

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

---

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 00-10039

**NEUMEDIA, 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.)

**2000 Avenue of the Stars, Suite 410, Los Angeles, CA**

(Address of Principal Executive Offices)

**90067**

(Zip Code)

**(310) 601-2500**

(Registrant's Telephone Number, including area code)

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

Indicate by check mark whether the registrant 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 definition of "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 a 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

On August 23, 2010, there were 35,674,225 shares of the Registrant's common stock, par value \$0.0001 per share, issued and outstanding.

---

**NEUMEDIA, INC.**  
**Table of Contents**

	<u>Page</u>	
<b><u>PART I - FINANCIAL INFORMATION</u></b>		
Item 1.	Financial Statements	
	Consolidated Balance Sheets as of June 30, 2010 (Unaudited) and March 31, 2010	1
	Consolidated Statements of Operations (Unaudited) For the Three Month Periods Ended June 30, 2010 and 2009	2
	Consolidated Statements of Cash Flows (Unaudited) For the Three Month Periods Ended June 30, 2010 and 2009	4
	Notes to the Unaudited Consolidated Financial Statements	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	29
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	38
Item 4	Controls and Procedures	39
<b><u>PART II - OTHER INFORMATION</u></b>		
Item 1.	Legal Proceedings	39
Item 1A.	Risk Factors	39
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	40
Item 3.	Defaults Upon Senior Securities	40
Item 4.	(Removed and Reserved)	40
Item 5.	Other Information	40
Item 6.	Exhibits	40
Signatures		43

---

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**NeuMedia, Inc.**

**(formerly known as Mandalay Media, Inc.)**

**and Subsidiaries**

**Unaudited Consolidated Financial Statements**

**June 30, 2010**

---

Consolidated Balance Sheets as of June 30, 2010 (unaudited) and March 31, 2010	1
Consolidated Statements of Operations (unaudited) for month periods ended June 30, 2010 and June 30, 2009	2
Consolidated Statements of Stockholders' Equity and Comprehensive Loss (unaudited) for the period ended June 30, 2010	3
Consolidated Statements of Cash Flows (unaudited) for month periods ended June 30, 2010 and June 30, 2009	4
Notes to Unaudited Consolidated Financial Statements	5-28

---

(In thousands, except share amounts)

	June 30, 2010 unaudited	March 31, 2010
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 2,933	\$ 640
Accounts receivable, net of allowances of \$244 and \$403, respectively	3,770	4,711
Prepaid expenses and other current assets	447	477
Net current assets of discontinued operations	-	7,377
Total current assets	7,150	13,205
Property and equipment, net	547	603
Intangible assets, net	8,104	8,195
Goodwill	8,155	8,155
Net non-current assets of discontinued operations	-	16,623
<b>TOTAL ASSETS</b>	<b>\$ 23,956</b>	<b>\$ 46,781</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 3,966	\$ 4,011
Accrued license fees	2,059	1,814
Accrued compensation	381	537
Current portion of long term debt	-	26,082
Other current liabilities	1,696	1,638
Net current liabilities of discontinued operations	-	4,625
Total current liabilities	8,102	38,707
Long term debt and convertible debt	3,557	-
Total liabilities	\$ 11,659	\$ 38,707
Commitments and contingencies (Note 15)		
Stockholders' equity		
Preferred stock		
Series A convertible preferred stock at \$0.0001 par value; 100,000 shares authorized, issued and outstanding (liquidation preference of \$1,000,000)	100	100
Common stock, \$0.0001 par value: 100,000,000 shares authorized; 35,674,225 issued and outstanding at June 30, 2010; 39,776,597 issued and outstanding at March 31, 2010;	4	4
Additional paid-in capital	97,169	95,741
Accumulated other comprehensive loss	(238)	(419)
Accumulated deficit	(84,738)	(87,352)
Total stockholders' equity	12,297	8,074
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 23,956</b>	<b>\$ 46,781</b>

The accompanying notes are an integral part of these consolidated financial statements

**NeuMedia, Inc. and Subsidiaries**  
**Consolidated Statement of Operations (Unaudited)**

2

(In thousands, except per share amounts)

	<b>3 Months Ended June 30, 2010</b>	<b>3 Months Ended June 30, 2009</b>
Net revenues	\$ 2,858	\$ 3,777
Cost of revenues		
License fees	586	945
Other direct cost of revenues	76	76
Total cost of revenues	662	1,021
Gross profit	2,196	2,756
Operating expenses		
Product development	1,074	1,104
Sales and marketing	596	831
General and administrative	1,828	1,873
Amortization of intangible assets	17	137
Total operating expenses	3,515	3,945
Loss from operations	(1,319)	(1,189)
Interest and other income / (expense)		
Interest income	1	3
Interest expense	(680)	(661)
Foreign exchange transaction gain / (loss)	(157)	124
Other income / (expense)	(187)	(5)
Interest and other expense	(1,023)	(539)
Loss from operations before income taxes	(2,342)	(1,728)
Income tax provision	(68)	(35)
Net loss from continuing operations net of taxes	(2,410)	(1,763)
Discontinued operations, net of taxes:		
Income from discontinued operations net of taxes	709	802
Gain on disposal of discontinued operations, net of taxes	4,315	-
Net income from discontinued operations, net of taxes	5,024	802
Net profit / (loss)	\$ 2,614	\$ (961)
Comprehensive income / (loss)	\$ 2,795	\$ (758)
Basic and diluted net income / (loss) per common share	\$ 0.07	\$ (0.02)
Continuing operations	\$ (0.06)	\$ (0.04)
Discontinued operations	\$ 0.13	\$ 0.02
Diluted net income / (loss) per common share	\$ 0.06	\$ (0.02)
Continuing operations	\$ (0.06)	\$ (0.04)
Discontinued operations	\$ 0.12	\$ 0.02

Weighted average common shares outstanding, basic	<u>39,375</u>	<u>39,808</u>
basic and diluted		
Weighted average common shares outstanding, diluted	<u>40,424</u>	<u>39,908</u>

The accompanying notes are an integral part of these consolidated financial statements

---

**NeuMedia, Inc. and Subsidiaries**  
**Consolidated Statements of Stockholders' Equity and Comprehensive Loss (Unaudited)**

	Common Stock		Preferred Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income/(Loss)	Accumulated Deficit	Total	Comprehensive Loss
	Shares	Amount	Shares	Amount					
Balance at March 31, 2010	39,776,597	\$ 4	100,000	\$ 100	\$ 95,741	\$ (419)	\$ (87,352)	\$ 8,074	
Net income							2,614	2,614	2,614
Foreign currency translation gain/(loss)						181		181	181
Stock-based compensation					192			192	
Stock voided as part of disposal of subsidiary	(561,798)				(197)			(197)	
Stock acquired by company as part of disposal of subsidiary	(3,540,574)				(1,239)			(1,239)	
Issuance of convertible debt and associated warrants					2,500			2,500	
Repricing of warrants					172			172	
Comprehensive income									\$ 2,795
Balance at June 30, 2010	<u>35,674,225</u>	<u>\$ 4</u>	<u>100,000</u>	<u>\$ 100</u>	<u>\$ 97,169</u>	<u>\$ (238)</u>	<u>\$ (84,738)</u>	<u>\$ 12,297</u>	

The accompanying notes are an integral part of these consolidated financial statements

(In thousands)

	<b>3 Months Ended June 30, 2010</b>	<b>3 Months Ended June 30, 2009</b>
<b>Cash flows from operating activities</b>		
Net income / (loss)	\$ 2,614	\$ (961)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on disposal of discontinued operations, net of taxes, net of		
Impact of foreign currency translation	(4,315)	-
Depreciation and amortization	347	425
Allowance for doubtful accounts	(159)	-
Stock-based compensation	192	483
Warrants issued as compensation for services	172	
(Increase) / decrease in assets, net of effect of disposal of subsidiary:		
Accounts receivable	2,056	4
Prepaid expenses and other current assets	(40)	164
Increase / (decrease) in liabilities, net of effect of disposal of subsidiary:		
Accounts payable	(3,022)	(1,058)
Accrued license fees	245	106
Accrued compensation	(156)	124
Other liabilities and other items	1,715	(1,144)
Net cash used in operating activities	<u>(351)</u>	<u>(1,857)</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(57)	(129)
Transaction costs	(548)	-
Cash remaining with disposed subsidiary	(641)	-
Net cash used in investing activities	<u>(1,246)</u>	<u>(129)</u>
<b>Cash flows from financing activities</b>		
Proceeds from new Senior Note	2,500	-
Net cash provided by financing activities	<u>2,500</u>	<u>-</u>
Effect of exchange rate changes on cash and cash equivalents	<u>139</u>	<u>304</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>1,042</b>	<b>(1,681)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b><u>1,891</u></b>	<b><u>5,927</u></b>
<b>Cash and cash equivalents, end of period</b>	<b><u>\$ 2,933</u></b>	<b><u>\$ 4,246</u></b>
<b>Supplemental disclosure of cash flow information:</b>		
Taxes paid	<u>68</u>	<u>39</u>

The accompanying notes are an integral part of these consolidated financial statements

**1. Organization**

NeuMedia, Inc. (“we”, “us”, “our”, the “Company” or “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 November 7, 2007, Mediavest merged into its wholly-owned, newly formed subsidiary, Mandalay Media, with Mandalay Media as the surviving corporation. Mandalay Media issued: (1) one new share of common stock in exchange for each share of Mediavest’s outstanding common stock and (2) one new share of preferred stock in exchange for each share of Mediavest’s outstanding preferred stock as of November 7, 2007. Mandalay Media’s preferred and common stock had the same status and par value as the respective stock of Mediavest and Mandalay Media acceded to all the rights, acquired all the assets and assumed all of the liabilities of Mediavest.

On February 12, 2008, Mandalay Media completed a merger (the “Merger”) with Twistbox Entertainment, Inc. (“Twistbox”) through an exchange of all outstanding capital stock of Twistbox for 10,180 shares of common stock of the Company. In connection with the Merger, the Company assumed of all the outstanding options under Twistbox’s Stock Incentive Plan by the issuance of options to purchase 2,464 shares of common stock of the Company, including 2,145 vested and 319 unvested options.

After the Merger, Twistbox became a wholly-owned subsidiary of the Company, and the Company’s only active subsidiary. Twistbox Entertainment, Inc. (formerly known as The WAAT Corporation) was incorporated in the State of Delaware.

Twistbox is a global publisher and distributor of branded and non-branded entertainment content, including images, video, and games for all mobile platforms and third generation (3G) and pre-fourth generation 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 and content from leading film, television and lifestyle content publishing companies. Twistbox has built a proprietary mobile publishing platform that includes: tools that automate handset portability for the distribution of images and video; a mobile games development suite 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 agreements with many of the largest mobile operators in the world.

Twistbox is headquartered in the Los Angeles area and has offices in Europe and South America that provide local sales and marketing 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”).

In consideration for the shares of AMV and Fierce, and subject to adjustment as set forth in the Stock Purchase Agreement (“Stock Purchase Agreement”), the aggregate purchase price (the “Purchase Price”) consisted of: (a) \$5,375 in cash (the “Cash Consideration”); (b) 4,500 fully paid shares of common stock (the “Stock Consideration”); (c) a secured promissory note in the aggregate original principal amount of \$5,375 (the “AMV Note”); and (d) additional earn-out amounts, if any, if the acquired companies achieved certain targeted earnings for each of the periods from October 1, 2008 to March 31, 2009, April 1, 2009 to March 31, 2010, and April 1, 2010 to September 30, 2010, as determined in accordance with the Stock Purchase Agreement. The Purchase Price was subject to certain adjustments based on the working capital of AMV, to be determined initially within 75 days of the closing, and subsequently within 60 days following June 30, 2009. Any such adjustment of the Purchase Price would be made first by means of an adjustment to the principal sum due under the AMV Note, as set forth in the Stock Purchase Agreement. An initial adjustment of \$443 was made subsequent to closing, and was added to the AMV Note. The initial period earn-out was recognized in the year ended March 31, 2009 and was added to the amount of consideration for the acquisition, as described in Note 7.

AMV is a leading mobile media and marketing company delivering games and lifestyle content directly to consumers in the United Kingdom, Australia, South Africa and various other European countries. AMV markets its well established branded services through a unique Customer Relationship Management platform that drives revenue through mobile internet, print and TV advertising. AMV is headquartered in Marlow, outside of London in the United Kingdom.

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

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 outstanding common stock of Mandalay Media and (2) one new share of preferred stock in exchange for each share outstanding preferred stock of Mandalay Media as of May 11, 2010. Preferred and common stock of NeuMedia 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 (“NewCo”), acquired the operating subsidiaries of AMV (the “Assets”) in exchange for the release of \$23,231 of secured indebtedness (the “Sale”), comprising of a release of all amounts due and payable under the AMV Note and all of the amounts due and payable under the ValueAct Note except for \$3,500 in principal. The Company retained all assets and liabilities of Twistbox and the Company other than the Assets.

---

## 2. Summary of Significant Accounting Policies

### Basis of Presentation

The accompanying consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission. In the opinion of management, the accompanying consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, which the Company believes are necessary for a fair statement of the Company's financial position as of June 30, 2010 and its results of operations for the three months ended June 30, 2010 and 2009, respectively. These consolidated financial statements are not necessarily indicative of the results to be expected for the entire year. The consolidated balance sheet presented as of June 30, 2010 has been derived from the unaudited consolidated financial statements as of that date, and the consolidated balance sheet presented as of March 31, 2010 has been derived from the audited consolidated financial statements as of that date.

### 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. Discontinued operations have been treated in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 205-20, *Discontinued Operations*.

### 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) 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 either markets and distributes its products directly to consumers, or distributes products through mobile telecommunications service providers ("carriers"), in which case the carrier markets the product, images or games to end users. 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 subscriber licenses, many subscriber agreements provide for automatic renewal until the subscriber opts-out, while others provide 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.

---

## Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

---

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 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 new handsets, growth of 3G subscribers by carrier, 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; and
  - the Company has limited risks, including no inventory risk and limited credit risk.
-

## Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

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 (Income/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 were as follows:

	<b>3 Months Ended June 30 2010</b>	<b>3 Months Ended June 30 2009</b>
Potentially dilutive shares	9,700	100

These shares were not included in the computation of diluted loss per share as they were anti-dilutive in each period.

**Comprehensive Income/Loss**

Comprehensive income consists of two components, net income and other comprehensive income/loss. Other comprehensive income/loss 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/loss. The Company's other comprehensive income/loss currently includes only foreign currency translation adjustments.

**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.

**Content Provider Licenses*****Content Provider License Fees and Minimum Guarantees***

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 longer term content acquisitions, paid in advance and capitalized on our balance sheet as prepaid royalties. 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 prepaid royalties. Advanced 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.

The Company's contracts with some licensors include minimum guaranteed royalty payments, which are payable regardless of the ultimate volume of sales to end users. Each quarter, the Company evaluates the realization of its royalties as well as any unrecognized guarantees not yet paid to determine amounts that it deems unlikely to be realized through product sales. The Company uses estimates of revenues, and share of the relevant licensor to evaluate the future realization of future royalties and guarantees. This evaluation considers multiple factors, including the term of the agreement, forecasted demand, product life cycle status, product development plans, and current and anticipated sales levels, as well as other qualitative factors. To the extent that this evaluation indicates that the remaining future guaranteed royalty payments are not recoverable, the Company records an impairment charge to cost of revenues and a liability in the period that impairment is indicated.

**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 material 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 production costs of advertising, including direct response advertising, the first time the advertising takes place. Advertising expense for continuing operations was \$12 and \$39 in the periods ended June 30, 2010 and 2009, respectively. Advertising expense for discontinued operations was \$956 and \$2,300 in the periods ended June 30, 2010 and 2009, respectively.

**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.

**Fair Value of Financial Instruments**

As of June 30, 2010 and March 31, 2010, the carrying value of cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued license fees, accrued compensation and other current liabilities approximates fair value due to the short-term nature of such instruments. The carrying value of current portion of long-term debt approximates fair value as the related interest rates approximate rates currently available to the Company.

**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 \$181 in the period ended June 30, 2010 and the foreign currency translation adjustment gain of \$74 in the period ended June 30, 2009 have been reported as a component of comprehensive income/loss in the consolidated statements of stockholders' equity and comprehensive income/loss. Translation gains or losses are shown as a separate component of stockholders' equity.

**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 June 30, 2010, one major customer represented approximately 36% of our gross accounts receivable outstanding. This customer accounted for 36% of our gross accounts receivable outstanding as of March 31, 2010. The customer accounted for 52% of our gross revenues in the period ended June 30, 2010; and 41% based on support provided in the period ended June 30, 2009.

**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 8 to 10 years 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 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.

**Impairment of Long-Lived Assets and Finite Life Intangibles**

Long-lived assets, including intangible assets subject to amortization, primarily consist of customer lists, license agreements and software that have been acquired, and are amortized using the straight-line method over their useful lives ranging from three to ten 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.

**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.

---

## Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

---

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.

**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.

**Recent Accounting Pronouncements**

With the exception of those discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the period ended June 30, 2010, as compared to the recent accounting pronouncements described in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2010, that are of significance, or potential significance to the Company.

---

*New Accounting Pronouncements*

In September 2009, the FASB issued Update No. 2009-13, (Multiple-Deliverable Revenue Arrangements—a consensus of the FASB Emerging Issues Task Force (ASU 2009-13). It updates the existing multiple-element revenue arrangements guidance currently included under ASC 605-25, which originated primarily from the guidance in EITF Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables” (EITF 00-21). The revised guidance primarily provides two significant changes: (1) eliminates the need for objective and reliable evidence of the fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting, and (2) eliminates the residual method to allocate the arrangement consideration. In addition, the guidance also expands the disclosure requirements for revenue recognition. ASU 2009-13 will be effective for the first annual reporting period beginning on or after June 15, 2010, with early adoption permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. The adoption of this standard update is not expected to impact the Company’s consolidated financial statements.

In February 2010, the FASB issued Accounting Standards Update (“ASU”) No.2010-09, (“Amendments to Certain Recognition and Disclosure Requirements”) (“ASU 2010-09”), which is included in the FASB Accounting Standards Codification (the “ASC”) Topic 855 (Subsequent Events). ASU 2010-09 clarifies that an SEC filer is required to evaluate subsequent events through the date that the financial statements are issued. ASU 2010-09 is effective upon the issuance of the final update and had no impact on our financial position, results of operations or cash flows.

Effective January 2010, an amendment to the Consolidation Topic of the Codification (“ASU 810”) replaced the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity (“VIE”) with a primarily qualitative analysis. The qualitative analysis is based on identifying the party that has both the power to direct the activities that most significantly impact the VIE’s economic performance (the “power criterion”) and the obligation to absorb losses from or the right to receive benefits of the VIE that could potentially be significant to the VIE (the “losses/benefit criterion”). The party that meets both these criteria is deemed to have a controlling financial interest. The party with the controlling financial interest is considered to be the primary beneficiary and as a result is required to consolidate the VIE. The amendment to ASU 810 had no impact on our financial position, results of operations or cash flows.

In January 2010, the FASB issued ASU 2010-06, (“Improving Disclosures about Fair Value Measurements”) which provides amendments to the FASB ASC Subtopic 820-10 that require new disclosures regarding (i) transfers in and out of Level 1 and Level 2 fair value measurements and (ii) activity in Level 3 fair value measurements. ASU 2010-06 also clarifies existing disclosures regarding (i) the level of asset and liability disaggregation and (ii) fair value measurement inputs and valuation techniques. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. We are currently evaluating the disclosure impact of adoption on our condensed consolidated financial statements.

---

## Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

**3. Fair Value Measurements**

As of June 30, 2010 and March 31, 2010, the carrying value of cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, and accrued expenses approximates fair value due to the short-term nature of such instruments.

On April 1, 2009, the Company adopted FASB ASC 820-10, *Fair Value Measurements and Disclosures - Measuring Liabilities at Fair Value* ("ASC 820-10"). ASC 820-10, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. ASC 820-10 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information.

ASC 820-10 establishes a three-level valuation hierarchy of valuation techniques that is based on observable and unobservable inputs. Classification within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement. The first two inputs are considered observable and the last unobservable, that may be used to measure fair value and include the following:

Level 1 - - Quoted prices in active markets for identical assets or liabilities.

Level 2 - - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

**4. Accounts Receivable**

	<u>June 30,</u> <u>2010</u>	<u>March 31,</u> <u>2010</u>
Accounts receivable	\$ 4,016	\$ 5,114
Less: allowance for doubtful accounts	<u>(244)</u>	<u>(403)</u>
Net Accounts receivable of continuing operations	<u>\$ 3,770</u>	<u>\$ 4,711</u>
Net Accounts receivable of discontinued operations	<u>\$ -</u>	<u>\$ 5,694</u>

Accounts receivable includes amounts billed and unbilled as of the respective balance sheet dates. The Company had no significant write-offs or recoveries during the quarter ended June 30, 2010 and the fiscal year ended March 31, 2010.

## Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

## 5. Property and Equipment

	<u>June 30,</u> <u>2010</u>	<u>March 31,</u> <u>2010</u>
Equipment	\$ 976	\$ 829
Furniture & fixtures	266	\$ 278
Leasehold improvements	140	\$ 140
	1,382	\$ 1,247
Accumulated depreciation	(835)	\$ (644)
Net Property and Equipment of continuing operations	<u>\$ 547</u>	<u>\$ 603</u>
Net Property and Equipment of discontinued operations	<u>\$ -</u>	<u>\$ 668</u>

Depreciation expense for the periods ended June 30, 2010 and 2009 was \$81 and \$89, respectively, for continuing operations and \$27 and \$27 for discontinued operations.

## 6. Description of Stock Plans

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 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 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.

*Option Plans*

The following table summarizes options granted for the periods or as of the dates indicated:

	<u>Number of</u> <u>Shares</u>	<u>Weighted Average</u> <u>Exercise Price</u>
Outstanding at March 31, 2010	6,187	\$ 2.49
Granted	-	\$ -
Canceled	-	\$ -
Exercised	-	\$ -
Outstanding at June 30, 2010	<u>6,187</u>	<u>\$ 2.49</u>
Exercisable at June 30, 2010	<u>6,048</u>	<u>\$ 2.50</u>

Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	Options Granted Year Ended March 31, 2010	Options Granted	Options Transferred from Twistbox
Expected life (years)	6	4 to 6	3 to 7
Risk-free interest rate	3.90% to 3.92%	2.7% to 3.89%	2.03% to 5.03%
Expected volatility	49.73% to 54.33%	70% to 75.2%	70% to 75%
Expected dividend yield	0%	0%	0%

The exercise price for options outstanding at June 30, 2010 were as follows:

Range of Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number Outstanding June 30, 2010	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$0 - \$1.00	6.08	2,071	\$ 0.63	\$ -
\$2.00 - \$3.00	7.83	2,617	\$ 2.67	\$ -
\$4.00 - \$5.00	7.63	1,500	\$ 4.75	\$ -
	7.20	6,188	\$ 2.49	\$ -

The exercise price for options exercisable at June 30, 2010 were as follows:

Range of Exercise Price	Weighted Average Remaining Contractual Life (Years)	Options Exercisable June 30, 2010	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$0 - \$1.00	6.07	2,047	\$ 0.63	\$ -
\$2.00 - \$3.00	7.81	2,501	\$ 2.68	\$ -
\$4.00 - \$5.00	7.63	1,500	\$ 4.75	\$ -
	7.18	6,048	\$ 2.50	\$ -

*Option Plans and Stock Plans*

Total stock compensation expense is included in the following statements of operations components:

## Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

	3 Months Ended June 30, 2010	3 Months Ended June 30, 2009
Product development	\$ 2	\$ 3
Sales and marketing	5	27
General and administrative	185	453
	<u>\$ 192</u>	<u>\$ 483</u>

**7. Acquisitions/Purchase Price Accounting/Discontinued Operations****Acquisition - - AMV Holding Limited and subsidiaries (Discontinued Operation)**

On October 23, 2008, the Company completed an acquisition of 100% of AMV Holding Limited, a United Kingdom private limited company ("AMV") and 80% of Fierce Media Limited. The acquisition was effective on October 1, 2008.

Subject to adjustment as set forth in the Stock Purchase Agreement, the aggregate purchase price (the "Purchase Price") consisted of: (a) \$5,375 in cash (the "Cash Consideration"); (b) 4,500 fully paid and non-assessable shares of common stock (the "Stock Consideration"); (c) a secured promissory note in the aggregate original principal amount of \$5,375 (the "AMV Note"); and (d) additional earn-out amounts, if any, if the acquired companies achieved certain targeted earnings for each of the periods from October 1, 2008 to March 31, 2009, April 1, 2009 to March 31, 2010, and April 1, 2010 to September 30, 2010, as determined in accordance with the Stock Purchase Agreement.

Prior to closing, each outstanding option to purchase shares of capital stock of AMV (an "AMV Option") was either exercised in full or terminated. 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 the event the Company completed an equity financing that resulted in gross proceeds of over \$6,000, the Company would have been obligated to prepay a portion of the AMV Note in an amount equal to one-third of the excess of the gross proceeds of such financing over \$6,000. Additionally, in connection with the AMV Note, AMV granted to the sellers a security interest in its assets. Such security interest was subordinate to the security interest granted to ValueAct Small Cap Master Fund, L.P. ("ValueAct") under the Senior Secured Note, issued by Twistbox, due July 31, 2010, as amended on February 12, 2008 (the "ValueAct Note"), and as subsequently amended on October 23, 2008. AMV also agreed to guarantee Mandalay Media's repayment of the AMV Note to the sellers.

The Purchase Price was preliminarily estimated by the Company to be \$23,030 consisting of \$9,900 attributed to the Stock Consideration issued, \$5,375 in cash, \$95 in stamp duty, \$5,818 under the AMV Note referenced above (inclusive of the working-capital adjustment), \$1,098 as an estimate of the initial period earn-out adjustment and \$744 in transaction costs. Any further adjustments required under the "working capital adjustment" provision and any further adjustment under the "earn-out" provision of the Stock Purchase Agreement have not yet been determined and therefore have not been included in the preliminary calculation of the purchase price. The shares of the Stock Consideration were valued using the closing stock price at the acquisition date of \$2.20 per share. Under the purchase method of accounting, the Company allocated the total Purchase Price of \$23,030 to the net tangible and intangible assets acquired and liabilities assumed based upon their respective estimated fair values as of the acquisition date as follows:

## Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

---

Cash and cash equivalents	\$ 3,380
Accounts receivable, net of allowances	9,087
Prepaid expenses and other current assets	16
Property and equipment, net	406
Accounts payable	(10,391)
Bank overdrafts	(1,902)
Other current liabilities	(1,262)
Other long term liabilities	(223)
Minority interests	95
Identified intangibles	1,368
Goodwill	22,456
	<u>\$ 23,030</u>

Net assets associated with Fierce Media Limited were insignificant. Goodwill recognized in the above transaction was \$22,456. The business acquired is not capital intensive and does not require significant identifiable intangible assets – as a result the greater proportion of consideration has been allocated to goodwill. Goodwill in relation to the acquisition of AMV is not expected to be deductible for US income tax purposes.

At March 31, 2010 AMV has been treated as a discontinued operation, and it was disposed during the period ended June 30, 2010.

**Discontinued Operations**

The Company had been negotiating a restructuring of debt with its senior debt holder for some time. These negotiations were finalized on June 21, 2010. On that date, the Company signed and closed a number of transactions, which included the sale of AMV. Pursuant to the Agreement, ValueAct and the AMV Founders, acting through a newly formed company (“NewCo”), acquired the operating subsidiaries of AMV in exchange for the release of \$23,231 of secured indebtedness, which included a release of all amounts due and payable under the AMV Note and all of the amounts due and payable under the ValueAct Note except for \$3,500 in principal. In addition, all intercompany balances at that date were cancelled, and all shares of common stock and warrants of the Company held by ValueAct were cancelled. In addition, approximately 3,541 shares of common stock of the Company held by two of the founders of AMV were acquired by the Company. As of June 30, 2010 the Company accrued \$300 to a related party pertaining to the sale of AMV.

In accordance with FASB ASC 205-20, *Discontinued Operations*, the operating results and net assets and liabilities related to AMV were reclassified as of June 21, 2010 and reported as discontinued operations in the accompanying consolidated financial statements.

---

## Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

The following amounts represent the operations of the discontinued unit and have been segregated from continuing operations and reported as discontinued operations as of March 31, 2010 and 2009.

	<b>3 Months Ended March 31, 2010</b>	<b>3 Months Ended March 31, 2009</b>
Revenues	5,132	6,306
Cost of revenues	<u>2,060</u>	<u>1,833</u>
Gross profit	3,072	4,473
Operating expenses and other expenses	<u>2,052</u>	<u>3,400</u>
Income from discontinued operations	1,020	1,073
Income tax provision	(311)	(271)
Income from discontinued operations, net of tax	<u>709</u>	<u>802</u>

The following is a summary of assets and liabilities of the discontinued operations as of the disposal date of June 21, 2010 and as at March 31, 2010

	<b>June 21, 2010</b>	<b>March 31, 2010</b>
<b>Assets</b>		
Cash	\$ 641	\$ 1,251
Working Capital, net of cash	1,367	1,501
Property and Equipment, net	591	668
Goodwill and intangibles	<u>15,948</u>	<u>15,955</u>
<b>Net Assets Sold</b>	<b>\$ 18,547</b>	<b>\$ 19,375</b>
Direct costs associated with the sale	1,173	
Currency translation adjustment	234	
Other	3	
	<u>\$ 19,957</u>	
Consideration	24,272	
<b>Gain on sale</b>	<b>\$ 4,315</b>	

## Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

**8. Other Intangible Assets**

The Company has included amortization of acquired intangible assets directly attributable to revenue-generating activities in cost of revenues. The Company has included amortization of acquired intangible assets not directly attributable to revenue-generating activities in operating expenses. During the periods ended June 30, 2010 and 2009, the Company recorded amortization expense for continuing operations in the amount of \$76 and \$76, respectively, in cost of revenues; and amortization expense in the amount of \$17 and \$137 respectively, in operating expenses. During the periods ended June 30, 2010 and 2009 the Company recorded amortization expense for discontinued operations in the amount of \$26 and \$26, respectively, in cost of revenues; and amortization expense in the amount of \$40 and \$40, respectively, in operating expenses.

As of June 30, 2010, the total expected future amortization related to intangible assets for continuing operations was as follows:

	12 Months Ended June 30,					
	2011	2012	2013	2014	2015	Thereafter
Software	\$ 232	\$ 232	\$ 232	\$ 232	\$ 136	\$ -
Customer List	65	\$ 65	\$ 65	\$ 65	65	39
License Agreements	71	\$ 71	42	-	-	-
	<u>\$ 368</u>	<u>\$ 368</u>	<u>\$ 339</u>	<u>\$ 297</u>	<u>\$ 201</u>	<u>\$ 39</u>

**9. Debt**

	<u>June 30,</u> <u>2010</u>	<u>March 31,</u> <u>2010</u>
<b>Short Term Debt</b>		
Senior secured note, inclusive of accrued interest net of discount of \$0 and \$40, respectively	\$ -	19,749
Deferred purchase consideration inclusive of accrued interest	-	6,333
	<u>\$ -</u>	<u>\$ 26,082</u>
	<u>June 30,</u> <u>2010</u>	<u>March</u> <u>31,</u> <u>2010</u>
<b>Long Term Debt</b>		
Senior secured note, inclusive of accrued interest, net of discount of \$2,479 and \$0, respectively	\$ 21	\$ -
Secured note, inclusive of accrued interest	3,510	-
Other	27	-
	<u>\$ 3,557</u>	<u>\$ -</u>

**ValueAct Note**

In July 2007 Twistbox entered into a debt financing agreement pursuant to the ValueAct Note amounting to \$16,500, payable at 30 months. The holder of the ValueAct Note was granted first lien over all of the Company's assets. The ValueAct Note carried interest of 9% annually for the first year and 10% subsequently, with semi-annual interest only payments. The debt-financing agreement included certain restrictive covenants. In conjunction with the Merger described in Note 7, the Company guaranteed up to \$8,250 of the principal; and the restrictive covenants were modified, including a requirement for both Mandalay Media and Twistbox to maintain certain minimum cash balances. In connection with the guaranty, the Company issued the lender warrants to purchase 1,093 and 1,093 shares of common stock of the Company, exercisable at \$7.55 per share, and at \$5.00 per share, (increasing to \$7.55 per share, if not exercised in full by February 12, 2009), respectively, through July 30, 2011. These warrants replaced warrants originally issued by Twistbox in conjunction with the ValueAct Note.

On October 23, 2008 in conjunction with the acquisition of AMV, as described in Note 7, the Company entered into a secured promissory note in the aggregate original principal amount of \$5,375 (the "AMV Note"). With accrued interest, the balance of this note was \$6,433 at June 30, 2010 and \$5,945 at March 31, 2010.

On October 23, 2008, the Company, Twistbox and ValueAct entered into a Second Amendment (the "Second Amendment") to the ValueAct Note. Among other things, the Second Amendment provided for a payment in kind election, whereby, in lieu of making any cash payments to ValueAct on the following two interest payment dates, Twistbox had the option to elect that the amount of any interest due on such date be added to the principal amount due under the ValueAct Note. That election was made in connection with the first interest payment following the amendment. In addition, ValueAct agreed to amend the ValueAct Note to modify the covenant requiring that the Company and Twistbox maintain certain minimum combined cash balances, during specified periods of time. Lastly, the Second Amendment provided that an event of default may be triggered in the event the Company fails to observe certain covenants as agreed to in the Second Amendment, including a covenant that, until all principal and interest and any other amounts due under the ValueAct Note are paid in full in cash, the Company: (i) would not create, incur, assume or permit to exist certain indebtedness, except for indebtedness in connection with a receivables facility as described in the Second Amendment, which indebtedness would rank pari passu in right of payment on the ValueAct Note, provided, that any receivables used to procure and maintain such receivables facility would not be subject to any lien of ValueAct during the term of such receivables facility; and (ii) would not, and would not permit any subsidiary to, without the prior consent of ValueAct, prepay any indebtedness incurred in connection with the AMV Note, other than prepayments with proceeds raised in an equity financing as permitted by the AMV Note. Additionally, on October 23, 2008, in connection with the ValueAct Note, as amended, AMV agreed to grant to ValueAct a security interest in its assets, which ranks senior to the security interest granted to the sellers of AMV. AMV also agreed to guarantee Twistbox's repayment of the ValueAct Note.

As described above, the Company had previously issued to ValueAct two warrants to purchase shares of the Company's common stock. One warrant entitled ValueAct to purchase up to a total of 1,093 shares of common stock at an exercise price of \$7.55 per share ("\$7.55 Warrant"). The other warrant entitled ValueAct to purchase up to a total of 1,093 shares of common stock at an initial exercise price of \$5.00 per share ("\$5.00 Warrant," and together with the \$7.55 Warrant, the "ValueAct Warrants"). On October 23, 2008, the Company and ValueAct entered into an allonge to each of the ValueAct Warrants. Among other things, the exercise price of each of the ValueAct Warrants was amended to be \$4.00 per share. The price change resulted in an adjustment to the valuation of the warrants and therefore to the debt discount which is amortized over the life of the term of the debt.

---

## Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

---

On August 14, 2009, the Company, Twistbox and ValueAct entered into a Third Amendment (the "Third Amendment") to the ValueAct Note. Among other things, the Third Amendment provided for the due date to be extended to July 31, 2010, an interest rate of 12.5% from the date of the agreement through maturity, an extension of the payment in kind ("PIK") election through to the interest payment otherwise due in January 2010, and a reduction in the minimum cash covenant to \$1 million until January 31, 2010 and \$4 million thereafter, subject to certain conditions. There were no other significant changes.

As described above, the Company had previously issued to ValueAct warrants to purchase shares of the Company's common stock. On August 14, 2009, the Company and ValueAct entered into an allonge to the warrant to purchase 1,093 shares of common stock. The exercise price of the Warrant was amended from \$4.00 to \$1.25 per share, and the termination date of the warrants was amended to July 14, 2010. The impact of the price change of the warrants is immaterial to the consolidated financial statements.

In addition the Company and the sellers of AMV entered into an agreement which extended the maturity date of the AMV Note which represented deferred purchase consideration in relation to the AMV acquisition, until July 31, 2010.

On January 25, 2010, the Company, 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 Section 2 of the Waiver (the "Conditions"), 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 the Conditions, 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 which Twistbox and the Company was required to maintain was increased to \$1,600.

On February 25, 2010, Twistbox received a letter (the "Notice") from ValueAct alleging certain events of default with respect to the ValueAct Note. The Notice claimed that an event of default had occurred and was continuing under the ValueAct Note as a result of certain alleged defaults. In the Notice, ValueAct reserved its rights and remedies under the loan documents relating to the ValueAct Note. The Notice did not state that ValueAct had elected for the unpaid principal and accrued interest under the ValueAct Note to become due and payable. The Notice claimed that the Waiver, which among other things, had extended certain rights of Twistbox to prepay amounts under the ValueAct Note from January 31, 2010 to March 1, 2010 in order to extend the maturity of remaining amounts due under the ValueAct Note and extended the time period for the Company and Twistbox to comply with the \$4,000 minimum cash balance covenant set forth in the ValueAct Note to March 1, 2010, had ceased to be effective as a result of the alleged failure of the Company to comply with the conditions set forth in the Waiver. Under the ValueAct Note, upon the occurrence of an event of default, ValueAct, by written notice to Twistbox, may declare the unpaid principal amount of the ValueAct Note, plus accrued but unpaid interest thereon, to be immediately due and payable. Commencing after the occurrence of an event of default and so long as the default is continuing, the interest rate applicable under the ValueAct Note is to increase an additional 2% per annum. If an event of default had been determined to have occurred and continuing, and ValueAct had declared the unpaid principal amount of the ValueAct Note, plus accrued but unpaid interest thereon, to be immediately due and payable, it may also have exercised its rights pursuant to the Guaranty and Security Agreement and the Debenture to foreclose on the assets of Twistbox and AMV. The Company believed that the events described in the Notice did not constitute defaults or if such events did constitute defaults, that Twistbox was entitled to requisite cure periods which ValueAct had failed to observe and that ValueAct had not properly exercised its rights under the ValueAct Note.

---

## Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

---

On May 10, 2010, Twistbox received from ValueAct a Notice of Event of Default and Acceleration (“Acceleration Notice”) in which ValueAct stated that an event of default occurred under the ValueAct Note as a result of Twistbox’s and the Company’s failure to comply with the cash balance covenant under the ValueAct Note and, therefore, ValueAct had accelerated all outstanding amounts payable by Twistbox under the ValueAct Note. In connection with the Acceleration Notice, ValueAct instituted an administration proceeding in the United Kingdom against AMV. The Company continued to dispute the timeliness of ValueAct’s claim and contended that the commencement of the administration in the United Kingdom may have been unfounded.

As described in Note 7, 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 \$3.5 million of principal (the “Amended ValueAct Note”).

**Senior Secured Convertible Notes**

In addition, for purposes of capitalizing the Company, the Company sold and issued \$2,500 of Senior Secured Convertible Notes due June 21, 2013 of the Company (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. 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 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. 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, using the effective interest method. For the three months ended June 30, 2010, the Company amortized \$21 of the aforesaid discounts as interest and financing costs in the accompanying consolidated statements of operations

---

## Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

At June 30, 2010, minimum future obligations through June 21, 2013, including interest, under the New Senior Secured and convertible Notes were \$8,041 including repayment of the principal.

18 Months Ended June 30,			
2011	2012	2013	Thereafter
\$ -	\$ 1,312	\$ 6,729	\$ -

**10. 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 management agreement (“Agreement”) with Trinad Management for five years. Pursuant to the terms of the Agreement, Trinad Management will provide certain management services, including, without limitation, 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 expenses reasonably incurred in connection with the provision of Agreement. The Agreement expires on September 14, 2011. Either party may terminate with prior written notice. However, if the Company terminates, it shall pay a termination fee of \$1,000. For the periods ended June 30, 2010 and 2009, the Company incurred management fees under the agreement of \$90 and \$90 respectively. In March 2008, the Company entered into a month to month lease for office space with Trinad Management for rent of \$9 per month, subsequently reduced to \$5 per month. Rent expense in connection with this lease was \$15 and \$26, respectively, for the periods ended June 30, 2010 and 2009.

**11. Capital Stock Transactions***Preferred Stock*

There are 100 shares of Series A Convertible Preferred Stock of the Company authorized, issued and outstanding. The Series A Convertible Preferred Stock has a par value of \$0.0001 per share. The holders of Series A Convertible Preferred Stock are entitled to: (1) vote on an equal per share basis as common stock of the Company, (2) dividends on an as-converted basis and (3) a liquidation preference equal to the greater of \$10 per share of Series A Convertible Preferred Stock (subject to adjustment) or such amount that would have been paid on an as-converted basis. The holder of the Series A Convertible Preferred Stock has agreed not to exercise certain rights until such time as the Amended ValueAct Note has been repaid in cash in full.

## Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

---

**Common Stock**

In September 2009, the Company issued warrants to purchase 1,200 shares of common stock of the Company to a vendor. The warrants are exercisable at \$1.25 per share, through September 23, 2014 and were valued at \$134 at the time of issue.

In connection with the restructuring described in Note 7, on June 21, 2010, 562 shares of common stock of the Company held by ValueAct were cancelled, and 3,541 shares of common stock of the Company held by certain founders of AMV were acquired by the Company at a price of \$0.02 per share. In addition, a total of 2,185 warrants to purchase common stock of the Company held by ValueAct were cancelled.

In addition, in connection with the New Senior Secured Notes described in Note 10, on June 21, 2010, 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.

**12. 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.

**13. Income Taxes**

The income tax provision for the quarter represents foreign withholding taxes related to continuing operations paid in jurisdictions outside of the US. Profit from discontinued operations is disclosed net of taxes – these are income taxes currently payable in foreign jurisdictions, primarily the United Kingdom based on revenue derived in that territory. The discontinued operation had taxable income in the quarter which is subject to taxation in the United Kingdom. The tax provision arising from the gain on disposal of discontinued operations is offset against available tax losses.

Management has evaluated and concluded that there are no significant uncertain tax positions requiring recognition in the Company's financial statements as of June 30, 2010.

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 June 30, 2010 and March 31, 2010. The Company recognized no interest and penalties on income taxes in its statement of operations for the periods ended June 30, 2010 and 2009. Management believes that with few exceptions, the Company is no longer subject to income tax examinations by tax authorities for years before March 31, 2004.

---

## Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

**14. Segment and Geographic information**

The Company operates in one reportable segment in which it is a developer and publisher of branded and non-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 and net property and equipment for the period ended June 30, 2010:

	<u>North America</u>	<u>Europe</u>	<u>Other Regions</u>	<u>Consolidated</u>
<b>Three Months ended June 30, 2010</b>				
Net sales to unaffiliated customers	243	2,160	455	\$ 2,858
<b>Three Months ended June 30, 2009</b>				
Net sales to unaffiliated customers	806	2,683	287	\$ 3,777
<b>Property and equipment, net at June 30, 2010</b>				
	468	77	2	\$ 547

Our largest customers accounted for 52% of gross revenues in the period ended June 30, 2010; and 39% in the period ended March 31, 2010.

**15. Commitments and Contingencies****Operating Lease Obligations**

The Company leases office facilities under noncancelable operating leases expiring in various years through 2012.

Following is a summary of future minimum payments under initial terms of leases at June 30, 2010:

<u>Year Ending June 30,</u>	
2011	\$ 74
2012	1
Total minimum lease payments	<u>\$ 75</u>

These amounts do not reflect future escalations for real estate taxes and building operating expenses. Rental expense for continuing operations amounted to \$142 and \$200, respectively, for the periods ended June 30, 2010 and 2009.

## Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

**Other Obligations**

As of June 30, 2010, the Company was obligated for payments under various distribution agreements, equipment lease agreements, employment contracts and the management agreement described in Note 10 with initial terms greater than one year at June 30, 2010. Annual payments relating to these commitments at June 30, 2010 are as follows:

<u>Year Ending June 30,</u>	<u>Commitments</u>
2011	\$ 2,048
2012	86
2013	1
<b>Total minimum payments</b>	<b><u>\$ 2,135</u></b>

**Litigation**

Twistbox's wholly owned subsidiary, WAAT Media Corp. ("WAAT") and General Media Communications, Inc. ("GMCI") are parties to a content license agreement dated May 30, 2006, whereby GMCI granted to WAAT certain exclusive rights to exploit GMCI branded content via mobile devices. GMCI terminated the agreement on January 26, 2009 based on its claim that WAAT failed to cure a material breach pertaining to the non-payment of a minimum royalty guarantee installment in the amount of \$485. On or about March 16, 2009, GMCI filed a complaint seeking the balance of the minimum guarantee payments due under the agreement in the approximate amount of \$4,085. WAAT has counter-sued claiming GMCI is not entitled to the claimed amount and that it has breached the agreement by, among other things, failing to promote, market and advertise the mobile services as required under the agreement and by fraudulently inducing WAAT to enter into the agreement based on GMCI's repeated assurances of its intention to reinvigorate its flagship brand. GMCI has filed a demurrer to the counter-claim. WAAT subsequently filed an amended counter-claim. WAAT intends to vigorously defend against this action. Principals of both parties continue to communicate to find a mutually acceptable resolution. The Company has accrued for its estimated liability in this matter.

The Company is subject to various claims and legal proceedings arising in the normal course of business. Based on the opinion of the Company's legal counsel, 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.

**16. Subsequent Events**

Management has evaluated subsequent events through the business date that this quarterly report on the Form 10-Q was filed with the SEC. No material matters requiring disclosure were noted.

## **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" 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 for the period ended March 31, 2010. Historical operating results are not necessarily indicative of the trends in operating results for any future period.

Unless the context otherwise indicates, the use of the terms "we," "our" "us" or the "Company" refer to the business and operations of NeuMedia, Inc. ("NeuMedia") through its operating and wholly-owned subsidiary, Twistbox Entertainment, Inc. ("Twistbox").

### ***Historical Operations of NeuMedia, Inc.***

NeuMedia 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, and 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 October 27, 2004, and as amended on December 17, 2004, NeuMedia 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) NeuMedia'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 were transferred to a liquidation trust and used to pay administrative costs and certain preferred creditors; (3) \$100,000 were retained by NeuMedia to fund the expenses of remaining public; (4) 3.5% of the new common stock of NeuMedia (140,000 shares) was issued to the holders of record of NeuMedia's preferred stock in settlement of their liquidation preferences; (5) 3.5% of the new common stock of NeuMedia (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 NeuMedia (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, NeuMedia 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, NeuMedia was a public shell company with no operations, and controlled by its significant stockholder, Trinad Capital Master Fund, L.P.

### **SUMMARY OF THE MERGER**

NeuMedia 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 NeuMedia ("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, each \$0.01 par value per share (the "Twistbox Preferred Stock"), converted automatically into and became exchangeable for NeuMedia 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 NeuMedia, 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 NeuMedia 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 NeuMedia 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, NeuMedia also assumed all unvested Twistbox options. The merger consideration consisted of an aggregate of up to 12,325,000 shares of NeuMedia common stock, which included the conversion of all shares of Twistbox capital stock and the reservation of 2,144,700 shares of NeuMedia common stock required for assumption of the vested Twistbox options. NeuMedia reserved an additional 318,772 shares of NeuMedia 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, NeuMedia or any subsidiary of Twistbox or NeuMedia 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, NeuMedia agreed to guarantee up to \$8,250,000 of Twistbox's outstanding debt to ValueAct SmallCap Master Fund L.P. ("ValueAct"), 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") 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 NeuMedia agreed to guarantee Twistbox's payment to ValueAct of up to \$8,250,000 of principal under the 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 NeuMedia 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, NeuMedia 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 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, NeuMedia, 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 NeuMedia and Twistbox maintain certain minimum combined cash balances and provided for certain covenants with respect to the indebtedness of NeuMedia 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, NeuMedia 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, NeuMedia entered into a Securities Purchase Agreement with certain investors identified therein (the "Investors"), pursuant to which NeuMedia 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 NeuMedia 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 NeuMedia 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 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, NeuMedia, 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, NeuMedia, 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 NeuMedia 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 NeuMedia 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 NeuMedia's covenants under the ValueAct Note, the failure to comply with limitations on certain payments by NeuMedia and each of its subsidiaries, and the failure of Twistbox and NeuMedia to maintain minimum cash balances in deposit accounts of each of Twistbox and NeuMedia. The Letter also claimed that the Waiver had ceased to be effective as a result of the alleged failure of NeuMedia 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 NeuMedia'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, NeuMedia 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 NeuMedia held by ValueAct were cancelled and all warrants and common stock of NeuMedia held by AMV founders Nate MacLeitch and Jonathan Cresswell were repurchased by NeuMedia for a price of \$0.02 per share.

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 NeuMedia, NeuMedia 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, NeuMedia - 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 NeuMedia 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 NeuMedia 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 NeuMedia at an exercise price of US\$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 NeuMedia. Each Warrant has a five year term.

## *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, a mobile media and marketing company. On June 21, 2010, we sold all of the operating subsidiaries of AMV. Twistbox is a global publisher and distributor of branded and non-branded entertainment content, including images, video, and games, for all mobile platforms and third generation (3G) and pre-fourth generation mobile networks. Twistbox publishes and distributes its content in over 40 countries representing more than one billion subscribers. Operating since 2003, Twistbox has developed an intellectual property portfolio unique to its target demographic (18 to 35 year old) that includes worldwide exclusive (or territory exclusive) mobile rights to global brands and content from leading film, television and lifestyle content publishing companies. Twistbox has built a proprietary mobile publishing platform that includes: tools that automate handset portability for the distribution of images and video; a mobile games development suite that automates the porting of mobile games and applications to over 1,500 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 leveraged its brand portfolio and platform to secure “direct” distribution agreements with the largest mobile operators in the world, including, among others, AT&T, Hutchinson 3G, O2, MTS, Orange, T-Mobile, Telefonica, Verizon and Vodafone. Twistbox expects to become one of the leading players in the rapidly-growing, multibillion-dollar mobile entertainment market.

Twistbox maintains a worldwide distribution agreement with Vodafone. Through this relationship, Twistbox serves as Vodafone’s exclusive supplier of late night content, a portion of which is age-verified, in some of its top-performing territories. Additionally, Twistbox is one of the select few content aggregators for Vodafone. Twistbox aggregates content from leading entertainment companies and manages distribution of this content to Vodafone. Additionally, Twistbox maintains distribution agreements with other leading mobile network operators throughout the North American, European, and Asia-Pacific regions that include Verizon, Virgin Mobile, T-Mobile, Telefonica, Hutchinson 3G, Three, O2 and Orange.

Twistbox currently has content live on more than 100 network operators in 40 countries. Through these relationships, Twistbox can currently reach over one billion mobile subscribers worldwide.

Twistbox’s end-users are the highly-mobile, digitally-aware 18 to 35 year old demographic. This group is a major consumer of digital entertainment services and commands significant amounts of disposable income. In addition, this group is very focused on consumer lifestyle brands and is much sought after by advertisers.

## RESULTS OF OPERATIONS

	<b>3 months ended June 30, 2010</b>	<b>3 months ended June 30, 2009</b>
Revenues	\$ 2,858	\$ 3,777
Cost of revenues	<u>662</u>	<u>1,021</u>
Gross profit	2,196	2,756
SG&A	3,498	3,809
Amortization of intangible assets	<u>17</u>	<u>137</u>
Operating (loss)	(1,319)	(1,190)
Interest expense, net	(679)	(657)
Other income / (expenses)	<u>(344)</u>	<u>119</u>
(Loss) before income taxes	(2,342)	(1,728)
Income tax provision	<u>(68)</u>	<u>(35)</u>
(Loss) from continuing operations	(2,410)	(1,763)
Profit from discontinued operations, net of taxes	709	802
Gain on disposal of discontinued operations, net of taxes	<u>4,315</u>	<u>-</u>
Net income / (loss)	<u>\$ 2,614</u>	<u>\$ (961)</u>
Basic and Diluted net income / (loss) per common share:		
Continuing operations	\$ (0.06)	\$ (0.04)
Discontinued operations	\$ 0.13	\$ 0.02
Net loss	\$ 0.07	\$ (0.02)
Basic and Diluted weighted average shares outstanding	39,375	39,808
Diluted net income / (loss) per common share:		
Continuing operations	\$ (0.06)	\$ (0.04)
Discontinued operations	\$ 0.12	\$ 0.02
Net loss	\$ 0.06	\$ (0.02)
Diluted weighted average shares outstanding	40,424	39,908

### *Comparison of the three Months Ended June 30, 2010 and June 30, 2009*

#### *Revenues*

	<b>Three Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>(In thousands)</b>		
Revenues by type:		
Services	\$ 530	\$ 323
Content - Games	341	947
Content - Other	1,679	2,177
Advertising	<u>308</u>	<u>330</u>
Total	<u>\$ 2,858</u>	<u>\$ 3,777</u>

In the quarter ended June 30, 2010, the Company was reorganized into four functional groups, reflecting the primary revenue drivers for the Company's business, as follows:

"Services" includes carrier platform management, content aggregation services and development fees derived primarily as an outsourced extended services contract basis. The increase in Services revenue in the quarter ended June 30, 2010 is primarily the result of an increase in the level of development projects undertaken by our technology and development team in the quarter ended June 30, 2010.

“Content – Games” includes both licensed and internally developed games for use on mobile phones. The decline in revenue largely reflects a strategic decision to curtail investment in the development of new JAVA and BREW games for on-deck carrier sales. Games will continue to build applications for smartphones (iPhone, iPad, Android, and Blackberry) and social networks

“Content – Other” includes a broad range of licensed and internally developed products delivered in the form of WAP, Video, Wallpaper and Mobile TV. The decline in revenue year over year is attributable to two factors: off-deck revenue recognized in the quarter ended June 30, 2009 was transferred to Twistbox’s former sister company, which was sold on June 21, 2010, and thus was not part of continuing operations in the quarter ended June 30, 2010, and the restructuring of our Russian operations in the later part of fiscal 2010.

“Advertising” includes revenues earned by managing carrier advertising portals, revenues derived from the sale of advertising inventory within our mobile sites, and from the monetization and mediation of traffic through our mobile sites. Building a significant Advertising ecosystem is a key strategic initiative for the Company in fiscal 2011. The quarter ended June 30, 2010 shows significant growth in our core advertising business which was offset by reductions in carrier portal managed revenues.

### Cost of Revenues

	<b>Three Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
	(In thousands)	
Cost of revenues:		
License fees	\$ 586	\$ 919
Other direct cost of revenues	76	76
Total cost of revenues	<u>\$ 662</u>	<u>\$ 995</u>
Revenues	<u>\$ 2,858</u>	<u>\$ 3,777</u>
Gross margin	<u>76.8%</u>	<u>73.7%</u>

License fees represent costs payable to content providers for use of their brands and intellectual property in products sold. Our licensing agreements are predominantly on a revenue-share basis, and therefore license fees have decreased as a result of reductions in the revenue share attributable to several licensed product arrangements, renegotiation of major license agreements resulting in a lower revenue share, and a change in mix towards product for which the rights have been acquired in perpetuity. In addition, license fees decreased from the reversal of previously accrued license fees, following resolution of discussions with providers. These one-time adjustments contributed approximately 19% of margin in the period ended June 30, 2010.

### Operating Expenses

	<b>Three Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
	(In thousands)	
Product development expenses	\$ 1,074	\$ 1,104
Sales and marketing expenses	596	831
General and administrative expenses	1,828	1,873
Amortization of intangible assets	17	137

Product development expenses include the costs to develop, edit and make content ready for consumption on a mobile phone. Expenses in this area are primarily driven by personnel costs, with headcount consistent from period to period.

Sales and marketing expenses represent the costs of sales and marketing personnel, and advertising and marketing campaigns. The decrease year-over-year is the result of cost savings due to headcount reductions and reduced travel.

General and administrative expenses represent management and support personnel costs in each of the subsidiary companies and related expenses, as well as professional and consulting costs, and other costs such as stock based compensation, depreciation and bad debt expenses. Savings resulting from headcount reductions were largely offset by increased legal expenses in the quarter ended June 30, 2010.

Amortization of intangibles represents amortization of the intangibles identified as part of the purchase price accounting related to the Twistbox acquisition and attributed to operating expenses. The reduction in amortization expense is the result of the reduced base, following the impairment write down in the last quarter.

## Other Income and Expenses

Three Months Ended June 30,	
2010	2009

(In thousands)

Interest and other income/(expense)	\$ (1,023)	\$ (539)
Profit from discontinued operations, net of taxes	\$ 709	\$ 802
Gain on disposal of discontinued operations, net of taxes	\$ 4,315	\$ -

Interest and other income/(expense) includes interest income on invested funds, interest expense related to the ValueAct Note and the AMV Note, foreign exchange transaction gains, and other income/expense. The increase in net expense compared to the prior year relates to foreign exchange losses (versus gains in the prior year), and an increase in miscellaneous income primarily related to the re-pricing of warrants. The profit from discontinued operations is the net profit from operations of AMV for the quarter, net of taxes. The gain on disposal of discontinued operations represents the net gain recorded from the sale of AMV during the quarter ended June 30, 2010.

### Financial Condition

#### Assets

Our current assets related to continuing operations totaled \$7.2 million and \$5.8 million at June 30, 2010 and March 31, 2010, respectively. Total assets related to continuing operations were \$24.0 million and \$22.8 million at June 30, 2010 and March 31, 2010, respectively. The increase in both current and total assets is primarily due to higher cash balances.

#### Liabilities and Working Capital

At June 30, 2010, our current and total liabilities related to continuing operations were \$11.7 million, compared to \$34.1 million at March 31, 2010. The change in liabilities was related to the reduction in debt as part of the AMV disposal transaction. The Company had negative working capital of \$1.0 million at June 30, 2010 and negative working capital of \$25.5 million at March 31, 2010 as a result of the timing of both the reduction in debt and the reclassification of debt from short term to long term.

#### Liquidity and Capital Resources

Twistbox has incurred losses and negative annual cash flows since inception, although the operating loss has narrowed significantly in the most recent several quarters. The primary sources of liquidity have historically been issuance of common and preferred stock, and in the case of Twistbox, borrowings under credit facilities. In the future, we anticipate that our primary sources of liquidity will be cash generated by our operating activities.

#### Operating Activities

In the period ended June 30, 2010, we generated \$1.0 million of net cash, flowing from the overall profit of \$2.6 million as well as decreases in accounts receivable of \$2.0 million, as well as non-cash stock based compensation and depreciation and amortization, and \$2.5 million from the new Senior Debt; offset by decreases in liabilities of \$1.3 million, and \$1.2 in transaction costs and cash remaining with the disposed subsidiary. In the period ended June 30, 2009, we used \$1.7 million of net cash. This primarily related to the net loss of \$1.0 million, and reductions in accounts payable/accrued license fees/other liabilities of \$2.0 million, partially offset by non cash stock based compensation and depreciation and amortization.

As of June 30, 2010, the Company had approximately \$2.9 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 these sources 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 financing will be available on acceptable terms, if at all.

Debt obligations include interest payments under the new Senior Debt facility, and also under the Amended ValueAct Note. Under both facilities the Company may elect to add interest to the principal, until 18 months following June 21, 2010, with the full amount payable at the end of the term. The Company's operating lease obligations include non-cancelable operating leases for the Company's office facilities in several locations, expiring in various years through 2012.

#### 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 are, therefore, 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

On August 3, 2006, we increased our authorized shares of common stock from 19,000,000 to 100,000,000 and authorized and effectuated a 2.5 to 1 stock split of our common stock to increase our outstanding shares from 4,000,000 to 10,000,000. All share and per share amounts have been retroactively adjusted to reflect the effect of the stock split.



On September 14, 2006, we sold 2,800,000 units; on October 12, 2006, we sold 3,400,000 units; and on December 26, 2006, we sold 530,000 units. Each unit sold, at a price per unit of \$1.00, consisted of one share of our common stock and one warrant to purchase one share of our common stock. We realized net proceeds of \$6,057,000 after the costs of the offering. The warrants had an exercise price of \$2.00 per share and expired as follows: 2,800,000 warrants expired in September 2008, 3,400,000 warrants expired in October 2008, and 530,000 warrants expired in December 2008.

On October 12, 2006, we entered into a Series A Convertible Preferred Stock Purchase Agreement with Trinad Management, LLC (“Trinad Management”). Pursuant to the terms of the agreement, Trinad Management purchased 100,000 shares of our Series A Convertible Preferred Stock, par value \$0.0001 per share (“Series A Preferred Stock”), for an aggregate purchase price of \$100,000. Series A Preferred stockholders are entitled to convert, at their option, all or any shares of the Series A Preferred Stock into the number of fully paid and non-assessable shares of common stock equal to the number obtained by dividing the original purchase price of such Series A Preferred Stock, plus the amount of any accumulated but unpaid dividends as of the conversion date, by the original purchase price (subject to certain adjustments) in effect at the close of business on the conversion date. The fair value of the 100,000 shares of our common stock underlying the Series A Convertible Preferred Stock was \$1.425 per share at the date of grant. Since the value was \$0.425 lower than the fair value of our common stock on October 12, 2006, the \$42,500 intrinsic value of the conversion option resulted in the reduction of stockholders’ equity for the recognition of a preferred stock dividend and an increase to additional paid-in capital.

On July 24, 2007, we entered into a Subscription Agreement with certain investors, pursuant to which such investors agreed to subscribe for an aggregate of 5,000,000 shares of our common stock. Each share of common stock was sold at the price of \$0.50, for an aggregate purchase price of \$2,500,000. In September, October and December 2007, warrants to purchase 625,000 shares of common stock were exercised in a cashless exchange for 239,000 shares of the Company’s common stock based on the average closing price of the Company’s common stock for the five days prior to the exercise date.

As described above, pursuant to the Merger, we issued 10,180,292 shares of NeuMedia common stock as part of the merger consideration in connection with the Merger. Such issuance was made pursuant to the exemption from registration permitted under Section 4(2) of the Securities Act. In addition, also in connection with the Merger, on February 12, 2008, we entered into non-qualified stock option agreements with certain of our directors and officers under the Plan whereby we issued options to purchase an aggregate of 1,700,000 shares of our common stock to Ian Aaron, former Chief Executive Officer of Twistbox and former director of the Company, Russell Burke, Chief Financial Officer of Twistbox and the Company, David Mandell, Executive Vice-President, General Counsel and Corporate Secretary of Twistbox and Patrick Dodd, former Senior Vice of Worldwide Sales and Marketing of Twistbox, each of whom received an option to purchase 600,000 shares, 350,000 shares, 450,000 shares and 300,000 shares, respectively, of our common stock. The options have a ten-year term and are exercisable at a price of \$4.75 per share. The options become exercisable over a two-year period, with one-third of the options granted vesting immediately upon grant, an additional one-third vesting on the first anniversary of the date of grant, and the remaining one-third on the second anniversary of the date of grant. The options were granted pursuant to the exemption from registration permitted under Rule 506 of Regulation D of the Securities Act.

In April and June 2008, warrants to purchase 350,000 shares of common stock were exercised in a cashless exchange for 217,000 shares of the Company’s common stock based on the average closing price of the Company’s common stock for the five days prior to the exercise date. On June 18, 2008, the Company granted non-qualified stock options to purchase 1,500,000 shares of common stock of the Company to four directors under the Plan. The options have a ten year term and are exercisable at a price of \$2.75 per share, with one-third of the options granted vesting immediately upon grant, one-third vesting on the first anniversary of the date of grant and the remaining one-third vesting on the second anniversary of the date of grant.

As described above, pursuant to the AMV Acquisition, on October 23, 2008, we entered into a Securities Purchase Agreement with certain investors identified therein, pursuant to which NeuMedia 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 NeuMedia on or about November 8, 2008.

Also as described above, in connection with the AMV Acquisition, on October 23, 2008, NeuMedia 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 October 2008, warrants to purchase 2,300,000 shares of common stock were exercised in a cashless exchange for 286,000 shares of the Company’s common stock based on the average closing price of the Company’s common stock for the five days prior to the exercise date.

In September 2009, the Company granted warrants to purchase 1,200,000 shares of common stock of the Company a vendor. The warrants are exercisable at \$1.25 per share, through September 23, 2014 and were valued at \$134,000 at the time of issue.

In connection with the restructuring described above, on June 21, 2010 561,798 shares of common stock held by ValueAct were cancelled, and 3,540,574 shares held by Cresswell and MacLeitch were acquired by the Company at a price of \$0.02 per share. In addition, a total of 2,185,000 warrants held by ValueAct were cancelled.

### **Revenues**

The discussion herein regarding our future operations pertain to the results and operations of Twistbox. Twistbox has historically generated and expects to continue to generate the vast majority of its revenues from mobile phone carriers that market and distribute its content. These carriers generally charge a onetime purchase fee or a monthly subscription fee on their subscribers’ phone bills when the subscribers download Twistbox’s games to their mobile phones. The carriers perform the billing and collection functions and generally remit to Twistbox a contractual percentage of their collected fee for each game. Twistbox recognizes as revenues the percentage of the fees due to it from the carrier. End users may also initiate the purchase of Twistbox’s games through various Internet portal sites or through other delivery mechanisms, with carriers or third parties being responsible for billing, collecting and remitting to Twistbox a portion of their fees. To date, Twistbox’s international revenues have been much more significant than its domestic revenues.



We believe that improving quality and greater availability of 2.5 and 3G handsets and “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 publishers that have the ability to provide high-quality mobile content consistently and port it rapidly and cost-effectively to a wide variety of handsets. Additionally, branded content owners are seeking publishers that have the ability to distribute content globally through relationships with most or all of the major carriers. We believe Twistbox has created the requisite development and porting technology and has achieved the scale to operate at this level. We also believe that leveraging carrier and content owner relationships will allow us to grow our revenues without corresponding percentage growth in our infrastructure and operating costs. Our revenue growth rate will depend significantly on continued growth in the mobile content market and our ability to leverage our distribution and content relationships, as well as to continue to expand. 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 costs. Personnel costs consist of salaries, benefits and incentive compensation, including bonuses and stock-based compensation, for our employees. Our operating expenses will continue to grow in absolute dollars, assuming our revenues continue to grow. As a percentage of revenues, we expect these expenses to decrease. Many new mobile handset models are released in the fourth calendar quarter to coincide with the holiday shopping season. 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 our March quarter. For a variety of reasons, we may experience seasonal sales decreases during the summer, particularly in Europe, which is predominantly reflected in our September quarter. In addition to these possible seasonal patterns, our revenues may be impacted by 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***

Twistbox’s cost of revenues historically, and our cost of revenues going forward, consists primarily of royalties that we pay to content owners from which we license brands and other intellectual property. In addition, certain other direct costs such as quality assurance (“QA”) and use of short codes 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 game 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, and the costs of distribution. Our games based on licensed intellectual property require us to pay royalties to the licensor and the royalty rates in our licenses vary significantly. Our own in-house developed games, which are based on our own intellectual property, require no royalty payments to licensors. For lifestyle 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 between games and lifestyle content, and among licensed, developed and acquired content within those categories, including the overall number of licensed games and developed games 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 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. In the case of Play for Prizes games, this is further impacted by its suitability to “tournament” play and the prizes available. 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 games 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 charges for mobile phone short codes, and QA, 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. We believe that developing games internally through our own development studios allows us to increase operating margins, leverage the technology we have developed and better control game delivery. Games development may encompass development of a game from concept through deployment or adaptation or rebranding of an existing game. For acquired content, typically we will receive content from our licensors which must be edited for mobile phone users, combined with other appropriate content, and packaged for end consumers. 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 carrier network.



**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 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 international 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 five 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**

##### **New Accounting Pronouncements**

In September 2009, the FASB issued Update No. 2009-13, "Multiple-Deliverable Revenue Arrangements—a consensus of the FASB Emerging Issues Task Force" (ASU 2009-13). It updates the existing multiple-element revenue arrangements guidance currently included under ASC 605-25, which originated primarily from the guidance in EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" (EITF 00-21). The revised guidance primarily provides two significant changes: (1) eliminates the need for objective and reliable evidence of the fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting, and (2) eliminates the residual method to allocate the arrangement consideration. In addition, the guidance also expands the disclosure requirements for revenue recognition. ASU 2009-13 will be effective for the first annual reporting period beginning on or after June 15, 2010, with early adoption permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. The adoption of this standard update is not expected to impact the Company's consolidated financial statements.

In February 2010, the FASB issued Accounting Standards Update ("ASU") No.2010-09, "Amendments to Certain Recognition and Disclosure Requirements" ("ASU 2010-09"), which is included in the FASB Accounting Standards Codification (the "ASC") Topic 855 (Subsequent Events). ASU 2010-09 clarifies that an SEC filer is required to evaluate subsequent events through the date that the financial statements are issued. ASU 2010-09 is effective upon the issuance of the final update and had no impact on our financial position, results of operations or cash flows.

Effective January 2010, an amendment to the Consolidation Topic of the Codification ("ASU 810") replaced the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity ("VIE") with a primarily qualitative analysis. The qualitative analysis is based on identifying the party that has both the power to direct the activities that most significantly impact the VIE's economic performance (the "power criterion") and the obligation to absorb losses from or the right to receive benefits of the VIE that could potentially be significant to the VIE (the "losses/benefit criterion"). The party that meets both these criteria is deemed to have a controlling financial interest. The party with the controlling financial interest is considered to be the primary beneficiary and as a result is required to consolidate the VIE. The amendment to ASU 810 had no impact on our financial position, results of operations or cash flows.

In January 2010, the FASB issued ASU 2010-06, "Improving Disclosures about Fair Value Measurements" which provides amendments to the FASB ASC Subtopic 820-10 that require new disclosures regarding (i) transfers in and out of Level 1 and Level 2 fair value measurements and (ii) activity in Level 3 fair value measurements. ASU 2010-06 also clarifies existing disclosures regarding (i) the level of asset and liability disaggregation and (ii) fair value measurement inputs and valuation techniques. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. We are currently evaluating the disclosure impact of adoption on our condensed consolidated financial statements.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

#### **Interest Rate and Credit Risk**

Our current operations have exposure to interest rate risk that relates primarily to our investment portfolio. All of our current investments are classified as cash equivalents or short-term investments and carried at cost, which approximates market value. We do not currently use or plan to use derivative financial instruments in our investment portfolio. The risk associated with fluctuating interest rates is limited to our investment portfolio, and we do not believe that a 10% change in interest rates would have a significant impact on our interest

income, operating results or liquidity.

Currently, our cash and cash equivalents are maintained by financial institutions in the United States, Germany, the United Kingdom, Poland, Argentina and Colombia and our current deposits are likely in excess of insured limits. We believe that the financial institutions that hold our investments are financially sound and, accordingly, minimal credit risk exists with respect to these investments. Our accounts receivable primarily relate to revenues earned from domestic and international mobile phone carriers. We perform ongoing credit evaluations of our carriers' financial condition but generally require no collateral from them. As of June 30, 2010, our largest customer (in multiple territories) represented approximately 36% of our gross accounts receivable outstanding.

#### ***Foreign Currency Risk***

The functional currencies of our United States and German operations are the United States Dollar, or USD, and the Euro, respectively. A significant portion of our business is conducted in currencies other than the USD or the Euro. Our revenues are usually denominated in the functional currency of the carrier. Operating expenses are usually in the local currency of the operating unit, which mitigates a portion of the exposure related to currency fluctuations. Intercompany transactions between our domestic and foreign operations are denominated in either the USD or the Euro. At month-end, foreign currency-denominated accounts receivable and intercompany balances are marked to market and unrealized gains and losses are included in other income (expense), net. Our foreign currency exchange gains and losses have been generated primarily from fluctuations in the Euro and pound sterling versus the USD and in the Euro versus the pound sterling. In the future, we may experience foreign currency exchange losses on our accounts receivable and intercompany receivables and payables. Foreign currency exchange losses could have a material adverse effect on our business, operating results and financial condition.

#### ***Inflation***

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we might not be able to offset these higher costs fully through price increases. Our inability or failure to do so could harm our business, operating results and financial condition.

### **Item 4. Controls and Procedures.**

#### ***Evaluation of Disclosure Controls and Procedures***

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness, as of the end of the period covered by this report, of our disclosure controls and procedures, as such term is defined in Exchange Act Rule 13a-15(e). Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of such date, the Company's disclosure controls and procedures were effective.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

#### ***Changes in Controls and Procedures***

There were no changes in our internal control over financial reporting or in other factors identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13(a)-15 and 15(d)-15 that occurred during the first quarter ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

There has 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, 2010. 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.**

There has been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended March 31, 2010.

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

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit) (\$)	(c)	(d)
			Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
April 1, 2010 - April 30, 2010	-	-	-	-
May 1, 2010 - May 31, 2010	-	-	-	-
June 1, 2010 - June 30, 2010	4,102,372	0.01	-	-

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. (Removed and Reserved)****Item 5. Other Information.**

None.

**Item 6. Exhibits.**

Exhibit No.	Description
2.1	Amended Disclosure Statement filed with the United States Bankruptcy Court for the Southern District of New York. <sup>1</sup>
2.2	Amended Plan of Reorganization filed with the United States Bankruptcy Court for the Southern District of New York <sup>1</sup>
2.3	Order Confirming Amended Plan of Reorganization issued by the United States Bankruptcy Court for the Southern District of New York. <sup>1</sup>
2.4	Plan and Agreement of Merger, dated September 27, 2007, of NeuMedia Media, Inc., a Delaware corporation, and Mediavest, Inc., a New Jersey corporation. <sup>2</sup>
2.5	Certificate of Merger merging Mediavest, Inc., a New Jersey corporation, with and into NeuMedia Media, Inc., a Delaware corporation, as filed with the Secretary of State of the State of Delaware. <sup>2</sup>
2.6	Certificate of Merger merging Mediavest, Inc., a New Jersey corporation, with and into NeuMedia Media, Inc., a Delaware corporation, as filed with the Secretary of State of the State of New Jersey. <sup>2</sup>
2.7	Agreement and Plan of Merger, dated as of December 31, 2007, by and among NeuMedia Media, Inc., Twistbox Acquisition, Inc., Twistbox Entertainment, Inc. and Adi McAbian and Spark Capital, L.P. <sup>3</sup>
2.8	Amendment to Agreement and Plan of Merger, dated as of February 12, 2008, by and among NeuMedia Media, Inc., Twistbox Acquisition, Inc., Twistbox Entertainment, Inc. and Adi McAbian and Spark Capital, L.P. <sup>4</sup>
3.1	Certificate of Incorporation. <sup>2</sup>
3.2	Bylaws. <sup>2</sup>
4.1	Form of Warrant to Purchase Common Stock dated September 14, 2006. <sup>5</sup>

- 4.2 Form of Warrant to Purchase Common Stock dated October 12, 2006. <sup>6</sup>
- 4.3 Form of Warrant to Purchase Common Stock dated December 26, 2006. <sup>7</sup>
- 4.4 Form of Warrant Issued to David Chazen to Purchase Common Stock dated August 3, 2006. <sup>8</sup>
- 4.5 Form of Warrant issued to Investors, dated October 23, 2008. <sup>9</sup>
- 4.6 Warrant dated September 23, 2008 issued to Vivid Entertainment, LLC. <sup>10</sup>
- 4.7 Form of Warrant issued to Investors, dated June 21, 2010. <sup>11</sup>
- 4.8 Form of Senior Secured Convertible Note due June 21, 213. <sup>11</sup>
- 4.9 Amended and Restated Senior Subordinated Secured Note due June 21, 2013, by Twistbox Entertainment, Inc. in favor of ValueAct SmallCap Master Fund, L.P. <sup>11</sup>
- 10.1 Agreement, dated as of June 21, 2010, between ValueAct SmallCap Master Fund, L.P., NeuMedia, Inc., Jonathan Cresswell, Nathaniel MacLeitch, Robert Ellin, Trinad Management, LLC, Trinad Capital Master Fund, Ltd. and the Guber Family Trust. <sup>11</sup>
- 10.2 Mutual Release, dated as of June 21, 2010, among ValueAct SmallCap Master Fund, L.P., Antiphony (Management Holdings) Limited, Nathaniel MacLeitch, Jonathan Cresswell, NeuMedia, Inc., Twistbox Entertainment, Inc., Peter Guber, Robert Ellin, Paul Schaeffer, Adi McAbian, Richard Spitz, Ray Schaaf, Keith McCurdy, Russell Burke, James Lefkowitz and Trinad Management. <sup>11</sup>
- 10.3 Subordination Agreement, dated as of June 21, 2010, by and between Trinad Capital Master Fund, Ltd., and ValueAct SmallCap Master Fund, L.P., and each of NeuMedia, Inc. and Twistbox Entertainment, Inc. <sup>11</sup>
- 10.4 Deed Poll Release, dated as of June 21, 2010, between NeuMedia, Inc., Twistbox Entertainment, Inc., James Lefkowitz and Russell Burke. <sup>11</sup>
- 10.5 Non-Competition Agreement, dated as of June 21, 2010, among NeuMedia, Inc., Antiphony (Management Holdings) Limited, Jack Cresswell and Nate MacLeitch. <sup>11</sup>
- 10.6 Earn-Out Termination Letter Agreement, dated as of June 21, 2010, among ValueAct SmallCap Master Fund, L.P., NeuMedia, Inc., Jonathan Cresswell, Nathaniel MacLeitch and certain other parties. <sup>11</sup>
- 10.7 Amended and Restated Senior Subordinated Secured Note due June 21, 2013, by Twistbox Entertainment, Inc. in favor of ValueAct SmallCap Master Fund, L.P. <sup>11</sup>
- 10.8 Amended and Restated Guaranty, dated as of June 21, 2010, by NeuMedia, Inc. to ValueAct SmallCap Master Fund, L.P. <sup>11</sup>
- 10.9 Letter Agreement, dated as of June 21, 2010, between ValueAct SmallCap Master Fund, L.P., NeuMedia, Inc., Rob Ellin and Trinad Management, LLC. <sup>11</sup>
- 10.10 Amended and Restated Guarantee and Security Agreement, dated as of June 21, 2010, among Twistbox Entertainment, Inc., NeuMedia, Inc. and each of its subsidiaries identified on Schedule I as being a subsidiary guarantor, the investors party thereto and ValueAct SmallCap Master Fund, L.P. <sup>11</sup>
- 10.11 Form of Senior Secured Convertible Note due June 21, 2013 <sup>11</sup>
- 10.12 Guarantee and Security Agreement, dated as of June 21, 2010, among Twistbox Entertainment, Inc., NeuMedia, Inc., each of the subsidiaries thereof party thereto, the investors party thereto and Trinad Capital Management, LLC. <sup>11</sup>
- 31.1 Certification of Ray Schaaf, Principal Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \*
- 31.2 Certification of Russell Burke, Principal Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \*
- 32.1 Certification of Ray Schaaf, Principal Executive Officer, pursuant to 18 U.S.C. Section 1350. \*
- 32.2 Certification of Russell Burke, Principal Financial Officer, pursuant to 18 U.S.C. Section 1350. \*

\* Filed herewith

- (1) Incorporated by reference to the Registrant's Annual Report on Form 10-KSB (File No. 000-10039), filed with the Commission on December 2, 2005.
- (2) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-10039), filed with the Commission on November 14, 2007.
- (3) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-10039), filed with the Commission on January 2, 2008.
- (4) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-10039), filed with the Commission on February 12, 2008.
- (5) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-10039), filed with the Commission on September 20, 2006.
- (6) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-10039), filed with the Commission on October 18, 2006.
- (7) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-10039), filed with the Commission on January 3, 2007.
- (8) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-10039), filed with the Commission on August 9, 2006.
- (9) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-10039), filed with the Commission on October 27, 2008.
- (10) Incorporated by reference to our Quarterly Report on Form 10-Q (File No. 000-10039 ), filed with the Commission on November 16, 2009.
- (11) Incorporated by reference to our Current Report on Form 8-K (File No. 000-10039 ), filed with the Commission on June 23, 2010.

## Signatures

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

NeuMedia, Inc.

Date: August 23, 2010

By: /s/ Ray Schaaf

Ray Schaaf

President

(Authorized Officer and Principal Executive Officer)

Date: August 23, 2010

By: /s/ Russell Burke

Russell Burke

Chief Financial Officer and Secretary

(Authorized Officer and Principal Financial Officer)



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

I, Ray Schaaf, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NeuMedia, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer 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 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: August 23, 2010

/s/ Ray Schaaf  
Ray Schaaf  
President  
(Principal Executive Officer)

---



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

I, Russell Burke, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NeuMedia, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer 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 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: August 23, 2010

/s/ Russell Burke  
Russell Burke  
Chief Financial Officer and Secretary  
(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 NeuMedia, 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 ended June 30, 2010 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, as amended, 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: August 23, 2010

/s/ Ray Schaaf

Ray Schaaf

President

(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 NeuMedia, 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 ended June 30, 2010 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, as amended, 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: August 23, 2010

/s/ Russell Burke

\_\_\_\_\_  
Russell Burke

Chief Financial Officer and Secretary

(Principal Financial Officer)

---

