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

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from _____ to _____

Commission File Number 0-16449

TIGERLOGIC CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

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

25A Technology Drive, Irvine, California
(Address of Principal Executive Offices)

92618
(Zip Code)

(949) 442-4400
(Issuer's Telephone Number, Including Area Code)

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

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

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

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

YES NO

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

**TIGERLOGIC CORPORATION
INDEX**

PART I.	<u>FINANCIAL INFORMATION</u>	3
ITEM 1.	<u>FINANCIAL STATEMENTS</u>	3
	<u>UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS — JUNE 30, 2008 AND MARCH 31, 2008</u>	3
	<u>UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS — THREE MONTHS ENDED JUNE 30, 2008 AND 2007</u>	4
	<u>UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS — THREE MONTHS ENDED JUNE 30, 2008 AND 2007</u>	5
	<u>NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>	6
ITEM 2.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	10
ITEM 3.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	20
ITEM 4.	<u>CONTROLS AND PROCEDURES</u>	20
PART II.	<u>OTHER INFORMATION</u>	21
ITEM 1.	<u>LEGAL PROCEEDINGS</u>	21
ITEM 1A.	<u>RISK FACTORS</u>	21
ITEM 2.	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	25
ITEM 3.	<u>DEFAULT UPON SENIOR SECURITIES</u>	25
ITEM 4.	<u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	25
ITEM 5.	<u>OTHER INFORMATION</u>	26
ITEM 6.	<u>EXHIBITS</u>	26

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**TIGERLOGIC CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

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

See accompanying notes to the unaudited condensed consolidated financial statements.

TIGERLOGIC CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

See accompanying notes to the unaudited condensed consolidated financial statements.

TIGERLOGIC CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

See accompanying notes to the unaudited condensed consolidated financial statements.

TIGERLOGIC CORPORATION AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008

1. INTERIM FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial information furnished herein reflects all adjustments, consisting only of normal recurring items, which in the opinion of management are necessary to fairly state TigerLogic Corporation and its subsidiaries' (collectively, the "Company" or "we," "us" or "our") results of operations and cash flows for the dates and periods presented and to make such information not 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 condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended March 31, 2008, contained in the Company's Annual Report on Form 10-KSB. The results of operations for the three month period ended June 30, 2008, are not necessarily indicative of results to be expected for any other interim period or the fiscal year ending March 31, 2009.

2. STOCK-BASED COMPENSATION

The Company has a stock option plan that provides for the granting of stock options, restricted stock and restricted stock units to directors, employees and consultants. The Company also has an Employee Stock Purchase Plan which allows the employees to purchase the Company's common stock at a discount.

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

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

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

3. RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

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

4. DEBT

Long-Term Debt

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

	<u>March 31,</u> <u>2008</u>
Subordinated convertible notes payable	\$ 965
Plus accrued interest	12
Total notes payable	<u>\$ 977</u>

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

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

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

5. STOCKHOLDERS’ EQUITY

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

The change in accumulated other comprehensive income during the three-month periods ended June 30, 2008 and 2007, is the result of the effect of foreign exchange rate changes. The following table reconciles net loss as reported with total comprehensive loss (in thousands):

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

6. BUSINESS SEGMENT

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

	<u>Three Months Ended June 30,</u>	
	<u>2008</u>	<u>2007</u>
Net revenue		
North America	\$ 3,020	\$ 3,389
Europe/Africa	1,535	1,584
Total	<u>\$ 4,555</u>	<u>\$ 4,973</u>
	<u>June 30,</u>	<u>March</u>
	<u>2008</u>	<u>31, 2008</u>
Long-lived assets		
North America	\$ 27,590	\$ 27,420
Europe/Africa	660	623
Total	<u>\$ 28,250</u>	<u>\$ 28,043</u>

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

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

7. COMMITMENTS AND CONTINGENCIES

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

1. *Raining Data v. Intrametrix*. On or about January 19, 2007, the Company filed a complaint in Orange County Superior Court that sets forth allegations that Intrametrix threatens to and has misappropriated the Company's trade secrets. The Company's allegations in the complaint include that Intrametrix has obtained the Company's source code in violation of the Parties' OEM (Original Equipment Manufacturer) Distribution Agreement and in violation of California's laws prohibiting the misappropriation of trade secrets. The Company seeks injunctive relief from Intrametrix, including, but not limited to, compelling Intrametrix to fully comply with all of the termination provisions set forth in the OEM Agreement; enjoining Intrametrix and its employees and agents from using or disclosing the Company's trade secrets; prohibiting Intrametrix from soliciting the Company's current or potential customers for 3 years, and from soliciting or employing certain of the Company's former employees for 3 years. Intrametrix filed a motion to quash the Complaint, which the Company opposed, but on the morning of the hearing, Intrametrix first notified the Company that it filed Chapter 11

bankruptcy, effectively staying the litigation in Orange County Superior Court. In March of 2008, the Company commenced discovery in the Bankruptcy matter. In April 2008, the Bankruptcy matter was converted to Chapter 7. The Company is pursuing further discovery and potential litigation in the Bankruptcy court in Houston, TX.

2. *Raining Data v. Soheil Raissi (formerly the Company's Vice President, Product Development and Professional Services), Mario Barrenechea (formerly the Company's Senior Vice President, Worldwide Sales and Marketing, Pick and Omnis Products), and Adevnet.* On or about December 8, 2006, the Company filed a complaint in Orange County Superior Court that sets forth allegations that the defendants threaten to and have misappropriated the Company's trade secrets. The Company's allegations in the complaint include that the individual defendants have used or disclosed the Company's trade secrets (in the form of source code and licenses and other trade secret information) in violation of their agreements with the Company to maintain the confidentiality of such trade secret information, and in violation of California laws prohibiting the misappropriation of trade secrets. The Company seeks injunctive relief from the defendants, including, but not limited to, compelling the defendants to immediately return all of the Company's trade secrets and property; enjoining the defendants and their employees and agents from using or disclosing the Company's trade secrets, including the Company's source code; ordering the defendants to disclose all gains and profits they have derived from the misappropriation of the Company's trade secrets; enjoining the defendants from directly or indirectly supplying, selling or promoting any product that incorporates the Company's trade secrets. On June 27, 2008, the Court granted the Company's Motion to File a Second Amended Complaint, adding claims for Breach of the Duty of Loyalty and for Unjust Enrichment against the Defendants. Also, since the Court granted Plaintiff's special motion to strike (as set forth in paragraph 3 below), the Company has commenced discovery in this action. The Company will continue to vigorously pursue its rights in this litigation.

3. *Cross-Complaint by Soheil Raissi, Mario Barrenechea and Adevnet v. Raining Data.* On or about January 10, 2007, the defendants in the case above filed a cross-complaint, alleging several claims against the Company and Carlton Baab, the Company's President and Chief Executive Officer, unfair business practices, violation of civil rights, intentional interference with prospective economic advantage, negligent interference with prospective economic advantage, malicious prosecution, abuse of process, negligence, civil conspiracy, and injunctive relief. Cross-complainants allege general, compensatory, special, and punitive and exemplary damages in amounts "according to proof," and seek to enjoin the Company from engaging in improper and unlawful conduct. The Company and Carlton Baab assert that all of the claims are baseless, and filed a special motion to strike all the allegations in the cross-complaint. On June 27, 2008, the Court granted the special motion to strike, and thus struck the entire Cross-Complaint. The Company and Carlton Baab have thus filed a Motion for Fees and Costs related to their bringing their special motion to strike, which is scheduled to be heard on August 29, 2008. Management believes that the ultimate disposition of this matter will not have a material adverse effect on the Company's consolidated financial statements, results of operations, cash flows or liquidity.

Indemnification

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

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

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements may generally be identified by the use of such words as "expect," "anticipate," "believe," "intend," "plan," "will," or "shall," or the negative of those terms. We have based these forward-looking statements on our current expectations and projections about future events. Forward-looking statements involve certain risks and uncertainties and actual results may differ materially from those discussed in any such statement. Factors that could cause actual results to differ materially from such forward-looking statements include the risks described under the heading "Risk Factors" in Item 2 of this Form 10-Q and elsewhere in this Form 10-Q. The forward-looking statements contained in this Form 10-Q include, but are not limited to statements about the following: (1) our future success, (2) our research and development efforts, (3) our future operating results and cash flow, (4) our ability to compete, (5) the markets in which we operate, (6) our revenue, (7) cost of license revenue and cost of service revenue, (8) our selling and marketing costs, (9) our backlog, (10) our research and development expenses, (11) the effect of critical accounting policies, (12) our belief that our existing cash balances combined with our

cash flow from operating activities will be sufficient to meet our operating and capital expenditure requirements for the remainder of the fiscal year ending March 31, 2009 and through the foreseeable future, and (13) our focus on the continued development and enhancement of the TigerLogic product line, and identification of new and emerging application areas and discussions with channel partners for the sale and distribution of the TigerLogic product line. 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. On April 17, 2008, we changed our name to TigerLogic Corporation.

Products

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. Our software may be categorized into the following product lines: ChunkIt!, XDMS, MDMS and RAD software tools. All of our revenue to date has been derived from XDMS, MDMS and RAD software products.

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

Beginning in 2001, we began an extensive effort to leverage our Pick UDM and core intellectual property to create the TigerLogic technology product line, which includes an internet browser-based search application called ChunkIt! designed to enhance the search experience and productivity of any Web user, and an enterprise class XML Database Management Server for the emerging XML market to address the growing need for managing and querying native XML data and the ability to handle structured and unstructured data. We are focused on the continued development and enhancement of this product line, identification of new and emerging technology areas and discussions with channel partners for the sale and distribution of the TigerLogic product line.

TigerLogic ChunkIt!

In April 2008, we publicly released for beta testing an internet browser-based search application called ChunkIt! This application is designed to enhance the search experience and productivity of any Web user. As an application that sits inside a Web browser, its function is to mine embedded hyperlinks that are commonly found on any Web page. ChunkIt! extracts the original content related to the user’s keyword search terms from behind the links and brings the content to the surface for easy review. The content is presented in the form of easily digested “chunks” of information. To facilitate the review, each keyword in the chunk is highlighted with a unique color.

This capability is useful not only for extracting search engine results, but for viewing any Web page that contains hundreds, if not thousands of embedded hyperlinks. With a single click, ChunkIt! delivers users the benefit of being able to quickly determine and preview the links that contain information pertinent to their searches. ChunkIt! can save users the time of having to click through a multitude of irrelevant links, and from having to manage multiple windows and tabs.

Users can download and install the beta version of the application at no charge at TigerLogic’s website, www.tigerlogic.com/chunkit. To date, we have not recognized any revenue from the ChunkIt! product.

TigerLogic XDMS

TigerLogic® XDMS is a high performance, scalable, enterprise native XML database management server with both data- and document-centric capabilities. The TigerLogic XDMS difference comes from its core technology, a highly flexible data model that is optimal for managing and storing any kind of XML or non-XML data and its high performance, extensible XQuery Engine. TigerLogic XDMS provides a level of efficient persistence that XML applications and transactions require, offering the benefits of roles-based security, XA-compliant transactions, replication and high-availability for enhanced reliability. TigerLogic XDMS provides the benefits of an enterprise-scalable system that allows on the fly changes to content, recursion, and automatically optimizes storage.

TigerLogic XDMS supports 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 2.6, which included support for enhanced XQuery features, including XQuery stored procedures and full-text search and support for high availability clustering, was released in July 2006. Version 3.0, which is the third generation release of the product and includes compliance with the XML Query 1.0 specification, released in January 2007, cache management of data sources, in-memory cache, support for geospatial data, enhanced application programming interfaces (“APIs”) and data replication was released for beta testing in June 2007. To date, our revenue from TigerLogic XDMS has been less than \$300,000.

Multi-dimensional Databases (MDMS)

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. 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.

MDMS components include FlashCONNECT a Web application programming interface which enables programmers to quickly implement a Web browser interface for Internet, intranet and extranet for their applications, OpenDB and Open Data Base Connectivity (“ODBC”) connectors that allow the MDMS products to talk to ODBC-compliant databases and 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.

Rapid Application Development (RAD) Tools

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 ODBC compatible database management systems.

Technical Support

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 on a when-and-if available basis and direct technical support when required.

Sales and Distribution

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 34% and 32% of our revenue came from sales through our offices located outside the United States for the three month periods ended June 30, 2008 and 2007, respectively.

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

We generally 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 software maintenance and support and, to a limited extent, other services to our customers, including professional services and training to help plan, analyze, implement and maintain application software based on our products.

Customers

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 each of the three month periods ended June 30, 2008 and 2007, no single customer accounted for more than 10% of our revenue.

Research and Development

We have devoted significant resources to the research and development of our products and technology. We believe that our future success 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 TigerLogic 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. We spent \$2.2 million and \$2.0 million on research and development for the three month periods ended June 30, 2008 and 2007, respectively.

Competition

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. Our ChunkIt! search application will encounter competition from several direct competitors including Google, Yahoo, Microsoft, AOL and Ask, as well as a number of smaller companies with products that directly and indirectly compete with our ChunkIt! product. 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 product markets depends on factors both within and outside our control, including the timing of release, performance and price of new products developed by both us and our competitors. 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.

Intellectual Property and Other Proprietary Rights

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 TigerLogic, ChunkIt!, Raining Data, Pick, D3, Omnis, Omnis Studio, mvEnterprise, mvBase, and mvDesigner, among others. We also have twelve pending U.S. patent applications as of June 30, 2008.

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.

Backlog

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.

Employees

At June 30, 2008, we had 128 employees worldwide of which 98 were in the United States and 30 were in our international offices. Of the 128 employees, 99 are full-time and approximately 37% are in research and development, 16% in technical support, 31% in sales and marketing and 16% 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 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 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.

For contracts that require significant modification or customization to the software in accordance with customers' specifications, we recognize revenue using the completed-contract method pursuant to the requirements of Statement of Position No. 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Under this method, revenue and expenses are deferred until customer acceptance of the finished product occurs.

GOODWILL. We assess the impairment of goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable and 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.

In accordance with SFAS No. 142, “*Goodwill and Other Intangible Assets*,” we do not amortize goodwill, but test for goodwill impairment following 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. Currently, we have one reporting unit for goodwill impairment testing.

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. Estimates of enterprise fair value are currently based on our stock price as reported by Nasdaq given our single reporting unit structure.

EMPLOYEE STOCK-BASED COMPENSATION. We account for stock-based compensation in accordance with SFAS No. 123(R), “*Share-Based Payment*.” Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the requisite service period. We estimate the fair value of stock-based awards using a Black-Scholes valuation model. Determining the fair value of share-based awards at the grant date requires judgment, including estimating volatility, expected terms, and forfeitures. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could be materially impacted. See footnote 2 in the accompanying unaudited condensed consolidated financial statements.

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 and cost of 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-Q.

	Three Months Ended June 30, 2008			Three Months Ended June 30, 2007	
	Results (In thousands)	% of Net Revenues	Percent Change	Results (In thousands)	% of Net Revenues
Net revenues					
Licenses	\$ 1,636	36%	(18)%	\$ 2,002	40%
Services	2,919	64%	(2)%	2,971	60%
Total net revenues	4,555	100%	(8)%	4,973	100%
Operating expense					
Cost of revenues:					
Cost of license revenues (as a % of license revenues)	4	0%	(56)%	9	0%
Cost of service revenues (as a % of service revenues)	448	15%	(8)%	485	16%
Selling and marketing	1,827	40%	40%	1,304	26%
Research and development	2,232	49%	12%	1,997	40%
General and administrative	1,543	34%	17%	1,323	27%
Total operating expenses	6,054	133%	18%	5,118	103%
Operating loss	(1,499)	(33)%	934%	(145)	(3)%
Other income (expense)-net	45	1%	(288)%	(24)	0%
Loss before income taxes	(1,454)	(32)%	760%	(169)	(3)%
Income tax provision	11	0%	(42)%	19	0%
Net loss	\$ (1,465)	(32)%	679%	\$ (188)	(4)%

REVENUE

NET REVENUE. Our revenue is derived principally from two sources: fees from software licensing and fees for post contract 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. While the timing of orders and customer ordering patterns have resulted in some fluctuations in license revenue between quarters and year-to-year, the \$0.4 million or 8% decrease in total revenue for the three month period ended June 30, 2008, as compared to the same period in the prior year is a result of lower orders from our existing customer base. Services revenue has remained relatively stable and consistent from period to period and we anticipate that services revenue will remain stable for the foreseeable future. In the longer term, we expect that the MDMS and RAD markets will eventually contract as customers continue to 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 TigerLogic product line. Should our development efforts and the adoption of these product lines be successful, we anticipate additional revenues in future periods related 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.

OPERATING EXPENSES

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. The slight decrease in absolute dollars for cost of license revenue for the three month period ended June 30, 2008, as compared to the same period in the prior year, was due to decreased 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. The decrease in cost of service revenue for the three month period ended June 30, 2008, when compared to the same period in prior year, is due to reduced headcount. 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.

SELLING AND MARKETING. Selling and marketing expense consists primarily of salaries, benefits, advertising, tradeshows, travel and overhead costs for our sales and marketing personnel. The \$0.5 million increase in selling and marketing expense for the three month period ended June 30, 2008, as compared to the same period in the prior year, was due to additional personnel and increased marketing expense relating to the introduction of TigerLogic ChunkIt!, as well as stock compensation expense. We anticipate that selling and marketing costs related to the TigerLogic product line 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 TigerLogic product line, 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. The \$0.2 million increase in research and development expense for the three month period ended June 30, 2008, as compared to the same period in the prior year was mainly due to consulting expense related to the TigerLogic product ChunkIt!, offset by reduced headcount and termination of contracted professional technical services in India. 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 TigerLogic product line, 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. The \$0.2 million increase in general and administrative expense for the three month period ended June 30, 2008, as compared to the same period in prior year, was mainly due to costs incurred in legal services related to pending litigation matters and patents and trademarks registration.

OTHER INCOME (EXPENSE). Other income (expense) consists primarily of net interest expense and gains and losses on foreign currency transactions. The change in other income (expense) during the three month period ended June 30, 2008, as compared to the same period in the prior year, was mainly due to less interest expense as a result of the conversion of certain long term debt into equity in October 2007 and April 2008, and foreign currency exchange gains. Due to the uncertainty in exchange rates, we may experience transaction gains or losses in future periods, the effect of which cannot be predicted at this time.

PROVISION FOR INCOME TAXES. Our effective tax rate was (0.8%) and (11.2%) for the three month periods ended June 30, 2008 and 2007, respectively. The provision for income taxes reflects the tax on earnings and dividends from foreign subsidiaries. Due to uncertainties surrounding the timing of realizing the benefits of the net operating loss carryforwards in the future, we carry a full valuation allowance against net deferred tax assets in domestic and foreign jurisdictions, except France. As a result of our analysis of all available evidence, both positive and negative as of the end of the fourth quarter of the year ended March 31, 2008, including sustained historical profitability in France, improved financial condition at the parent-level, and completion of a world-wide transfer pricing study, it was considered more likely than not that a full valuation allowance for deferred tax assets in France was not required, resulting in the release of the valuation allowance previously recorded against our net French deferred tax assets of \$460,000.

LIQUIDITY AND CAPITAL RESOURCES

In connection with the acquisition of PickAx, we assumed a Secured Promissory Note issued to 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 870,536 shares and a portion of the Subordinated Convertible Note, totaling \$1,751,832, to two of its limited partners, GFAM and CAM. As such, we issued an Amended and Restated Convertible Subordinated Note to Astoria for \$20,749,581 and Convertible Subordinated Notes directly to GFAM and CAM for \$862,979 and \$888,853, respectively. The Convertible Subordinated Notes were 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 matured on May 30, 2008, extending the May 30, 2003 maturity date of the Secured Promissory Note.

The interest rate of the Convertible Subordinated Notes was 5% per annum as compared to an interest rate of 10% per annum under the Secured Promissory Note. The interest was 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 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, and \$2,423,775 as a reduction of principal of the Convertible Subordinated Note.

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

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

Astoria is a major stockholder of ours, holding a majority of our outstanding common stock. Richard W. Koe, Chairman of our Board of Directors, serves as the Managing General Partner for Astoria. Carlton H. Baab, our President and Chief Executive Officer and a member of the Board of Directors, served as a Managing Principal of ACM, 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.

As of June 30, 2008, we had \$12.1 million in cash and cash equivalents. We believe that our existing cash balances will be sufficient to meet our operating and capital expenditure requirements for the remainder of the fiscal year ending March 31, 2009 and through the foreseeable future. We are committed to research and development and marketing 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 and marketing efforts have required, and will continue to require, cash outlays without the immediate or short-term receipt of related revenue. Our ability to meet 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 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 as of June 30, 2008.

Net cash used in operating activities was \$1.6 million and \$0.5 million for the three month periods ended June 30, 2008 and 2007, respectively. The increase in net cash used in operating activities for the three month period ended June 30, 2008 as compared to the same period in prior year was primarily due to lower revenue coupled with higher operating expenses mainly related to the introduction of the TigerLogic ChunkIt! product. Net cash used in investing activities was \$0.5 million and \$0.0 million for the three month periods ended June 30, 2008 and 2007, respectively. The increase in cash used in

investing activities was due to higher expenditures related to equipment purchased for the introduction of the TigerLogic ChunkIt! product. Net cash provided by financing activities was \$0.1 million and \$0.0 million for the three month periods ended June 30, 2008 and 2007, respectively. Net cash provided by financing activities was primarily due to proceeds derived from the exercise of stock options.

NON-GAAP FINANCIAL INFORMATION

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. EBITDA does not represent funds available for management’s discretionary use and is not intended to represent cash flow from operations. 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 was negative \$0.9 million, or negative 21% of total net revenue for the three month period ended June 30, 2008, and \$0.2 million, or 4% of total net revenue for the three month period ended June 30, 2007. The decrease in EBITDA for the three month period ended June 30, 2008, compared to the same period in the prior year was a result of decreased license revenue and increased operating expenses relating to the introduction of the TigerLogic ChunkIt! product.

EBITDA is defined as net income (loss) with an add-back for depreciation and amortization, non-cash stock-based compensation expense, interest income (expense)-net, other income (expense)-net, and income taxes. The following table reconciles EBITDA to the GAAP reported net loss:

RECONCILIATION OF EBITDA TO NET LOSS (In thousands)

	For the Three Months Ended June 30,	
	2008	2007
Reported net loss	\$ (1,465)	\$ (188)
Depreciation and amortization	106	65
Stock-based compensation	450	255
Interest (income) expense-net	(51)	202
Other (income) expense-net	6	(178)
Income tax provision	11	19
EBITDA	\$ (943)	\$ 175

Our EBITDA financial information can also be reconciled to net cash used in operating activities as follows:

**RECONCILIATION OF EBITDA TO NET CASH USED IN
OPERATING ACTIVITIES
(In thousands)**

	For the Three Months Ended June 30,	
	2008	2007
Net cash used in operating activities	\$ (1,610)	\$ (500)
Interest (income) expense-net	(51)	202
Other (income) expense-net	6	(178)
Change in trade accounts receivable	(82)	369
Change in other current and non-current assets	45	31
Change in accounts payable	54	(120)
Change in accrued liabilities	702	360
Change in deferred revenue	(18)	(105)
Foreign currency exchange gain (loss)	(8)	139
Note payable discount amortization	—	(21)
Provision for bad debt	19	(2)
EBITDA	<u>\$ (943)</u>	<u>\$ 175</u>

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our principal executive officer and principal financial officer evaluated the effectiveness of our 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.

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 the Company have been detected.

Changes in Internal Control over Financial Reporting

Management has committed resources to remediate the material weaknesses in our internal controls that existed at March 31, 2008. Management believes that these efforts have improved internal control over financial reporting. The following changes in our internal control over financial reporting that have materially affected our internal control over financial reporting were identified during the quarter ended June 30, 2008:

- Implemented additional review procedures in the tax provision calculation process to ensure that data used has been reconciled to tax returns filed by foreign subsidiaries.
- Improved review process of purchased assets to ensure recording and classification in accordance with generally accepted accounting principles.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

1. *Raining Data v. Intrametrix*. On or about January 19, 2007, the Company filed a complaint in Orange County Superior Court that sets forth allegations that Intrametrix threatens to and has misappropriated the Company's trade secrets. The Company's allegations in the complaint include that Intrametrix has obtained the Company's source code in violation of the Parties' OEM (Original Equipment Manufacturer) Distribution Agreement and in violation of California's laws prohibiting the misappropriation of trade secrets. The Company seeks injunctive relief from Intrametrix, including, but not limited to, compelling Intrametrix to fully comply with all of the termination provisions set forth in the OEM Agreement; enjoining Intrametrix and its employees and agents from using or disclosing the Company's trade secrets; prohibiting Intrametrix from soliciting the Company's current or potential customers for 3 years, and from soliciting or employing certain of the Company's former employees for 3 years. Intrametrix filed a motion to quash the Complaint, which the Company opposed, but on the morning of the hearing, Intrametrix first notified the Company that it filed Chapter 11 bankruptcy, effectively staying the litigation in Orange County Superior Court. In March of 2008, the Company commenced discovery in the Bankruptcy matter. In April 2008, the Bankruptcy matter was converted to Chapter 7. The Company is pursuing further discovery and potential litigation in the Bankruptcy court in Houston, TX.

2. *Raining Data v. Soheil Raissi (formerly the Company's Vice President, Product Development and Professional Services), Mario Barrenechea (formerly the Company's Senior Vice President, Worldwide Sales and Marketing, Pick and Omnis Products), and Adevnet*. On or about December 8, 2006, the Company filed a complaint in Orange County Superior Court that sets forth allegations that the defendants threaten to and have misappropriated the Company's trade secrets. The Company's allegations in the complaint include that the individual defendants have used or disclosed the Company's trade secrets (in the form of source code and licenses and other trade secret information) in violation of their agreements with the Company to maintain the confidentiality of such trade secret information, and in violation of California laws prohibiting the misappropriation of trade secrets. The Company seeks injunctive relief from the defendants, including, but not limited to, compelling the defendants to immediately return all of the Company's trade secrets and property; enjoining the defendants and their employees and agents from using or disclosing the Company's trade secrets, including the Company's source code; ordering the defendants to disclose all gains and profits they have derived from the misappropriation of the Company's trade secrets; enjoining the defendants from directly or indirectly supplying, selling or promoting any product that incorporates the Company's trade secrets. On June 27, 2008, the Court granted The Company's Motion to File a Second Amended Complaint, adding claims for Breach of the Duty of Loyalty and for Unjust Enrichment against the Defendants. Also, since the Court granted Plaintiff's special motion to strike (as set forth in paragraph 3 below), the Company has commenced discovery in this action. The Company will continue to vigorously pursue its rights in this litigation.

3. *Cross-Complaint by Soheil Raissi, Mario Barrenechea and Adevnet v. Raining Data*. On or about January 10, 2007, the defendants in the case above filed a cross-complaint, alleging several claims against the Company and Carlton Baab, the Company's President and Chief Executive Officer, unfair business practices, violation of civil rights, intentional interference with prospective economic advantage, negligent interference with prospective economic advantage, malicious prosecution, abuse of process, negligence, civil conspiracy, and injunctive relief. Cross-complainants allege general, compensatory, special, and punitive and exemplary damages in amounts "according to proof," and seek to enjoin the Company from engaging in improper and unlawful conduct. The Company and Carlton Baab assert that all of the claims are baseless, and filed a special motion to strike all the allegations in the cross-complaint. On June 27, 2008, the Court granted the special motion to strike, and thus struck the entire Cross-Complaint. The Company and Carlton Baab have thus filed a Motion for Fees and Costs related to their bringing their special motion to strike, which is scheduled to be heard on August 29, 2008. Management believes that the ultimate disposition of this matter will not have a material adverse effect on the Company's consolidated financial statements, results of operations, cash flows or liquidity.

ITEM 1A. 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 technologies. 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 the TigerLogic product line, which includes an internet browser-based search application called ChunkIt! and an enterprise class XML database management server for the emerging XML market. While we intend for these efforts to improve our future operating results and increase cash flow, such new products may not be successful or generate significant revenue. The development of new or enhanced software products is a complex and uncertain process requiring high levels of innovation, as well as accurate anticipation of customer and technical trends. 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. Our ChunkIt! search application will encounter competition from several direct competitors including Google, Yahoo, Microsoft, AOL and Ask, as well as a number of smaller companies with products that directly and indirectly compete with our ChunkIt! product. 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 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 may be declining as customers adopt other technologies. As a result, to maintain or grow our revenue in these markets, we will need to maintain or grow 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. The adoption cycle for our ChunkIt! product is anticipated to be long since the search market currently has much larger direct competitors such as Google, Yahoo, Microsoft, AOL and Ask. 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.

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

As of June 30, 2008, Astoria beneficially owned approximately 56% of our outstanding common stock. Richard W. Koe, Chairman of the Board of Directors, serves as the Managing General Partner for ACM, which is a general partner of Astoria. Carlton H. Baab, our President, Chief Executive Officer, and Director, served as a Managing Principal of ACM until taking a formal leave of absence to join us in August 2001. This concentration of stock ownership allows 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.

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, Chief Executive Officer, and Director, Carlton H. Baab, who joined us in August 2001. 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 TigerLogic, ChunkIt!, Pick, D3, Omnis, Omnis Studio, mvEnterprise, mvBase, and mvDesigner, among others. We also have twelve pending U.S. patent applications as of June 30, 2008. 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.

As further described in Part II, Item 1 hereof, the Company has filed complaints in Orange County Superior Court that sets forth allegations that certain parties threaten to and have misappropriated the Company’s trade secrets, including the possible release of certain source code.

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

Our enterprise applications software and internet browser-based search application may contain undetected errors or failures. This includes our XDMS and ChunkIt! 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 ASTORIA OR OTHER SECURITIES HOLDERS REQUEST REGISTRATION OF THEIR RESTRICTED SECURITIES, OR THESE SECURITIES HOLDERS SELL A SUBSTANTIAL AMOUNT OF RESTRICTED SECURITIES IN THE OPEN MARKET, OUR STOCK PRICE MAY DECLINE.

As of June 30, 2008, we had 26,481,679 outstanding shares of common stock, of which approximately 15 million shares were restricted securities held by Astoria and other holders. Restricted securities may be sold in the public market only if they are registered or if they qualify for an exemption from registration promulgated under the Securities Act. At present, all of our outstanding restricted securities may be registered or are eligible for public sale under Rule 144, subject to volume limitations and other requirements of Rule 144.

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 and Europe. Approximately 34% of our revenue for the three month period ended June 30, 2008 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 TigerLogic 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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

As previously disclosed in the Company's periodic reports filed with the SEC, CAM was the holder of a 5% Convertible Subordinated Note with a maturity date of May 30, 2008. The interest rate of the Convertible Subordinated Note was 5% per annum, payable quarterly, which was paid through increases to the outstanding principal of the Convertible Subordinated Note. The Convertible Subordinated Note was convertible into common stock, at the option of the holder, at a price of \$5.00 per share, at any time through May 29, 2008.

On April 10, 2008, the Company received a conversion notice from CAM electing to convert its Convertible Subordinated Note in full. As a result, \$977,000 of outstanding principal owed to CAM under its Convertible Subordinate Note was converted into 195,400 shares of the Company's common stock. Per the terms of the Convertible Subordinated Note, the Company made a cash payment to CAM of approximately \$1,531 with respect to those amounts outstanding under the Convertible Subordinated Note that were not converted into shares of common stock. Following the conversion of such Convertible Subordinated Note and the cash payment to CAM, the Convertible Subordinated Note held by CAM was cancelled. As of the date hereof, no other Convertible Subordinated Note remains outstanding.

The conversion into common stock constituted an exchange with existing security holders without payment for any solicitation, and was therefore exempt from registration under Section 3(a)(9) of the Securities Act of 1933, as amended.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibits:

- 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

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

Date: August 12, 2008

TIGERLOGIC CORPORATION

/s/ Thomas Lim

Thomas Lim
Chief Financial Officer and Duly Authorized Officer

EXHIBIT INDEX

- 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-Q of TigerLogic 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 registrant as of, and for, the periods presented in this report;
4. The registrant'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)) and internal control over financial reporting (as defined in Exchange Act Rules (3a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant'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
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: August 12, 2008

/s/ Carlton H. Baab

Carlton H. Baab

President and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Thomas Lim, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TigerLogic 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 registrant as of, and for, the periods presented in this report;
4. The registrant'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)) and internal control over financial reporting (as defined in Exchange Act Rules (3a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant'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
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: August 12, 2008

/s/ Thomas Lim

Thomas Lim

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 TigerLogic Corporation on Form 10-Q for the quarterly period ended June 30, 2008 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-Q fairly presents in all material respects the financial condition and results of operations of TigerLogic Corporation.

By: /s/ Carlton H. Baab

Name: Carlton H. Baab

Title: President and Chief Executive Officer

I, Thomas Lim, 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 TigerLogic Corporation on Form 10-Q for the quarterly period ended June 30, 2008 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-Q fairly presents in all material respects the financial condition and results of operations of TigerLogic Corporation.

By: /s/ Thomas Lim

Name: Thomas Lim

Title: Chief Financial Officer