
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-QSB

(Mark One)

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

For the quarterly period ended December 31, 2005

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

For the transition period from _____ to _____

Commission File number 0-16449

RAINING DATA CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

94-3046892
(IRS Employer Identification No.)

**25A Technology Drive
Irvine, CA 92618**
(Address of principal executive offices)

(949) 442-4400
(Registrant's telephone number)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

As of December 31, 2005, there were 20,599,003 shares of registrant's Common Stock, \$.10 par value, outstanding.

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

**RAINING DATA CORPORATION
INDEX**

<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>
<u>ITEM 1.</u>	<u>FINANCIAL STATEMENTS</u>
	<u>UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS — DECEMBER 31, 2005 AND MARCH 31, 2005</u>
	<u>UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS — THREE AND NINE MONTHS ENDED DECEMBER 31, 2005 AND 2004</u>
	<u>UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS — NINE MONTHS ENDED DECEMBER 31, 2005 AND 2004</u>
	<u>NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>
<u>ITEM 2.</u>	<u>MANAGEMENT’S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION</u>
<u>ITEM 3.</u>	<u>CONTROLS AND PROCEDURES</u>
<u>PART II.</u>	<u>OTHER INFORMATION</u>
<u>ITEM 1.</u>	<u>LEGAL PROCEEDINGS</u>
<u>ITEM 4.</u>	<u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>
<u>ITEM 6.</u>	<u>EXHIBITS</u>

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**RAINING DATA CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

	December 31, 2005	March 31, 2005
	(In thousands)	
ASSETS		
Current assets		
Cash	\$ 9,734	\$ 10,625
Trade accounts receivable-net	2,206	2,009
Other current assets	475	403
Total current assets	<u>12,415</u>	<u>13,037</u>
Property, furniture and equipment-net	1,056	871
Goodwill	27,684	27,684
Other assets	129	218
Total assets	<u>\$ 41,284</u>	<u>\$ 41,810</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 214	\$ 542
Accrued liabilities	2,520	2,548
Deferred revenue	4,731	5,258
Total current liabilities	<u>7,465</u>	<u>8,348</u>
Long term debt-net of discount	22,591	21,692
Total liabilities	<u>30,056</u>	<u>30,040</u>
Commitments and contingencies		
Stockholders' equity		
Preferred stock	—	300
Common stock	2,060	1,975
Additional paid-in capital	99,263	98,267
Deferred stock-based compensation	—	(10)
Accumulated other comprehensive income	1,298	1,394
Accumulated deficit	(91,393)	(90,156)
Total stockholders' equity	<u>11,228</u>	<u>11,770</u>
Total liabilities and stockholders' equity	<u>\$ 41,284</u>	<u>\$ 41,810</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

RAINING DATA CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2005	2004	2005	2004
	(In thousands, except per share data)			
Net revenues				
Licenses	\$ 2,334	\$ 2,667	\$ 6,271	\$ 6,907
Services	2,965	3,053	8,930	9,082
Total net revenues	<u>5,299</u>	<u>5,720</u>	<u>15,201</u>	<u>15,989</u>
Costs of revenues				
Cost of license revenues	27	66	124	166
Cost of service revenues	542	593	1,745	1,712
Total cost of revenues	<u>569</u>	<u>659</u>	<u>1,869</u>	<u>1,878</u>
Gross profit	4,730	5,061	13,332	14,111
Cost of operations				
Selling and marketing	1,337	1,552	3,923	4,288
Research and development	2,429	2,029	7,052	5,503
General and administrative	986	1,079	2,777	2,925
Stock-based compensation	—	8	10	58
Amortization of intangible assets	—	433	—	1,733
Total operating expenses	<u>4,752</u>	<u>5,101</u>	<u>13,762</u>	<u>14,507</u>
Operating loss	<u>(22)</u>	<u>(40)</u>	<u>(430)</u>	<u>(396)</u>
Other expense				
Interest expense-net	(239)	(292)	(728)	(900)
Other income (expense)-net	(7)	67	(79)	61
	<u>(246)</u>	<u>(225)</u>	<u>(807)</u>	<u>(839)</u>
Net loss	<u>\$ (268)</u>	<u>\$ (265)</u>	<u>\$ (1,237)</u>	<u>\$ (1,235)</u>
Basic and diluted net loss per share	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.06)</u>	<u>\$ (0.07)</u>
Shares used in computing basic and diluted net loss per share	<u>20,485</u>	<u>18,687</u>	<u>20,065</u>	<u>18,518</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

RAINING DATA CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED DECEMBER 31,

	2005	2004
	(In thousands)	
Cash flows from operating activities:		
Net loss	\$ (1,237)	\$ (1,235)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization of long-lived assets	206	1,948
Note payable discount amortization	62	62
Amortization of deferred stock-based compensation	10	58
Change in assets and liabilities:		
Trade accounts receivable	(359)	(336)
Other current and non-current assets	(23)	(194)
Accounts payable	(317)	82
Accrued liabilities	869	813
Deferred revenue	(396)	(100)
Net cash provided by (used in) operating activities	(1,185)	1,098
Cash flows from investing activities:		
Purchase of property, furniture and equipment	(421)	(22)
Net cash used in investing activities	(421)	(22)
Cash flows from financing activities:		
Proceeds from exercise of stock options and warrants	716	42
Proceeds from issuance of common stock	65	99
Repayment of debt	—	(38)
Net cash provided by financing activities	781	103
Effect of exchange rate changes on cash	(66)	80
Net increase (decrease) in cash and equivalents	(891)	1,259
Cash and equivalents at beginning of period	10,625	7,783
Cash and equivalents at end of period	\$ 9,734	\$ 9,042
Non-cash financing activities:		
Issuance of payment-in-kind notes for accrued interest	\$ 821	\$ 881
Conversion of preferred stock to common stock	300	—
Reduction of long-term debt through exercise of warrants	—	2,671

See accompanying notes to the unaudited condensed consolidated financial statements.

RAINING DATA CORPORATION AND SUBSIDIARIES
CONDENSED NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005

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 Raining Data Corporation and subsidiaries' (the "Company") consolidated financial position, the results of their operations and their cash flows for the dates and periods presented and to make such information presented not misleading. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to SEC rules and regulations; nevertheless, management of the Company believes that the disclosures herein are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended March 31, 2005, contained in the Company's Annual Report on Form 10-KSB. The results of operations for the period ended December 31, 2005, are not necessarily indicative of results to be expected for any other interim period or the fiscal year ending March 31, 2006.

Reclassifications

Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

Stock Options

Pro forma information, which assumes the Company had accounted for stock options granted under the fair value method prescribed by Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-based Compensation," as amended, is presented below. The per share weighted average fair values of stock options granted for the three and nine-month periods ended December 31, 2005, as estimated using the Black-Scholes option-pricing model, were \$3.23 and \$2.04, respectively. The per share weighted average fair values of stock options granted for the three and nine-month periods ended December 31, 2004, as estimated using the Black-Scholes option-pricing model, were \$2.46 and \$2.52, respectively. The following weighted average assumptions were used for the three-month period ended December 31, 2005: dividend yield of 0%; expected volatility of 110%; risk-free interest rate of 4.42%; and expected life of 6 years. The following weighted average assumptions were used for the nine-month period ended December 31, 2005: dividend yield of 0%; expected volatility of 110%; risk-free interest rate of 4.17%; and expected life of 6 years. The following weighted average assumptions were used for the three-month period ended December 31, 2004: dividend yield of 0%; expected volatility of 120%; risk-free interest rate of 3.85%; and expected life of 6 years. The following weighted average assumptions were used for the nine-month period ended December 31, 2004: dividend yield of 0%; expected volatility of 120%; risk-free interest rate of 3.99%; and expected life of 6 years.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods. The Company's historical and pro forma net loss per share for the three and nine-month periods ended December 31, 2005 and 2004, are as follows (in thousands, except per share data):

	<u>Three Months ended</u> <u>December 31,</u>		<u>Nine Months ended</u> <u>December 31,</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Net loss:				
As reported	\$ (268)	\$ (265)	\$ (1,237)	\$ (1,235)
Add:				
Stock-based employee compensation expense included in net loss	—	8	10	23
Less:				
Total stock-based employee compensation expense determined under the fair value method for all awards	(303)	(298)	(981)	(871)
Pro forma net loss:	\$ (571)	\$ (555)	\$ (2,208)	\$ (2,083)
Basic and diluted loss per share				
As reported	\$ (0.01)	\$ (0.01)	\$ (0.06)	\$ (0.07)
Pro forma	\$ (0.03)	\$ (0.03)	\$ (0.11)	\$ (0.11)

2. RECENTLY ISSUED ACCOUNTING STANDARDS

In December 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 123R, “Share-Based Payment,” which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for employee services. A key provision of this statement is the requirement of a public entity to measure the cost of employee services received in exchange for an award of equity instruments (including stock options) based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award (i.e., the requisite service period). With respect to the Company, which is a small business issuer, this statement becomes effective on April 1, 2006. The adoption of this statement is expected to reduce earnings in future periods.

3. LONG-TERM DEBT

The Convertible Subordinated Notes payable to Astoria Capital Partners, L.P. (“Astoria”), the Company’s controlling stockholder, and others, as of December 31, 2005 and March 31, 2005, are summarized as follows (in thousands):

	December 31, 2005	March 31, 2005
Convertible Subordinated Notes payable to Astoria and others	\$ 22,501	\$ 21,681
Plus accrued interest	284	267
Less unamortized discount	(194)	(256)
Total debt	22,591	21,692
Less current portion of long-term debt	—	—
Total long-term debt	<u>\$ 22,591</u>	<u>\$ 21,692</u>

4. 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 warrants, convertible debt, and convertible preferred stock. There were outstanding options to purchase 4,121,067 shares of the Company’s common stock with exercise prices ranging from \$0.75 to \$33.13 per share as of December 31, 2005. There were outstanding options to purchase 4,272,433 shares of the Company’s common stock with exercise prices ranging from \$0.75 to \$52.50 per share as of December 31, 2004. There were no outstanding warrants as of December 31, 2005, and outstanding warrants to purchase 1,033,092 shares of the Company’s common stock with exercise prices ranging from \$2.35 to \$6.29 per share as of December 31, 2004. There were 300,000 shares of preferred stock, which were convertible into 500,100 shares of common stock, outstanding at December 31, 2004. There was convertible debt outstanding at December 31, 2005 and 2004, which was convertible into 4,500,283 and 4,326,021 shares of common stock, respectively. The effects of these items were not included in the computation of diluted earnings per share because their effect would have been anti-dilutive.

The change in accumulated other comprehensive income during the three and nine-month periods ended December 31, 2005 and 2004 is the result of the effect of foreign exchange rate changes. The following table reconciles net loss as reported with total comprehensive loss (in thousands):

	Three Months ended December 31,		Nine Months ended December 31,	
	2005	2004	2005	2004
Net loss	\$ (268)	\$ (265)	\$ (1,237)	\$ (1,235)
Translation adjustments – net	54	172	(96)	47
Total comprehensive loss	<u>\$ (214)</u>	<u>\$ (93)</u>	<u>\$ (1,333)</u>	<u>\$ (1,188)</u>

Effective September 6, 2005, all of the outstanding shares of preferred stock were converted into 500,100 shares of common stock.

At the 2005 Annual Meeting, held on November 28, 2005, the stockholders voted to amend the Certificate of Incorporation to increase the authorized number of shares of Common Stock from 60,000,000 to 100,000,000 shares and to increase the authorized number of shares of Preferred Stock from 300,000 to 5,000,000 shares. The stockholders also voted to approve amendments to the Company's 1999 Stock Option Plan (the "Plan") to: (1) increase the number of shares authorized for issuance under the Plan by 1,500,000 shares to a total of 6,500,000 shares available for issuance under the Plan; (2) provide for automatic annual increases in the number of shares reserved for issuance under the Plan by an amount equal to the lesser of (i) three percent (3%) of the Company's total outstanding shares on the last day of the Company's fiscal year, (ii) 2,000,000, or (iii) such lesser amount as determined in the sole and absolute discretion of the Company's Board of Directors; and (3) add restricted stock purchase rights as a new award type and add net exercise as an acceptable form of consideration upon exercise of stock options.

5. 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 service revenue. The following table summarizes consolidated financial information of the Company's operations by geographic location (in thousands):

	North America	Europe	Total
<i>Three Months Ended December 31, 2005</i>			
Net revenues	\$ 3,577	\$ 1,722	\$ 5,299
<i>Three Months Ended December 31, 2004</i>			
Net revenues	\$ 3,914	\$ 1,806	\$ 5,720
<i>As of and for the Nine Months Ended December 31, 2005</i>			
Net revenues	\$ 10,576	\$ 4,625	\$ 15,201
Long lived assets	28,047	822	28,869
<i>As of and for the Nine Months Ended December 31, 2004</i>			
Net revenues	\$ 11,263	\$ 4,726	\$ 15,989
Long lived assets	27,956	671	28,627

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2005	2004	2005	2004
Databases:				
Pick UDM Products	\$ 3,503	\$ 4,387	\$ 11,874	\$ 12,322
RAD Tools	1,796	1,333	3,327	3,667
Total net revenues	<u>\$ 5,299</u>	<u>\$ 5,720</u>	<u>\$ 15,201</u>	<u>\$ 15,989</u>

6. 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 December 31, 2005, the Company was not a party to any known material litigation, claim or suit.

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. Based on prior experience, the Company believes that it has not incurred significant future obligations. Accordingly, the Company does not maintain accruals for potential customer indemnification or warranty-related obligations. The maximum potential amount of future payments that the Company could be required to make is generally limited under the indemnification provisions in its customer licensee and service agreements.

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

This Form 10-QSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements may generally be identified by the use of such words as "expect," "anticipate," "believe," "intend," "plan," "will," or "shall," or the negative of those terms or similar 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" of this Form 10-QSB and elsewhere in this Form 10-QSB. The forward-looking statements contained in this Form 10-QSB include, but are not limited to statements about the following: (1) our future success, (2) our research and development efforts and expenses, (3) our future operating results and cash flow, (4) our competitive ability and position, (5) the markets in which we operate, (6) our revenue, (7) our cost of license revenue and cost of service revenue, (8) our selling and marketing costs, (9) our general and administrative costs, (10) our stock-based compensation expense, (11) the possibility that we may seek to take advantage of opportunities in the equity and capital markets, (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 remainder of the fiscal year ending March 31, 2006 and through the foreseeable future, (13) the issuance of additional PIK notes, (14) the effect of the Company's reduction in force, (15) the effect of SFAS 123R, and (16) our belief that the Silicon Valley Bank credit facility is not required for liquidity purposes or to meet our cash flow needs for the foreseeable future. All forward-looking statements in this document are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement.

OVERVIEW

We were incorporated in the State of Delaware in August 1987. We were originally incorporated as Blyth Holdings, Inc. and our name was changed to Omnis Technology Corporation in September 1997. Effective December 1, 2000, we completed the acquisition of PickAx, Inc., a Delaware corporation ("PickAx"). Concurrent with the acquisition, we changed our name to Raining Data Corporation.

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

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

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

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

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

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

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

Our RAD products support the full life cycle of software application development and are designed for rapid prototyping, development and deployment of graphical user interface (“GUI”) client/server and Web applications. The RAD products include Omnis Studio, Omnis Studio for SAP and Omnis Classic, and are object-oriented and component-based, providing the ability to deploy applications on operating system platforms such as Windows, Unix and Linux, as well as database environments such as MySQL, Oracle, DB2, Sybase, Microsoft SQL Server and other Open Data Base Connectivity (“ODBC”) compatible database management systems.

Our products are used by our customers to build and deploy applications that may become a critical component of their business operations. As a result, continuing to provide customer technical support services is an important element of our business strategy. Customers who participate in our support programs receive periodic maintenance releases and direct technical support when required.

In the United States, we sell our products through established distribution channels consisting of OEMs, system integrators, specialized vertical application software developers and consulting organizations. We also sell our products directly through our sales personnel to end user organizations. Outside the United States, we maintain direct sales offices in the United Kingdom, France and Germany. Approximately 32% of our revenue came from sales through our offices located outside the United States for the three-month periods ended December 31, 2005 and 2004. Approximately 30% of our revenue came from sales through our offices located outside the United States for the nine-month periods ended December 31, 2005 and 2004.

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

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

Our customers may be classified into two general categories:

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

For the three and nine-month periods ended December 31, 2005 and 2004, no single customer accounted for more than 10% of our revenue.

We have devoted significant resources to the research and development of our products and technology. We believe that our future success will depend largely on a strong development effort with respect to both our existing and new products. These development efforts have resulted in updates and upgrades to existing MDMS and RAD products and the launch of new products including the XDMS product line. New product releases in all of our product lines are currently in progress. We expect to continue our research and development efforts in all product lines for the foreseeable future. We intend for these efforts to improve our future operating results and increase cash flow. However, such efforts may not result in additional new products or revenue, and we can make no assurances that the recently announced products or future products will be successful.

The application development tools software market is rapidly changing and intensely competitive. Our MDMS products compete with products developed by companies such as Oracle, Microsoft and IBM. Our RAD products currently encounter competition from several direct competitors, including Microsoft, and competing development environments, including JAVA. Competition is developing and evolving in the XML market for which our XDMS products are intended. Companies that do or are expected to compete in this market include Oracle, IBM, Microsoft and Sybase, as well as a number of smaller companies with products that directly and indirectly compete with our XDMS products. Most of our competitors have significantly more financial, technical, marketing and other resources than we do. As a result, these competitors may be able to respond more quickly to new or emerging technologies, evolving markets and changes in customer requirements, and may devote greater resources to the development, promotion and sale of their products.

We believe that our ability to compete in the various MDMS, RAD and XDMS markets depends on factors both within and outside our control, including the timing of release, performance and price of new products developed by both us and our competitors. Although we believe that we currently compete favorably with respect to most of these factors, we may not be able to maintain our competitive position against current and potential competitors, especially those with greater resources.

We rely primarily on a combination of trade secret, copyright and trademark laws and contractual provisions to protect our intellectual property and proprietary rights. Our trademarks include Raining Data, Pick, TigerLogic, D3, Omnis, Omnis Studio, mvEnterprise, mvBase, and mvDesigner, among others. We also have one pending U.S. patent application as of December 31, 2005.

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

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

At December 31, 2005, we had 134 employees worldwide of which 99 were in the United States and 35 were in our international offices. Of the 134 employees, 131 are full-time and approximately 50% are in research and development, 15% in technical support, 20% in sales and marketing and 15% in general and administrative functions.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

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

Under SOP 97-2, revenue attributable to an element in a customer arrangement is recognized when persuasive evidence of an arrangement exists and delivery has occurred, provided the fee is fixed or determinable, collectibility is probable and the arrangement does not require significant customization of the software. If, at the outset of the customer arrangement, we determine that the arrangement fee is not fixed or determinable, we defer the revenue and recognize the revenue when the arrangement fee becomes due and payable.

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

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

- Significant underperformance relative to expected historical or projected future operating results;
- Timing of our revenue, significant changes in the manner of use of the acquired assets or the strategy for the overall business;
- Significant negative industry or economic trends;
- Significant decline in our stock price for a sustained period; and
- Our market capitalization relative to net book value.

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

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

Determining the fair value of a reporting unit under the first step of the goodwill impairment test and determining the fair value of individual assets and liabilities of a reporting unit (including unrecognized intangible assets) under the second step of the goodwill impairment test is judgmental in nature and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and the magnitude of any such charge. However, we currently use our publicly-traded stock price to determine the fair value of the Company under step one of the goodwill impairment test.

Results of Operations

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

	Three Months Ended December 31, 2005			Three Months Ended December 31, 2004		Nine Months Ended December 31, 2005			Nine Months Ended December 31, 2004	
	Results	% of Net Revenues	Percent Change	Results	% of Net Revenues	Results	% of Net Revenues	Percent Change	Results	% of Net Revenues
Net revenues										
Licenses	\$ 2,334	44%	(12)%	\$ 2,667	47%	\$ 6,271	41%	(9)%	\$ 6,907	43%
Services	2,965	56%	(3)%	3,053	53%	8,930	59%	(2)%	9,082	57%
Total net revenues	5,299	100%	(7)%	5,720	100%	15,201	100%	(5)%	15,989	100%
Cost of revenues										
Cost of license revenues (as a % of license revenues)	27	1%	(59)%	66	2%	124	2%	(25)%	166	2%
Cost of service revenues (as a % of service revenues)	542	18%	(9)%	593	19%	1,745	20%	2%	1,712	19%
Gross margin on license revenues (as a % of license revenues)	2,307	99%	(11)%	2,601	98%	6,147	98%	(9)%	6,741	98%
Gross margin on service revenues (as a % of service revenues)	2,423	82%	(2)%	2,460	81%	7,185	80%	(3)%	7,370	81%
Operating expenses										
Selling and marketing	1,337	25%	(14)%	1,552	27%	3,923	26%	(9)%	4,288	27%
Research and development	2,429	46%	20%	2,029	35%	7,052	46%	28%	5,503	34%
General and administrative	986	19%	(9)%	1,079	19%	2,777	18%	(5)%	2,925	18%
Stock-based compensation	—	0%	(100)%	8	0%	10	0%	(83)%	58	0%
Amortization of intangible assets	—	0%	(100)%	433	8%	—	0%	(100)%	1,733	11%
Total operating costs	4,752	90%	(7)%	5,101	89%	13,762	91%	(5)%	14,507	91%
Operating loss	(22)	0%	(45)%	(40)	(1)%	(430)	(3)%	9%	(396)	(2)%
Other expense, net	(246)	(5)%	9%	(225)	(4)%	(807)	(5)%	(4)%	(839)	(5)%
Net loss	\$ (268)	(5)%	1%	\$ (265)	(5)%	\$ (1,237)	(8)%	0%	\$ (1,235)	(8)%

REVENUE

NET REVENUE. Our revenue is derived principally from two sources: fees from software licensing and fees for services, including maintenance, consulting, training and technical support. We license our software on a per-CPU, per-server, per-port or per-user basis. Therefore, the addition of CPU's, servers, ports or users to existing systems increases our revenue from our installed base of licenses. We view the MDMS and RAD markets in which we operate to be relatively stable from period to period. We anticipate that our revenue on an annual basis from those products will remain stable or see slight declines for the foreseeable future. Fluctuations in revenue between quarters or year-to-year are primarily the result of the timing of orders and customer ordering patterns. We do not view the changes in year-to-year revenues for the three and nine-month periods ended December 31, 2005 and 2004 to be representative of immediate market trends. However, we expect that the MDMS and RAD markets will eventually decline as customers adopt newer technologies, and, therefore, the revenue generated from sales of our MDMS and RAD products is expected to decrease.

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

COST OF REVENUE

COST OF LICENSE REVENUE. Cost of license revenue is comprised of direct costs associated with software license sales including software packaging, documentation, physical media costs and royalties. We anticipate that the cost of license revenue, as a percentage of license revenue and in absolute dollars, will be relatively stable in future periods.

COST OF SERVICE REVENUE. Cost of service revenue includes primarily personnel costs relating to providing consulting, technical support and training services. We anticipate that the cost of service revenue, as a percentage of service revenue and in absolute dollars, will be relatively stable in future periods.

OPERATING EXPENSES

SELLING AND MARKETING. Selling and marketing expense consists primarily of salaries, benefits, advertising, tradeshow, travel and overhead costs for our sales and marketing personnel. In the three and nine-month periods ended December 31, 2005 selling and marketing expense decreased as compared to the same periods in the prior year due to reduced salary and personnel related costs and timing of trade shows. We anticipate that selling and marketing costs related to XDMS products may increase as we further develop the sales channel for these products and if customer acceptance of these products increases. In addition, if our continued research and development efforts are successful, including with respect to our XDMS products, and new products or services are created, we may incur increased sales and marketing expense to promote those new products in future periods.

RESEARCH AND DEVELOPMENT. Research and development expense consists primarily of salaries and other personnel-related expenses and overhead costs for engineering personnel, including employees in the US and the UK and contractors in the US and India. In the three and nine-month periods ended December 31, 2005, spending related to our development efforts increased as certain of our new products reached general or production release and we continued to refine and add certain features and functionality to these products. The majority of these costs have been personnel-related, including salary and recruiting costs, as we have hired employees and contractors in association with the ongoing development and enhancement of our product lines. We are committed to our research and development efforts and expect research and development expense will remain at the current level in future periods or increase if we believe that additional spending is warranted. Such efforts may not result in additional new products and any new products, including the XDMS products, may not generate sufficient revenue, if any, to offset the research and development expense.

GENERAL AND ADMINISTRATIVE. General and administrative expense consists primarily of costs associated with our finance, human resources, legal and other administrative functions. These costs consist principally of salaries and other personnel-related expenses, professional fees, depreciation and overhead costs. General and administrative spending decreased slightly in the three and nine-month periods ended December 31, 2005 as compared to the same periods in the prior year as a result of salary-related savings. We anticipate that general and administrative costs as a percentage of revenue and in absolute dollars will remain relatively stable during fiscal 2006. In October 2005, the Company implemented a reduction in force relating to under utilized and non-strategic personnel. The purpose of this initiative was to reduce the Company's operating expenses. Although the full impact has yet to be determined, it is anticipated that the Company will achieve a savings of approximately \$0.5 million per annum across various operating expense categories including General and Administrative, Cost of Service and Research and Development. However, such savings may be offset by cost increases relating to new product initiatives.

STOCK-BASED COMPENSATION. The decreases in stock-based compensation in the three and nine-month periods ended December 31, 2005 as compared to the same periods in the prior year is attributable primarily to cancellations of previously issued options with an exercise price below fair value on date of grant for terminated employees, options reaching the end of their vesting periods, no new options being granted with an exercise price below fair value at the date of grant, and fewer options granted to non-employees. We do not anticipate significant changes in stock-based compensation expense in future periods prior to the adoption of SFAS 123R. The adoption of this statement is expected to reduce earnings in future periods.

AMORTIZATION OF INTANGIBLE ASSETS. We amortize our identifiable intangible assets in accordance with their determined useful life. The life of our existing intangible assets was estimated to be four years. As of December 31, 2005, our existing intangible assets were fully amortized.

OTHER INCOME (EXPENSE). Other expense consists primarily of net interest expense and, to a much lesser extent, gains and losses on foreign currency transactions. Other expense remained relatively consistent during the three and nine-month periods ended December 31, 2005 as compared to the three and nine-month periods ended December 31, 2004. Due to the uncertainty in exchange rates, we may experience transaction gains or losses in future periods, the effect of which cannot be determined at this time.

LIQUIDITY AND CAPITAL RESOURCES

In connection with the acquisition of PickAx, we assumed a Secured Promissory Note issued to Astoria Capital Partners, L.P. ("Astoria") dated November 30, 2000, in the amount of \$18.5 million. In January 2003, we entered into a Note Exchange Agreement (the "Exchange Agreement") with Astoria to replace the existing Secured Promissory Note, as amended, with a Convertible Subordinated Note. Under the terms of the Exchange Agreement, the Secured Promissory Note was exchanged and replaced with a Convertible Subordinated Note having a principal amount of \$22.1 million, which principal amount was equal to the outstanding principal and accrued interest payable on the Secured Promissory Note as of the date of the Exchange Agreement. In October 2005, Astoria assigned a portion of its Common Stock holdings totaling 870,306 shares and a portion of the Subordinated Convertible Note, totaling \$1,751,832, to two of its limited partners. As such, the Company issued an Amended and Restated Note to Astoria for \$20,749,581 and corresponding notes directly to the limited partners for \$862,979 and \$888,853, respectively. The Convertible Subordinated Notes are convertible into common stock at any time, at the option of the holder, at a price of \$5.00 per share. The Convertible Subordinated Notes mature on May 30, 2008, extending the May 30, 2003 maturity date of the Secured Promissory Note. The interest rate of the Convertible Subordinated Notes is 5% per annum as compared to an interest rate of 10% per annum under the Secured Promissory Note. The interest is payable quarterly at our option in cash or through increases to the outstanding principal of the Convertible Subordinated Notes.

On December 14, 2004, we entered into an Agreement Regarding Amended and Restated Common Stock Purchase Warrant and 5% Convertible Subordinated Note Due 2008 with Astoria whereby we could redeem, in part, the Convertible Subordinated Note and the payment in kind ("PIK") notes in advance of January 30, 2005. On December 14, 2004, Astoria exercised its warrant in the amount of \$2,670,904. In lieu of a cash payment, we used the proceeds of the exercise to pay down a portion of the indebtedness to Astoria. The pay down consisted of \$247,129 for accrued and unpaid interest, \$1,914,165 for the PIK Notes issued to date and \$509,610 as a reduction of principal of the Convertible Subordinated Note. As of December 31, 2005 there were outstanding PIK notes to Astoria and others for the accrued interest due in the aggregate amount of \$283,580. For the foreseeable future, we expect to issue additional PIK notes in lieu of cash payments for the interest due under the Convertible Subordinated Notes. If the Convertible Subordinated Notes or the PIK notes are converted into common stock, our stockholders may experience substantial dilution. Unlike the Secured Promissory Note, the Convertible Subordinated Notes are not secured by our assets.

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

At December 31, 2005, we had \$9.7 million in cash. We believe that our existing cash balances combined with our cash flow from operating activities will be sufficient to meet our operating and capital expenditure requirements for the remainder of the fiscal year ending March 31, 2006 and through the foreseeable future. We are committed to research and development efforts that are intended to allow us to penetrate new markets and generate new sources of revenue and improve operating results. However, our research and development efforts have required, and will continue to require, cash outlays without the immediate or short-term receipt of related revenue. Our ability to service our long-term debt and meet our expenditure requirements is dependent upon our future financial performance, which will be affected by, among other things, prevailing economic conditions, our ability to penetrate new markets and attract new customers, market acceptance of our new and existing products and services, the success of research and development efforts and other factors beyond our control.

On February 11, 2004, we entered into a credit facility with Silicon Valley Bank which provides us with the ability to borrow up to \$1.5 million at an annual interest rate of Prime plus 1.0%, provided that the annual interest rate shall never be less than 5%. The credit facility is collateralized by our assets and expires in February 2006. The credit facility contains financial and reporting covenants that require us to maintain certain financial ratios only when we have outstanding borrowings on the line. There were no outstanding borrowings at December 31, 2005. Upon expiration of the term of this facility we will assess our credit and liquidity needs in relation to market factors. However, we believe that the facility is not required for liquidity purposes or to meet our cash flow needs for the foreseeable future.

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

We had no material commitments for capital expenditures at December 31, 2005.

Net cash used in operating activities was \$1.2 million and net cash provided by operating activities was \$1.1 million for the nine-month periods ended December 31, 2005 and 2004, respectively. The decrease in cash provided by operating activities is the result of a reduction in revenues coupled with increased investment in research and development activities relating to our new product initiatives.

Our earnings before interest, taxes, depreciation and amortization (EBITDA) were \$37,000, or 1% of total net revenue, and negative \$0.2 million, or negative 1% of total net revenue, for the three and nine-month periods ended December 31, 2005, respectively, and \$0.5 million, or 8% of total net revenue, and \$1.6 million, or 10% of total net revenue, for the three and nine-month periods ended December 31, 2004, respectively. The reduction in EBITDA was a result of the reduced revenues in the period and increased spending for research and development. EBITDA is defined as net loss with an add-back for depreciation and amortization, non-cash stock-based compensation expense, interest expense, other income and expense items and income taxes. The following table reconciles EBITDA to the reported net loss:

RECONCILIATION OF EBITDA TO NET LOSS

In \$000's	Three months ended December 31,		Nine months ended December 31,	
	2005	2004	2005	2004
Reported net loss	\$ (268)	\$ (265)	\$ (1,237)	\$ (1,235)
Depreciation and amortization	59	498	206	1,948
Stock-based compensation	—	8	10	58
Interest expense-net	239	292	728	900
Other (income) expense-net	7	(67)	79	(61)
EBITDA	\$ 37	\$ 466	\$ (214)	\$ 1,610

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

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

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

RECONCILIATION OF EBITDA TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

In \$000's	Nine months ended December 31,	
	2005	2004
Net cash provided by (used in) operating activities	\$ (1,185)	\$ 1,098
Interest expense-net	728	900
Other (income) expense-net	79	(61)
Change in accounts receivable	359	336
Change in other assets	23	194
Change in accounts payable	317	(82)
Change in accrued liabilities	(869)	(813)
Change in deferred revenue	396	100
Note payable discount amortization	(62)	(62)
EBITDA	\$ (214)	\$ 1,610

RISK FACTORS

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

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

We have devoted significant resources to the research and development of products and technology. We believe that our future success will depend in large part on a strong research and development effort with respect to both our existing and new products. Beginning in 2001, we began an extensive effort to leverage our time-proven Pick UDM and core intellectual property to create an enterprise class XML database management server for the emerging XML market. This significant investment of time and resources resulted in the TigerLogic XDMS product line. While we intend for these efforts to improve our future operating results and increase cash flow, such efforts may not result in new products or revenue, and any new products that do result may not be successful. The development of new or enhanced software products is a complex and uncertain process requiring high levels of innovation, as well as accurate anticipation of customer and technical trends. In developing new products and services, we may fail to develop and market products that respond to technological changes or evolving industry standards in a timely or cost-effective manner, or experience difficulties that could delay or prevent the successful development, introduction and marketing of these new products. The development and introduction of new or enhanced products also requires us to manage the transition from older products in order to minimize disruptions in customer ordering patterns and to ensure that adequate supplies of new products can be delivered to meet customer demand. Failure to develop and introduce new products, or enhancements to existing products, in a timely manner in response to changing market conditions or customer requirements, or lack of customer acceptance of our products, will materially and adversely affect our business, results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

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

As of December 31, 2005, Astoria beneficially owned approximately 58% of our outstanding common stock. In addition, as of December 31, 2005, the Convertible Subordinated Note issued to Astoria had a balance of approximately \$20.7 million in principal and accrued interest maturing on May 30, 2008. Richard W. Koe, Chairman of the Board of Directors, serves as the Managing General Partner for Astoria Capital Management, which is a general partner of Astoria. Carlton H. Baab, our President and Chief Executive Officer, served as a Managing Principal of Astoria Capital Management until taking a formal leave of absence to join us in August 2001. This concentration of stock ownership, together with the outstanding debt, would allow Astoria, acting alone, to block any actions that require approval of our stockholders, including the election of members to the Board of Directors and the approval of significant corporate transactions. Moreover, this concentration of ownership may delay or prevent a change in control.

RECENT RULEMAKING BY THE FINANCIAL ACCOUNTING STANDARDS BOARD WILL REQUIRE THE COMPANY TO EXPENSE EQUITY COMPENSATION GIVEN TO EMPLOYEES AND MAY HARM OPERATING RESULTS AND MAY REDUCE THE COMPANY'S ABILITY TO EFFECTIVELY UTILIZE EQUITY COMPENSATION TO ATTRACT AND RETAIN EMPLOYEES.

The Company historically has used stock options as a significant component of its employee compensation program in order to align employees' interests with the interests of the Company's stockholders, encourage employee retention, and provide competitive compensation packages. The Financial Accounting Standards Board ("FASB") has adopted changes that will require companies to record a charge to earnings for employee stock option grants and other equity incentives, which may impact the Company's results of operations in future periods. The Company is required to implement the standard no later than its fiscal year 2007. By causing the Company to incur increased compensation costs, such accounting changes are expected to reduce the Company's reported earnings and may require the Company to reduce the availability and amount of equity incentives provided to employees, which may make it more difficult for the Company to attract, retain and motivate key personnel. Each of these results could materially and adversely affect the Company's business. The future impact of the adoption of SFAS 123R on the Company's consolidated financial position and results of operations has not been determined at this time, however, the adoption of this statement is expected to reduce earnings in future periods.

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

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

- the size and timing of customer orders;
- changes in pricing policies by us or our competitors;
- our ability to develop, introduce, and market new and enhanced versions of our products;
- the number, timing, and significance of product enhancements and new product announcements by our competitors;
- the demand for our products;
- non-renewal of customer support agreements;
- software defects and other product quality problems; and
- personnel changes.

We operate without a significant backlog of orders. As a result, the quarterly sales and operating results in any given quarter are dependent, in large part, upon the volume and timing of orders booked and products shipped during that quarter. Accordingly, we may be unable to adjust spending in a timely manner to compensate for any unanticipated decrease in orders, sales or shipments. Therefore, any decline in demand for our products and services, in relation to the forecast for any given quarter, could materially and negatively impact the results of our operations. As a result, our quarterly operating results may fluctuate, which may cause our stock price to be volatile. In addition, we believe that period-to-period comparisons of our operating results should not be relied upon as indications of future performance.

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

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

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

Our ability to compete successfully will depend, in part, on our ability to protect our proprietary technology and operations without infringing upon the rights of others. We may fail to do so. In addition, the laws of certain countries in which our products are, or may be, licensed may not protect our proprietary rights to the same extent as the laws of the United States. We rely primarily on a combination of trade secret, copyright and trademark laws and contractual provisions to protect our intellectual property and proprietary rights. Our trademarks include Raining Data, Pick, D3, Omnis, Omnis Studio, mvEnterprise, mvBase, mvDesigner and TigerLogic, among others. We also have one pending U.S. patent application as of December 31, 2005. In addition to trademark and copyright protections, we license our products to end users on a “right to use” basis pursuant to a perpetual license agreement that restricts use of products to a specified number of users.

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

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

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

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

As of December 31, 2005, we had 20,599,003 outstanding shares of common stock, of which approximately 9,700,000 shares were restricted securities held by Astoria and other holders. Restricted securities may be sold in the public market only if they are registered or if they qualify for an exemption from registration promulgated under the Securities Act of 1933, as amended. At present, all of our outstanding restricted securities are either entitled to registration rights or eligible for public sale under Rule 144, subject to volume limitations and other requirements of Rule 144. If Astoria or other holders decide to exercise their demand registration rights, we would incur costs and expenses associated with the registration of securities.

Furthermore, sales of a substantial number of shares by Astoria or other securities holders in the public market, or the perception that those sales may occur, could cause the market price of our common stock to decline. In addition, if we register shares of our common stock in connection with a public offering of securities, we may be required to include shares of restricted securities in the registration, which may have an adverse effect on our ability to raise capital.

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

We operate on a global basis with offices or distributors in Europe, Africa, Asia, Latin America, South America, Australia and North America and development efforts in North America, India and Europe. Approximately 32% and 30% of our revenue for the three and nine-month periods ended December 31, 2005, respectively, was generated from our international offices. We face several risks inherent in conducting business internationally, including but not limited to the following:

- fluctuations in interest rates or currency exchange rates;
- language and cultural differences;
- local and governmental requirements;
- difficulties and costs of staffing and managing international operations;
- differences in intellectual property protections;
- difficulties in collecting accounts receivable and longer collection periods;
- seasonal business activities in certain parts of the world; and
- trade policies.

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

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

A key factor in our future success will continue to be the ability of our products to operate and perform well with existing and future leading, industry-standard enterprise software applications intended to be used in connection with our MDMS, RAD, and XDMS products. Inter-operability may require third party licenses, which may not be available to us on favorable terms or at all. Failure to meet existing or future inter-operability and performance requirements of industry standard applications in a timely manner could adversely affect our business. Uncertainties relating to the timing and nature of new product announcements or introductions or modifications of third party software applications could delay our product development, increase our product development expense or cause customers to delay evaluation, purchase, and deployment of our products.

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

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

ITEM 3. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our principal executive officer and principal financial officer evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective, as of the end of the period covered by this report, to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

However, 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 Raining Data Corporation 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

We are subject from time to time to claims and suits arising in the ordinary course of business. As of December 31, 2005, we were not a party to any material litigation, claim or suit.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the 2005 Annual Meeting of the Company's Stockholders held on November 28, 2005 (the "Meeting"), six proposals were submitted. No other proposals were put before the meeting. The proposals and voting results were as follows:

1. To elect Douglas G. Marshall and Richard W. Smith as the two Class I directors to serve until the 2008 Annual Meeting of the Stockholders or until their successors are duly elected and qualified:

Douglas G. Marshall	FOR: 20,206,749	WITHHELD: 11,005
Richard W. Smith	FOR: 20,206,749	WITHHELD: 11,005

2. To ratify the appointment of KPMG LLP as the independent auditors of the Company for the fiscal year ending March 31, 2006:

FOR: 20,185,072 AGAINST: 29,337 ABSTAIN: 3,345

3. To amend the Company's Restated Certificate of Incorporation to increase the authorized number of shares of Common Stock from 60,000,000 to 100,000,000 shares and to increase the authorized number of shares of Preferred Stock from 300,000 to 5,000,000 shares:

FOR: 14,005,517 AGAINST: 157,368 ABSTAIN: 39,685 BROKER NON VOTES: 6,015,184

4. To amend the Company's Restated Certificate of Incorporation to remove the provision requiring the affirmative vote of the holders of two-thirds (2/3) of the outstanding voting shares to amend, alter, modify or repeal provisions of the Company's Restated Certification of Incorporation which (i) set the authorized number of directors, (ii) provide for a classified Board of Directors and (iii) provide for directors to be removed with or without cause.

FOR: 14,052,798 AGAINST: 107,117 ABSTAIN: 42,665 BROKER NON VOTES: 6,015,184

5. To approve amendments to Section 3.1 and Article XI of the Company's Amended and Restated Bylaws to remove the requirements of the affirmative vote of two-thirds (2/3) of the then-outstanding shares of stock entitled to vote to amend, change or repeal provisions which (i) set the authorized number of directors and (ii) provide for a classified Board of Directors.

FOR: 14,056,379 AGAINST: 103,211 ABSTAIN: 42,980 BROKER NON VOTES: 6,015,184

6. To approve amendments to the Company's 1999 Stock Option Plan (the "Plan") to: (1) increase the number of shares authorized for issuance under the Plan by 1,500,000 shares to a total of 6,500,000 shares available for issuance under the Plan; (2) provide for automatic annual increases in the number of shares reserved for issuance under the Plan by an amount equal to the lesser of (i) three percent (3%) of the Company's total outstanding shares on the last day of the Company's fiscal year, (ii) 2,000,000, or (iii) such lesser amount as determined in the sole and absolute discretion of the Company's Board of Directors; and (3) add restricted stock purchase rights as a new award type and add net exercise as an acceptable form of consideration upon exercise of stock options.

FOR: 13,163,615 AGAINST: 592,052 ABSTAIN: 442,003 BROKER NON VOTES: 6,020,084

All proposals were approved by the requisite number of votes.

ITEM 6. EXHIBITS

Exhibits:

- 3.1 Amended and Restated Certificate of Incorporation of the Registrant filed with the Secretary of State of Delaware on November 29, 2005, incorporated by reference to Form 8-K filed on November 30, 2005.
- 3.2 Amended and Restated Bylaws of the Registrant, dated November 28, 2005, incorporated by reference to Form 8-K filed on November 30, 2005.
- 10.1 1999 Stock Plan, as amended on November 28, 2005, Form of Notice of Stock Option Grant and Form of Stock Option Agreement, incorporated by reference to Form 8-K filed on November 30, 2005.
- 31.1 Certification of Chief Executive Officer.
- 31.2 Certification of Chief Financial Officer.
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

Date: February 9, 2006

RAINING DATA CORPORATION

/s/ Brian C. Bezdek
Brian C. Bezdek
Chief Financial Officer and Duly Authorized Officer

EXHIBIT INDEX

- 3.1 Amended and Restated Certificate of Incorporation of the Registrant filed with the Secretary of State of Delaware on November 29, 2005, incorporated by reference to Form 8-K filed on November 30, 2005.
- 3.2 Amended and Restated Bylaws of the Registrant, dated November 28, 2005, incorporated by reference to Form 8-K filed on November 30, 2005.
- 10.1 1999 Stock Plan, as amended on November 28, 2005, Form of Notice of Stock Option Grant and Form of Stock Option Agreement, incorporated by reference to Form 8-K filed on November 30, 2005.
- 31.1 Certification of Chief Executive Officer.
- 31.2 Certification of Chief Financial Officer.
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Carlton H. Baab, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Raining Data Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: February 9, 2006

/s/ Carlton H. Baab

Carlton H. Baab
President and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Brian C. Bezdek, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Raining Data Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: February 9, 2006

/s/ Brian C. Bezdek

Brian C. Bezdek
Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Carlton H. Baab, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Raining Data Corporation on Form 10-QSB for the quarterly period ended December 31, 2005 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-QSB fairly presents in all material respects the financial condition and results of operations of Raining Data Corporation.

By: /s/ Carlton H. Baab
Name: Carlton H. Baab
Title: President and Chief Executive Officer

I, Brian C. Bezdek, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Raining Data Corporation on Form 10-QSB for the quarterly period ended December 31, 2005 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-QSB fairly presents in all material respects the financial condition and results of operations of Raining Data Corporation.

By: /s/ Brian C. Bezdek
Name: Brian C. Bezdek
Title: Chief Financial Officer
