUBSCRIPTIONS FOR OUR POSTANO PRODUCTS RATABLY OVER THE TERM OF THE AGREEMENT, NEAR TERM CHANGES IN SALES MAY NOT BE REFLECTED IMMEDIATELY IN OUR OPERATING RESULTS.

We generally recognize revenue from customer subscriptions for our Postano products ratably over the term of their agreements, which generally range from 1 to 12 months. As a result, most of the revenues from our Postano products that we report in each quarter are derived from the recognition of deferred revenue relating to subscription agreements entered into during previous quarters. Consequently, a decline in new or renewed subscriptions in any one quarter is not likely to be reflected immediately in our revenue results for that quarter. Such declines, however, would negatively affect our revenues in future periods and the effect of significant downturns in sales and market acceptance of our Postano products, and potential changes in our rate of renewals, may not be fully reflected in our results of operations until future periods. Our subscription model also makes it difficult for us to rapidly increase our total revenues through additional sales in any period, as revenues from new customers must be recognized over the applicable subscription term. In most instances, our customers pre-pay the entire term of their multi period subscriptions up front. As a result, billings can fluctuate significantly from quarter to quarter.

ADVERSE ECONOMIC CONDITIONS COULD HARM OUR BUSINESS.

Our operations and performance depend significantly on global economic conditions. If economic conditions become uncertain in key markets, including without limitation the United States and Western Europe where we derive a majority of our revenue, we may experience adverse impacts on our business, operating results, and financial condition. Unfavorable changes in economic conditions, including recession, rising inflation, diminished credit availability, declining valuation of investments or other changes in economic conditions may result in lower spending by our customers and could adversely affect our revenue. For example, current or potential customers may be unable to fund software purchases, potentially causing them to delay, decrease or cancel purchases of our products and services or to not pay us or to delay paying us for previously purchased products and services. Further, since we generally license our Omnis software on a per-CPU, per-server, per-port or per-user basis, any decrease in CPUs, servers, ports or users by our customers would result in a decrease in our revenue. Similarly, declines in subscription renewals or purchases of add-on products or services by our Postano customers would result in a decrease in our revenues. These and other economic factors could have a material adverse effect on demand for our products and services and on our financial results.

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

We recorded net loss of approximately \$1.6 million and \$3.4 million for the quarters ended June 30, 2015 and 2014, respectively. We had an accumulated deficit of approximately \$140.8 million as of June 30, 2015. We expect that we will continue to incur losses in the immediate future for a number of reasons, including uncertainty as to: (i) the level of our future revenues; (ii) our efforts to monetize newer technologies and services we have developed, including Postano, and (iii) our efforts to integrate acquired products and technologies. Forecasting our revenues and profitability for our new business models is inherently uncertain and volatile. We will need to generate increases in our revenues to achieve and maintain profitability, particularly given the current small size of our business relative to costs associated with being a public company. If our revenue fails to grow or grows more slowly than we currently anticipate or our operating expenses exceed our expectations, our losses would

increase which could harm our business and operating results.

IF OUR COMMON STOCK IS DELISTED FROM THE NASDAQ CAPITAL MARKET, OUR BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATIONS AND STOCK PRICE COULD BE ADVERSELY AFFECTED, THE LIQUIDITY OF OUR STOCK AND OUR ABILITY TO OBTAIN FINANCING COULD BE IMPAIRED, AND, WE MAY BECOME SUBJECT TO SHAREHOLDER CLAIMS.

On October 7, 2014, we received a letter from the Listing Qualifications Department of NASDAQ notifying us that we were not in compliance with the requirement of NASDAQ Listing Rule 5550(a)(2) (the Listing Rule) for continued listing on the NASDAQ Capital Market as a result of the closing bid price for our common stock being below \$1.00 for 30 consecutive business days. In accordance with the Listing Rule, we were given 180 calendar days, or until April 6, 2015, to regain compliance with the minimum

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bid price requirement. We did not regain compliance by April 6, 2015 and as a result asked for an extension of an additional 180 days to regain compliance which was granted by NASDAQ, extending the deadline to regain compliance to October 5, 2015. In order to regain compliance, shares of our common stock must maintain a minimum closing bid price of at least \$1.00 per share for a minimum of ten consecutive business days. No assurance can be given that we will regain compliance during the extension period or that we will be able to maintain continued compliance with the other listing requirements of the NASDAQ Capital Market. As of the filing date of this quarterly report on Form 10-Q, our stock continued to trade below the minimum \$1.00 closing bid price. If we do not regain compliance with the Listing Rule during the extension period, the NASDAQ staff will provide notice that our common stock is subject to delisting from the NASDAQ Capital Market.

Any delisting of our common stock from the NASDAQ Capital Market could adversely affect our ability to attract new investors, decrease the liquidity of our outstanding shares of common stock, reduce our flexibility to raise additional capital, reduce the price at which our common stock trades, and increase the transaction costs inherent in trading such shares with overall negative effects for our stockholders. In addition, delisting of our common stock could deter broker-dealers from making a market in or otherwise seeking or generating interest in our common stock, and might deter certain institutions and persons from investing in our securities at all. For these reasons and others, delisting could adversely affect our business, financial condition and results of operations.

In addition to possible delisting of our common stock from the NASDAQ Capital Market, the sustained decrease in the trading price of our common stock may increase our exposure to the risk of securities class action lawsuits, which could result in substantial costs and divert management's attention and resources, which could adversely affect our business.

OUR PRODUCTS SALES CYCLE VARIES MAKING FORECASTING OF REVENUE CHALLENGING.

The sales cycle for our Postano social media visualization platform varies significantly and can range from one to six months or longer. Market adoption of newer social media platforms such as Postano is still at a relatively early stage as brands are discovering and learning how to leverage fan generated social content for marketing and customer engagement. Since we typically sell time-based subscriptions to the Postano platform, revenue is generally recognized ratably over the subscription term, which does not begin until customers activate their platform. In addition, the social media market is competitive, which can result in customers taking a significant period of time to evaluate multiple solutions before making purchasing decisions. As a result, a significant period of time may elapse between our research and development efforts and recognition of revenue, making it difficult to forecast revenue levels.

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

THE CONCENTRATION OF OUR STOCK OWNERSHIP GIVES CERTAIN STOCKHOLDERS SIGNIFICANT CONTROL OVER OUR BUSINESS.

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As of June 30, 2015, Astoria Capital Partners, L.P. (Astoria) beneficially owned approximately 48.1% of our outstanding common stock. Richard W. Koe, a member of our Board of Directors, serves as the President of Astoria Capital Management, a general partner of Astoria. This concentration of stock ownership allows Astoria to significantly influence any actions that require approval of our stockholders, including the election of members to our Board of Directors and the approval of significant corporate transactions. For example, in September and October 2014, our Board of Directors approved amendments to our Bylaws with respect to certain corporate governance matters at the request of, and upon receiving feedback from, Astoria. Moreover, this concentration of ownership may delay or prevent a change in control. Astoria has announced that it is in the process of winding down and is working on identifying strategic block purchasers for its holdings of our common stock, but the timing and outcome of this process, as well as the impact of the process on our share price, remains uncertain.

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

We expect to continue to invest in research and development, sales and marketing, and operations in order to integrate acquired products and technology and to promote new product development and introduction. Because the expenses associated with these activities are relatively fixed in the short-term, we may be unable to timely adjust spending to offset any unexpected shortfall in revenue growth or any decrease in revenue levels. 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;
- changes in deferred revenue balances due to changes in the average duration of subscriptions of our Postano products;
- the success of our strategic partners in referring or reselling 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, products shipped, subscription periods initiated, and professional services rendered during that quarter. Accordingly, we may be unable to adjust spending in a timely manner to compensate for any unanticipated decrease in orders, sales, subscriptions, or professional services. Therefore, any decline in demand for our products and services, in relation to the forecast for any given quarter, could materially and negatively impact the results of our operations. As a result, our quarterly operating results may fluctuate, potentially causing our stock price to be volatile. In addition, operating results in any given period 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.

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 skilled executive leadership and personnel in the software and social media industry can be intense, and our efforts to recruit and retain these personnel may cause our compensation costs to increase, which could negatively impact our results of operations. There can be no assurance that we will be successful in attracting and retaining such personnel. If we are unable to do so, our human resources and staffing levels may be inadequate to develop and license our products, perform services for our customers or successfully manage our operations. In addition, we have in the past restructured or made other adjustments to our workforce in response to management changes, product changes, performance issues, acquisitions, and other internal and external considerations. Workforce restructurings could result in a temporary lack of focus and reduced productivity, which could negatively affect our revenues and operations.

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

Our ability to compete successfully will depend, in part, on our ability to protect our proprietary technology and operations without infringing upon the rights of others. We may fail to do so. We rely primarily on a combination of patent, trade secret, copyright and trademark laws, and contractual provisions to protect our intellectual property and proprietary rights. Our trademarks include TigerLogic, Postano, Omnis, and Omnis Studio, among others. We have two pending U.S. patent application related to Postano as of June 30, 2015. We have fifteen U.S. patents and two pending U.S. patent applications as of June 30, 2015 related to yolink, a former product offering of the Company. Although we have been issued various patents and other patent applications are currently pending, there can be no assurance that any of these patents or other proprietary rights will not be challenged, invalidated or circumvented or that our rights will, in fact, provide competitive advantages to us. In addition, there can be no assurance that patents will be issued from pending applications or that claims allowed on any patents will be sufficiently broad to protect our technology. Further, the laws of some foreign countries may not protect our proprietary rights to the same extent as do the laws of the United States. The outcome of any actions taken in these foreign countries may be different than if such actions were determined under the laws of the United States. Although we are not dependent on any individual patents or group of patents for particular segments of the business for which we compete, if we are unable to protect our proprietary rights to the totality of the features (including aspects of products protected other than by patent rights) in a market, we may find ourselves at a competitive disadvantage to others who need not incur the substantial expense, time, and effort required to create innovative products. In addition to trademark and copyright protections, we generally license our products to end users on a right to use basis pursuant to license agreements that restrict use of products to a specified number of users or a specified usage.

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We generally rely on click-wrap licenses that become effective when a customer downloads and installs software on its system or accesses and uses our software. In order to retain exclusive ownership rights to our software and technology, we generally provide our software in object code only, with contractual restrictions on copying, disclosure, and transferability. We generally sell time-based subscriptions to access our hosted Postano platform on a terms of service basis. We generally rely on click-through licenses that become effective when the subscription begins and to a lesser extent, master services agreements. We protect our Postano technology by controlling access to the hosted platform; without such access, any links to the platform, such as those in our Postano Social Hub offering, would not function. There can be no assurance that these protections will be adequate, that our license agreements will be enforceable in the United States or foreign jurisdictions or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology.

A BREACH IN INFORMATION PRIVACY COULD NEGATIVELY IMPACT OUR OPERATIONS.

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

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

There has been a substantial amount of litigation in the software and online services industry regarding intellectual property rights and there is significant uncertainty in our industry as many of the legal principles associated with software and online services continue to evolve rapidly. Third parties may file claims against us or our customers asserting that our current or potential future products or services, including our acquired products and technologies, infringe upon their intellectual property rights. Third parties on occasion have and may continue to assert that our products and technologies are subject to license requirements. We may be periodically involved in any number of ordinary course of business proceedings of this type. As an example, on July 2, 2015 we were sued for patent infringement by Monster Patents, LLC (Monster) in the United States District Court Southern District of New York. The complaint alleges that our Postano product infringes a single patent owned by Monster. At this time, we are evaluating the claims brought by Monster and it is not possible to predict the outcome of this litigation.

We expect that software product developers and providers of software applications, and online services will increasingly be subject to infringement claims as the number of products, services, and competitors in our industry segment grow and the functionality of products and services in different industry segments overlap. Because of the existence of a large number of patents in the software field, the secrecy of some pending patents, and the rapid rate of issuance of new patents, it is not economically practical or even possible to determine in advance whether a product or any of its components infringes or will infringe on the patent rights of others. The asserted claims and/or initiated litigation can include claims against us or our suppliers or customers, alleging infringement of their proprietary rights with respect to our existing or future products or components of those products. Regardless of the merit of these claims, they can be time-consuming, result in costly litigation and diversion of technical and management personnel or require us to develop a non-infringing technology, enter into royalty or licensing agreements, or be subject to requests for injunctive remedies. Where claims are made by customers, resistance even to unmeritorious claims could damage customer relationships. There can be no assurance that licenses will be available on acceptable terms and conditions, if at all or that our indemnification by our suppliers will be adequate to cover our costs if a claim were brought directly against us or our customers. Furthermore, because of the potential for high court awards that are not necessarily predictable, it is not unusual to find even arguably unmeritorious claims settled for significant amounts. If any infringement or other intellectual property claim made against us by any third party is successful, if we are required to indemnify a customer with respect to a claim against the customer or if we fail to develop non-infringing

technology or license the proprietary rights on commercially reasonable terms and conditions, our business, operating results, and financial condition could be materially and adversely affected.

OUR PRODUCTS MAY CONTAIN SOFTWARE DEFECTS POTENTIALLY HARMING OUR BUSINESS.

Our software products may contain undetected errors or failures. This includes our Postano products because they are in the early 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.

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

IF ASTORIA OR OTHER SECURITIES HOLDERS REQUEST REGISTRATION OF THEIR RESTRICTED SECURITIES OR THESE SECURITIES HOLDERS SELL A SUBSTANTIAL AMOUNT OF RESTRICTED SECURITIES IN THE OPEN MARKET, OUR STOCK PRICE MAY DECLINE.

As of June 30, 2015, we had 30,955,697 outstanding shares of common stock, of which approximately 15.3 million shares were restricted securities held by Astoria and other holders. Restricted securities may be sold in the public market only if they are registered or if they qualify for an exemption from registration under the Securities Act. At present, all of our outstanding restricted securities may be registered or are eligible for public sale under Rule 144 promulgated under the Securities Act, subject to volume limitations and other requirements of Rule 144.

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

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

We operate on a global basis with offices or distributors in Europe, Australia, and North America and development efforts in North America and Europe. Approximately 30% of our revenue for the quarter ended June 30, 2015 was generated from our international offices. We face several risks inherent in conducting business internationally, including but not limited to the following:

- general economic conditions in each country or region;
- fluctuations in interest rates or currency exchange rates;
- language and cultural differences;
- local and governmental requirements;
- political or social unrest;

- difficulties and costs of staffing and managing international operations;
- potentially adverse tax consequences;
- differences in intellectual property protections;
- difficulties in collecting accounts receivable and longer collection periods;
- seasonal business activities in certain parts of the world; and
- trade policies.

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

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

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

INEFFECTIVE INTERNAL CONTROLS COULD IMPACT OUR BUSINESS AND OPERATING RESULTS.

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

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

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

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

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

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ITEM 6. EXHIBITS

Exhibit:	Description
31.1	Certification of Acting Chief Executive Officer and Chief Financial Officer pursuant to Rule 13-4(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Acting Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

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

Date: August 13, 2015

TIGERLOGIC CORPORATION

/s/ Roger Rowe

Roger Rowe
Acting Chief Executive Officer and Chief Financial Officer

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