TigerLogic CORP
Form 10-K
June 18, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

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

For the fiscal year ended March 31, 2015

or

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

For the transition period from to

Commission File Number 000-16449

TIGERLOGIC CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**94-3046892**
(State of Incorporation)	(I.R.S. Employer ID. No.)
1532 SW Morrison St., Suite 200, **Portland, OR**	**97205**
(Address of Principal Executive Offices)	(Zip Code)

(503) 488-6988

(Registrant s Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.10 par value per share	**The Nasdaq Stock Market LLC (The Nasdaq Capital Market)**

Securities registered pursuant to Section 12(g) of the Exchange Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES o NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. YES o NO x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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. (Check one):

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant was $14,548,112 on September 30, 2014 based on the closing sale price of such stock as reported on The Nasdaq Capital Market on that date.

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

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement for the Annual Stockholders Meeting to be held during calendar year 2015 are incorporated by reference into Part III of the Annual Report on Form 10-K where indicated. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant s fiscal year ended March 31, 2015.

Table of Contents

TIGERLOGIC CORPORATION

FISCAL YEAR 2015 FORM 10-K ANNUAL REPORT

INDEX

Table of Contents

PART I

IMPORTANT NOTE ABOUT FORWARD-LOOKING STATEMENTS. This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These statements may generally be identified by the use of such words as expect, anticipate, believe, intend, plan, wil 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 Part I, Item 1A of this Annual Report on Form 10-K and elsewhere in this Annual Report on Form 10-K. The forward-looking statements contained in this Annual Report on Form 10-K 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 and through the foreseeable future, and (13) 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.

ITEM 1. Business

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 Annual Report on Form 10-K 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.

In January 2013, we acquired Storycode, Inc., a privately held mobile application publishing company. We incorporated Storycode s expertise in mobile applications development, user experience and design into our Postano social media visualization platform and continued to offer

Storycode digital publishing services. During the quarter ended December 31, 2014, we wound down the Storycode digital publishing services to focus our resources on the Postano and Omnis product lines. We do not expect any future revenues related to Storycode services.

In November 2013, we completed the sale of our assets dedicated to our multidimensional database management system (MDMS) to Rocket Software, Inc. (Rocket) for a total sale price or approximately $22 million, of which $19.8 million was received at closing and the remaining $2.2 million was released from escrow and received in November 2014. The divested assets included D3, mvBase, and mvEnterprise systems and solutions, the Pick connectivity products, and the related enterprise resource planning platform required to support the MDMS Business. As a result of this divestiture, the historical results of the MDMS Business through the disposition date have been reclassified and presented as discontinued operations for the prior periods presented. We also assigned to Rocket our Lease Agreement with The Irvine Company. The lease was for approximately 15,000 square feet of office space in Irvine, California and runs through October 2015.

Table of Contents

Products

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

We primarily sell our Omnis software products through established distribution channels consisting of original equipment manufacturers (OEMs), system integrators, specialized vertical application software developers and consulting organizations, 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 of Postano displayed, the number of Postano displays, 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 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.

We recently released Omnis Studio 6.1 offering 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.

Technical Support

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

Our Postano products are used by our customers for fan engagement leveraging user generated content on social media channels to create conversation, amplify messaging, and increase brand loyalty. Postano customers may take advantage of various professional services offerings including custom design services, campaign strategy services, on-site moderation and curation services and telephone support services.

Table of Contents

Sales and Distribution

In the United States, we sell our Postano products and services through our direct sales personnel as well as through co-marketing arrangements with third parties. We sell our Omnis products through established distribution channels consisting of OEMs, system integrators, specialized vertical application software developers and consulting organizations, as well as through our sales personnel located in the United States and Europoe. Outside the United States, we maintain direct sales offices in the United Kingdom, France and Germany focused on selling the Omnis products. Approximately 39% and 49% of our revenues came from sales through our offices located outside the United States for the fiscal years ended March 31, 2015 and 2014, respectively.

We sell our products in U.S. Dollars in North America, British Pounds Sterling in the United Kingdom and Euros in France and Germany. Because we recognize revenue and expense in these various currencies but report our financial results in U.S. Dollars, changes in exchange rates cause variances in our period-to-period revenue and results of operations.

We generally sell our hosted Postano platform as a time-based subscription and sell associated professional services including set-up, display customization, and content moderation and curation services. We generally license Omnis 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 Omnis licensees.

Customers

Target customers for Postano are primarily innovative brands who are active in social media channels and who want a platform to aggregate social media conversations and content streams into engaging experiences for events, retail spaces, sports venues, websites, mobile applications, and executive dashboards.

Our Omnis customers may be classified into two general categories:

- Independent Software Vendors and Software Developers. The majority of our revenue is derived from independent software vendors, who typically develop their own vertical application software that they sell as a complete package to end user customers.

- Corporate Information Technology (IT) Departments.

For the years ended March 31, 2015 and 2014, no single customer accounted for more than 10% of our revenue.

Research and Development

We have devoted significant resources to the research and development of our products and technology. We believe that our future success depends on our ability to continue to enhance our current products and introduce new products. Our development efforts have resulted in updates and upgrades to existing Postano and Omnis products. New product updates and upgrades in our Postano and Omnis product lines are currently in progress and we expect to continue our research and development efforts in these product lines for the foreseeable future. We intend for these efforts to improve our future operating results and increase cash flow. However, such efforts may not result in additional new products or revenue, and we can make no assurances that any announced products or future products will be successful. We spent approximately $4.0 million and $4.4 million on research and development in fiscal years 2015 and 2014, respectively.

Competition

Our Postano product competes with products developed by companies such as Facebook and Twitter, as well as a number of smaller companies in the emerging social media marketplace. 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. Most of our competitors have significantly more financial, technical, marketing, and other resources than we do. As a result, our competitors may be able to respond more quickly to new or emerging technologies, evolving markets, and changes in customer requirements, and may devote greater resources to the development, promotion, and sale of their products. We believe that our ability to compete in the various product markets depends on factors both within and outside our control, including the timing of release, performance, and price of new products developed by both us and our competitors.

Table of Contents

Intellectual Property and Other Proprietary Rights

We rely primarily on a combination of trade secret, patent, 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 one pending U.S. patent application related to Postano as of May 31, 2015. We have fifteen U.S. patents and two pending U.S. patent applications as of May 31, 2015 related to yolink, a former product offering of the Company.

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.

We generally license Omnis 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. We generally rely on click-wrap licenses that become effective when a customer downloads and installs the 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.

Backlog

We generally download or ship our Omnis products as orders are received and activate subscriptions to our Postano platform based on agreed upon start date, and have historically operated with little backlog. As a result, our license revenue in any given quarter is dependent upon orders received and product delivered during the quarter. Historically, there has been a short cycle between receipt of an order and delivery or activation. Consequently, we do not believe that our backlog as of any particular date is meaningful.

Employees

At March 31, 2015, we had 65 employees worldwide of which 40 were in the United States and 25 were in our international offices. Of the 65 employees, 60 are full-time and approximately 34% are in research and development, 17% in technical support, 28% in sales and marketing and 21% in general and administrative functions. None of our employees are represented by a labor union, and we consider our employee relations to be good. Competition for qualified personnel in our industry is intense. We believe that our future success will continue to depend, in part, on our continued ability to attract, hire and retain qualified personnel.

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 Annual Report on Form 10-K for the fiscal year ended March 31, 2015 and in our other public filings. If any of such risks or 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.

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 MDMS Business represented a significant portion of our historical revenues and there can be no assurances that we will be able to replace those revenues with revenues from our retained or newly developed products quickly, or at all. A large portion of the MDMS Business consisted of the sale of annual software maintenance and support services, which provided a historically relatively stable revenue stream. The lower sales volume of annual software maintenance and support services from our retained Omnis products, combined with our limited history and small installed base of our Postano products, may result in larger fluctuations in revenue.

Table of Contents

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.

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 to12 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 $28.7 million for the year ended March 31, 2015, including an $18.2 million goodwill impairment charge. Although we recorded net income of approximately $1.3 million for the fiscal year ended March 31, 2014, this income included $8.6 million of income related to our MDMS Business, which was sold on November 15, 2013. We had an accumulated deficit of approximately $139.1 million as of March 31, 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

Table of Contents

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 annual report on Form 10-K, 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. In that event, we may appeal such determination to a hearings panel.

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.

As of March 31, 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.

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:

Table of Contents

- 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 one pending U.S. patent application related to Postano as of May 31, 2015. We have fifteen U.S. patents and two pending U.S. patent applications as of May 31, 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

Table of Contents

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.

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. 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.

Table of Contents

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 March 31, 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.