

**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 December 31, 2012

or

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

Commission File Number 00-10039

MANDALAY DIGITAL GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

22-2267658
(I.R.S. Employer
Identification No.)

4751 Wilshire Boulevard, Third Floor
Los Angeles, CA
(Address of Principal Executive Offices)

90010
(Zip Code)

(310) 601-2500
(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 Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer Accelerated Filer
Non-accelerated Filer (do not check if smaller reporting company) Smaller Reporting Company

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

As of February 8, 2013, the Company had 92,160,173 shares of its common stock, \$0.0001 par value per share, outstanding.

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Mandalay Digital Group, Inc. and Subsidiaries
(formerly known as NeuMedia, Inc.)

Consolidated Balance Sheets (Unaudited)

(In thousands, except share and per share amounts)

	December 31, 2012 (Unaudited)	March 31, 2012 (Audited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,641	\$ 8,799
Accounts receivable, net of allowances of \$108 and \$108, respectively	2,079	1,190
Deposits	607	—
Prepaid expenses and other current assets	258	120
Total current assets	4,585	10,109
Property and equipment, net	201	230
Intangible assets, net	4,976	817
Goodwill	4,537	3,640
TOTAL ASSETS	\$ 14,299	\$ 14,796
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 3,795	\$ 3,051
Accrued license fees	1,000	1,155
Accrued compensation	507	582
Current portion of long term debt, net of discounts of \$393 and \$0, respectively	2,826	75
Warrant derivative liabilities	—	452
Other current liabilities	651	705
Total current liabilities	8,779	6,020
Long term debt and convertible debt, net of discounts of \$684 and \$2,147, respectively	1,750	3,077
Long term contingent liability, less discount of \$198 and \$0, respectively	802	—
Total liabilities	\$ 11,331	\$ 9,097
Stockholders' equity		
Preferred stock		
Series A convertible preferred stock at \$0.0001 par value; 200,000 shares authorized, 100,000 issued and outstanding at December 31, 2012, and March 31, 2012 (liquidation preference of \$1,000,000)	100	100
Common stock, \$0.0001 par value: 200,000,000 shares authorized; 91,206,041 issued and 87,433,042 outstanding at December 31, 2012; 83,506,945 issued and 79,733,946 outstanding at March 31, 2012;	7	7
Additional paid-in capital	141,265	133,300
Treasury Stock (3,772,999 shares at December 31, 2012 and March 31, 2012)	(71)	(71)
Accumulated other comprehensive loss	(148)	(194)
Accumulated deficit	(138,185)	(127,443)
Total stockholders' equity	2,968	5,699
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 14,299	\$ 14,796

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Mandalay Digital Group, Inc. and Subsidiaries
(formerly known as NeuMedia, Inc.)

Consolidated Statements of Operations and Comprehensive (Loss) Income (unaudited)

(In thousands, except per share amounts)

	3 Months Ended December 31, 2012	3 Months Ended December 31, 2011	9 Months Ended December 31, 2012	9 Months Ended December 31, 2011
Net revenues	\$ 2,049	\$ 1,957	\$ 4,252	\$ 5,788
Cost of revenues				
License fees	190	733	957	1,885
Other direct cost of revenues	737	57	1,018	172
Total cost of revenues	927	790	1,975	2,057
Gross profit	1,122	1,167	2,277	3,731
Operating expenses				
Product development	577	430	1,308	1,578
Sales and marketing	329	204	647	660
General and administrative	3,795	6,648	9,386	8,764
Total operating expenses	4,701	7,282	11,341	11,002
Loss from operations	(3,579)	(6,115)	(9,064)	(7,271)
Interest and other income / (expense)				
Interest income/ (expense)	(536)	(1,693)	(1,490)	(2,438)
Foreign exchange transaction loss	(18)	(71)	(52)	(54)
Change in fair value of warrant derivative liabilities loss	—	(49)	(22)	(76)
Gain / (loss) on settlement of liability	(4)	1,082	(4)	1,323
Loss on change on valuation of long term contingent liability	(44)	—	(44)	—
Interest and other expense	(602)	(731)	(1,612)	(1,246)
Loss from operations before income taxes	(4,181)	(6,846)	(10,676)	(8,516)
Income tax provision	(33)	(32)	(66)	(64)
Net loss	\$ (4,214)	\$ (6,878)	\$ (10,742)	\$ (8,580)
Other comprehensive (loss) / income:				
Foreign currency translation adjustment	\$ 49	\$ 46	\$ 46	\$ 93
Comprehensive (loss) / income	\$ (4,165)	\$ (6,832)	\$ (10,696)	\$ (8,487)
Basic and diluted net income / (loss) per common share	\$ (0.05)	\$ (0.16)	\$ (0.12)	\$ (0.21)
Weighted average common shares outstanding, basic and diluted	88,987	41,966	86,917	41,808

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Mandalay Digital Group, Inc. and Subsidiaries
(formerly known as NeuMedia, Inc.)

Consolidated Statements of Stockholders' Equity

(In thousands, except share amounts)

	Common Stock		Preferred Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income/(Loss)	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at March 31, 2012	<u>83,506,945</u>	<u>\$ 7</u>	<u>100,000</u>	<u>\$ 100</u>	<u>3,772,999</u>	<u>\$ (71)</u>	<u>\$133,300</u>	<u>\$ (194)</u>	<u>\$ (127,443)</u>	<u>\$ 5,699</u>
Net loss									(2,753)	(2,753)
Foreign currency translation								31		31
Issuance of restricted stock for services	733,333						929			929
Warrants exercised for services rendered	365,010						473			473
Issuance of common stock for cash	<u>1,428,571</u>						<u>1,000</u>			<u>1,000</u>
Balance at June 30, 2012	<u>86,033,859</u>	<u>\$ 7</u>	<u>100,000</u>	<u>\$ 100</u>	<u>3,772,999</u>	<u>\$ (71)</u>	<u>\$135,702</u>	<u>\$ (163)</u>	<u>\$ (130,196)</u>	<u>\$ 5,379</u>
Net loss									(3,775)	(3,775)
Foreign currency translation								(34)		(34)
Issuance of restricted stock for services	25,157						1,356			1,356
Vesting of options issued to employee							23			23
Vesting of shares issued to employee	1,500,000						66			66
Issuance of common stock related to acquisition	<u>937,500</u>						<u>788</u>			<u>788</u>
Balance at September 30, 2012	<u>88,496,516</u>	<u>\$ 7</u>	<u>100,000</u>	<u>\$ 100</u>	<u>3,772,999</u>	<u>\$ (71)</u>	<u>\$137,935</u>	<u>\$ (197)</u>	<u>\$ (133,971)</u>	<u>\$ 3,803</u>
Net loss									(4,214)	(4,214)
Foreign currency translation							49			49
Issuance of restricted stock for services	614,286						1,317			1,317
Warrants issued for service rendered							82			82
Vesting of options issued to employee							93			93
Issuance of Common Stock for Cash	<u>1,428,571</u>						<u>1,000</u>			<u>1,000</u>
Vesting of shares issued to employee							305			305
Issuance of common stock as deposit of pending acquisition	<u>666,668</u>						<u>533</u>			<u>533</u>
Balance at December 31, 2012	<u>91,206,041</u>	<u>\$ 7</u>	<u>100,000</u>	<u>\$ 100</u>	<u>3,772,999</u>	<u>\$ (71)</u>	<u>\$141,265</u>	<u>\$ (148)</u>	<u>\$ (138,185)</u>	<u>\$ 2,968</u>

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Mandalay Digital Group, Inc. and Subsidiaries
(formerly known as NeuMedia, Inc.)

Consolidated Statements of Cash Flows (unaudited)

(In thousands)

	9 Months Ended December 31 2012	9 Months Ended December 31 2011
Cash flows from operating activities		
Net loss	\$ (10,742)	\$ (8,580)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	237	332
Amortization of debt discount	1,070	686
Interest accrued	335	488
Allowance for doubtful accounts	—	(29)
Fair value of financing costs related to conversion options	—	1,255
Stock-based compensation	167	—
Warrants issued for services	—	133
Stock and stock options issued for services	4,012	5,753
Settlement of debt with a supplier	—	(1,079)
Loss on fair value of contingent liability	44	—
Increase / (decrease) in fair value of derivative liabilities	21	74
(Increase) / decrease in assets, net of effect of disposal of subsidiary:		
Accounts receivable	(322)	783
Prepaid expenses and other current assets	(34)	(80)
Increase / (decrease) in liabilities, net of effect of disposal of subsidiary:		
Accounts payable	(435)	211
Accrued license fees	(155)	70
Accrued compensation	(75)	(215)
Other liabilities and other items	15	(289)
Net cash used in operating activities	<u>(5,862)</u>	<u>(487)</u>
Cash flows from investing activities		
Purchase of property and equipment	—	(10)
Cash used in acquisition of subsidiary	(3,416)	—
Cash acquired with acquisition of subsidiary	<u>59</u>	<u>—</u>
Net cash used in investing activities	<u>(3,357)</u>	<u>(10)</u>
Cash flows from financing activities		
Proceeds from new convertible debt	—	7,000
Payment of equipment leases	—	(11)
Issuance of shares for cash	<u>2,000</u>	<u>—</u>
Net cash provided by financing activities	<u>2,000</u>	<u>6,989</u>
Effect of exchange rate changes on cash and cash equivalents	<u>61</u>	<u>69</u>
Net change in cash and cash equivalents	(7,158)	6,561
Cash and cash equivalents, beginning of period	<u>8,799</u>	<u>845</u>
Cash and cash equivalents, end of period	<u>\$ 1,641</u>	<u>\$ 7,406</u>
Supplemental disclosure of cash flow information:		
Taxes paid	<u>\$ 28</u>	<u>\$ 64</u>
Interest paid	<u>\$ —</u>	<u>\$ 1</u>
Noncash investing and financing activities:		
Contingency earn out on acquisition of subsidiary, net of discount	<u>\$ 758</u>	<u>\$ —</u>
Common stock of the Company issued for pending acquisition of an asset	<u>\$ 533</u>	<u>\$ —</u>
Common stock of the Company issued for acquisition of subsidiary	<u>\$ 787</u>	<u>\$ —</u>
Exercise of warrants to purchase common stock of the Company	<u>\$ 473</u>	<u>\$ —</u>

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Mandalay Digital Group, Inc. and Subsidiaries
(formerly known as NeuMedia, Inc.)

Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except share and per share amounts)

1. Organization

Mandalay Digital Group, Inc. (“we”, “us”, “our”, the “Company” or “Mandalay Digital”), formerly NeuMedia, Inc. (“NeuMedia”), formerly Mandalay Media, Inc. (“Mandalay Media”) and formerly Mediavest, Inc. (“Mediavest”), was originally incorporated in the state of Delaware on November 6, 1998 under the name eB2B Commerce, Inc. On April 27, 2000, it merged into DynamicWeb Enterprises Inc., a New Jersey corporation, the surviving company, and changed its name to eB2B Commerce, Inc. On April 13, 2005, the Company changed its name to Mediavest, Inc. Through January 26, 2005, the Company and its former subsidiaries were engaged in providing business-to-business transaction management services designed to simplify trading between buyers and suppliers. The Company was inactive from January 26, 2005 until its merger with Twistbox Entertainment, Inc. on February 12, 2008. On September 14, 2007, Mediavest was re-incorporated in the state of Delaware as Mandalay Media, Inc. On May 11, 2010, the Company merged with a wholly-owned, newly formed subsidiary, changing its name to NeuMedia, Inc. On February 6, 2012, the Company merged with a wholly-owned, newly formed subsidiary, changing its name to Mandalay Digital Group, Inc.

Twistbox is a global publisher and distributor of branded entertainment content and services primarily focused on enabling the development, distribution and billing of content across mobile networks. Twistbox publishes and distributes its content in a number of countries. Since operations began in 2003, Twistbox has developed an intellectual property portfolio that includes mobile rights to global brands. Twistbox has built a proprietary mobile publishing platform that includes: tools that automate device management for the distribution and billing of images and video; a mobile games development and distribution platform that automates the porting of mobile games and applications to multiple handsets; and a content standards and ratings system globally adopted by major wireless carriers to assist with the responsible deployment of age-verified content. Twistbox has distribution and service agreements with some of the largest mobile operators in the world.

Twistbox is headquartered in the Los Angeles area and has offices in Europe that provide local support for both mobile operators and third party distribution in their respective regions.

On October 23, 2008, the Company completed an acquisition of 100% of the issued and outstanding share capital of AMV Holding Limited, a United Kingdom private limited company (“AMV”), and 80% of the issued and outstanding share capital of Fierce Media Ltd (“Fierce”).

AMV marketed branded services through a unique Customer Relationship Management platform that drove revenue through mobile internet, print and TV advertising. AMV was headquartered in Marlow, outside of London in the United Kingdom.

On May 10, 2010, an administrator was appointed over AMV Holding Limited in the UK, at the request of the Company’s senior debt holder. As from that date, AMV and its subsidiaries were considered to be a discontinued operation. AMV and its subsidiaries were subsequently disposed.

On May 11, 2010, Mandalay Media merged into its wholly-owned, newly formed subsidiary, NeuMedia Inc. (“NeuMedia”), with NeuMedia as the surviving corporation. NeuMedia issued: (1) one new share of common stock in exchange for each share of Mandalay Media’s outstanding common stock and (2) one new share of preferred stock in exchange for each share of Mandalay Media’s outstanding preferred stock as of May 11, 2010. NeuMedia’s preferred and common stock had the same status and par value as the respective stock of Mandalay Media and NeuMedia acceded to all the rights, acquired all the assets and assumed all of the liabilities of Mandalay Media.

On June 21, 2010, the Company signed and closed an agreement whereby ValueAct and the AMV Founders, acting through a newly formed company, acquired the operating subsidiaries of AMV (the “Assets”) in exchange for the release of \$23,231 of secured indebtedness, comprising a release of all amounts due and payable under the AMV Note and all of the amounts due and payable under the ValueAct Note (as defined below) except for \$3,500 in principal. The Company retained all assets and liabilities of Twistbox and the Company.

On December 28, 2011, the Company issued 50,000 shares of the Company’s common stock as part of the consideration for in exchange for the assets of Digital Turbine Group, LLC, the developer of Digital Turbine (“DT”), a technology platform that allows media companies, mobile carriers, and their OEM handset partners to take advantage of multiple mobile operating systems across multiple networks, and offers solutions that allow them to maintain their own branding and personalized, one-to-one relationships with each end-user. DT’s cross-platform user interface and multimedia management system for carriers and OEMs can be integrated with different operating systems to provide a more organized and unified experience for end-users of mobile content across search, social media, discovery, billing, and delivery. Other aspects of the platform, such as a smart content discovery toolbar, allows carriers and OEMs to control the data presented to their users while giving the end-user a more efficient way of finding and purchasing desired content.

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On July 27, 2012, the Company set up a wholly-owned Israeli acquisition/holding company, M.D.G. Logia Holdings LTD (“MDG”).

On August 15, 2012, the Company amended its charter with the state of Delaware to increase its total number of shares of common stock of the Company to 200,000,000 and preferred shares of the Company to 2,000,000.

On September 13, 2012, the Company completed an acquisition of 100% of the issued and outstanding share capital of three operating subsidiaries of Logia Group Ltd (“Sellers”) (Logia Content Development and Management Ltd. (“Logia Content”), Volas Entertainment Ltd. (“Volas”) and Mail Bit Logia (2008) Ltd. (“Mail Bit”), (collectively, the “Targets”). In addition, the Company, by assignment to the acquisition entity, M.D.G. Logia Holdings Ltd (“MDG”), acquired the assets of LogiaDeck Ltd (an affiliate of the Seller, “LogiaDeck”), comprised of the “LogiaDeck” software, which the Company has rebranded “Ignite”, and certain operator and other contracts related to the business of the Logia companies that were originally entered into by the Sellers. Pursuant to the Logia purchase agreement, Mandalay Digital Group, Inc. purchased 23% of the outstanding shares of the Targets and MDG purchased 77% of such shares. On November 7, 2012, Mandalay Digital Group, Inc. contributed all of its shares of the Targets to MDG pursuant to a Contribution Agreement among Mandalay Digital Group, Inc., Digital Turbine Group, Inc. and MDG. The acquired business of the Targets and Ignite are collectively referred to as “Logia” in this quarterly report.

Logia is a mobile content development and management solutions provider of innovative mobile monetization solutions. It provides solutions for top-tier mobile operators and content providers, including device application management solutions, white label app and media stores, app-based value added services, and mobile social music and TV offerings.

2. Liquidity

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. As reflected in the accompanying consolidated financial statements, the Company has losses from operations and negative cash flows from operations.

Our primary sources of liquidity have historically been issuance of common and preferred stock and borrowings under credit facilities. In fiscal year 2012, the Company raised \$9.7 million through issuance of convertible debt and equity financings and through restructuring existing debt to convertible debt. Our current cash resources will not be sufficient to fund our planned operations for the next twelve months. Until we become cash flow positive, we anticipate that our primary sources of liquidity will be cash generated by our operating activities, as well as further borrowings or further capital raises. Because of the uncertainty of these factors, we will need to raise funds to meet our working capital needs. Additional financing may not be available on acceptable terms or at all. If we issue additional equity securities to raise funds, the ownership percentage of our existing stockholders would be reduced. New investors may demand rights, preferences or privileges senior to those of existing holders of common stock. If we cannot raise any needed funds, we might be forced to make substantial reductions in our operating expenses, which could adversely affect our ability to implement our current business plan and, ultimately, our viability as a company.

3. Acquisitions/Purchase Price Accounting

On August 14, 2012, the Company, entered into a Share Purchase Agreement (the “Purchase Agreement”) to acquire subsidiaries and certain assets of Logia Group, Ltd. (“Logia”), a leading mobile content development and management solutions provider of innovative mobile monetization solutions. On September 13, 2012, the Company completed the transactions contemplated by the Purchase Agreement. As a part of the transaction, the Company, through an acquisition entity, acquired all of the capital stock of three operating subsidiaries of Logia (Logia Content Development and Management Ltd. (“Logia Content”), Volas Entertainment Ltd. (“Volas”) and Mail Bit Logia (2008) Ltd. (Mail Bit), (collectively, the “Targets”). In addition, the Company, by assignment to an acquisition entity, acquired from LogiaDeck Ltd. (formerly S.M.B.P. IGLOO Ltd.) (an affiliate of the Seller, “LogiaDeck”) the assets comprising the “LogiaDeck” software, which the Company has rebranded “Ignite”, and certain operator and other contracts related to the business of the Targets that were entered into by Logia.

Our Company is a comprehensive mobile content and service provider, and its many technology platforms including Digital Turbine (DT) allow media companies, mobile carriers, and their OEM handset partners to take advantage of multiple mobile operating systems across multiple networks, while maintaining individual branding and personalized, one-to-one relationships with each end-user. The purpose of the Logia acquisition was an effort to not only build on the Company’s current distribution network, but to enhance its mobile content infrastructure with the Ignite solution. The Ignite solution is a complete application management platform for Android devices.

The Company set up an Israeli acquisition/holding company, MDG to acquire the Targets and the LogiaDeck assets, which was capitalized through a combination of intercompany debt and the issuance of equity.

The purchase consideration for the transaction was comprised of cash and common stock of the Company and two tranches of “earn out” payments of cash and stock, as follows:

- (1) At closing \$3,750 in cash (subject to working capital adjustments) and a number of shares of Company common stock having a value of \$750, based on a 30-day volume weighted average price (VWAP) look back from the issuance date or 937,500 shares (the “Closing Shares”) was paid and issued, as applicable, to Logia and LogiaDeck (fair value on the date of grant was \$788);
- (2) Two tranches, each comprised of a cash payment of \$250 and a number of shares of Company common stock valued at \$250 (based on a 30 day VWAP look back from the issuance date) (the “Earn Out Shares”), will be paid and issued, as applicable, to Logia upon satisfaction of various milestones, and subject to the terms and conditions, as set forth in the Purchase Agreement, totaling up to a number of shares of common stock having a value of \$500 (valued as described) and \$500 of cash if all milestones are achieved.

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The Closing Shares and Earnout Shares are subject to a Registration Rights Agreement that provides for piggy back rights for 3 years and inclusion on the Company's currently existing registration statement.

The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed at the date of acquisition.

	<u>Unaudited</u>
Cash	\$ 59
Accounts receivable	567
Prepaid expenses and other assets	178
Customer relationships	3,454
Developed technology	818
Trade names / Trademarks	143
Non-compete agreements	54
Goodwill	1,037
Current liabilities	(1,314)
Long-term debt	(35)
Purchase price	<u>\$ 4,961</u>

In addition to the value assigned to the acquired workforce, the Company recorded the excess of the purchase price over the estimated fair value of the assets acquired as an increase in goodwill. This goodwill arises because the purchase price reflects the strategic fit and resulting synergies that the acquired business brings to the Company's existing operations. The initial allocation of excess purchase price is the result of a preliminary analysis performed, and is subject to revision upon finalization.

The Company believes with the acquisition of Logia it will be able to enhance existing products and create new industry-leading products, and also benefit from synergy savings through operational consolidation.

Goodwill has been recorded in our Israeli acquisition/holding company, MDG. The Company is in the process of evaluating goodwill that is deductible for tax purposes.

The initial accounting of the Logia acquisition is incomplete and subject to changes, which may result in significant changes to provisional amounts. The Company has recorded provisional amounts based upon management's best estimate of the value as a result of preliminary analysis. Therefore, actual amounts recorded upon the finalization of the valuation of certain intangible assets may differ materially from the information presented in this Quarterly report on Form 10-Q.

The amortization period for the intangible assets is as follows:

	<u>Remaining Useful Life</u>
Customer relationships	10 years
Developed technology	10 years
Trade names / Trademarks	5 years
Non-compete agreements	4 years
Goodwill	Indefinite

The operating results of the Targets are included in the accompanying consolidated statements of operations from the acquisition date. The Targets' combined operating results from the acquisition date to December 31, 2012 are as follows:

	<u>Unaudited</u>
Revenue	\$ 1,780
Cost of goods sold	707
Gross profit	\$ 1,073
Operating expenses	675
Income from operations	398
Non-operating expenses, net	178
Provision for income tax	33
Net income	<u>\$ 187</u>

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The pro forma financial information of the Company's consolidated operations if the acquisition of the Targets had occurred as of April 1, 2011 is presented below.

	Unaudited	
	Nine Months Ended December 31,	
	2012	2011
Revenues	\$ 7,167	\$ 14,652
Cost of goods sold	3,742	10,537
Gross profit	3,425	4,115
Operating expenses	11,977	11,846
Loss from operations	(8,552)	(7,731)
Non-operating expense	(1,634)	(1,492)
Loss before provision for income taxes	(10,186)	(9,223)
Provision for income taxes	67	63
Net loss	\$ (10,253)	\$ (9,286)
Basic and diluted loss per share	\$ (0.12)	\$ (0.22)

4. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for annual financial statements. The financial statements, in the opinion of management, include all adjustments necessary for a fair statement of the results of operations, financial position and cash flows for each period presented.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and our wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

Revenue Recognition

The Company's revenues are derived primarily by licensing material and software in the form of products (Image Galleries, Wallpapers, video, WAP Site access, Mobile TV), developing and maintaining carrier platforms, mobile advertising, mobile billing and mobile games. License arrangements with the end user can be on a perpetual or subscription basis.

A perpetual license gives an end user the right to use the product, image or game on the registered handset on a perpetual basis. A subscription license gives an end user the right to use the product, image or game on the registered handset for a limited period of time, ranging from a few days to as long as one month.

The Company distributes products through mobile telecommunications service providers ("carriers"). The carrier markets the product, images or games to end users, but the Company may also participate in the marketing efforts with the carrier and is at times required to do so. License fees for perpetual and subscription licenses are usually billed upon download of the product, image or game by the end user. In the case of subscription licenses, many subscriber agreements provide for automatic renewal until the subscriber opts-out, while others provide for opt-in renewal. In either case, subsequent billings for subscription licenses are generally billed monthly. The Company applies the provisions of FASB ASC 985-605, *Software Revenue Recognition*, to all transactions.

Revenues are recognized from the Company's products, images and games when persuasive evidence of an arrangement exists, the product, image or game has been delivered, the fee is fixed or determinable, and the collection of the resulting receivable is probable. For both perpetual and subscription licenses, management considers a license agreement to be evidence of an arrangement with a carrier or aggregator and a "clickwrap" agreement to be evidence of an arrangement with an end user. For these licenses, the Company defines delivery as the download of the product, image or game by the end user.

The Company estimates revenues from carriers in the current period when reasonable estimates of these amounts can be made. Most carriers only provide detailed sales transaction data on a one to two month lag. Estimated revenue is treated as unbilled receivables until the detailed reporting is received and the revenues can be billed. Some carriers provide reliable interim preliminary reporting and others report sales data within a reasonable time frame following the end of each month, both of which allow the Company to make reasonable estimates of revenues and therefore to recognize revenues during the reporting period when the end user licenses the product, image or game. Determination of the appropriate amount of revenue recognized involves judgments and estimates that the

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Company believes are reasonable, but it is possible that actual results may differ from the Company's estimates. The Company's estimates for revenues include consideration of factors such as preliminary sales data, carrier-specific historical sales trends, volume of activity on company monitored sites, seasonality, time elapsed from launch of services or product lines, the age of games and the expected impact of newly launched games, successful introduction of newer and more advanced handsets, promotions during the period and economic trends. When the Company receives the final carrier reports, to the extent not received within a reasonable time frame following the end of each month, the Company records any differences between estimated revenues and actual revenues in the reporting period when the Company determines the actual amounts. Revenues earned from certain carriers may not be reasonably estimated. If the Company is unable to reasonably estimate the amount of revenues to be recognized in the current period, the Company recognizes revenues upon the receipt of a carrier revenue report and when the Company's portion of licensed revenues are fixed or determinable and collection is probable. To monitor the reliability of the Company's estimates, management, where possible, reviews the revenues by country, by carrier and by product line on a regular basis to identify unusual trends such as differential adoption rates by carriers or the introduction of new handsets. If the Company deems a carrier not to be creditworthy, the Company defers all revenues from the arrangement until the Company receives payment and all other revenue recognition criteria have been met.

In accordance with FASB ASC 605-45, *Reporting Revenue Gross as a Principal Versus Net as an Agent*, the Company recognizes as revenues the amount the carrier reports as payable upon the sale of the Company's products, images or games. The Company has evaluated its carrier agreements and has determined that it is not the principal when selling its products, images or games through carriers. Key indicators that it evaluated to reach this determination include:

- wireless subscribers directly contract with the carriers, which have most of the service interaction and are generally viewed as the primary obligor by the subscribers;
- carriers generally have significant control over the types of content that they offer to their subscribers;
- carriers are directly responsible for billing and collecting fees from their subscribers, including the resolution of billing disputes;
- carriers generally pay the Company a fixed percentage of their revenues or a fixed fee for each game;
- carriers generally must approve the price of the Company's content in advance of their sale to subscribers, and the Company's more significant carriers generally have the ability to set the ultimate price charged to their subscribers;
- the Company has limited risks, including no inventory risk and limited credit risk.

For direct to consumer business, revenue is earned by delivering a product or service directly to the end user of that product or service. In those cases, the Company records as revenue the amount billed to that end user and recognizes the revenue when persuasive evidence of an arrangement exists, the product, image or game has been delivered, the fee is fixed or determinable, and the collection of the resulting receivable is probable. Substantially all of our discontinued operations represents direct to consumer business.

Net Loss per Common Share

Basic loss per common share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net loss per share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding for the period plus dilutive common stock equivalents, using the treasury stock method. Potentially dilutive shares from stock options and warrants and the conversion of the Series A preferred stock that were excluded from the shares used to calculate diluted earnings per share, as their inclusion would be anti-dilutive, were as follows:

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Nine Months Ended December 31, 2012	Nine Months Ended December 31, 2011
Potentially dilutive shares	25,458	41,390	26,591	40,753

Comprehensive Loss

Comprehensive loss consists of two components, net loss and other comprehensive income. Other comprehensive income refers to gains and losses that under generally accepted accounting principles are recorded as an element of stockholders' equity, but are excluded from net income. The Company's other comprehensive income currently includes only foreign currency translation adjustments.

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Cash and Cash Equivalents

The Company considers all highly liquid short-term investments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable

The Company maintains reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves.

During the period prior to the acquisition date, one newly acquired company, Logia Content, had factored certain receivables. Those receivables are reflected as unpaid accounts receivable, and the amounts owing to the factor are reflected in other current liabilities.

Deposits

As of December 31, 2012, the Company has deposits of \$607. A deposit in the amount of \$533 was made pursuant to an asset purchase agreement entered into by the Company on December 6, 2012, whereby the Company delivered stock as a nonrefundable deposit. If the asset purchase is completed, then the deposits will be credited against the purchase price; however, if the asset purchase is not completed, then the deposit will be expensed.

Content Provider Licenses

Content Provider License Fees

The Company's royalty expenses consist of fees that it pays to branded content owners for the use of their intellectual property in the development of the Company's games and other content, and other expenses directly incurred in earning revenue. Royalty-based obligations are either, accrued as incurred and subsequently paid, or in the case of content acquisitions, paid in advance and capitalized on our balance sheet as prepaid license fees. These royalty-based obligations are expensed to cost of revenues either at the applicable contractual rate related to that revenue or over the estimated life of the content acquired. Minimum guarantee license payments that are not recoupable against future royalties are capitalized and amortized over the lesser of the estimated life of the branded title or the term of the license agreement.

Content Acquired

Amounts paid to third party content providers as part of an agreement to make content available to the Company for a term or in perpetuity, without a revenue share, have been capitalized and are included in the balance sheet as prepaid expenses. These balances will be expensed over the estimated life of the content acquired.

Software Development Costs

The Company applies the principles of FASB ASC 985-20, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed* ("ASC 985-20"). ASC 985-20 requires that software development costs incurred in conjunction with product development be charged to research and development expense until technological feasibility is established. Thereafter, until the product is released for sale, software development costs must be capitalized and reported at the lower of unamortized cost or net realizable value of the related product.

The Company has adopted the "tested working model" approach to establishing technological feasibility for its products and games. Under this approach, the Company does not consider a product or game in development to have passed the technological feasibility milestone until the Company has completed a model of the product or game that contains essentially all the functionality and features of the final game and has tested the model to ensure that it works as expected. To date, the Company has not incurred significant costs between the establishment of technological feasibility and the release of a product or game for sale; thus, the Company has expensed all software development costs as incurred. The Company considers the following factors in determining whether costs can be capitalized: the emerging nature of the mobile market; the gradual evolution of the wireless carrier platforms and mobile phones for which it develops products and games; the lack of pre-orders or sales history for its products and games; the uncertainty regarding a product's or game's revenue-generating potential; its lack of control over the carrier distribution channel resulting in uncertainty as to when, if ever, a product or game will be available for sale; and its historical practice of canceling products and games at any stage of the development process.

Product Development Costs

The Company charges costs related to research, design and development of products to product development expense as incurred. The types of costs included in product development expenses include salaries, contractor fees and allocated facilities costs.

Advertising Expenses

The Company expenses the costs of advertising, including direct response advertising, the first time the advertising takes place. Advertising expense was \$143 and \$1 in the three months ended periods ended December 31, 2012 and 2011, respectively and \$143 and \$7 in the nine months ended December 31, 2012 and 2011, respectively.

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Restructuring

The Company accounts for costs associated with employee terminations and other exit activities in accordance with FASB ASC 420-10, *Accounting for Costs Associated with Exit or Disposal Activities*. The Company records employee termination benefits as an operating expense when it communicates the benefit arrangement to the employee and it requires no significant future services, other than a minimum retention period, from the employee to earn the termination benefits. For the nine months ended December 31, 2012 there were no restructuring costs.

Presentation

In order to facilitate the comparison of financial information, certain amounts reported in the prior year have been reclassified to conform to the current year presentation.

Fair Value of Financial Instruments

As of December 31, 2012 and March 31, 2012, the carrying value of cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued license fees, accrued compensation, derivative liabilities and other current liabilities approximates fair value due to the short-term nature of such instruments.

Derivative Liabilities

The Company applies ASC Topic 815, "Derivatives and Hedging," which provides a two-step model to determine whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for the scope exception in ASC 815-10-15-74. Using the criteria in ASC 815, the Company determines which instruments or embedded features require liability accounting and records the fair values as a derivative liability. The changes in the values of the derivative liabilities are shown in the accompanying consolidated statements of operations as "change in fair value of accrued derivative liabilities gain / (loss)."

Foreign Currency Translation

The Company uses the United States dollar for financial reporting purposes. Assets and liabilities of foreign operations are translated using current rates of exchange prevailing at the balance sheet date. Equity accounts have been translated at their historical exchange rates when the capital transaction occurred. Statement of Operations amounts are translated at average rates in effect for the reporting period. The foreign currency translation adjustment gain of \$46 in the nine month period ended December 31, 2012 and gain of \$93 in the nine month period ended December 31, 2011 have been reported as a component of comprehensive loss in the consolidated statements of stockholders' equity and comprehensive income.

Concentrations of Credit Risk

Financial instruments which potentially subject us to concentration of credit risk consist principally of cash and cash equivalents, and accounts receivable. We have placed cash and cash equivalents with a single high credit-quality institution. Most of our sales are made directly to large national Mobile Phone Operators in the countries that we operate. We have a significant level of business and resulting significant accounts receivable balance with one operator and therefore have a high concentration of credit risk with that operator. We perform ongoing credit evaluations of our customers and maintain an allowance for potential credit losses. As of December 31, 2012, two major customer represented approximately 35.2% and 16% of our gross accounts receivable outstanding, and 0% of gross accounts receivable outstanding as of March 31, 2012. These customers accounted for 47.8% and 14.4% of our gross revenues during the three month period ended December 31, 2012; and both of these customers accounted for 0% in the period ended December 31, 2011. One other major customer 11.9% and 43% of revenues for the nine month periods ended December 31, 2012 and December 31, 2011, respectively.

Property and Equipment

Property and equipment is stated at cost. Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the related assets. Estimated useful lives are the lesser of 8 to 10 years or the term of the lease for leasehold improvements and 5 years for other assets.

Goodwill and Indefinite Life Intangible Assets

Goodwill represents the excess of cost over fair value of net assets of businesses acquired. In accordance with FASB ASC 350-20 *Goodwill and Other Intangible Assets*, the value assigned to goodwill and indefinite lived intangible assets, including trademarks and tradenames, is not amortized to expense, but rather they are evaluated at least on an annual basis to determine if there are potential impairments. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the implied fair value of the reporting unit goodwill is less than the carrying value. If the fair value of an indefinite lived intangible (such as trademarks and trade names) is less than its carrying amount, an impairment loss is recorded. Fair value is determined based on discounted cash flows, market multiples or appraised values, as appropriate. Discounted cash flow analysis requires assumptions about the timing and amount of future cash inflows and outflows, risk, the cost of capital, and terminal values. Each of these factors can significantly affect the value of the intangible asset. The estimates of future cash flows, based on reasonable and supportable

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assumptions and projections, require management's judgment. Any changes in key assumptions about the Company's businesses and their prospects, or changes in market conditions, could result in an impairment charge. Some of the more significant estimates and assumptions inherent in the intangible asset valuation process include: the timing and amount of projected future cash flows; the discount rate selected to measure the risks inherent in the future cash flows; and the assessment of the asset's life cycle and the competitive trends impacting the asset, including consideration of any technical, legal or regulatory trends.

During the nine month period ended December 31, 2012, the Company determined that there was no impairment of goodwill. In the year ended March 31, 2012, the Company determined that there was an impairment of goodwill amounting to \$2,969.

Impairment of Long-Lived Assets and Finite Life Intangibles

Long-lived assets, including, intangible assets subject to amortization primarily consisting of customer lists, license agreements and software that have been acquired, are amortized using the straight-line method over their useful life ranging from five to eight years and are reviewed for impairment in accordance with FASB ASC 360-10, *Accounting for the Impairment or Disposal of Long-Lived Assets*, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

During the nine month period ended December 31, 2012, the Company determined that there was no impairment of intangible assets. In the year ended March 31, 2012, the Company determined that there was an impairment of intangible assets amounting to \$2,319.

Income Taxes

The Company accounts for income taxes in accordance with FASB ASC 740-10, *Accounting for Income Taxes* ("ASC 740-10"), which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in its financial statements or tax returns. Under ASC 740-10, the Company determines deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of assets and liabilities along with net operating losses, if it is more likely than not the tax benefits will be realized using the enacted tax rates in effect for the year in which it expects the differences to reverse. To the extent a deferred tax asset cannot be recognized, a valuation allowance is established if necessary.

ASC 740-10 prescribes that a company should use a more-likely-than-not recognition threshold based on the technical merits of the tax position taken. Tax positions that meet the "more-likely-than-not" recognition threshold should be measured as the largest amount of the tax benefits, determined on a cumulative probability basis, which is more likely than not to be realized upon ultimate settlement in the financial statements. We recognize interest and penalties related to income tax matters as a component of the provision for income taxes. We do not currently anticipate that the total amount of unrecognized tax benefits will significantly change within the next 12 months.

Stock-based Compensation

We have applied FASB ASC 718 *Share-Based Payment* ("ASC 718") and accordingly, we record stock-based compensation expense for all of our stock-based awards.

Under ASC 718, we estimate the fair value of stock options granted using the Black-Scholes option pricing model. The fair value for awards that are expected to vest is then amortized on a straight-line basis over the requisite service period of the award, which is generally the option vesting term. The amount of expense recognized represents the expense associated with the stock options we expect to ultimately vest based upon an estimated rate of forfeitures; this rate of forfeitures is updated as necessary and any adjustments needed to recognize the fair value of options that actually vest or are forfeited are recorded.

The Black-Scholes option pricing model, used to estimate the fair value of an award, requires the input of subjective assumptions, including the expected volatility of our common stock, interest rates, dividend rates and an option's expected life. As a result, the financial statements include amounts that are based upon our best estimates and judgments relating to the expenses recognized for stock-based compensation.

The Company grants restricted stock subject to market or performance conditions that vest based on the satisfaction of the conditions of the award. Unvested restricted stock entitles the grantees to dividends, if any, with voting rights determined in each agreement. The fair market values of market condition-based awards are determined using the Monte Carlo simulation method. The Monte Carlo simulation method is subject to variability as several factors utilized must be estimated, including the derived service period, which is estimated based on the Company's judgment of likely future performance and the Company's stock price volatility. The fair value of performance-based awards is determined using the market closing price on the grant date. Derived service periods and the periods charged with compensation expense for performance-based awards are estimated based on the Company's judgment of likely future performance and may be adjusted in future periods depending on actual performance.

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Preferred Stock

The Company applies the guidance enumerated in FASB ASC 480-10, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* (“ASC 480-10”) when determining the classification and measurement of preferred stock. Preferred shares subject to mandatory redemption (if any) are classified as liability instruments and are measured at fair value in accordance with ASC 480-10. All other issuances of preferred stock are subject to the classification and measurement principles of ASC 480-10. Accordingly, the Company classifies conditionally redeemable preferred shares (if any), which includes preferred shares that feature redemption rights that are either within the control of the holder or subject to redemption upon the occurrence of uncertain events not solely within the Company’s control, as temporary equity. At all other times, the Company classifies its preferred shares in stockholders’ equity.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent asset and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. The most significant estimates relate to revenues for periods not yet reported by Carriers, liabilities recorded for future minimum guarantee payments under content licenses, accounts receivable allowances, and stock-based compensation expense.

Recently Adopted Accounting Pronouncements

In June 2011, the FASB issued new guidance on the presentation of comprehensive income that will require a company to present components of net income and other comprehensive income in one continuous statement or in two separate, but consecutive statements. There are no changes to the components that are recognized in net income or other comprehensive income under current GAAP. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011, with early adoption permitted. It is applicable to the Company’s fiscal year beginning April 1, 2012. The Company expects this guidance to have an impact on the disclosures related to comprehensive income.

Recently Issued Accounting Pronouncements

In January 2012, we adopted 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU 2011-05) which requires presentation of the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements and eliminates the option to present components of other comprehensive income as part of the statement of changes in shareholders’ equity. The standard does not change the items that must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income.

Also, in December of 2011, the FASB issued Accounting Standards Update No. 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income* in Accounting Standards Update No. 2011-05 (ASU 2011-12). In February 2013, the FASB issued Accounting Standards Update 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which adds additional disclosure requirements for items reclassified out of accumulated other comprehensive income. This ASU will be effective for the first interim reporting period in 2013. The Company expects this guidance to have an impact on the disclosures related to comprehensive income.

In July 2012, the Financial Accounting Standards Board (“FASB”) issued amendments to the goodwill and indefinite-lived intangible assets impairment guidance which provides an option for companies to not calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on qualitative assessment, that it is not more likely than not, the indefinite-lived intangible asset is impaired. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 (early adoption is permitted). The implementation of this amended accounting guidance is not expected to have a material impact on the Company’s consolidated financial position and results of operations.

Recent authoritative guidance issued by the FASB (including technical corrections to the FASB Accounting Standards Codification), the American Institute of Certified Public Accountants, and the SEC did not, or are not expected to have a material effect on the Company’s consolidated financial statements.

5. Fair Value Measurements

The Company applies the provisions of ASC 820-10, *Fair Value Measurements and Disclosures*.” ASC 820-10 defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. The carrying amounts reported in the consolidated balance sheets for receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of their fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The three levels of valuation hierarchy are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company analyzes all financial instruments with features of both liabilities and equity under ASC 480, *“Distinguishing Liabilities From Equity”* and ASC 815, *“Derivatives and Hedging.”* Derivative liabilities are adjusted to reflect fair value at each period end, with any increase or decrease in the fair value being recorded in results of operations as adjustments to fair value of derivatives. The effects of interactions between embedded derivatives are calculated and accounted for in arriving at the overall fair value of the financial instruments. In addition, the

fair values of freestanding derivative instruments such as warrant and option derivatives are valued using the Black-Scholes model.

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The Company uses Level 2 inputs for its valuation methodology for the warrant derivatives as their fair values were determined by using the Black-Scholes option pricing model based on various assumptions. The Company's derivative liabilities are adjusted to reflect fair value at each period end, with any increase or decrease in the fair value being recorded in results of operations as adjustments to fair value of derivatives.

In May 2012, the derivative warrant liability was exercised. Prior to the exercise, the fair value of the derivative warrant liability was determined to be \$473 using the Black-Scholes option pricing model with the following assumptions: 1) expected life 5 years, 2) a risk free interest rate of .40%, 3) a dividend yield of 0% and 4) a volatility of 170%.

The Company identified the following liabilities that are required to be presented on the balance sheet at fair value:

Measured at Fair Value on a Recurring Basis

Warrant derivative liabilities (in thousands)	Total	Level 1	Level 2	Level 3
December 31, 2012	\$ —	\$ —	\$ —	\$ —
March 31, 2012	\$452	\$ —	\$ 452	\$ —

The warrant derivative liability was exercised in the period ending June 30, 2012, and is discussed further at Note 13.

In September 2012, the Company recorded a contingent liability in connection with the acquisition of Logia. The liability was determined by using a valuation model that measured the probability of the liability to occur and the present value of the consideration at the time it would be paid. The value of the contingent liability as of September 30, 2012 was determined to be \$758. At December 31, 2012, the contingent liability was re-measured to be \$802. The Company recorded a loss on the fair value of the contingent liability of \$44 in interest and other income / (expense) in the three months ended December 31, 2012.

Contingent liabilities (in thousands)	Total	Level 1	Level 2	Level 3
December 31, 2012	\$802	\$ —	\$ —	\$ 802
March 31, 2012	\$ —	\$ —	\$ —	\$ —

The Company did not identify any other recurring assets and liabilities that are required to be presented in the consolidated balance sheets at fair value in accordance with ASC 825.

6. Accounts Receivable

	December 31, 2012	March 31, 2012
Billed	\$ 1,095	\$ 709
Unbilled	1,092	589
Less: allowance for doubtful accounts	(108)	(108)
Net Accounts receivable	\$ 2,079	\$ 1,190

The Company had no significant write-offs or recoveries during the periods ended December 31, 2012 and December 31, 2011.

7. Property and Equipment

	December 31, 2012	March 31, 2012
Equipment	\$ 1,333	\$ 1,310
Furniture & fixtures	506	484
Leasehold improvements	183	184
	2,022	1,978
Accumulated depreciation	(1,821)	(1,748)
Net Property and Equipment	\$ 201	\$ 230

Depreciation expense was \$27 and \$45 in the three months ended December 31, 2012 and 2011 and \$83 and \$160 in the nine months ended December 31, 2012 and 2011, respectively.

8. Description of Stock Plans

On May 26, 2011, our board of directors adopted the 2011 Equity Incentive Plan of NeuMedia, Inc. and on April 27, 2012, our board of directors amended and restated the plan and the related plan documents to change references to the name of our company from "NeuMedia, Inc." to "Mandalay Digital Group, Inc." and further directed that they be submitted to stockholders for their consideration and approval. On May 23, 2012, our stockholders approved and adopted by written consent the Amended and Restated 2011 Equity Incentive Plan of Mandalay Digital Group, Inc. (the "Plan") and the Mandalay Digital Group, Inc. Amended and Restated 2011 Equity Incentive Plan Notice of Grant and Restricted Stock Agreement and the Mandalay Digital Group, Inc. Amended and Restated 2011 Equity Incentive Plan Notice of Grant and

Stock Option Agreement (collectively, the “Related Documents”).

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The Plan contains a number of provisions that the board believes are consistent with the interests of stockholders and sound corporate governance practices. These include:

- **Individual Grant Limits.** No participant may be granted in aggregate, in any calendar year, Awards covering more than 500,000 shares.
- **No annual “Evergreen” Provision.** The Plan provides for a fixed allocation of shares, thereby requiring stockholder approval of any additional allocation of shares.
- **No Discount Stock Options.** The Plan prohibits the grant of a stock option with an exercise price of less than the fair market value of the closing price of our common stock on the date the stock option is granted.

Summary Description of the Plan

The Plan provides for grants of stock options, stock appreciation rights (“SARs”), restricted stock and restricted stock units (sometimes referred to individually or collectively as “Awards”) to our and our subsidiaries’ officers, employees, non-employee directors and consultants.

On September 10, 2012, the Company increased the Plan shares for issuance from 4,000,000 to 20,000,000.

Stock options may be either “incentive stock options” (“ISOs”), as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”), or non-qualified stock options (“NQSOs”). The Plan reserves 20,000,000 shares for issuance, of which 17,750,000 remain available for issuance as of December 31, 2012. The 20,000,000 shares reserved for issuance will serve as the underlying value for all equity awards under the Plan.

The following table summarizes options granted under the Company’s 2011 Equity Incentive Plan for the periods or as of the dates indicated:

Options

(in thousands)	Number of Shares	Weighted Average Exercise Price
Outstanding at March 31, 2012	—	\$ —
Granted	500	\$ 0.84
Canceled	—	\$ —
Forfeited	—	\$ —
Exercised	—	\$ —
Outstanding at September 30, 2012	500	\$ 0.84
Granted	—	\$ —
Canceled	333	\$ 0.84
Forfeited	—	\$ —
Exercised	—	\$ —
Outstanding at December 31, 2012	167	\$ 0.84

The following table summarizes options granted that are not under the Company’s 2011 Equity Incentive Plan for the periods or as of the dates indicated:

Options

(in thousands)	Number of Shares	Weighted Average Exercise Price
Outstanding at March 31, 2012	—	\$ —
Granted	1,500	\$ 0.84
Canceled	—	\$ —
Forfeited	—	\$ —
Exercised	—	\$ —
Outstanding at September 30, 2012	1,500	\$ 0.84

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(in thousands)	Number of Shares	Weighted Average Exercise Price
Granted	—	\$ —
Canceled	1,500	\$ 0.84
Forfeited	—	\$ —
Exercised	—	\$ —
Outstanding at December 31, 2012	—	\$ —

There were no exercisable options outstanding at December 31, 2012.

On September 27, 2007, the stockholders of the Company adopted the 2007 Employee, Director and Consultant Stock Plan (“Plan”). Under the Plan, the Company may grant up to 3,000,000 shares or equivalents of common stock of the Company as incentive stock options (ISO), non-qualified options (NQO), stock grants or stock-based awards to employees, directors or consultants, except that ISO’s shall only be issued to employees. Generally, ISO’s and NQO’s shall be issued at prices not less than fair market value at the date of issuance, as defined, and for terms ranging up to ten years, as defined. All other terms of grants shall be determined by the board of directors of the Company, subject to the Plan.

On February 12, 2008, the Company amended the Plan to increase the number of shares of our common stock that may be issued under the Plan to 7,000,000 shares and on March 7, 2008, amended the Plan to increase the maximum number of shares of the Company’s common stock with respect to which stock rights may be granted in any fiscal year to 1,100 shares. All other terms of the plan remain in full force and effect.

The following table summarizes options granted under the Company’s 2007 Employee, Director and Consultant Stock Plan equity compensation plan for the periods or as of the dates indicated:

Option Plans

(in thousands)	Number of Shares	Weighted Average Exercise Price
Outstanding at March 31, 2012	4,798	\$ 1.80
Granted	—	\$ —
Canceled	—	\$ —
Forfeited	—	\$ —
Exercised	—	\$ —
Outstanding at December 31, 2012	4,798	\$ 1.80
Exercisable at December 31, 2012	4,798	\$ 1.80

The exercise price for options outstanding and options exercisable at December 31, 2012 was as follows:

Range of Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number Outstanding and Exercisable December 31, 2012	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$0 - \$1.00	3.51	2,698	\$ 0.47	\$807,598
\$2.00 - \$3.00	5.47	1,300	\$ 2.75	\$ —
\$4.00 - \$5.00	5.12	800	\$ 4.75	\$ —
	4.31	4,798	\$ 1.80	\$807,598

Stock Plans

The Company’s 2007 Employee, Director and Consultant Stock Plan equity compensation plan did not contain nonvested options as of December 31, 2012 and March 31, 2012.

As of December 31, 2012, under the Company’s 2007 Employee, Director and Consultant Stock Plan equity compensation plan, there was \$0 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan.

Total stock compensation expense for the Company’s 2007 Employee, Director and Consultant Stock Plan equity compensation plan and Amended and Restated 2011 Equity Incentive Plan is included in the following statements of operations components:

	Nine Months Ended December 31, 2012	Nine Months Ended December 31, 2011
Product development	\$ —	\$ 69
Sales and marketing	—	—
General and administrative	630	—
	\$ 630	\$ 69

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9. Goodwill

Goodwill

A reconciliation of the changes to the Company's carrying amount of goodwill for the periods or as of the dates indicated:

Balance at March 31, 2012	<u>\$3,640</u>
Goodwill impairment	<u>—</u>
Balance at June 30, 2012	<u>\$3,640</u>
Acquisition unaudited	<u>897</u>
Balance at September 30, 2012	<u>\$4,537</u>
Goodwill impairment	<u>—</u>
Balance at December 31, 2012	<u>\$4,537</u>

Fair value is defined under ASC 820, Fair Value Measurements and Disclosures as, "The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". The Company considered the income and market approaches to derive an opinion of value. Under the income approach, the Company utilized the discounted cash flow method, and under the market approach, consideration was given to the guideline public company method, the merger and acquisition method, and the market capitalization method. The initial accounting of the Goodwill of Logia is incomplete and subject to changes, which may result in significant changes to provisional amounts. The Company has recorded provisional amounts based upon management's best estimate of the value as a result of preliminary analysis.

We complete our annual impairment tests in the fourth quarter of each year unless events or circumstances indicate that an asset may be impaired. There were no indications of impairment present during the period ended December 31, 2012. The Company recorded an impairment charge of \$2,969 for the year ended March 31, 2012.

10. Intangible Assets

The components of intangible assets as at December 31, 2012 and March 31, 2012 were as follows:

	Unaudited As of December 31, 2012		
	Cost	Accumulated Amortization	Net
Software	\$2,429	\$ (1,147)	\$1,282
Trade name / Trademark	297	(8)	\$ 289
Customer list	4,675	(1,321)	\$3,354
License agreements	498	(447)	\$ 51
	<u>\$7,899</u>	<u>\$ (2,923)</u>	<u>\$4,976</u>

We complete our annual impairment tests in the fourth quarter of each year unless events or circumstances indicate that an asset may be impaired. There were no indications of impairment present during the period ended December 31, 2012. However, the Company recorded an increase in intangible assets for the acquisition of the Logia companies and LogiaDeck (Ignite) of \$4,489. The Company recorded an impairment charge of \$2,319 for the year ended March 31, 2012.

	As of March 31, 2012		
	Cost	Accumulated Amortization	Net
Software	\$1,611	\$ (948)	\$663
Trade name / Trademark	154	—	\$154
Customer list	1,220	(1,220)	\$ (0)
License agreements	443	(443)	\$ (0)
	<u>\$3,428</u>	<u>\$ (2,611)</u>	<u>\$817</u>

The Company has included amortization of acquired intangible assets directly attributable to revenue-generating activities in cost of revenues. During the nine month period ended December 31, 2012 and 2011, the Company recorded amortization expense in the amount of \$311 and \$173, respectively, in cost of revenues.

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Based on the amortizable intangible assets as of December 31, 2012, we estimate future amortization expense to be as follows:

<u>Year Ending December 31,</u>	<u>Amortization Expense (in thousands)</u>
2013	\$ 701
2014	701
2015	493
2016	466
2017	442
Future	<u>2,021</u>
	<u>\$ 4,824</u>

The initial accounting of the Intangibles of Logia is incomplete and subject to changes, which may result in significant changes to provisional amounts. The Company has recorded provisional amounts based upon management's best estimate of the value as a result of preliminary analysis.

11. Debt

	<u>December 31, 2012</u>	<u>March 31, 2012</u>
Short Term Debt		
Equipment Leases	20	2
Senior secured convertible note, including PIK interest, net of discount of \$393 and \$0, respectively	\$ 2,509	\$ —
Senior secured note, short term accrued interest	<u>297</u>	<u>73</u>
	<u>\$ 2,826</u>	<u>\$ 75</u>
	<u>December 31, 2012</u>	<u>March 31, 2012</u>
Long Term Debt		
Senior secured convertible note, including PIK interest, net of discount, of \$0 and \$1,020, respectively	—	1,881
Convertible note, including accrued interest, net of discount, of \$684 and \$1,127, respectively	529	60
Secured note, including PIK interest and accrued interest	<u>1,221</u>	<u>1,136</u>
	<u>\$ 1,750</u>	<u>\$ 3,077</u>
	<u>December 31, 2012</u>	<u>March 31, 2012</u>
Contingent Liabilities		
Contingent liability, net of discount of \$198 and \$0, respectively	\$ 802	\$ —

Convertible Debt

ValueAct Note

In connection with the disposal of AMV on June 21, 2010, all amounts due and payable under the AMV Note were released, and the ValueAct Note was amended and restated in its entirety and reduced to \$3,500 of principal (the "Amended ValueAct Note").

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On December 16, 2011, the ValueAct Note was purchased in its entirety by Taja LLC (“Taja”) and was amended to remove certain negative covenants from the Note (the “Amended Taja Note”). The Purchase of the ValueAct Note was independent of the Company, and the Company did not receive or pay out any cash related to this transaction.

On December 29, 2011, the Company and Taja entered into a binding term sheet for convertible note financing (“Taja Convertible Note”) and effectively a third amendment to the Second Amended Note (“Third Amended Note”). The Taja Convertible Note became effective on February 27, 2012. The Third Amended Note (1) changed the maturity date of the note from June 21, 2013 to June 21, 2015, (2) extended the payment in kind (“PIK”) election to the note through the revised term, and (3) stripped out \$3,000 of principal to create the Taja Convertible Note, leaving a principal balance of \$500 plus accrued interest of \$562 for a total of \$1,062. As consideration for amending the note, Taja also received a warrant (“Incentive Warrant”) to purchase 2,000 shares of common stock of the Company at an exercise price of \$0.25 per share, subject to adjustment. Taja also received 25% warrant coverage (“Coverage Warrant”) determined by dividing the principal amount of the Taja Convertible Note by the conversion price multiplied by 25%. The Incentive Warrant and the Coverage Warrant each have a five year term and vest one year from issue date. The Coverage Warrant was initially recorded as a derivative liability upon issuance. As discussed in Note 13, the Company received a waiver from the Senior Secured Convertible note holders on March 26, 2012 which allowed the Company to reclassify the Convertible Note Warrant from a derivative liability to additional paid-in capital. The Company assessed the debt modification for the Third Amended Note and determined that it met the requirements for extinguishment accounting per FASB ASC 470 and accordingly, recorded a loss on extinguishment of debt of \$1,459 for the year ended March 31, 2012.

On March 1, 2012, the Company and Taja entered into a second binding term sheet (“Amended Taja Convertible Note”) to amend certain provisions of the December 29, 2011 binding term sheet, (1) the maturity date was revised to March 1, 2014, (2) the conversion price was amended to \$0.70 share, (3) conversion of the note must not cause the holder to exceed 4.9% ownership, except that on the maturity date the entire remaining amount of principle and interest shall automatically convert into shares of common stock of the Company, (4) the Amended Taja Convertible Note becomes accelerated and immediately due and payable upon the consummation by the Company of one or more equity sales from and after March 1, 2012 resulting in aggregate net proceeds of at least \$10,000, (5) the conversion date was to occur the earlier of (x) the date that the long-form documents are executed and delivered to all parties, and (y) March 19, 2012, (6) the 2,000 Incentive Warrants issued as consideration for the Third Amended Note were amended to vest and be exercisable one year from March 1, 2012, (7) the exercise date of the Coverage Warrants was amended to one year following the conversion date, and (8) the term sheet was binding on the parties and their respective successors and assigns regardless of whether the parties execute long form agreements, as opposed to the previous term sheet that contemplated going to long form agreements.

The Company determined that the Amended Taja Convertible Note has an embedded conversion feature that is required to be bifurcated and measured at fair value at each reporting. At the date of issuance, the fair value of the embedded conversion feature was \$2,250 using the Black-Scholes option pricing model with the following assumptions:

- Expected life of 1 years
- Risk free interest rate of .17%
- Dividend yield of 0%
- Volatility of 175%.

The Company determined the fair value of the Coverage Warrant and the Incentive Warrant to be \$750 and \$1,459, respectively, using the Black-Scholes option pricing model with the following assumptions:

- Expected life of 5 years
- Risk free interest rate of .84%
- Dividend yield of 0%
- Volatility of 175%.

The combined total discount pertaining to the conversion factor of the Taja Convertible Note and the Coverage Warrant was originally limited to the face value of the Taja Convertible Note of \$3,000 and is being amortized over the term, with the \$837 fair value of the embedded conversion feature that exceeded the face value being charged to operations as interest expense during the year ended March 31, 2012.

On March 19, 2012, the Company issued 2,600 shares of its common stock to Taja for the conversion of \$1,820 of the Amended Taja Convertible Note. The Company expensed to interest expense the debt discount on a pro rata basis of the amount converted to the original debt amount to reflect the conversion of the \$1,820. Through the nine month period ended December 31, 2012, the Company recorded interest expense of \$443 related to the amortization of the debt discount. The remaining discount of \$684 will be amortized over the period ending March 1, 2014. The Company assessed the conversion of \$1,820 and determined that it met the requirements for extinguishment accounting per FASB ASC 470 and accordingly, recorded a gain on extinguishment of debt of \$1,346 for the year ended March 31, 2012.

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As of December 31, 2012, the outstanding principal and accrued interest of \$1,213 is convertible into approximately 1,733,376 shares of common stock at a conversion price of \$0.70. At December 31, 2012, the if-converted value exceeds the principal and accrued interest by approximately \$86.

Senior Secured Convertible Notes

On June 21, 2010, for purposes of capitalizing the Company, the Company sold and issued \$2,500 of Senior Secured Convertible Notes due June 21, 2013 (the "New Senior Secured Notes") to certain of the Company's significant stockholders. The New Senior Secured Notes have a three year term and bear interest at a rate of 10% per annum payable in arrears semi-annually. The entire principal balance is due in one lump sum payment on June 21, 2013. Notwithstanding the foregoing, at any time on or prior to the 18th month following the original issue date of the New Senior Secured Notes, the Company may, at its option, in lieu of making any cash payment of interest, elect that the amount of any interest due and payable on any interest payment date on or prior to the 18th month following the original issue date of the New Senior Secured Notes be added to the principal due under the New Senior Secured Notes. The accrued and unpaid principal and interest due on the New Senior Secured Notes are convertible at any time at the election of the holder into shares of common stock of the Company at a conversion price of \$0.15 per share, subject to adjustment. The New Senior Secured Notes are secured by a first lien on substantially all of the assets of the Company and its subsidiaries pursuant to the terms of that certain Guarantee and Security Agreement, dated as of June 21, 2010, among Twistbox, the Company, each of the subsidiaries thereof party thereto, the investors party thereto and Trinad Management. The Amended ValueAct Note is subordinated to the New Senior Secured Notes pursuant to the terms of that certain Subordination Agreement, dated as of June 21, 2010, by and between Trinad Capital Master Fund, and ValueAct, and each of the Company and Twistbox.

Each purchaser of a New Senior Secured Note also received a warrant ("Warrant") to purchase shares of common stock of the Company at an exercise price of \$0.25 per share, subject to adjustment. For each \$1 of New Senior Secured Notes purchased, the purchaser received a Warrant to purchase 3.33 shares of common stock of the Company. Each Warrant has a five year term.

The Warrants granted to the New Senior Secured Note holders on June 21, 2010 and conversion feature in the New Senior Secured Notes are not considered derivative instruments since the Warrants and the New Senior Secured Notes have a set conversion price and all of the requirements for equity classification were met. The Company determined the fair value of the detachable warrants issued in connection with the New Senior Secured Notes to be \$1,678, using the Black-Scholes option pricing model and the following assumptions: expected life of 5 years, a risk free interest rate of 2.05%, a dividend yield of 0% and volatility of 54.62%. In addition, the Company determined the value of the beneficial conversion feature to be \$5,833. The combined total discount for the New Senior Secured Notes is limited to the face value of the New Senior Secured Notes of \$2,500 and is being amortized over the term of the New Senior Secured Notes. For the nine months ended December 31, 2012, the Company amortized \$627 of the aforesaid discounts as interest and financing costs in the accompanying consolidated statements of operations. The remaining discount of \$393 will be amortized over the period ending June 21, 2013.

As per the Senior Secured Convertible Note, interest accrued through and including December 31, 2011 may be added to the principal.

As of December 31, 2012, the outstanding principal and accrued interest of \$2,902 is convertible into approximately 19,344,792 shares of common stock at a conversion price of \$0.15. At December 31, 2012, the if-converted value exceeds the principal and accrued interest by approximately \$11,607. Interest accrued through December 31, 2012 that is not convertible, and may not be added to the principal is \$297. "On December 1, 2012 the Senior Secured Convertible Note debt holders extended the due date of the interest payment until December 27, 2012." On February 8, 2013 the Senior Secured Convertible Note debt holders extended the due date of the payment of such interest until February 15, 2013.

Contingent Liabilities

In addition to the Closing Share Purchase Agreement (the "Purchase Agreement") to acquire subsidiaries and certain assets of Logia Group, Ltd. ("Sellers"), the Sellers are entitled to receive certain contingent purchase consideration upon achieving certain milestones. Should all milestones be achieved, the total consideration would be \$1,000 payable in cash and shares of stock of the Company. The Company has recorded the fair value of the contingent liability in Long Term Debt, net of a discount of \$198.

12. Related Party Transactions

The Company engages in various business relationships with shareholders and officers and their related entities. The significant relationships are disclosed below.

On September 14, 2006, the Company entered into a five year management agreement ("Agreement") with Trinad Management, the manager of Trinad Capital Master Fund, which is one of our principal stockholders. In addition, Robert Ellin, our director, is the managing director of and portfolio manager for Trinad Management. Pursuant to the terms of the Agreement, Trinad Management provided certain management services, including, without limitation, relating to the sourcing, structuring and negotiation of a potential business combination transaction involving the Company in exchange for a fee of \$90 per quarter, plus reimbursements of all related expenses reasonably incurred. The Agreement expired on September 14, 2011, but was extended to December 31, 2011. During the nine month periods ended December 31, 2012 and December 31, 2011, the Company incurred management fees under the agreement of \$0 and \$180, respectively. At December 31, 2012 and March 31, 2012, the accrued payable to Trinad Management was \$0 and \$135, respectively.

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On December 28, 2011, we entered into an executive chairman agreement with Robert Ellin that provides for a one-year term and an annual fee of \$450, half of which was deferred until certain debt and/or equity financings were consummated. Such financings were consummated, and Mr. Ellin has received his full fee since April 1, 2012 and received a lump sum payment for the portion of his fee that was deferred from December 28, 2011 to March 31, 2012 on April 6, 2012. Mr. Ellin is entitled to be paid an annual incentive bonus in cash in an amount of up to one hundred percent (100%) of the annual fee based upon satisfaction of performance-related milestones to be agreed upon between Mr. Ellin and the other members of our board of directors.

Mr. Ellin is also reimbursed for the annual fee of a personal assistant of up to \$80 during the term of this executive chairman agreement.

Mr. Ellin also received three grants totaling 8,000,000 shares of our restricted common stock that vest as follows:

- The first grant of 3,400,000 was granted under the executive chairman agreement and vests as follows: (i) one third vested upon the completion our most recent equity financing; (ii) one third shall vest if on any date during the term or within 12 months following the term, our total enterprise value equals or exceeds \$100,000; and (iii) one third shall vest immediately if on any date during the term or within 12 months following the term our total enterprise value equals or exceeds \$200,000; provided, however, that all unvested shares of restricted common stock shall vest immediately change of control. These shares may not be transferred for a period of one year from the vesting date.
- The second grant of 3,600,000 shares was granted on December 28, 2011 and vested fully on the date of the grant. These shares may not be transferred for a period of two years from the date of grant.
- The third grant of 1,000,000 shares was granted on December 28, 2011 and vest one year from the date of grant. These shares may not be transferred for a period of one year from the vesting date.

Mr. Ellin is also entitled to receive additional performance bonuses, in cash or shares of common stock at Mr. Ellin's election, upon our achievement of certain higher total enterprise values.

During the nine month period ended December 31, 2012, we did not grant Mr. Ellin any additional stock options or warrants.

13. Capital Stock Transactions

Preferred Stock

There are 100 shares of Series A Convertible Preferred Stock ("Series A") authorized, issued and outstanding. The Series A has a par value of \$0.0001 per share. The Series A holders are entitled to: (1) vote on an equal per share basis as common stock, (2) dividends paid to the common stock holders on an as if-converted basis and (3) a liquidation preference equal to the greater of \$10 per share of Series A (subject to adjustment) or such amount that would have been paid to the common stock holders on an as if-converted basis.

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Common Stock

In December 2012, the Company sold 1,428,571 shares of common stock of the Company to an investor for \$0.70 per share. In connection with this sale of common stock, the Company issued warrants to purchase 357,142 shares of common stock of the Company at an exercise price of \$0.70 per share with a term of 5 years. The fair value of the warrants on the date of issuance were determined to be \$251.

In December 2012, the Company issued 150,000 shares of common stock of the Company to a vendor. The shares were issued as settlement for services. The overall value was determined to be \$113, of which \$113 was recorded through the period ended December 31, 2012.

In December 2012, the Company issued 464,286 shares of common stock of the Company to a vendor. The shares were issued as settlement for services. The overall value was determined to be \$348, of which \$348 was recorded through the period ended December 31, 2012. In connection with this issuance of common stock, the Company issued warrants to purchase 116,071 shares of common stock of the Company at an exercise price of \$0.70 per share with a term of 5 years. The fair value of the warrants on the date of issuance were determined to be \$82.

In December 2012, the Company issued 666,668 shares of common stock of the Company as a non-refundable deposit for a pending acquisition. The shares were valued at the closing market price on that date of \$0.80 per share. The overall value was determined to be \$533 and was recorded to deposits as of December 31, 2012.

Derivative liabilities

As of March 31, 2012, the Company determined that certain warrants were considered derivatives because they did not meet the scope exception in ASC 815-10-15-74. In May 2012, the warrants were exercised. Prior to exercise the Company recorded a loss on the fair value of the warrant of \$21. The fair market value of the shares at the time of exercise was \$473. The holder forfeited 134,990 shares as a part of a cashless exercise, and the Company issued 365,010 shares of common stock of the Company to the holder. The fair value of these warrants was \$0 and \$452 at December 31, 2012 and March 31, 2012, respectively.

On March 26, 2012, the Senior Secured Convertible Note holders issued a waiver to the Company stating that they would not convert their notes until the Company has notified them in writing that the Company has increased its authorized capital sufficiently so that the conversion, exchange or exercise of all convertible securities can be effectuated without the Company exceeding its authorized capital.

On June 6, 2012, the Taja Convertible Note holder issued a waiver to the Company stating that they would not convert their notes until the Company has notified them in writing that the Company has increased its authorized capital sufficiently so that the conversion, exchange or exercise of all convertible securities can be effectuated without the Company exceeding its authorized capital.

On June 7, 2012, a holder of a warrant to purchase 2.5 million shares of common stock of the Company issued a waiver to the Company stating that they would not exercise their warrants until the Company has notified them in writing that the Company has increased its authorized capital sufficiently so that the exercise of all convertible securities can be effectuated without the Company exceeding its authorized capital.

On August 15, 2012, the Company amended its charter with the State of Delaware to increase its total number of shares of common stock of the Company to 200,000,000 and preferred shares of the Company to 2,000,000. With this amendment, the waivers obtained are no longer in force, since the Company has increased its authorized shares sufficiently so that the conversion, exchange or exercise of all convertible securities can be effectuated without the Company exceeding its authorized capital.

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Restricted Stock Agreements

During the period December 1, 2011 through December 31, 2012, the Company entered into restrictive stock agreements (“RSAs”) with certain employees and consultants. The RSAs have performance conditions, market conditions, time conditions or a combination. Once the stock vests, the individual is restricted from selling the shares of stock for a certain defined period from three months to two years depending on the RSA. Certain RSA recipients are granted voting rights while other RSA recipients are not granted voting rights.

Performance and Market Condition RSAs

On December 28, 2011, the Company issued 15,850 restricted shares with vesting criteria based on both performance and market conditions. The vesting is as follows: (i) one third (1/3) shall vest immediately upon the completion of one or more debt or equity financings during the period ending two (2) years from the date hereof (the “Measurement Period”) in favor of the Company of gross proceeds of at least \$5 million; (ii) one third (1/3) shall vest immediately if on any date during the Measurement Period the Company’s total enterprise value (computed by multiplying the number of outstanding shares of Common Stock on a fully diluted (taking into account only those stock options that are in-the-money on such date), as-converted basis by the average daily trading price for Common Stock for the thirty (30) trading day period immediately preceding the date of determination) equals or exceeds \$100 million; and (iii) one third (1/3) shall vest immediately if on any date during the Measurement Period the Company’s total enterprise value (calculated as set forth in clause (ii) above) equals or exceeds \$200 million; provided, however, that all unvested shares of restricted common stock shall vest immediately upon the sale of all or substantially all of the assets of the Company, upon the merger or reorganization of the Company following which the equity holders of the Company immediately prior to the consummation of such merger or reorganization collectively own less than 50% of the voting power of the resulting entity, or upon the sale of equity securities of the Company representing 50% or more of the voting power of the Company or 50% or more of the economic interest in the Company in a single transaction or in a series of related transactions.

Each share is restricted from the individual selling the stock for a period of one year from the date of vesting.

On December 28, 2011, one third of the restricted shares vested due to the \$7,000 financing agreement entered into by the Company. The Company valued the 5,283 vested RSAs at \$3,223 using the Company’s ending share price at December 28, 2011 of \$0.61.

For accounting purposes, the one third unvested shares related to the \$100,000 enterprise value and the one third unvested shares related to the \$200,000 enterprise value are considered to have a market condition. The effect of the market condition is reflected in the grant date fair value of the award and, thus compensation expense is recognized on this type of award provided that the requisite service is rendered (regardless of whether the market condition is achieved). The Company estimated the grant date fair value to be \$0.279 per share and \$0.206 per share for the \$100,000 enterprise value and \$200,000 enterprise value, respectively, using a Monte Carlo simulation that uses the following assumptions:

- Volatility - 100%
- Restricted stock discount - 36.1%
- Risk free interest rate of 0.1%
- Dividend yield of 0%

The Company has expensed \$4,515 through the period ended December 31, 2012 related to the 15,850 RSAs issued on December 28, 2011 and will expense the remaining \$1,270 over the periods ended December 28, 2013.

Performance Condition RSAs

On January 3, 2012, the Company issued 2,375 restricted shares with vesting criteria based on both time and performance conditions. At January 3, 2012, 1,025 restricted shares vested immediately and the remaining 1,350 unvested shares had to meet certain performance criteria. In September 2012, 425 shares vested in connection with a significant acquisition by the Company. In December 2012, 250 shares vested in connection with the termination of employment of an employee. The remaining 675 which has either not been defined by the Board of Directors or the Company has determined that the probability of meeting the performance criteria is 0%.

Each share is restricted from the individual selling the stock for a period from one year up to two years from the date of vesting.

All restricted shares, vested and unvested, have been included in the outstanding shares as of December 31, 2012.

For accounting purposes, the Company determined the grant date fair value to be \$0.65 per share which is the closing price of the Company’s stock price on January 3, 2012. The Company expensed \$1,229, related to the 2,375 RSAs issued on January 3, 2012. No further expense will be taken until the Board of Directors details the performance criteria, or already defined performance criteria has been met.

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Time Condition RSAs

On various dates during the periods ended December 31, 2012 and March 31, 2012, the Company issued 2,083 and 7,100 restricted shares with vesting criteria based on time conditions, respectively. As of December 31, 2012, 7,079 restricted shares were vested with each share being restricted from the individual selling the stock for a period from three months up to two years from the date of vesting.

The following table summarizes the RSA activity:

(in thousands, except grant date fair value)	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at March 31, 2011	—	\$ —
Unvested at March 31, 2012	15,367	\$ 0.360
Granted	583	1.000
Canceled	—	—
Vested	(38)	0.900
Unvested at June 30, 2012	15,912	\$ 0.387
Granted	1,500	0.800
Canceled	—	—
Vested	(696)	0.782
Unvested at September 30, 2012	16,716	\$ 0.411
Granted	0	0.800
Canceled	—	—
Vested	(3,413)	0.641
Unvested at December 31, 2012	13,303	\$ 0.352

During a review of equity compensation arrangements, the Company determined that certain valuation reports used in connection with approximately 22 million shares of restricted stock issued between December 2011 and May 2012 utilized certain assumptions that may or may not be consistent with applicable tax requirements for such valuations. The Company is evaluating the impact, if any, related to this matter on its financial statements. The Company is considering procuring new valuation reports that it believes will be consistent with applicable tax requirements. To the extent such new valuation reports implied a materially different value than reports originally relied upon by the Company and the recipient, based on certain assumptions as to valuation methods, it is likely that the Company and the recipient would agree to rescind such grants based on mutual mistake of material fact related to such tax valuation methods. Although the Company is still reviewing the matter and is unable at this time to definitively state what, if any, impact there could be, a rescission of the share grants at issue could impact the Company. However, such impacts may be offset by separate new grants of equivalent equity that may, or may not, accompany a rescission.

As a result, the Company believes that the amount of any impact related to this matter cannot be reasonably estimated at this time. Because the Company believes that a potential loss is not probable or estimable, it has not recorded any liabilities nor contingencies related to this matter. In the event that the Company's assumptions used to evaluate this matter as neither probable, nor estimable change in future periods, it may be required to record a liability for a material outcome.

14. Employee Benefit Plans

The Company has an employee 401(k) savings plan covering full-time eligible employees. These employees may contribute eligible compensation up to the annual IRS limit. The Company does not make matching contributions.

15. Income Taxes

The income tax provision for the quarter represents foreign withholding taxes related to continuing operations paid in jurisdictions outside of the US.

Management has evaluated and concluded that there are no significant uncertain tax positions requiring recognition in the Company's financial statements as of December 31, 2012.

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ASC 740 requires the consideration of a valuation allowance to reflect the likelihood of realization of deferred tax assets. Significant management judgment is required in determining any valuation allowance recorded against deferred tax assets. The Company adopted the provisions of ASC 740 on January 1, 2008 and there was no difference between the amounts of unrecognized tax benefits recognized in the balance sheet prior to the adoption of ASC 740 and those after the adoption of ASC 740. There were no unrecognized tax benefits not subject to valuation allowance as of December 31, 2012 and March 31, 2012. The Company recognized no interest and penalties on income taxes in its statement of operations for the periods ended December 31, 2012 and 2011.

16. Segment and Geographic information

The Company operates in one reportable segment in which it is a developer and publisher of branded entertainment content for mobile phones. Revenues are attributed to geographic areas based on the country in which the carrier's principal operations are located. The Company attributes its long-lived assets, which primarily consist of property and equipment, to a country primarily based on the physical location of the assets. Goodwill and intangibles are not included in this allocation. The following information sets forth geographic information on our sales for the periods ended December 31, 2012 and 2011, and net property and equipment for the periods ended December 31, 2012 and March 31, 2012:

	North America	Europe	Other Regions	Consolidated
Nine Months ended December 31, 2012				
Net sales to unaffiliated customers	41	2,630	1,581	\$ 4,252
Nine Months ended December 31, 2011				
Net sales to unaffiliated customers	138	4,087	1,562	\$ 5,788
Property and equipment, net at December 31, 2012	134	17	50	\$ 201
Property and equipment, net at March 31, 2012	177	52	1	\$ 230

17. Commitments and Contingencies

Operating Lease Obligations

The Company leases office facilities under non-cancelable operating leases expiring in various years through 2013. The future minimum payments under initial terms of leases at December 31, 2012 is \$64.

This amount does not reflect future fluctuations for real estate taxes and building operating expenses. Rental expense amounted to \$155 and \$133, respectively, for the nine months ended December 31, 2012 and 2011.

Other Obligations

As of December 31, 2012, the Company was obligated for payments under various distribution agreements, equipment lease agreements, employment contracts and consulting agreements with initial terms of one year or greater at December 31, 2012. Future payments for these obligations as of December 31, 2012 are as follows:

Year Ending December 31,	
2013	\$350
2014	350
2015	<u>204</u>
Total payments	<u>\$904</u>

Litigation

On May 4, 2012, the Company received notice of a judgment in the amount of £23 pertaining to a dispute with a previous employee. The Company has recorded the full amount in Accrued Compensation on the consolidated balance sheet.

Mandalay Digital's wholly owned subsidiary, Twistbox Entertainment, Inc. ("Twistbox") and Sirocco Mobile Ltd ("Sirocco") are parties to a wireless game development agreement dated February 27, 2009, whereby Sirocco were engaged to complete certain services and deliver products to Twistbox for mobile distribution. On or about September 6, 2012, Sirocco filed a complaint in California Superior Court, County of Los Angeles seeking relief for breach of written contract. On or about November 6, 2012, Sirocco proposed a reduction of its claim, which expired on November 12, 2012. Principals of both parties continue to communicate to find a mutually acceptable resolution.

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Twistbox's wholly owned subsidiary, Waat Media Corp ("Waat") and GS Wise Limited ("GS Wise") are parties to an advertising and content licensing agreement dated July 1, 2011, whereby Waat purchased advertising impressions and licensed content for mobile distribution. On or about September 10, 2012, GS Wise Limited and Bridco Trading Limited ("Bridco") filed a complaint in California Superior Court, County of Los Angeles seeking relief for breach of written contract. However on January 23, 2013, the parties were able to agree to a settlement in the amount of 240,569 shares of the Company's common stock.

The Company is subject to various claims and legal proceedings arising in the normal course of business. Management believes that the ultimate liability, if any in the aggregate of other claims will not be material to the financial position or results of operations of the Company for any future period; and no liability has been accrued.

18. Subsequent Events

On February 8, interest payable to the Senior Secured Note on December 27, 2012 was extended through February 15, 2012.

The Employment Agreement, dated December 28, 2011, with the Company's Chief Executive Officer Peter Adderton, and the Executive Chairman Agreement, dated December 28, 2011, with Mr. Robert Ellin, each provided for a one year term and therefore expired naturally on December 28, 2012 in accordance with their respective terms. Mr. Adderton and Mr. Ellin continue to serve the Company in the same offices and capacities, and for the same cash compensation and benefits as they were receiving under their respective agreements.

On January 28, 2013 and February 4, 2013, the Company entered into two Equity Financing Binding Term Sheets, dated as of January 20, 2013 and January 25, 2013, respectively (the "Equity Agreements"), with accredited investors, pursuant to which the Company agreed to issue an aggregate of 785,714 shares of its common stock and warrants to purchase 196,429 shares of its common stock (subject to adjustment), for an aggregate purchase price of \$550,000. The warrants have an exercise price of \$0.70 per share (subject to adjustment) and a five year term. The closing of the transactions contemplated by the Equity Agreement occurred on January 28, 2013 and February 4, 2013, respectively.

Management evaluated subsequent events after the balance sheet date of December 31, 2012 through the date these unaudited financial statements were issued and concluded that no other material subsequent events have occurred that would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with, and is qualified in its entirety by, the Financial Statements and the Notes thereto included in this report. This discussion contains certain forward-looking statements that involve substantial risks and uncertainties. When used in this Quarterly Report on Form 10-Q, the words "anticipate," "believe," "estimate," "expect", "will", "seeks", "should", "could", "would", "may" and similar expressions, as they relate to our management or us, are intended to identify such forward-looking statements. Our actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements as a result of a variety of factors including those set forth under "Risk Factors" in our Annual Report on Form 10-K, as amended, for the year ended March 31, 2012. Historical operating results are not necessarily indicative of the trends in operating results for any future period.

We do not undertake any obligation to update any forward-looking statements. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on known results and trends at the time they are made, to anticipate future results or trends.

Unless the context otherwise indicates, the use of the terms "we," "our", "us", "Mandalay Digital" or the "Company" refer to the business and operations of Mandalay Digital Group, Inc. through its operating and wholly-owned subsidiaries, Digital Turbine, Inc. ("Digital Turbine") and Twistbox Entertainment, Inc. ("Twistbox") and MDG Logia Holdings Ltd ("MDG").

Historical Operations of Mandalay Digital Group, Inc.

Mandalay Digital was originally incorporated in the State of Delaware on November 6, 1998 under the name eB2B Commerce, Inc. On April 27, 2000, the company merged into DynamicWeb Enterprises, Inc., a New Jersey corporation. DynamicWeb Enterprises, Inc was the resulting entity, but it changed its name to eB2B Commerce, Inc. On April 13, 2005, the Company changed its name to Mediavest, Inc. On November 7, 2007, through a merger, the Company reincorporated in the State of Delaware under the name Mandalay Media, Inc. On May 12, 2010, the Company changed its name to NeuMedia, Inc.

On February 6, 2012, the Company merged with a wholly-owned, newly-formed subsidiary, changing its name to Mandalay Digital Group, Inc.

On October 27, 2004, and as amended on December 17, 2004, the Company filed a plan for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (the "Plan of Reorganization"). Under the Plan of Reorganization, as completed on January 26, 2005: (1) the Company's net operating assets and liabilities were transferred to the holders of the secured notes in satisfaction of the principal and accrued interest thereon; (2) \$400,000 was transferred to a liquidation trust and used to pay administrative costs and certain preferred creditors; (3) \$100,000 was retained by the Company to fund the expenses of remaining public; (4) 3.5% of the new common stock of the Company (140,000 shares) was issued to the holders of record of Mandalay Digital's preferred stock in settlement of their liquidation preferences; (5) 3.5% of the new common stock of the Company (140,000 shares) was issued to common stockholders of record as of January 26, 2005 in exchange for all of the outstanding shares of the common stock of the company; and (6) 93% of the new common stock of the Company (3,720,000 shares) was issued to the sponsor of the Plan of Reorganization in exchange for \$500,000 in cash. Through January 26, 2005, the Company and its subsidiaries were engaged in providing business-to-business transaction management services designed to simplify trading between buyers and suppliers.

Prior to February 12, 2008, the Company was a public shell company with no operations, was controlled by its significant stockholder, Trinad Capital Master Fund, L.P.

SUMMARY OF THE TWISTBOX MERGER

The Company entered into an Agreement and Plan of Merger on December 31, 2007, as subsequently amended by the Amendment to Agreement and Plan of Merger dated February 12, 2008 (the “Merger Agreement”), with Twistbox Acquisition, Inc., a Delaware corporation and a wholly-owned subsidiary of the Company (“Merger Sub”), Twistbox Entertainment, Inc. (“Twistbox”), and Adi McAbian and Spark Capital, L.P., as representatives of the stockholders of Twistbox, pursuant to which Merger Sub would merge with and into Twistbox, with Twistbox as the surviving corporation (the “Merger”). The Merger was completed on February 12, 2008.

Pursuant to the Merger Agreement, upon the completion of the Merger, each outstanding share of Twistbox common stock, \$0.001 par value per share, on a fully-converted basis, with the conversion on a one-for-one basis of all issued and outstanding shares of the Series A Convertible Preferred Stock of Twistbox and the Series B Convertible Preferred Stock of Twistbox, \$0.01 par value per share (the “Twistbox Preferred Stock”), converted automatically into and became exchangeable for Company common stock in accordance with certain exchange ratios set forth in the Merger Agreement. In addition, by virtue of the Merger, each outstanding Twistbox option to purchase Twistbox common stock issued pursuant to the Twistbox 2006 Stock Incentive Plan (the “Plan”) was assumed by the Company, subject to the same terms and conditions as were applicable under such Plan immediately prior to the Merger, except that (a) the number of shares of Company common stock issuable upon exercise of each Twistbox option was determined by multiplying the number of shares of Twistbox common stock that were subject to such Twistbox option immediately prior to the Merger by 0.72967 (the “Option Conversion Ratio”), rounded down to the nearest whole number; and (b) the per share exercise price for the shares of Mandalay Digital common stock issuable upon exercise of each Twistbox option was determined by dividing the per share exercise price of Twistbox common stock subject to such Twistbox option, as in effect prior to the Merger, by the Option Conversion Ratio, subject to any adjustments required by the Internal Revenue Code. As part of the Merger, the Company also assumed all unvested Twistbox options. The Merger consideration consisted of an aggregate of up to 12,325,000 shares of Company common stock, which included the conversion of all shares of Twistbox capital stock and the reservation of 2,144,700 shares of Company common stock required for assumption of the vested Twistbox options. The Company reserved an additional 318,772 shares of Company common stock required for the assumption of the unvested Twistbox options. All warrants to purchase shares of Twistbox common stock outstanding at the time of the Merger were terminated on or before the effective time of the Merger.

Upon the completion of the Merger, all shares of the Twistbox capital stock were no longer outstanding and were automatically canceled and ceased to exist, and each holder of a certificate representing any such shares ceased to have any rights with respect thereto, except the right to receive the applicable merger consideration. Additionally, each share of the Twistbox capital stock held by Twistbox or owned by Merger Sub, the Company or any subsidiary of Twistbox or the Company immediately prior to the Merger, was canceled and extinguished as of the completion of the Merger without any conversion or payment in respect thereof. Each share of common stock, \$0.001 par value per share, of Merger Sub issued and outstanding immediately prior to the Merger was converted upon completion of the Merger into one validly issued, fully paid and non-assessable share of common stock, \$0.001 par value per share, of the surviving corporation.

As part of the Merger, the Company agreed to guarantee up to \$8,250,000 of Twistbox’s outstanding debt to ValueAct SmallCap Master Fund L.P. (“ValueAct” or “VAC”), with certain amendments. On July 30, 2007, Twistbox had entered into a Securities Purchase Agreement by and among Twistbox, the Subsidiary Guarantors (as defined therein) and ValueAct, pursuant to which ValueAct purchased a note in the amount of \$16,500,000 (the “ValueAct Note” or the “VAC Note”) and a warrant which entitled ValueAct to purchase from Twistbox up to a total of 2,401,747 shares of Twistbox’s common stock (the “Warrant”). Twistbox and ValueAct also entered into a Guarantee and Security Agreement by and among Twistbox, each of the subsidiaries of Twistbox, the Investors, as defined therein, and ValueAct, as collateral agent, pursuant to which the parties agreed that the ValueAct Note would be secured by substantially all of the assets of Twistbox and its subsidiaries (the “VAC Note Security Agreement”). In connection with the Merger, the Warrant was terminated and we issued two warrants in place thereof to ValueAct to purchase shares of our common stock. One of such warrants entitled ValueAct to purchase up to a total of 1,092,622 shares of our common stock at an exercise price of \$7.55 per share. The other warrant entitled ValueAct to purchase up to a total of 1,092,621 shares of our common stock at an initial exercise price of \$5.00 per share, which, if not exercised in full by February 12, 2009, would have been permanently increased to an exercise price of \$7.55 per share. Both warrants were scheduled to expire on July 30, 2011. The warrants were subsequently modified on October 23, 2008 and cancelled on June 21, 2010, as set forth below. We also entered into a Guaranty (the “ValueAct Note Guaranty”) with ValueAct whereby the Company agreed to guarantee Twistbox’s payment to ValueAct of up to \$8,250,000 of principal under the ValueAct Note in accordance with the terms, conditions and limitations contained in the ValueAct Note, which was subsequently amended as set forth below. The financial covenants of the ValueAct Note were also amended, pursuant to which Twistbox was required to maintain a cash balance of not less than \$2,500,000 at all times and the Company is required to maintain a cash balance of not less than \$4,000,000 at all times. The ValueAct Note was subsequently amended and restated as set forth below.

SUMMARY OF THE AMV ACQUISITION

On October 23, 2008, the Company consummated the acquisition of 100% of the issued and outstanding share capital of AMV Holding Limited, a United Kingdom private limited company (“AMV”) and 80% of the issued and outstanding share capital of Fierce Media Limited, United Kingdom private limited company (collectively the “Shares”). The acquisition of AMV is referred to herein as the “AMV Acquisition”. The aggregate purchase price (subject to adjustments as provided in the stock purchase agreement) for the Shares consisted of (i) \$5,375,000 in cash; (ii) 4,500,000 shares of Company common stock, par value \$0.0001 per share; (iii) a secured promissory note in the aggregate principal amount of \$5,375,000 (the “AMV Note”); and (iv) additional earn-out amounts, if any, based on certain targeted earnings as set forth in the stock purchase agreement. The AMV Note was scheduled to mature on July 31, 2010, and bore interest at an initial rate of 5% per annum, subject to adjustment as provided therein.

In addition, also on October 23, 2008, in connection with the AMV Acquisition, the Company, Twistbox and ValueAct entered into a Second Amendment to the ValueAct Note, which among other things, provided for a payment-in-kind election at the option of Twistbox, modified the financial covenants set forth in the ValueAct Note to require that the Company and Twistbox maintain certain minimum combined cash balances and provided for certain covenants with respect to the indebtedness of the Company and its subsidiaries. Also on October 23, 2008, AMV granted to ValueAct a security interest in its assets to secure the obligations under the ValueAct Note. In addition, the Company and ValueAct entered into an allonge to each of those certain warrants issued to ValueAct in connection with the Merger, which, among other things, amended the exercise price of each of the warrants to \$4.00 per share.

In addition, also on October 23, 2008, the Company entered into a Securities Purchase Agreement with certain investors identified therein (the “Investors”), pursuant to which the Company agreed to sell to the Investors in a private offering an aggregate of 1,685,394 shares of common stock and warrants to purchase 842,697 shares of common stock for gross proceeds to the Company of \$4,500,000. The warrants have a five year term and an exercise price of \$2.67 per share. The funds were held in an escrow account pursuant to an Escrow Agreement, dated October 23, 2008 and were released to the Company on or about November 8, 2008.

On August 14, 2009, the Company and ValueAct entered into a Second Allonge to Warrant to Purchase 1,092,621 shares of the Company’s common stock (the “Second Allonge”), which amended that certain warrant to purchase 1,092,621 shares of the Company’s common stock, issued to ValueAct on February 12, 2008, as amended (the “ValueAct Warrant”). Pursuant to the Second Allonge, the exercise price of the ValueAct Warrant decreased from \$4.00 per share to the lesser of \$1.25 per share, or the exercise price per share for any warrant to purchase shares of the Company’s common stock issued by the Company to certain other parties. In addition, also on August 14, 2009, the Company, Twistbox and ValueAct entered into a Third Amendment to the ValueAct Note. Pursuant to the Third Amendment, the maturity date was changed to July 31, 2010 and the interest rate of the ValueAct Note increased from 10% to 12.5%.

On January 25, 2010, Mandalay Digital, Twistbox and ValueAct entered into a Waiver to Senior Secured Note (the “Waiver”), pursuant to which ValueAct agreed to waive certain provisions of the ValueAct Note. Pursuant to the Waiver, subject to Twistbox’s compliance with certain conditions set forth in the Waiver, certain rights to prepay the ValueAct Note were extended from January 31, 2010 to March 1, 2010. In addition, subject to Twistbox’s compliance with certain conditions set forth in the Waiver, the timing obligation of the Company and Twistbox to comply with the cash covenant set forth in the ValueAct Note was extended to March 1, 2010 and the minimum cash balance by which Twistbox and Mandalay Digital must maintain was increased to \$1,600,000.

On February 25, 2010, Twistbox received a letter (the “Letter”) from ValueAct alleging certain events of default with respect to the ValueAct Note. The Letter claimed that an event of default had occurred and was continuing under the ValueAct Note as result of certain alleged defaults, including the failure to provide weekly evidence of compliance with certain of Twistbox’s and the Company’s covenants under the ValueAct Note, the failure to comply with limitations on certain payments by the Company and each of its subsidiaries, and the failure of Twistbox and the Company to maintain minimum cash balances in deposit accounts of each of Twistbox and the Company. The Letter also claimed that the Waiver had ceased to be effective as a result of the alleged failure of Mandalay Digital to comply with the conditions set forth in the Waiver. On May 10, 2010, Twistbox received from ValueAct a Notice of Event of Default and Acceleration (“Notice”) in which ValueAct stated that an event of default had occurred under the ValueAct Note as a result of Twistbox’s and Mandalay Digital’s failure to comply with the cash balance covenant under the ValueAct Note and, therefore, ValueAct accelerated all outstanding amounts payable by Twistbox under the ValueAct Note. In connection with the Notice, ValueAct instituted an administration proceeding in the United Kingdom against AMV.

On June 21, 2010, the Company sold all of the operating subsidiaries of AMV to an entity controlled by ValueAct and certain of AMV’s founders in exchange for the release of \$23,231,000 of secured indebtedness, comprising of a release of all amounts due and payable under the AMV Note and all amounts due and payable under the VAC Note except for \$3,500,000 in principal (the “Restructure”). In connection with the Restructure, the ValueAct Note (as amended and restated, the “Amended ValueAct Note”), the Value Act Security Agreement and the Value Act Guaranty were amended and restated in their entirety. In addition, all warrants and common stock of the Company held by ValueAct were cancelled and all warrants and common stock of the Company held by AMV founders Nate MacLeitch and Jonathan Cresswell were repurchased by the Company for a price of \$0.02 per share.

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The Amended ValueAct Note matures on June 21, 2013 and bears interest at 10% payable in cash semi-annually in arrears on each January 1 and July 1 that the Amended ValueAct Note is outstanding. Twistbox may prepay the Amended ValueAct Note in whole or in part at any time without penalty. Notwithstanding the foregoing, at any time on or prior to January 1, 2012, Twistbox may, at its option, in lieu of making any cash payment of interest, elect that the amount of any interest due and payable on any interest payment date on or prior to January 1, 2012 be added to the principal due under the Amended ValueAct Note. In the event of a Fundamental Change (as defined therein) of Twistbox, the holder of the Amended ValueAct Note will have the right for a period of thirty days to require Twistbox to repurchase the Amended ValueAct Note at a price equal to 100% of the outstanding principal and all accrued and unpaid interest.

Also on June 21, 2010, for purposes of capitalizing the Company, the Company sold and issued \$2,500,000 of Senior Secured Convertible Notes due June 21, 2013 (the "New Senior Secured Notes" or the "Senior Debt") to certain significant stockholders. The New Senior Secured Notes have a three year term and bear interest at a rate of 10% per annum payable in arrears semi-annually. Notwithstanding the foregoing, at any time on or prior to the 18th month following the original issue date of the New Senior Secured Notes, the Company may, at its option, in lieu of making any cash payment of interest, elect that the amount of any interest due and payable on any interest payment date on or prior to the 18th month following the original issue date of the New Senior Secured Notes be added to the principal due under the New Senior Secured Notes. The accrued and unpaid principal and interest due on the New Senior Secured Notes are convertible at any time at the election of the holder into shares of Company common stock at a conversion price of US \$0.15 per share, subject to adjustment. The New Senior Secured Notes are secured by a first lien on substantially all of the assets of the Company and its subsidiaries. The Amended ValueAct Note is subordinated to the New Senior Secured Notes.

Each purchaser of a New Senior Secured Note also received a warrant ("Warrant") to purchase shares of common stock of the Company at an exercise price of \$0.25 per share, subject to adjustment. For each \$1.00 of New Senior Secured Notes purchased, the purchaser received a Warrant to purchase 3.33 shares of common stock of the Company. Each Warrant has a five year term.

The Merger and the AMV Acquisition both included the issuance of common stock as all or part of the consideration. Based on the trading price of the common stock as of the acquisition dates, the total consideration was approximately \$67.5 million for the Merger and approximately \$22.2 million for the AMV Acquisition.

On December 16, 2011 the Amended ValueAct Note was purchased by Taja, LLC ("Taja") and immediately amended to remove certain negative covenants (as amended, the "Taja Note").

SUMMARY OF LOGIA ACQUISITION

On August 14, 2012, the Company entered into a Share Purchase Agreement to acquire subsidiaries and assets of Logia Group, Ltd. (“Seller”), Logia is a leading mobile content development and management solutions provider of innovative mobile solutions to top-tier mobile operators and content providers. The Logia acquisition was completed on September 13, 2012. As a part of the transaction, the Company, through an Israeli acquisition company that it formed named “MDG Logia Holdings LTD” (“Logia Holdings”) acquired all of the capital stock of Logia Content Development and Management Ltd., Volas Entertainment Ltd. and Mail Bit Logia (2008) Ltd., each of which was formerly an operating subsidiary of Seller, and is now an operating subsidiary of Logia Holdings. In addition, the Company acquired, by assignment to Logia Holdings, the assets comprising the “LogiaDeck” software, which has been rebranded “Ignite”, and certain operator and other contracts related to the business being sold by Seller, from S.M.B.P. IGLOO Ltd., an affiliate of Seller.

The Company purchased the stock and assets sold by Seller and its affiliate with cash and common stock of the Company and two tranches of “earn out” payments of cash and stock, comprised of (1) \$3,750,000 in cash at closing (subject to working capital adjustments) and Company common stock having a value of \$750,000, based on a 30 day volume weighted average price (VWAP) look back from the issuance date (the “Closing Shares”), or 937,500 shares of common stock, with a fair value of \$788 on the date of grant, and (2) two tranches, each comprised of a cash payment of \$250,000 and a number of shares of Company common stock valued at \$250,000 (based on a 30 day VWAP look back from the issuance date) (the “Earn Out Shares”), which will be paid and issued, as applicable, to Seller upon satisfaction of various milestones, and subject to the terms and conditions, as set forth in the Purchase Agreement, totaling up to a number of shares of common stock having a value of \$500,000 and \$500,000 of cash if all milestones are achieved. All of the stock of the Company issued is subject to a Registration Rights Agreement that provides for piggy back rights for 3 years and inclusion on the Company’s currently existing registration statement. See Exhibits 10.1 and 10.2 of this quarterly report on Form 10-Q for copies of the Purchase Agreement and the Registration Rights Agreement. The acquired business of the Targets and Ignite are collectively referred to as “Logia” in this quarterly report.

The initial accounting of the Logia acquisition is incomplete and subject to changes, which may result in significant changes to provisional amounts. The Company has recorded provisional amounts based upon management’s best estimate of the value as a result of preliminary analysis. Therefore, actual amounts recorded upon the finalization of the valuation of certain intangible assets may differ materially from the information presented in this Quarterly report on Form 10-Q.

Company Overview

From February 12, 2008 to October 23, 2008, our sole operations were those of our wholly-owned subsidiary, Twistbox. In October 2008, we acquired AMV Holding Limited and its subsidiaries, a mobile media and marketing company. On June 21, 2010, we sold AMV Holding Limited and its subsidiaries.

Twistbox is a global, mobile data services company primarily focused on enabling and optimizing the development, distribution and billing of content and applications across mobile networks. Operating since 2003, Twistbox publishes content in over 28 countries with distribution representing more than five hundred million subscribers. Twistbox has developed an intellectual property portfolio that includes worldwide or territory exclusive mobile rights to content, a proprietary publishing platform that includes tools to automate device management and billing of content and applications; a mobile games development and distribution platform that automates the porting of mobile games and applications to over 1,500 handset models; a content ratings system adopted by certain major wireless carriers to assist with the responsible deployment of age-verified programming and services; a suite of value added billing technologies that allow for in-application billing, and Digital Rights Management (DRM) solutions. Twistbox has leveraged its intellectual property and carrier-class technology to secure direct distribution and/or enabling agreements with leading mobile operators throughout Europe, North America and Latin America, including, among others, Vodafone, Telefonica, Orange, and SFR.

Twistbox maintains a global distribution agreement with Vodafone. Through this relationship, in certain markets Twistbox serves as one of Vodafone’s exclusive category portal managers. Twistbox has similar exclusive agreements with other operators in selected territories.

Twistbox’s target customers are the lucrative, tech-savvy 18 to 40 year old demographic. This group is a leading consumer group of new mobile handsets and represents more than 50% of mobile content consumption revenue globally.

In December 2011, the Company purchased the assets of Digital Turbine. With the acquisition and integration of the assets of Digital Turbine, the Company will be able to provide an end-to-end, modular platform to the Company’s existing carrier customers. The combined DT offering allows new and existing customers to choose from a fully outsourced, smart mobile ecosystem to more efficient, modular components that can be integrated with different operating systems to provide to the end user a more unified experience of mobile content across search, discovery, billing, and delivery. Innovative aspects of the Digital Turbine platform include the ability for carriers and OEMs to analyze the data presented to their end-users while giving them a more efficient way of finding and purchasing content.

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In September 2012, the Company completed the Logia transaction. Logia is a mobile content development and management solutions provider of innovative mobile solutions to top-tier operators and content providers. It provides solutions for top-tier mobile operators and content providers, including device application management solutions, white label app and media stores, in-app payment solutions, app-based value added services, and mobile social music and TV offerings. Logia operates in more than 20 countries, and provides services to more than 50 leading mobile carriers. It has relationships with over 500 app developers and content vendors and well as agreements with unique mobile platforms and service providers. Our strategy is to combine Logia mobile solutions, carrier relationships and global distribution capabilities with the Digital Turbine user experience to provide a 'best-in-class', end-to-end solution for the Company's carrier partners to fully monetize their mobile content catalogs as well as third-party offerings.

RESULTS OF OPERATIONS

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011		Nine Months Ended December 31, 2012	Nine Months Ended December 31, 2011	% of Change
	(in thousands)					
Revenues	\$ 2,049	\$ 1,957	5%	\$ 4,252	\$ 5,788	-27%
Cost of revenues	927	790	17%	1,975	2,057	-4%
Gross profit	1,122	1,167	-4%	2,277	3,731	-39%
SG&A	4,701	7,282	-35%	11,341	11,002	3%
Operating loss	(3,579)	(6,115)	-41%	(9,064)	(7,271)	25%
Interest expense, net	(536)	(1,693)	-68%	(1,490)	(2,438)	-39%
Foreign exchange transaction loss	(18)	(71)	-75%	(52)	(54)	-4%
Loss on change in fair value of accrued derivative liabilities	—	(49)	-100%	(22)	(76)	-72%
Gain / (loss) on settlement of liability	(4)	1,082	-100%	(4)	1,323	-100%
Loss on change on valuation of long term contingent liability	(44)	—	100%	(44)	—	100%
Loss before income taxes	(4,181)	(6,846)	-39%	(10,676)	(8,516)	25%
Income tax provision	(33)	(32)	3%	(66)	(64)	3%
Net loss	<u>\$ (4,214)</u>	<u>\$ (6,878)</u>	-39%	<u>\$ (10,742)</u>	<u>\$ (8,580)</u>	25%
Basic and Diluted net income / (loss) per common share:	(0.05)	(0.16)	-71%	(0.12)	(0.21)	-40%
Basic and Diluted weighted average shares outstanding	88,987	41,966	112%	86,917	41,808	108%

Comparison of the Three and Nine Months Ended December 31, 2012 and 2011

Revenues

	Three Months Ended December 31,		% of	Nine Months Ended December 31,		% of
	2012	2011	Change	2012	2011	Change
	(In thousands)			(In thousands)		
Revenues by type:						
Services	\$ 1,193	\$ 461	159%	\$ 1,902	\$ 930	105%
Content—Games	46	76	-40%	147	391	-63%
Content—Other	808	904	-10%	1,275	3,273	-61%
Advertising	2	516	-100%	928	1,194	-22%
Total	<u>\$ 2,049</u>	<u>\$ 1,957</u>	5%	<u>\$ 4,252</u>	<u>\$ 5,788</u>	-27%

Games revenue—the decline in revenue largely reflects a strategic decision to curtail investment in development of new games for carrier sales, along with the loss of on-deck placement with US carriers. In addition, we are no longer selling mobile advertising. This was offset by higher platform and services fees due the addition of Logia revenues. Games revenue includes both licensed and internally developed games for use on mobile phones.

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The revenue decline for Other Content is the result of multiple factors. Revenues were also affected by the increase in the use of smart phones over feature phones, which hinder the carriers' ability to monetize content revenues effectively. Revenues have also been impacted by outsourcing at the carrier level. Other content includes a broad range of licensed and internally developed products delivered in the form of WAP, Video, Wallpaper and Mobile.

Cost of Revenues

	<u>Three Months Ended December 31,</u>		<u>% of</u>	<u>Nine Months Ended December 31,</u>		<u>% of</u>
	<u>2012</u>	<u>2011</u>		<u>Change</u>	<u>2012</u>	
	<u>(In thousands)</u>			<u>(In thousands)</u>		
Cost of revenues:						
License fees	\$ 190	\$ 733	-74%	\$ 957	\$ 1,885	-49%
Other direct cost of revenues	737	57	1193%	1,018	172	492%
Total cost of revenues	\$ 927	\$ 790	17%	\$ 1,975	\$ 2,057	-4%
Revenues	\$ 2,049	\$ 1,957	5%	\$ 4,252	\$ 5,788	-27%
Gross margin	54.7%	59.6%		53.5%	64.5%	

License fees represent costs payable to content providers for use of their intellectual property in products sold. Other direct cost of revenues has increased due to the amortization of intangible assets from the Logia acquisition, and because Logia revenues are service-based, rather than content based, and contains costs to support and maintain services income.

Operating Expenses

	<u>Three Months Ended December 31,</u>		<u>% of</u>	<u>Nine Months Ended December 31,</u>		<u>% of</u>
	<u>2012</u>	<u>2011</u>		<u>Change</u>	<u>2012</u>	
	<u>(In thousands)</u>			<u>(In thousands)</u>		
Product development expenses	\$ 577	\$ 430	34%	\$ 1,308	\$ 1,578	-17%
Sales and marketing expenses	329	204	61%	647	660	-2%
General and administrative expenses	3,795	6,648	-43%	9,386	8,764	7%

Product development expenses have historically included the costs to build, edit and optimize content formats for consumption on a mobile phone. Expenses in this area are primarily driven by personnel costs. Due to strategic changes in the focus of our development business as well as the consolidation of the device operating systems within the marketplace, headcount had been reduced over prior periods. However we anticipate growth in production development expenses in Digital Turbine and Logia due to projected revenue growth.

Sales and marketing expenses represent the costs of sales and marketing personnel, and advertising and marketing campaigns. Selling costs, including our headcount were reduced over the past year, but has increased as we prepare Digital Turbine to enter the market and with the addition of the Logia business.

General and administrative expenses represent management, finance and support personnel costs in both the parent and subsidiary companies, which include professional and consulting costs, and other costs such as stock based compensation, rent, and depreciation expense. The increase period-to-period is mostly due to an increase in stock based compensation expense to management, as well as hiring additional management and consulting personnel, and the addition of the Logia business.

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Other Income and Expenses

	Three Months Ended December 31,		% of Change	Nine Months Ended December 31,		% of Change
	2012	2011		2012	2011	
	(In thousands)			(In thousands)		
Interest and other (expense)	\$ (536)	\$ (1,693)	-68%	\$ (1,490)	\$ (2,438)	-39%
Foreign exchange transaction gain / (loss)	\$ (18)	\$ (71)	-75%	\$ (52)	\$ (54)	-4%
Change in fair value of warrant derivative liabilities gain / (loss)	\$ —	\$ (49)	-100%	\$ (22)	\$ (76)	-72%
Gain / (loss) on settlement of debt	\$ (4)	\$ 1,082	-100%	\$ (4)	\$ 1,323	-100%
Gain / (loss) on change in valuation of contingent liability	\$ 43	\$ —	100%	\$ 43	\$ —	100%

Interest and other income/(expense) includes interest income on invested funds, interest expense related to the Senior Secured Note and the Taja Note, changes in the fair market value of derivatives, and foreign exchange transaction gains.

Financial Condition

Assets

Our current assets totaled \$4.6 million and \$10.1 million at December 31, 2012 and March 31, 2012, respectively. Total assets were \$14.4 million and \$14.8 million at December 31, 2012 and March 31, 2012, respectively. The decrease in current assets is primarily due to cash paid for the acquisition of Logia, offset by the increase in accounts receivable and prepaid expenses, an increase in deposits due to the issuance of shares of the Company as a non-refundable deposit for a potential acquisition, and goodwill and intangible assets based on the valuation of Logia.

Liabilities and Working Capital

At December 31, 2012, our total liabilities were \$11.3 million, compared to \$9.1 million at March 31, 2012. The change in liabilities was mainly due to the amortization of debt discount, the exercise of warrants that were derivative liabilities, offset by an increase in accounts payable, mainly due to the acquisition of Logia. The Company had negative working capital of \$4.2 million at December 31, 2012, as compared to positive working capital of \$4.1 million at March 31, 2012, which is a net change of \$8.4 million. This is due mainly to the movement of the Senior Secured Notes from long term debt to short term debt, representing \$2.8 million at December 31, 2012, as well as the purchase of Logia, which has used \$4.7 million for purchase price and capital infusion. The Company expects a return on the Logia investment over the course of the next fiscal year.

Liquidity and Capital Resources

	Nine Months Ended December 31,		% of Change
	2012	2011	
	(In thousands)		
Consolidated Statement of Cash Flows Data:			
Capital expenditures	\$ —	\$ 10	100%
Cash flows used in operating activities	5,862	487	1104%
Cash flows used in investing activities	3,416	10	34060%
Cash acquired with acquisition of subsidiary	(59)	—	0%
Issuance of shares for cash	2,000	6,989	-71%
Gain on exchange rate changes on cash and cash equivalents	61	69	-11%

The Company has incurred losses and negative annual cash flows since inception. The operating loss increased from \$7.3 million in the nine months ended December 31, 2011 to \$9 million for the nine months ended December 31, 2012, or by \$1.8 million. While in the current period stock compensation expense was \$1 million lower as compared to the same period ending December 31, 2011, acquisition costs related to the acquisition of Logia, as well as the addition of the Logia expenses overall, and debt discount expense related to the Taja convertible debt were the significant portion of the additional loss in the nine months ended December 31, 2012.

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The consolidated financial statements included in this Quarterly Form 10-Q include the accounts of the Company. The primary sources of liquidity have historically been issuance of common and preferred stock and borrowings under credit facilities. In fiscal year 2012, the Company raised \$9.7 million through issuance of convertible debt and equity financings and through restructuring existing debt to convertible debt. In the nine months ended December 31, 2012, the Company has raised an additional \$2 million through the sale of common stock of the Company. Our current cash resources will not be sufficient to fund our planned operations for the next twelve months. Until we become cash flow positive, we anticipate that our primary sources of liquidity will be cash generated by our operating activities, as well as further borrowings or further capital raises. Because of the uncertainty of these factors, we will need to raise funds to meet our working capital needs. Additional financing may not be available on acceptable terms or at all, and lenders may be unwilling to lend on reasonable terms. If we issue additional equity securities to raise funds, the ownership percentage of our existing stockholders would be reduced. New investors may demand rights, preferences or privileges senior to those of existing holders of common stock. If we cannot raise any needed funds, we might be forced to make substantial reductions in our operating expenses, which could adversely affect our ability to implement our current business plan and, ultimately, our viability as a company.

Operating Activities

In the nine months ended December 31, 2012, we used \$7.2 million of net cash. Net cash used represents a decrease in accounts payable, accrued compensation and accrued license fees of \$0.7 million, and increases in accounts receivable and deposits of \$0.9 million offset by the decrease in prepaid expense of \$0.5 million. These changes flow from the loss for the period, but exclude depreciation and amortization of \$0.2 million, as well as interest and debt discount costs of \$1.4 million, and \$4 million for stock issued for services. In the period ended December 31, 2011, we used \$0.5 million of net cash, flowing from the overall loss of \$8.6 million, offset by non-cash charges of \$8.7 million that include depreciation, amortization, stock based compensation, debt discount, fair value of warrants and conversion options issued for financing costs, and other comprehensive income of \$0.7 million. While items generating cash included decreases in accounts receivable of \$0.8 million, the Company decreased accounts payable, accrued compensation and other liabilities by \$1.3 million. The decrease in accounts payable and other liabilities was due mainly to a settlement with one of our vendors for \$1 million.

As of December 31, 2012, the Company had approximately \$1.6 million of cash.

The Company's cash requirements in the future will be dependent on actions taken to improve cash flow, including operational restructuring. We may require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If cash resources are insufficient to satisfy our cash requirements, we may seek to sell additional debt securities or additional equity securities or to obtain a credit facility. The sale of convertible debt securities or additional equity securities could result in additional dilution to our stockholders. The incurrence of increased indebtedness would result in additional debt service obligations and could result in additional operating and financial covenants that would restrict our operations. In addition, there can be no assurance that any additional debt or equity financing will be available on acceptable terms, if at all.

Debt obligations include interest payments under the Senior Debt facility, and under the Amended Taja Note. Under the Senior Debt facility, the Company was permitted to elect to add interest to the principal, until December 21, 2011, with the full amount of the principle and interest payable June 21, 2013. Under the Amended Taja Note the Company may elect to add interest to the principal. The full amount is payable March 1, 2014, if it has not already been converted into shares of common stock of the Company. The Company's operating lease obligations include non-cancelable operating leases for the Company's office facilities in several locations, expiring at various dates through 2013.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partners, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not have any undisclosed borrowings or debt, and we have not entered into any synthetic leases. We believe, therefore, that we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Stock Sales and Liquidity

In July 2012, the Company issued 25,157 shares of common stock of the Company to a service provider. The shares are restricted for one year.

In September 2012, the Company issued 937,500 shares of common stock of the Company in connection with an acquisition. The shares are restricted for one year.

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In September 2012, the Company issued 1,500,000 shares of common stock of the Company in connection with an employment agreement. The shares vest monthly over three years.

In December 2012, the Company issued 1,428,571 shares of common stock of the Company to an investor.

In December 2012, the Company issued 150,000 shares of common stock of the Company as settlement to a service provider. The Company recorded a loss on the settlement of \$58. The shares are restricted for one year.

In December 2012, the Company issued 464,286 shares of common stock of the Company as settlement to a service provider. The Company recorded a gain on the settlement of \$58. The shares are restricted for one year.

In December 2012, the Company issued 666,668 shares of common stock of the Company as a non-refundable deposit for a pending acquisition.

Warrants

In December 2012, in connection with a settlement to a service provider, the Company issued warrants to purchase 357,142 shares of common stock of the Company at an exercise price of \$0.70 cents per share to an investor.

In December 2012, the Company issued warrants to purchase 116,071 shares of common stock of the Company at an exercise price of \$0.70 cents per share to a service provider.

Options

In September 2012, the Company issued an option to purchase 2,000,000 shares of common stock of the Company in connection with an employment agreement. In December 2012, the employment agreement was terminated and 1,833,333 options were cancelled.

Revenues

The discussion herein regarding our future operations pertain to the results and operations of Digital Turbine, Logia and Twistbox. Digital Turbine has begun to generate revenues in the fourth quarter of fiscal 2013, subsequent to this nine month reporting period for December 31, 2012. Logia and Twistbox have historically generated and expect to continue to generate the vast majority of its revenues from mobile phone carriers that market, distribute and/or bill for its content. These carriers generally charge a one-time purchase fee or a monthly subscription fee on their subscribers' phone bills when the subscribers download Logia and content to their mobile phones. The carriers perform the billing and collection functions and generally remit to Logia and Twistbox a contractual percentage of their collected fee for each transaction. Logia and Twistbox recognize as revenues the percentage of the fees due to it from the carrier. End users may also initiate the purchase of Twistbox's content through other delivery mechanisms, with carriers or third parties being responsible for billing, collecting and remitting to Twistbox a portion of their fees. Logia and Twistbox revenues are international.

We believe that the improving quality and greater availability of smartphones is in turn encouraging consumer awareness and demand for high quality content on their mobile devices. At the same time, carriers and branded content owners are focusing on a small group of enablers that have the ability to provide high-quality mobile content services consistently and cost-effectively with the ability to enable mobile billing across a wide variety of handsets and countries. Additionally, publishers and content owners are seeking enablers that have the ability to distribute content globally through relationships with most or all of the major carriers. We believe that the Company through its subsidiary operating companies has created the requisite development, distribution and billing technology and have achieved the scale to operate at a level that provides them with competitive advantages. We also believe that leveraging existing carrier and publisher relationships contained within Logia and Twistbox are an advantage that allows us to grow our revenues without significant corresponding percentage growth in our infrastructure and operating costs. Our revenue growth rate will depend significantly on continued growth in the mobile content market, our ability to leverage our distribution and content relationships, the entry of Digital Turbine's IQ product and Logia's Ignite product into the market, as well as our ability to continue to expand billing for content in new regional markets. Our ability to attain profitability will be affected by the extent to which we must incur additional expenses to expand our sales, marketing, development, and general and administrative capabilities to grow our business. The largest component of our expenses is personnel and acquisition costs. Personnel costs consist of salaries, benefits and incentive compensation, including bonuses and stock-based compensation, for our employees. Acquisition costs include the costs of acquiring Logia as was the case in our second quarter. And the Company has plans to continue to acquire complimentary operations that create synergy and aid in bringing new products to market. Our operating expenses should continue to grow in absolute dollars, assuming our revenues continue to grow.

Because many new mobile handset models are released in the fourth calendar quarter to coincide with the holiday shopping season, and because many end users download our content soon after they purchase new handsets, we may experience seasonal sales increases based on this key holiday selling period. However, due to the time between handset purchases and content purchases, much of this holiday impact may occur in the March quarter end. For a variety of reasons, we may experience seasonal sales decreases during the summer, particularly in Europe, which is predominantly reflected in our second fiscal quarter. In addition to

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these possible seasonal patterns, our revenues may be impacted by declines in users visiting carrier portals, new or changed carrier deals, and by changes in the manner that our major carrier partners marketing our content on their deck. Initial spikes in revenues as a result of successful launches or campaigns may create further aberrations in our revenue patterns.

Cost of Revenues

Logia's cost of revenues is mainly personnel and technological expenses used in the servicing and maintenance of its products. Twistbox's cost of revenues historically consists of royalties that we pay to content owners from which we license brands and other intellectual property. Other direct costs such as platform and third party delivery charges are included in cost of revenues. Our cost of revenues also includes noncash expenses—amortization of certain acquired intangible assets, and any impairment of guarantees. We generally do not pay advance royalties to licensors. Where we acquire rights in perpetuity or for a specific time period without revenue share or additional fees, we record the payments made to content owners as prepaid royalties on our balance sheet when payment is made to the licensor. We recognize royalties in cost of revenues based upon the revenues derived from the relevant product sold multiplied by the applicable royalty rate. If applicable, we will record an impairment of prepaid royalties or accrue for future guaranteed royalties that are in excess of anticipated recoupment. At each balance sheet date, we perform a detailed review of prepaid royalties and guarantees that considers multiple factors, including forecasted demand, anticipated share for specific content providers, development and launch plans, and current and anticipated sales levels. We expense the costs for development of our content prior to technological feasibility as we incur them throughout the development process, and we include these costs in product development expenses.

Gross Margin

Our gross margin going forward will be determined principally by the mix of content that we deliver, the costs of distribution, and revenue share mix with carriers as we grow other parts of the business. Our content based on licensed intellectual property requires us to pay royalties to the licensor and the royalty rates in our licenses vary significantly. Our own in-house developed content, which is based on our own intellectual property, require no royalty payments to licensors. For our content business, branded content requires royalty payment to the licensors, generally on a revenue share basis, while for acquired content we amortize the cost against revenues, and this will generally result in a lower cost associated with it. There are multiple internal and external factors that affect the mix of revenues among games, applications, and late night content, and among licensed, developed and acquired content within those categories, including the overall number of licensed games and applications and developed games and applications available for sale during a particular period, the extent of our and our carriers' marketing efforts for each type of content, and the deck placement of content on our carriers' mobile handsets. We believe the success of any individual game or application during a particular period is affected by the recognizability of the title, its quality, its marketing and media exposure, its overall acceptance by end users and the availability of competitive games and applications. For other content, we believe that success is driven by the carrier's deck placement, the rating of the content, by quality and by brand recognition. If our product mix shifts more to licensed games or content with higher royalty rates, our gross margin would decline. For other content, as we increase scale, we believe that we will have the opportunity to move the mix towards higher margin acquired product. Our gross margin is also affected by direct costs such as platform and 3rd party delivery charges, and by periodic charges for impairment of intangible assets and of prepaid royalties and guarantees. These charges can cause gross margin variations, particularly from quarter to quarter.

Operating Expenses.

Our operating expenses going forward will primarily include product development expenses, sales and marketing expenses and general and administrative expenses. Our product development expenses consist primarily of salaries and benefits for employees working on creating, developing, editing, programming, porting, quality assurance, carrier certification and deployment of our content, on technologies related to interoperating with our various mobile phone carriers and on our internal platforms, payments to third parties for developing our content, and allocated facilities costs. We devote substantial resources to the development, supporting technologies, porting and quality assurance of our content. For acquired content, typically we will receive content from our licensors which must be edited for use on mobile phones, combined with other appropriate content, and packaged for end-users. The process is made more complex by the need to deliver content on multiple carriers' platforms and across a large number of different handsets.

Sales and Marketing. Sales and marketing expenses, historically, and our sales and marketing expenses going forward, will consist primarily of salaries, benefits and incentive compensation for sales, business development, project management and marketing personnel, expenses for advertising, trade shows, public relations and other promotional and marketing activities, expenses for general business development activities, travel and entertainment expenses and allocated facilities costs. We expect sales and marketing expenses to increase in absolute terms with the growth of our business and as we further promote our content and expand our business.

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General and Administrative. Our general and administrative expenses, historically, and going forward, will consist primarily of salaries and benefits for general and administrative personnel, consulting fees, legal, accounting and other professional fees, information technology costs and allocated facilities costs. We expect that general and administrative expenses will increase in absolute terms as we hire additional personnel and incur costs related to the anticipated growth of our business, capital raises and our operation as a public company. We also expect that these expenses will increase because of the additional costs to comply with the Sarbanes-Oxley Act and related regulation, our efforts to expand our operations and, in the near term, additional accounting costs related to our operation as a public company.

Amortization of Intangible Assets. We will record amortization of acquired intangible assets that are directly related to revenue-generating activities as part of our cost of revenues and amortization of the remaining acquired intangible assets, such as customer lists and platform, as part of our operating expenses. We will record intangible assets on our balance sheet based upon their fair value at the time they are acquired. We will determine the fair value of the intangible assets using a contribution approach. We will amortize the amortizable intangible assets using the straight-line method over their estimated useful lives of three to ten years.

Estimates and Assumptions

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

We provide for deferred income taxes using the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and the tax effect of net operating loss carry-forwards. A valuation allowance has been provided as it is more likely than not that the deferred assets will not be realized.

Recent Accounting Pronouncements

Adopted Accounting Pronouncements

In June 2011, the FASB issued new guidance on the presentation of comprehensive income that will require a company to present components of net income and other comprehensive income in one continuous statement or in two separate, but consecutive statements. There are no changes to the components that are recognized in net income or other comprehensive income under current GAAP. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011, with early adoption permitted. It is applicable to the Company's fiscal year beginning April 1, 2012. The Company expects this guidance to have an impact on the disclosures related to comprehensive income.

Recently Issued Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board ("FASB") issued amendments to the goodwill and indefinite-lived intangible assets impairment guidance which provides an option for companies to not calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on qualitative assessment, that it is not more likely than not, the indefinite-lived intangible asset is impaired. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 (early adoption is permitted). The implementation of this amended accounting guidance is not expected to have a material impact on the Company's consolidated financial position and results of operations.

Other recent authoritative guidance issued by the FASB (including technical corrections to the FASB Accounting Standards Codification), the American Institute of Certified Public Accountants, and the Securities and Exchange Commission ("SEC") did not, or are not expected to have a material effect on the Company's consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable as we are a smaller reporting company.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information that we are required to file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to our management, including our principal executive and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Our principal executive officer and principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q, have concluded that, based on such evaluation, our disclosure controls and procedures were ineffective as of December 31, 2012 because of the material weaknesses described below.

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Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal controls over financial reporting are designed 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.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a more than remote likelihood that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

During management's review of our internal control over financial reporting, we determined the following processes contain material weaknesses as of December 31, 2012:

Financial Close and Reporting Process

The lack of secondary review of key accounting and financial reporting functions results in a risk in that material accounting errors may not be detected timely. The financial reporting process is the responsibility of one individual without sufficient technical review of significant accounting transactions.

Management does not believe that any of our annual or interim financial statements issued to-date contain a material misstatement as a result of the aforementioned weaknesses in our internal controls. However, these material weaknesses related to the entity as a whole affect all of our significant accounts and could result in a material misstatement to our annual or interim consolidated financial statements that would not be prevented or detected.

Our management has identified and is taking the steps necessary to address the material weaknesses existing as of December 31, 2012 described above, as follows:

1. Hiring additional accounting personnel with adequate experience, skills and knowledge to assist in the closing of our financial statements and further segregate duties of financial personnel;
2. Documenting, to standards established by senior accounting personnel and the principal financial officer, the review and analysis and related conclusions with respect to complex, non-routine transactions;
3. Creating policy and guidelines to streamline the corporate reporting process as well as managing non-routine transactions

The first of these remediation efforts is expected be implemented during the fiscal year ending March 31, 2013, with completion of the all steps by end of our second quarter of fiscal 2014, September 30, 2013.

Maintenance of Corporate Records and Contracts

Management did not maintain sufficient records of signed and approved records, contracts and board minutes. Board minutes were not always prepared and approved on a timely basis and signed and executed versions were not readily available.

This quarterly report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this annual report.

Changes in Internal Controls over Financial Reporting

There were no changes in our internal controls over financial reporting or in other factors identified in connection with the evaluation required by Exchange Act Rules 13a-15(d) or 15d-15(d) that occurred during the fiscal period ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

In our Quarterly Report of the period ended September 30, 2012, we disclosed that Mandalay Digital's wholly owned subsidiary, Twistbox Entertainment, Inc. ("Twistbox") and Sirocco Mobile Ltd ("Sirocco") were parties to a wireless game development agreement dated February 27, 2009, whereby Sirocco were engaged to complete certain services and deliver products to Twistbox for mobile distribution, and on or about September 6, 2012, Sirocco filed a complaint in California Superior Court, County of Los Angeles seeking relief for breach of written contract, and that on or about November 6, 2012, Sirocco proposed a reduction of its claim, which expired on November 12, 2012. As of the date of this Quarterly Report, the principals of both parties continue to communicate to find a mutually acceptable resolution.

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In our Quarterly Report for the period ended September 30, 2012, we disclosed that Twistbox's wholly owned subsidiary, Waat Media Corp ("Waat") and GS Wise Limited ("GS Wise") are parties to an advertising and content licensing agreement dated July 1, 2011, whereby Waat purchased advertising impressions and licensed content for mobile distribution, and on or about September 10, 2012, GS Wise Limited and Bridco Trading Limited ("Bridco") filed a complaint in California Superior Court, County of Los Angeles seeking relief for breach of written contract. As of January 23, 2013, the parties agreed to a settlement in the amount of 240,569 shares of the Company's common stock.

Except as set forth above, there have been no material changes in our legal proceedings from those disclosed in our Annual Report on Form 10-K for the year ended March 31, 2012 and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2012. From time to time, we are subject to various claims, complaints and legal actions in the normal course of business. As of the date of filing this Quarterly Report on Form 10-Q, we are not a party to any litigation that we believe would have a material adverse effect on us.

Item 1A. Risk Factors.

Other than with respect to the risk factors set forth below, there have not been any material changes from the risk factors previously disclosed in the "Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended March 31, 2012.

The Company is expanding and developing internationally, and our increasing foreign operations and exposure to fluctuations in foreign currency exchange rates may increase.

With the acquisition of Logia, we have expanded, and we expect that we will continue to expand, our international operations. International operations inherently subject us to a number of risks and uncertainties, including:

- changes in international regulatory and compliance requirements that could restrict our ability to develop, market and sell our products;
- social, political or economic instability or recessions;
- diminished protection of intellectual property in some countries outside of the United States;
- difficulty in hiring, staffing and managing qualified and proficient local employees and advisors to run international operations;
- the difficulty of managing and operating an international enterprise, including difficulties in maintaining effective communications with employees and customers due to distance, language and cultural barriers;
- differing labor regulations and business practices;
- higher operating costs due to local laws or regulations;
- fluctuations in foreign economies and currency exchange rates;
- difficulty in enforcing agreements; and
- potentially negative consequences from changes in or interpretations of tax laws, post-acquisition.

Any of these factors may, individually or as a group, have a material adverse effect on our business and results of operations.

As we pursue and complete strategic acquisitions, divestitures or joint ventures, including our acquisition of Logia, we may not be able to successfully integrate acquired businesses.

We recently completed the acquisition of Logia, and we continue to evaluate potential acquisitions, divestitures, or joint ventures with third parties. These transactions create risks such as:

- disruption of our ongoing business, including loss of management focus on existing businesses;
- problems retaining key personnel of the companies involved in the transactions;
- operating losses and expenses of the businesses we acquire or in which we invest;
- the potential impairment of tangible assets, intangible assets and goodwill acquired in the acquisitions;
- the difficulty of incorporating an acquired business into our business and unanticipated expenses related to such integration;
- potential operational deficiencies in the acquired business and personnel inexperienced in preparing and delivering disclosure information required for a U.S. public company; and
- potential unknown liabilities associated with a business we acquire or in which we invest.

In the event of any future acquisitions, we might need to issue additional equity securities, spend our cash, incur debt, or take on contingent liabilities, any of which could reduce our profitability and harm our business.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

In December 2012, the Company sold 1,428,571 shares of common stock of the Company to an investor for \$0.70 cents per share. In connection with this sale of common stock, the Company issued warrants to purchase 357,142 shares of common stock of the Company at an exercise price of \$0.70 per share with a term of 5 years. We relied on Section 4(2) of the Securities Act, as providing an exemption from registering the sale of these shares of common stock under the Securities Act.

Item 3. Defaults

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

None

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Item 6. Exhibits.

Exhibit No.	Description
10.1	Form of Equity Financing Binding Term Sheet, Dated as of December 13, 2012*
31.1	Certification of Peter Adderton, Principal Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
31.2	Certification of Lisa Higgins Lucero, Principal Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
32.1	Certification of Peter Adderton, Principal Executive Officer, pursuant to 18 U.S.C. Section 1350. *
32.2	Certification of Lisa Higgins Lucero, Principal Financial Officer, pursuant to 18 U.S.C. Section 1350. *
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Mandalay Digital Group, Inc.

Dated: February 14, 2013

By: /s/ Peter Adderton
Peter Adderton
Chief Executive Officer

**Equity Financing
Binding Term Sheet
December 13, 2012**

This binding term sheet (this "Term Sheet"), dated as of the date first written above, is between Mandalay Digital Group, Inc., a Delaware corporation ("Issuer"), and William C. Powers, Trustee of the William C. Powers Trust dtd 12/18/09 ("Investor"). The parties hereby agree as follows:

Security: 1,428,571 shares of common stock, par value \$0.0001 per share ("Common Stock"), of Issuer (the "Shares").

Purchase Price: \$1,000,000 (\$0.70 per share).

Warrant Coverage: Investor shall receive 25% wan-ant coverage (i.e., a warrant exercisable for 357,142 shares of Common Stock) (the "Warrant"). The Warrant shall be at the option of Investor cash or cashless, have a five (5) year term from the date of issuance and an exercise price equal to \$0.70 per share (which shall be adjusted from time to time for customary dilution and anti-dilution events). The Warrant may be exercised only following the first anniversary of the date of issuance.

Closing: As soon as possible after the date of this Term Sheet but in no event later than December 31, 2012; provided that the transactions contemplated herein have been duly authorized by Issuer and Issuer has received all requisite third party consents with respect to the issuance of the Shares.

Registration Rights: Issuer shall use best efforts to file a Registration Statement on Form S-3 or, if Issuer is not eligible for Form S-3, on Form S-1 (the "Registration Statement") covering the Shares and the shares of Common Stock underlying the Warrant within one hundred twenty (120) calendar days after the date of this Term Sheet and shall use its best efforts to cause the Registration Statement to become effective as soon as possible thereafter.

Rights of Participation: Subject to standard carveouts, Investor shall have a right of participation for future financings undertaken by Issuer for a period of two (2) years following the date of issuance of the Shares on a pro rate basis in accordance with Investor's ownership interests in Issuer, on a fully diluted basis assuming exercise of the Warrant.

Transferability: Until the Shares and the shares issuable to Investor upon exercise of the Warrant have been registered pursuant to the Registration Statement, investor may assign its right and interests to the Shares and shares issued to Investor upon exercise of the Warrant, if any, subject to the consent of Issuer, which consent shall not be unreasonably withheld.

This Term Sheet shall be binding on the parties hereto and their respective successors and assigns. Although the parties anticipate entering into long-form documents with respect to the terms of this Term Sheet and containing such other provisions as are customary for transactions of the type contemplated, until they are able to do so, and in any case in the event they are unable to do so, the terms of this Term Sheet shall be binding and shall govern the parties' respective rights and obligations. This Term Sheet will be governed by and construed in accordance with the laws of the State of California. Any disputes arising out of or relating to this Term Sheet shall be heard exclusively in state or federal courts located in California, each party waiving any and all objections to such venue. This Term Sheet sets forth the entire understanding of the parties with respect to the subject matter hereof. This Term Sheet shall not be amended, or any provision hereof waived, except in a writing signed by each party hereto. This Term Sheet may be executed in any number of original, facsimile or other electronic counterparts.

[Remainder of Page Intentionally Blank]

IN WITNESS WHEREOF, the parties hereto have executed this Term Sheet as of the date first above written.

Issuer:

Investor:

MANDALAY DIGITAL GROUP, INC.

WILLIAM C. POWER, TRUST DTD 12/18/09

By: _____

By: _____

Name: Peter Adderton

Name: William C. Powers

Title: CEO

Title: Trustee

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Peter Adderton, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Mandalay Digital Group, Inc.;
2. Based on my knowledge, this quarterly 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 officers 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 13a-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 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: February 14, 2013

By: /s/ Peter Adderton
Peter Adderton
Chief Executive Officer
Principal Executive Officer

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Lisa Higgins-Lucero, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Mandalay Digital Group, Inc.;
2. Based on my knowledge, this quarterly 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 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 13a-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 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: February 14, 2013

By: /s/ Lisa Higgins-Lucero
Lisa Higgins-Lucero
CFO Twistbox Entertainment, Inc.
Principal Financial Officer

Certification of Principal Executive Officer
Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Mandalay Digital Group, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the period ending December 31, 2012 of the Company (the "Form 10-Q") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 14, 2013

By: /s/ Peter Adderton

Peter Adderton
Chief Executive Officer
Principal Executive Officer

Certification of Principal Financial Officer
Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Mandalay Digital Group, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the period ending December 31, 2012 of the Company (the "Form 10-Q") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 14, 2013

By: /s/ Lisa Higgins-Lucero
Lisa Higgins-Lucero
CFO, Twistbox Entertainment, Inc.
Principal Financial Officer