TigerLogic CORP
Form 10-Q
August 12, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

Commission File Number 0-16449

TIGERLOGIC CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**94-3046892**
(State of Incorporation)	**(I.R.S. Employer ID. No.)**
25A Technology Drive, Irvine, California	**92618**
(Address of Principal Executive Offices)	**(Zip Code)**

(949) 442-4400

(Issuer s Telephone Number, Including Area Code)

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

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 x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ¨ NO x

As of July 31, 2008, the Registrant had 26,482,179 shares of its common stock outstanding.

Table of Contents

TIGERLOGIC CORPORATION

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TIGERLOGIC CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2008	March 31, 2008
	(In thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 12,053	$ 14,065
Trade accounts receivable, less allowance for doubtful accounts of $156 and $271, respectively	1,781	1,845
Other current assets	483	439
Total current assets	14,317	16,349
Property, furniture and equipment-net	1,267	1,053
Goodwill	26,388	26,388
Deferred tax assets	453	460
Other assets	142	142
Total assets	$ 42,567	$ 44,392
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 361	$ 424
Accrued liabilities	1,791	2,659
Deferred revenue	5,277	5,257
Total current liabilities	7,429	8,340
Long-term debt-net of discount		977
Total liabilities	7,429	9,317
Commitments and contingencies		
Stockholders equity		
Preferred stock		
Common stock	2,648	2,625
Additional paid-in-capital	128,114	126,610
Accumulated other comprehensive income	1,368	1,367
Accumulated deficit	(96,992)	(95,527)
Total stockholders equity	35,138	35,075
Total liabilities and stockholders equity	$ 42,567	$ 44,392

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

TIGERLOGIC CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007
	(In thousands, except per share data)	
Net revenues		
Licenses	$ 1,636	$ 2,002
Services	2,919	2,971
Total net revenues	4,555	4,973
Operating expenses		
Cost of license revenues	4	9
Cost of service revenues	448	485
Selling and marketing	1,827	1,304
Research and development	2,232	1,997
General and administrative	1,543	1,323
Total operating expenses	6,054	5,118
Operating loss	(1,499)	(145)
Other income (expense)		
Interest income (expense)-net	51	(202)
Other income (expense)-net	(6)	178
Total other income (expense)	45	(24)
Loss before income taxes	(1,454)	(169)
Income tax provision	11	19
Net loss	$ (1,465)	$ (188)
Basic and diluted net loss per share	$ (0.06)	$ (0.01)
Shares used in computing basic and diluted net loss per share	26,452	21,186

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

TIGERLOGIC CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended June 30, 2008	2007
	(In thousands)	
Cash flows from operating activities:		
Net loss	$ (1,465)	$ (188)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of long-lived assets	106	65
Provision for bad debt	(19)	2
Note discount amortization		21
Stock-based compensation expense	450	255
Income tax expense	11	19
Foreign currency exchange (gain) loss	8	(139)
Change in assets and liabilities:		
Trade accounts receivable	82	(369)
Other current and non-current assets	(45)	(31)
Accounts payable	(54)	120
Accrued liabilities	(702)	(360)
Deferred revenue	18	105
Net cash used in operating activities	(1,610)	(500)
Cash flows used in investing activities-purchase of property, furniture and equipment	(498)	(27)
Cash flows provided by financing activities-proceeds from exercise of stock options	100	5
Effect of exchange rate changes on cash	(4)	158
Net decrease in cash and cash equivalents	(2,012)	(364)
Cash and cash equivalents at beginning of period	14,065	11,654
Cash and cash equivalents at end of period	$ 12,053	$ 11,290
Non-cash financing activities:		
Accrued interest added to debt	$	$ 302
Conversion of debt to common stock	$ 977	$

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

TIGERLOGIC CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

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) results of operations and cash flows for the dates and periods presented and to make such information not misleadin Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to SEC rules and regulations; nevertheless, management of the Company believes that the disclosures herein are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the Company s audited financial statements for the year ended March 31, 2008, contained in the Company s Annual Report on Form 10-KSB. The results of operations for the three month period ended June 30, 2008, are not necessarily indicative of results to be expected for any other interim period or the fiscal year ending March 31, 2009.

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 which allows the employees to purchase the Company s common stock at a discount.

Total stock-based compensation expense included in the unaudited condensed consolidated statements of operations for the three months ended June 30, 2008 and 2007, were as follows (in thousands):

	Three Months Ended June 30, 2008	2007
Cost of revenue	$ 7	$
Selling and marketing	211	86
Research and development	127	79
General and administrative	105	90
Total stock-based compensation expense	450	255
Income tax benefit		
Net stock-based compensation expense	$ 450	$ 255

As of June 30, 2008, there was approximately $3.2 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans. That cost is expected to be recognized over a weighted-average period of 2.8 years.

3. RECENTLY ISSUED ACCOUNTING STANDARDS

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141(R), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date. SFAS No. 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. Management of the Company cannot determine at this time what effect the adoption of SFAS No. 141(R) will have on its future consolidated results of operations and financial condition.

6

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51* (SFAS No. 160). SFAS No. 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 requires the recognition of a noncontrolling interest as equity in the consolidated financial statements and separate from the parent s equity. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. Management of the Company does not expect this statement to have a material impact on its future consolidated results of operations and financial condition.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. It also applies under other accounting pronouncements that require or permit fair value measurement as a relevant attribute. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and all interim periods within that fiscal year. For nonfinancial assets and liabilities that are recognized or disclosed at fair value on a nonrecurring basis, there is a one year deferral of the effective date. The implementation of SFAS No. 157 for financial assets and financial liabilities, effective December 31, 2007, did not have a material impact on the Company s interim unaudited condensed consolidated financial statements. Under Level 1 measurement, our cash equivalents, consisting of investments in money market mutual funds, were $6.9 million at June 30, 2008 with no gain or loss (realized or unrealized) for the three months ended June 30, 2008. Level 1 inputs are defined as quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Management of the Company is evaluating the impact of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities on the Company s consolidated results of operations and financial condition.

Table of Contents

4. DEBT

Long-Term Debt

Long-term debt of the Company as of March 31, 2008 consisted of (in thousands):

	March 31, 2008
Subordinated convertible notes payable	$ 965
Plus accrued interest	12
Total notes payable	$ 977

Astoria Capital Partners, L.P. (Astoria), GFAM Hedge Partnership (GFAM), and CAM Small Cap Fund L.P. (CAM) were each holders of a 5% Convertible Subordinated Note Due in May 2008 (each, a Convertible Subordinated Note). The interest rate of the Convertible Subordinated Notes was 5% per annum, payable quarterly, which had been refinanced through increases to the outstanding principal of the Convertible Subordinated Notes. The Convertible Subordinated Notes had a maturity date of May 30, 2008. The Convertible Subordinated Notes were convertible into common stock, at the option of the holder, at a price of $5.00 per share, at any time through May 29, 2008.

On October 4, 2007, the Company received a conversion notice from Astoria and on October 5, 2007, the Company received a conversion notice from GFAM, each electing to convert its Convertible Subordinated Note in full. As a result, $22,917,000 of outstanding principal owed to Astoria under its Convertible Subordinate Note was converted into 4,583,400 shares of the Company s common stock, and $981,000 of outstanding principal owed to GFAM under its Convertible Subordinated Note was converted into 196,200 shares of the Company s common stock. Per the terms of the Convertible Subordinated Notes, the Company made a cash payment to Astoria and GFAM of approximately $13,181 and $1,264, respectively, for amounts outstanding under the Convertible Subordinated Notes that were not converted into shares of common stock. Following the conversion of such Convertible Subordinated Notes and the cash payment to Astoria and GFAM, the Convertible Subordinated Notes held by Astoria and GFAM were cancelled.

On April 10, 2008, the Company received a conversion notice from CAM electing to convert its Convertible Subordinated Note in full. As a result, $977,000 of outstanding principal owed to CAM under its Convertible Subordinated Note was converted into 195,400 shares of the Company s common stock. Per the terms of the Convertible Subordinated Note, the Company made a cash payment to CAM of approximately $1,531 for the amount outstanding under the Convertible Subordinated Note that was not converted into shares of common stock. Following the conversion of such Convertible Subordinated Note and the cash payment to CAM, the Convertible Subordinated Note held by CAM was cancelled and there are no Convertible Subordinated Notes outstanding subsequent to April 10, 2008.

5. STOCKHOLDERS EQUITY

Basic loss per share is computed using the net loss and the weighted average number of common shares outstanding during the period. Diluted loss per share is computed using the net loss and the weighted average number of common shares and dilutive potential common shares outstanding during the period when the potential common shares are not anti-dilutive. Potential dilutive common shares include outstanding stock options and convertible debt. There were outstanding options to purchase 4,567,120 shares of the Company s common stock with exercise prices ranging from $0.85 to $17.00 per share as of June 30, 2008. There were outstanding options to purchase 4,326,554 shares of the Company s common stock with exercise prices ranging from $0.75 to $17.00 per share as of June 30, 2007. There was convertible debt outstanding at June 30, 2007 which was convertible into 4,894,656 shares of common stock. There was no convertible debt outstanding at June 30, 2008. The effects of these items were not included in the computation of diluted earnings per share because such effects would have been anti-dilutive.

Table of Contents

The change in accumulated other comprehensive income during the three-month periods ended June 30, 2008 and 2007,

is the result of the effect of foreign exchange rate changes. The following table reconciles net loss as reported with total comprehensive loss (in thousands):

	Three Months Ended June 30, 2008	2007
Net loss reported	$ (1,465)	$ (188)
Translation adjustments net	1	(189)
Total comprehensive loss	$ (1,464)	$ (377)

6. BUSINESS SEGMENT

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

	Three Months Ended June 30, 2008	2007
Net revenue		
North America	$ 3,020	$ 3,389
Europe/Africa	1,535	1,584
Total	$ 4,555	$ 4,973

	June 30, 2008	March 31, 2008
Long-lived assets		
North America	$ 27,590	$ 27,420
Europe/Africa	660	623
Total	$ 28,250	$ 28,043

The Company operates in one reportable segment and is engaged in the design, development, sale, and support of four software product lines: 1) ChunkIt!, 2) XML Data Management Servers (XDMS), 3) Multidimensional Database Management Systems (MDMS), and 4) Rapid Application Development (RAD) software tools. The ChunkIt! product was released for private beta testing in April 2008. To date, we have not recognized any revenue from the ChunkIt! product. The following table represents the net revenue from the Company s segment by its databases (XDMS and MDMS) and RAD product lines (in thousands):

	Three Months Ended June 30, 2008	2007
Databases	$ 3,278	$ 3,970
RAD Tools	1,277	1,003
Total	$ 4,555	$ 4,973

7. COMMITMENTS AND CONTINGENCIES

The Company is subject from time to time to litigation, claims and suits arising in the ordinary course of business. As of June 30, 2008 the Company was a party to