

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2011

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

MANDALAY DIGITAL GROUP, INC.

(Exact name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

22-2267658

(I.R.S. Employer Identification No.)

4751 Wilshire Blvd 3rd Floor, Los Angeles, CA

(Address of Principal Executive Offices)

90010

(Zip Code)

(310) 601-2500

(Registrant's Telephone Number, including area code)

NeuMedia, Inc.

(Former name, former address and former fiscal year, if changed since last report)

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 February 16, 2012, there were 52,146,469 shares of the Registrant's common stock, par value \$0.0001 per share, issued and outstanding.

MANDALAY DIGITAL GROUP, INC.
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

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

Mandalay Digital Group, Inc. and Subsidiaries

(formerly known as NeuMedia, Inc.)

Consolidated Financial Statements

December 31, 2011

Consolidated Balance Sheets

(In thousands, except per share amounts)

	December 31, 2011 <u>(unaudited)</u>	March 31, 2011 <u></u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 7,406	\$ 845
Accounts receivable, net of allowances of \$67 and \$96, respectively	1,945	2,699
Prepaid expenses and other current assets	<u>376</u>	<u>296</u>
Total current assets	9,727	3,840
Property and equipment, net	265	388
Intangible assets, net	3,193	3,366
Goodwill	<u>6,609</u>	<u>6,609</u>
TOTAL ASSETS	<u>\$ 19,794</u>	<u>\$ 14,203</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 2,939	\$ 3,807
Accrued license fees	1,259	1,189
Accrued compensation	156	371
Current portion of long term debt and convertible debt, net of discounts of \$6,942 and \$0, respectively	169	273
Embedded conversion option liabilities, current portion	6,068	-
Warrant derivative liabilities	8,991	223
Other current liabilities	<u>964</u>	<u>1,261</u>
Total current liabilities	20,546	7,124
Long term debt and convertible debt, net of discounts of \$1,228 and \$1,856, respectively	5,735	4,461
Long term embedded conversion option liabilities	<u>11,045</u>	<u>-</u>
Total liabilities	<u>\$ 37,326</u>	<u>\$ 11,585</u>
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; 51,271,469 issued and outstanding at December 31, 2011; 41,274,225 issued and outstanding at March 31, 2011;	5	4
Additional paid-in capital	87,877	99,541
Accumulated other comprehensive loss	(198)	(291)
Accumulated deficit	<u>(105,316)</u>	<u>(96,736)</u>
Total stockholders' (deficit) / equity	<u>(17,532)</u>	<u>2,618</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 19,794</u>	<u>\$ 14,203</u>

Consolidated Statements of Operations (unaudited)

(In thousands, except per share amounts)

	<u>3 Months Ended December 31, 2011</u>	<u>3 Months Ended December 31, 2010</u>	<u>9 Months Ended December 31, 2011</u>	<u>9 Months Ended December 31, 2010</u>
Net revenues	\$ 1,957	\$ 2,048	\$ 5,788	\$ 6,983
Cost of revenues				
License fees	733	1,172	1,885	2,747
Other direct cost of revenues	57	86	172	259
Total cost of revenues	790	1,258	2,057	3,006
Gross profit	1,167	790	3,731	3,977
Operating expenses				
Product development	430	929	1,578	3,063
Sales and marketing	204	597	660	1,647
General and administrative	6,648	1,318	8,764	4,266
Amortization of intangible assets	-	18	-	54
Impairment of goodwill and intangible assets	-	6,028	-	6,028
Total operating expenses	7,282	8,890	11,002	15,058
Loss from operations	(6,115)	(8,100)	(7,271)	(11,081)
Interest and other income / (expense)				
Interest expense	(1,693)	(358)	(2,438)	(1,397)
Foreign exchange transaction gain / (loss)	(71)	42	(54)	(127)
Other income / (expense)	1,033	(30)	1,247	(372)
Interest and other expense	(731)	(346)	(1,245)	(1,896)
Loss from operations before income taxes	(6,846)	(8,446)	(8,516)	(12,977)
Income tax provision	(32)	(45)	(64)	(178)
Net loss from continuing operations net of taxes	(6,878)	(8,491)	(8,580)	(13,155)
Discontinued operations, net of taxes:				
Income from discontinued operations net of taxes	-	-	-	709
Gain on disposal of discontinued operations, net of taxes	-	-	-	4,315
Net income from discontinued operations, net of taxes	-	-	-	5,024
Net (loss)/profit	\$ (6,878)	\$ (8,491)	\$ (8,580)	\$ (8,131)
Comprehensive (loss)/income	\$ (6,832)	\$ (8,495)	\$ (8,487)	\$ (7,995)
Basic and diluted net income / (loss) per common share	\$ (.016)	\$ (0.23)	\$ (0.21)	\$ (0.22)
Continuing operations	\$ (0.16)	\$ (0.23)	\$ (0.21)	\$ (0.35)
Discontinued operations	\$ -	\$ -	\$ -	\$ 0.14
Weighted average common shares outstanding,				
basic and diluted	41,966	36,174	41,808	37,159

2011	<u>41,771,469</u>	<u>\$ 4</u>	<u>100,000</u>	<u>\$ 100</u>	<u>\$ 99,798</u>	<u>\$ (244)</u>	<u>(98,438)</u>	<u>\$ 1,220</u>
Net loss							(6,878)	(6,878)
Foreign currency translation						46	46	46
Issuance of restricted stock for services	8,883,333	\$ 1		\$ 5,548			5,549	
Issuance of restricted stock for acquisition of assets	50,000			31			31	
Issuance of warrants to vendor for services rendered				49			49	
Derivative Liabilities				(17,549)			(17,549)	
Comprehensive loss								<u>\$ (7,177)</u>
Balance at December 31, 2011	<u>51,271,469</u>	<u>\$ 5</u>	<u>100,000</u>	<u>\$ 100</u>	<u>\$ 87,877</u>	<u>\$ (198)</u>	<u>(105,316)</u>	<u>\$(17,532)</u>

Consolidated Statements of Cash Flows (unaudited)

(In thousands)

	9 Months Ended December 31, 2011	9 Months Ended December 31, 2010
Cash flows from operating activities		
Net (loss)	\$ (8,580)	\$ (8,131)
Adjustments to reconcile net income/(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	332	538
Amortization of debt discount	686	438
Allowance for doubtful accounts	(29)	(202)
Stock-based compensation	-	419
Impairment of goodwill and intangibles	-	6,028
Fair value or financing costs related to conversion options	1,255	-
Warrants issued for services	133	172
Stock issued for services	5,753	-
Increase/(decrease) in fair value of derivative liabilities	74	-
PIK interest	488	317
Settlement of debt with a supplier	(1,079)	-
(Increase) / decrease in assets, net of effect of disposal of subsidiary:		
Accounts receivable	783	3,307
Prepaid expenses and other current assets	(80)	267
Increase / (decrease) in liabilities, net of effect of disposal of subsidiary:		
Accounts payable	211	241
Accrued license fees	70	370
Accrued compensation	(215)	(161)
Other liabilities and other items:	(289)	(407)
Net cash used in operating activities	<u>(487)</u>	<u>(1,119)</u>
Cash flows from investing activities		
Purchase of property and equipment	(10)	(60)
Transaction costs	-	(906)
Cash remaining with disposed subsidiary	-	(641)
Net cash used in investing activities	<u>(10)</u>	<u>(1,607)</u>
Cash flows from financing activities		
Proceeds from new convertible debt	7,000	2,500
Payment of equipment leases	(11)	-
Net cash provided by financing activities	<u>6,989</u>	<u>2,500</u>
Effect of exchange rate changes on cash and cash equivalents	69	19
Net change in cash and cash equivalents	6,561	(207)
Cash and cash equivalents, beginning of period	845	1,891
Cash and cash equivalents, end of period	<u>\$ 7,406</u>	<u>\$ 1,684</u>
Supplemental disclosure of cash flow information:		
Taxes paid	<u>\$ 64</u>	<u>\$ 179</u>
Interest paid	<u>\$ 1</u>	<u>\$ 2</u>
Supplemental disclosure of non-cash investing activities:		
Acquisition of asset for 50,000 shares of the Company's common stock	<u>\$ 31</u>	<u>\$ -</u>

Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

1. Organization

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

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

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.

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

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. AMV and its subsidiaries were subsequently disposed, as set out in Note 8 below.

On June 21, 2010, the Company signed and closed an agreement whereby ValueAct and the AMV Founders, acting through a newly formed company, acquired the operating subsidiaries of AMV (the "Assets") in exchange for the release of \$23,231 of secured indebtedness, comprising 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 (as defined below) except for \$3,500 in principal. The Company retained all assets and liabilities of Twistbox and the Company other than the Assets. See Note 8 for further discussion regarding the discontinued operations.

On December 28, 2011, the Company acquired the assets of Digital Turbine Group, LLC ("Digital Turbine") in exchange for 50,000 shares of the Company's common stock.

Digital Turbine provides a cross-platform user interface and multimedia management system for carriers and original equipment manufacturers (OEMs). The modular platform can be integrated with different operating systems to provide a more organized and unified experience for end-users of mobile content across search, discovery, billing, and delivery. Aspects of the platform, such as the Magnet toolbar, allow carriers and OEMs to better control the data presented to their users while giving them a more efficient way of finding and purchasing the content. The Company evaluated the components of the purchase under FASB ASC 805, and determined the purchase to be an acquisition of assets. The Company applied 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 components of the purchase are outlined below, and were expensed directly to production expenses under research and development costs.

Asset	Fair Value
Software	29,000
Trademarks, Trade and Domain Names	1,500
Total	\$ 30,500

2. Going Concern

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which contemplate continuation of the Company as a going concern. As reflected in the accompanying consolidated financial statements, the Company has losses from operations and negative cash flows from operations and current liabilities exceed current assets. These conditions raise substantial doubt as to the Company's ability to continue as a going concern.

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying consolidated balance sheet is dependent upon continued operations of the Company, which, in turn, is dependent upon the Company's ability to continue to raise capital and ultimately generate positive cash flows from operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classifications of liabilities that might be necessary should the Company be unable to continue its existence.

Management has taken or plans to take steps that it believes will be sufficient to provide the Company with the ability to continue in existence, including the following:

- raised \$7 million in convertible debt during the period ending December 31, 2011
- settled certain payables for shares of the Company's common stock
- settled certain payables resulting in a significant reduction to accrued license fees and accounts payable
- entered into settlements with two strategic partners that allow the Company to reduce royalty payments

- reduced ongoing operating expenses
- seeking approval to increase the number of authorized common shares in order to have sufficient shares to issue for future strategic acquisitions
- raising additional equity capital

There can be no assurance that the Company will be able to achieve the steps as planned to continue as a going concern.

3. Summary of Significant Accounting Policies

Basis of Presentation

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and our wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation. 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), developing and maintaining carrier platforms, mobile advertising, 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 subscription 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.

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 newer and more advanced handsets, promotions during the period and economic trends. When the Company receives the final carrier reports, to the extent not received within a reasonable time frame following the end of each month, the Company records any differences between estimated revenues and actual revenues in the reporting period when the Company determines the actual amounts. Revenues earned from certain carriers may not be reasonably estimated. If the Company is unable to reasonably estimate the amount of revenues to be recognized in the current period, the Company recognizes revenues upon the receipt of a carrier revenue report and when the Company's portion of licensed revenues are fixed or determinable and collection is probable. To monitor the reliability of the Company's estimates, management, where possible, reviews the revenues by country, by carrier and by product line on a regular basis to identify unusual trends such as differential adoption rates by carriers or the introduction of new handsets. If the Company deems a carrier not to be creditworthy, the Company defers all revenues from the arrangement until the Company receives payment and all other revenue recognition criteria have been met.

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

- wireless subscribers directly contract with the carriers, which have most of the service interaction and are generally viewed as the primary obligor by the subscribers;
- carriers generally have significant control over the types of content that they offer to their subscribers;

- carriers are directly responsible for billing and collecting fees from their subscribers, including the resolution of billing disputes;
- carriers generally pay the Company a fixed percentage of their revenues or a fixed fee for each game;
- carriers generally must approve the price of the Company's content in advance of their sale to subscribers, and the Company's more significant carriers generally have the ability to set the ultimate price charged to their subscribers; and
- the Company has limited risks, including no inventory risk and limited credit risk.

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

Net Loss per Common Share

Basic loss per common share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net loss per share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding for the period plus dilutive common stock equivalents, using the treasury stock method. All stock options, warrants, convertible notes, and convertible Series A Preferred Stock were excluded from the diluted loss per share calculation due to their anti-dilutive effect. Potentially dilutive shares from stock options, warrants, convertible notes, and convertible Series A preferred stock were as follows:

	3 Months Ended December 31, 2011	3 Months Ended December 31, 2010	9 Months Ended December 31, 2011	9 Months Ended December 31, 2010
Potentially dilutive shares	41,390	11,900	40,753	6,597

Comprehensive Loss

Comprehensive income consists of two components, net income and other comprehensive loss. Other comprehensive 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 loss. The Company's other comprehensive income 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.

Accounts Receivable

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

Content Provider Licenses

Content Provider License Fees

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

Minimum Guarantee License Fees

The Company at times may enter into contracts with licensors that 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

At times the Company may pay amounts 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. These amounts would be capitalized and included in the balance sheet as prepaid expenses, and would then be expensed over the estimated life of the content acquired.

Software Development Costs

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

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

Product Development Costs

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

Advertising Expenses

The Company expenses the production costs of advertising, including direct response advertising, the first time the advertising takes place. Advertising expense for continuing operations was \$1 and \$84 in the three months ended December 31, 2011 and 2010, respectively, and \$7 and \$109 in the nine months ended December 31, 2011 and 2010, respectively. There were no advertising expenses for discontinued operations in the three months ended December 31, 2011 and 2010, but there were advertising expenses of \$0 and \$956 in the nine months ended December 31, 2011 and 2010, 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 December 31, 2011 and March 31, 2011, 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.

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 gains of \$93 and \$134 in the nine months ended December 31, 2011 and December 31, 2010, respectively, have been reported as a component of comprehensive loss in the consolidated statements of stockholders' equity and comprehensive 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. One major customer represented approximately 49% of our gross accounts receivable outstanding as of December 31, 2011, and 35% of our gross accounts receivable outstanding as of December 31, 2010. This customer accounted for 43% of our gross revenues in the period ended December 31, 2011; and 49% in the period ended December 31, 2010.

Property and Equipment

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

Goodwill and Indefinite Life Intangible Assets

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

In the period ended December 31, 2011 the Company determined that there were no triggering events that would cause an impairment of intangible assets. During the year ended March 31, 2011, the Company determined that there was an impairment of intangible assets, amounting to \$4,482. During the year ended March 31, 2010, the Company determined that there was an impairment of intangible assets, amounting to \$5,736. In performing the related valuation analysis the Company used various valuation methodologies including probability weighted discounted cash flows, comparable transaction analysis, and market capitalization and comparable company multiple comparison. The impairment is detailed in Note 9 below.

Income Taxes

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

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

Stock-based compensation

We have applied FASB ASC 718 *Share-Based Payment* ("ASC 718"). 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, derivative liabilities, accounts receivable allowances, and stock-based compensation expense.

Recent Accounting Pronouncements

Adopted Accounting Pronouncements

In December 2010, the FASB issued updated guidance on when and how to perform certain steps of the periodic goodwill impairment test for public entities that may have reporting units with zero or negative carrying amounts. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010, with early adoption prohibited. It is applicable to the Company's fiscal year beginning April 1, 2011. The Company evaluated this guidance, and determined it doesn't have a material effect on its consolidated financial statements.

In December 2010, the FASB also issued guidance to clarify the reporting of pro forma financial information related to business combinations of public entities and to expand certain supplemental pro forma disclosures. This guidance is effective prospectively for business combinations that occur on or after the beginning of the fiscal year beginning on or after December 15, 2010, with early adoption permitted. It is applicable to the Company's fiscal year beginning April 1, 2011. The Company evaluated this guidance, and determined it doesn't have a material effect on its consolidated financial statements.

Recently Issued Accounting Pronouncements

In May 2011, the FASB issued guidance to amend certain measurement and disclosure requirements related to fair value measurements to improve consistency with international reporting standards. This guidance is effective prospectively for public entities for interim and annual reporting periods beginning after December 15, 2011, with early adoption by public entities prohibited, and is applicable to the Company's fiscal quarter beginning January 1, 2012. The Company is currently evaluating this guidance, but does not expect its adoption will have a material effect on its consolidated financial statements.

In June 2011, the FASB issued new guidance on the presentation of comprehensive income that will require a company to present components of net income and other comprehensive income in one continuous statement or in two separate, but consecutive statements. There are no changes to the components that are recognized in net income or other comprehensive income under current GAAP. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011, with early adoption permitted. It is applicable to the Company's fiscal year beginning April 1, 2012. The Company is currently evaluating this guidance, but does not expect its adoption will have a material effect on its consolidated financial statements.

In September 2011, the Financial Accounting Standards Board (FASB) issued amended accounting guidance related to goodwill impairment testing. The new guidance provides the option to perform a qualitative assessment by applying a more likely than not scenario to determine whether the fair value of a reporting unit is less than its carrying amount, which may then allow a company to skip the annual two-step quantitative goodwill impairment test depending on the determination. The amended guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Earlier adoption is permitted. Management does not expect the adoption of the amended guidance to have a material impact on the Company's consolidated financial statements. The Company is currently evaluating this guidance, but does not expect its adoption will have a material effect on its consolidated financial statements.

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

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

4. Fair Value Measurements

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

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

- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

In accordance with ASC 820, the Company measures its cash and cash equivalents at fair value. The Company’s cash and cash equivalents are classified within Level 1 by using quoted market prices.

The Company uses Level 3 inputs for its valuation methodology for the warrant and convertible debt derivatives as their fair values were determined by using the Black-Scholes option pricing model based on various assumptions. The Company’s derivative liabilities are adjusted to reflect fair value at each period end, with any increase or decrease in the fair value being recorded in results of operations as adjustments to fair value of derivatives. On December 29, 2011, the Company issued a \$7,000 convertible promissory note (“The New Convertible Note”). The Company determined that the conversion option was a beneficial conversion option that was required to be bifurcated and measured at fair value at each reporting period. Due to the New Convertible Note, the Company did not have sufficient authorized shares of common stock to satisfy all potential exercises of options, warrants and convertible notes. On December 29, 2011 the Company reclassified from additional paid in capital to derivative liabilities outstanding warrants and conversion options related to the New Convertible Note and Senior Secured Convertible Note.

At December 31, 2011, the Company determined the fair value of the embedded convertible option liabilities to be \$17,113 using the Black-Scholes option pricing model with the following assumptions: 1) expected life between 0.997 and 1.47 years, 2) a risk free interest rate of .12%, 3) a dividend yield of 0% and 4) volatility of 175%.

At December 31, 2011, the Company determined the fair value of the derivative warrant liability to be \$8,991 using the Black-Scholes option pricing model with the following assumptions: 1) expected life between 1.84 and 5.00 years, 2) a risk free interest rate between .25% and .84%, 3) a dividend yield of 0% and 4) a volatility of 175%.

The significant unobservable inputs used in the fair value measurement of the Company’s derivative liabilities are volatility and risk free interest rates. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement.

At December 31, 2011, the Company identified the following assets and liabilities that are required to be presented on the balance sheet at fair value:

Fair Value Measurements

(in thousands)	Total	Level 1	Level 2	Level 3
Embedded conversion option liabilities, current portion	\$ 6,068	\$ -	\$ -	\$ 6,068
Warrant derivative liabilities	8,991	-	-	8,991
Long term embedded conversion option liabilities	<u>11,045</u>	<u>-</u>	<u>-</u>	<u>11,045</u>
Total derivative liabilities	<u>\$ 26,104</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,104</u>

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During the nine months ended December 31, 2011, the Company recorded a loss of \$76 for the change in the valuation of the aforementioned liabilities, which is recorded as other expense in the accompanying consolidated statements of operations.

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

The following table represents a reconciliation of liabilities measured on a recurring basis using significant unobservable inputs (level 3) as of December 31, 2011.

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)
Balance, April 1, 2011	\$ 223
Total gains or losses (realized/unrealized) included in earnings	76
Purchases, issuances and settlements	<u>25,805</u>
Ending balance, December 31, 2011	26,104
Total amount of gains and losses for the period included in earnings attributable to the change in unrealized gains or losses related to liabilities still held at the reporting date	76

The Company did not have any level 3 derivative liabilities measured at fair value for the 9 month period ended December 31, 2010.

Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). As of March 31, 2011 the Company had incurred cumulative impairment losses on goodwill and other intangible assets of \$68,770 based on the fair value measurement methods and criteria described in Note 9. For the period ended December 31, 2011 the Company determined that there was no evidence of impairment and therefore no additional impairment loss was recorded.

5. Accounts Receivable

	December 31	March 31,
	2011	2011
Billed	\$ 901	\$ 1,523
Unbilled	1,112	1,272
Less: allowance for doubtful accounts	<u>(67)</u>	<u>(96)</u>
Net Accounts receivable	<u>\$ 1,945</u>	<u>\$ 2,699</u>

The Company had no significant write-offs or recoveries during the period ended December 31, 2011 and the year ended March 31, 2011.

6. Property and Equipment

	<u>December 31</u> <u>2011</u>	<u>March 31,</u> <u>2011</u>
Equipment	\$ 1,014	\$ 1,006
Furniture & fixtures	323	328
Leasehold improvements	<u>140</u>	<u>140</u>
	1,477	1,474
Accumulated depreciation	<u>(1,212)</u>	<u>(1,086)</u>
Net Property and Equipment	<u>\$ 265</u>	<u>\$ 388</u>

Depreciation expense for continuing operations was \$45 and \$74 in the three months ended December 31, 2011 and 2010 and \$160 and \$227 in the nine months ended December 31, 2011 and 2010, respectively. Depreciation expense for discontinued operations was \$0 and \$0 in the three months ended December 31, 2011 and 2010 and \$0 and \$27 in the nine months ended December 31, 2011 and 2010, respectively.

7. 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 ISOs shall only be issued to employees. Generally, ISOs and NQOs 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:

(in thousands)	<u>Number of</u> <u>Shares</u>	<u>Weighted Average</u> <u>Exercise Price</u>
Outstanding at March 31, 2011	6,187	\$ 1.79
Granted	-	\$ -
Canceled	(356)	\$ 0.48
Exercised	<u>-</u>	<u>\$ -</u>
Outstanding at December 31, 2011	<u>5,831</u>	<u>\$ 1.87</u>
Exercisable at December 31, 2011	<u>5,831</u>	<u>\$ 1.87</u>

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In April 2011, two former employees each agreed to cancel options to purchase 173,622 shares of common stock in connection with their respective termination agreements.

In December 2011, the Company recorded the cancellation of 9,122 shares of common stock relating to three former employees.

The exercise price for options outstanding and options exercisable at December 31, 2011 was as follows:

Range of Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number Outstanding December 31, 2011	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$0 - \$1.00	4.56	2,914	\$ 0.49	\$ 610,759
\$2.00 - \$3.00	6.44	2,117	\$ 2.67	\$ -
\$4.00 - \$5.00	6.12	800	\$ 4.75	\$ -
	5.46	<u>5,831</u>	\$ 1.87	<u>\$ 610,759</u>

Stock Plans

A summary of the status of the Company's nonvested shares as of December 31, 2011 and March 31, 2011 pursuant to the Plan, and changes during the period ended December 31, 2011 is presented below:

(in thousands)

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at March 31, 2011	-	\$ -
Granted	-	\$ -
Vested	-	\$ -
Exercised	-	\$ -
Nonvested at December 31, 2011	<u>-</u>	<u>\$ -</u>
Cumulative forfeited	<u>(565)</u>	<u>\$ 0.53</u>

Option Plans and Stock Plans

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

	Nine Months Ended December 31, 2011	Nine Months Ended December 31, 2010
Product development	\$ 69	\$ 4
Sales and marketing	\$ -	\$ 10
General and administrative	\$ -	\$ 222
	<u>\$ 69</u>	<u>\$ 236</u>

8. Discontinued Operations

On June 21, 2010, the Company restructured its debt with its senior debt holder by closing a number of transactions, including the sale of AMV. In connection with the sale, ValueAct Small Cap Master Fund, L.P. ("ValueAct") and Nate MacLeitch and Jonathan Cresswell (the "AMV Founders"), acting through a newly formed company, 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 a secured promissory note in the aggregate principal amount of \$5,375 (the "AMV Note") and all of the amounts due and payable under the Senior Secured Note, issued by Twistbox, due July 31, 2010, as amended on February 12, 2008 (the "ValueAct Note") except for \$3,500 in principal, which is due in one lump sum principal payment on June 21, 2013. 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.

In accordance with FASB ASC 360, Property, Plant and Equipment, the Company recorded a gain of \$4,315 on the sale of AMV.

The following is a summary of assets and liabilities of the discontinued operations as of March 31, 2010 and as of the disposal date of June 21, 2010 and the resulting gain on sale:

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

9. Goodwill and Other Intangible Assets

Goodwill

The Company's carrying amount of goodwill for the periods ended December 31, 2011 and March 31, 2011 was \$6,609

We complete our annual impairment tests in the fourth quarter of each year unless events or circumstances indicate that an asset may be impaired. There were no indications of impairment present during the period ended December 31, 2011. Because there were no indications of impairment present, the Company did not book an impairment in the period ended December 31, 2011. In the period ended December 31, 2010, the Company determined that there was an impairment of intangible assets, amounting to \$4,482. Fair value is defined under ASC 820, Fair Value Measurements and Disclosures as, "The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". The Company considered a number of valuation approaches and methods and applied the most appropriate methods from the income, and market approaches to derive an opinion of value. Under the income approach, the Company utilized the discounted cash flow method, and under the market approach, consideration was given to the guideline public company method, the merger and acquisition method, and the market capitalization method.

Other Intangible Assets

The following is a reconciliation of the changes to the Company's carrying amount of intangible assets for the period ended December 31, 2011 and the year ended March 31, 2011:

	Software	Tradename/ Trademark	Total
Balance at March 31, 2011, net	\$ 893	\$ 2,473	\$ 3,366
Amortization	(173)	-	(173)
Balance at December 31, 2011, net	<u>\$ 720</u>	<u>\$ 2,473</u>	<u>\$ 3,193</u>

The components of intangible assets as at December 31, 2011 and March 31, 2011 were as follows:

	<u>As of December 31, 2011</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
	(in thousands)		
Software	\$ 1,611	\$ (891)	\$ 720
Tradename/Trade mark	2,473	-	2,473
Customer list	1,220	(1,220)	-
License agreements	443	(443)	-
	<u>\$ 5,747</u>	<u>\$ (2,554)</u>	<u>\$ 3,193</u>

	<u>As of March 31, 2011</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
	(in thousands)		
Software	\$ 1,611	\$ (718)	\$ 893
Tradename/Trademark	2,473	-	2,473
Customer list	1,220	(1,220)	-
License agreements	443	(443)	-
	<u>\$ 5,747</u>	<u>\$ (2,381)</u>	<u>\$ 3,366</u>

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. The Company recorded amortization expense for continuing operations of \$58 and \$86, and \$173 and \$259 during the three and nine month periods ended December 31, 2011 and 2010, respectively, in cost of revenues; and amortization expense in the amount of \$0 and \$18, and \$0 and \$54 during the three and nine month periods ended December 31, 2011 and 2010, respectively, in operating expenses. During the three and nine month periods ended December 31, 2011 and 2010 the Company recorded amortization expense for discontinued operations in the amount of \$0 and \$0, and \$0 and \$26, respectively, in cost of revenues; and amortization expense in the amount of \$0 and \$0, and \$0 and \$40, respectively, in operating expenses.

Based on the amortizable intangible assets as of December 31, 2011, we estimate amortization expense for the next four years to be as follows:

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For the twelve months ending December 31,	Amortization Expense (in thousands)
2012	232
2013	232
2014	232
2015	24
	<u>\$ 720</u>

10. Debt

Short Term Debt

	<u>December 31</u> <u>2011</u>	<u>March 31,</u> <u>2011</u>
Note Payable	\$ 104	\$ 100
Equipment Leases and accrued interest on debt	5	15
Convertible Note, net of discounts of \$6,942 and \$0, respectively	60	-
Accrued Interest, Senior Secured Note and Secured Note	-	158
	<u>\$ 169</u>	<u>\$ 273</u>
	<u>December 31</u> <u>2011</u>	<u>March 31,</u> <u>2011</u>

Long Term Debt

Senior secured note, net of discount, of \$1,228 and \$1,856, respectively	\$ 1,673	\$ 776
Secured note	4,062	3,685
	<u>\$ 5,375</u>	<u>\$ 4,461</u>

Note Payable

On March 31, 2011 as a part of settlement of debt, the Company recorded a Note Payable to a service provider in the amount of \$100.

Convertible Debt

On December 29, 2011, the Company sold and issued \$7,000 of short term convertible notes (the "New Convertible Note"). The New Convertible Note bears interest at a rate of 3% per annum payable at the time of conversion. The term of the New Convertible Note is the earlier of (i) the date of the Company's next equity financing round or (ii) the date that is one year following the date of the New Convertible Note. The New Convertible Note will automatically convert into shares of the Company's common stock one year from the date of the New Convertible Note at a conversion price equal to (x) if in connection with a next equity financing round, a 25% discount to the actual or implied stock price in such financing or (y) if the Company does not complete the next equity financing round within one year of the date of the New Convertible Note, at 75% of the average trading price of the Company's common stock for the 30-day period immediately prior to conversion. In no event shall the conversion price be less than \$0.50.

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The purchaser of the New Convertible Note also received a warrant ("Convertible Note Warrant") to purchase shares of common stock of the Company. The number of shares which may be purchased under the Convertible Note Warrant is equal to an amount calculated by multiplying 25% by the quotient obtained by dividing the amount of the principal under the Note outstanding immediately prior to conversion by the conversion price. The conversion price is to be determined based on a qualified event or one year with an exercise price of no less than \$0.50 per share. The Convertible Note Warrant has a five year term.

The Company determined that the New Convertible Note has embedded conversion features that are required to be bifurcated and measured at fair value at each reporting. At the date of issuance, the fair value of the embedded conversion feature and the Convertible Note Warrant of the New Convertible Note was \$8,255 using the Black-Scholes option pricing model with the following assumptions: 1) expected life of 1 year, 2) a risk free interest rate of .12%, 3) a dividend yield of 0% and 4) volatility of 175%. The Company determined the fair value of the Convertible Note Warrants to be \$2,177, using the Black-Scholes option pricing model with the following assumptions: 1) expected life of 5 years, 2) a risk free interest rate of .88%, 3) a dividend yield of 0% and 4) volatility of 175%. The combined total discount pertaining to the conversion factor of the New Convertible Note and the Convertible Note Warrant was originally limited to the face value of the New Convertible Note of \$7,000 and is being amortized over the term of the New Convertible Note, with the \$1,255 fair value that exceeded the face value being charged to operations as interest expense. Through the nine months ended December 31, 2011, the Company amortized \$58 of the aforesaid discounts as interest and financing costs in the accompanying consolidated statements of operations.

ValueAct Note

On June 21, 2010 the ValueAct Note was amended and restated in its entirety and reduced to \$3,500 of principal (the "Amended ValueAct Note").

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

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. The entire principal balance is due in one lump sum payment on June 21, 2013. Notwithstanding the foregoing, at any time on or prior to the 18th month following the original issue date of the New Senior Secured Notes, the Company may, at its option, in lieu of making any cash payment of interest, elect that the amount of any interest due and payable on any interest payment date on or prior to the 18th month following the original issue date of the New Senior Secured Notes be added to the principal due under the New Senior Secured Notes. The accrued and unpaid principal and interest due on the New Senior Secured Notes are convertible at any time at the election of the holder into shares of common stock of the Company at a conversion price of \$0.15 per share, subject to adjustment. The New Senior Secured Notes are secured by a first lien on substantially all of the assets of the Company and its subsidiaries pursuant to the terms of that certain Guarantee and Security Agreement, dated as of June 21, 2010, among Twistbox, the Company, each of the subsidiaries thereof party thereto, the investors party thereto and Trinad Management. The Amended ValueAct Note is subordinated to the New Senior Secured Notes pursuant to the terms of that certain Subordination Agreement, dated as of June 21, 2010, by and between Trinad Fund, and ValueAct, and each of the Company and Twistbox.

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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 the embedded conversion options are considered derivative instruments. On December 31, 2011, the Company determined the fair value of the detachable warrants issued in connection with the New Senior Secured Notes to be \$5,086, using the Black-Scholes option pricing model and the following assumptions: expected life of 5 years, a risk free interest rate of .84%, a dividend yield of 0% and volatility of 175%. In addition, the Company determined the value of the New Senior Secured Notes to be \$11,045. The combined total discount for the New Senior Secured Notes was originally 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. Through the nine months ended December 31, 2011, the Company amortized \$628 of the aforesaid discounts as interest and financing costs in the accompanying consolidated statements of operations.

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

11. Related Party Transactions

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

On September 14, 2006, the Company entered into a five year management agreement ("Agreement") with Trinad Management, the manager of Trinad Capital Master Fund, which is one of our principal stockholders. In addition, Robert Ellin, our director, is the managing director of and portfolio manager for Trinad Management. Pursuant to the terms of the Agreement, Trinad Management provides certain management services, including, without limitation, relating to the sourcing, structuring and negotiation of a potential business combination transaction involving the Company in exchange for a fee of \$90 per quarter, plus reimbursements of all related expenses reasonably incurred. The Agreement expired on September 14, 2011. For the nine month periods ended December 31, 2011 and 2010, the Company incurred management fees under the agreement of \$180 and \$270, respectively. At December 31, 2011 and March 31, 2011, the accrued payable to Trinad Management was \$180 and \$135, 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 \$0 and \$40 respectively for the nine month periods ended December 31, 2011 and 2010.

12. Capital Stock Transactions

Preferred Stock

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

Common Stock

On April 1, 2011, 347,244 shares of common stock of the Company were issued to two former employees of the Company, as compensation, at the closing market price on that date of \$0.58 cents per share, resulting in a total value of \$201. In addition, the employees each agreed to cancel options to purchase 173,622 shares of common stock in connection with their respective termination agreements which were valued at \$132. The Company determined the fair value of the cancelled options using the Black-Scholes option pricing model and the following assumptions: expected life of 5.11 years, a risk free interest rate of 1.76%, a dividend yield of 0% and volatility of 75%. The net value of the termination was \$69.

On April 6, 2011, the Company issued 150,000 shares of common stock of the Company to a vendor. The shares vest over a one year period. The shares were valued at the closing market price on that date of \$0.55 cents per share. The overall value was determined to be \$83, of which \$66 was recorded through the period ended December 31, 2011.

In May 2011, 150,000 shares of common stock of the Company were issued to a vendor as a settlement, at the closing market price on that date of \$0.40 cents per share, resulting in a total value of \$60.

In December 2011, the Company issued 50,000 of common stock of the Company to Digital Turbine Group LLC for the purchase of its assets. The shares were valued at the closing market price on that date of \$0.65 cents per share. The overall value was determined to be \$31, and was recorded as an expense to research and development in product development costs as of December 31, 2011.

In December 2011, the Company issued an aggregate of 12,450,000 shares of common stock of the Company to 11 individuals. The shares issued vest over a two year period, based on three triggering events i) a financing of at least \$5 million ii) if the Company's calculated total enterprise value exceeds \$100 million, and iii) if the Company's calculated total enterprise value exceeds \$200 million. On December 29, 2011 4,150,000 of the shares vested. The overall value was determined to be \$2,532, and was recorded as an expense in the quarter ended December 31, 2011. The remaining 8,300,000 shares are not yet vested.

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In December 2011, the Company issued 1,000,000 shares of common stock of the Company to a director. The shares vest over a period of one year. The shares were valued at the closing market price on that date of \$0.62 cents per share. The overall value was determined to be \$620, and \$52 of expense was recorded through the period ended December 31, 2011.

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In December 2011, the Company issued 1,000,000 shares of common stock of the Company to a director. The shares vest over a period of one year. The shares were valued at the closing market price on that date of \$0.62 cents per share. The overall value was determined to be \$620, and \$52 of expense was recorded through the period ended December 31, 2011.

In December 2011, the Company issued 1,000,000 shares of common stock of the Company to a director. The shares vest over a period of one year. The shares were valued at the closing market price on that date of \$0.61 cents per share. The overall value was determined to be \$610, and \$5 of expense was recorded through the period ended December 31, 2011.

In December 2011, the Company issued 3,600,000 shares of common stock of the Company to a director. The shares are vested, but are restricted for a one year period. The shares were valued at the closing market price on that date of \$0.61 cents per share. The overall value was determined to be \$2,196, and \$2,196 of expense was recorded through the period ended December 31, 2011.

In December 2011, the Company issued an aggregate of 3,400,000 shares of common stock of the Company to a director of the Company. The shares issued vest over a two year period, based on three triggering events i) a financing of at least \$5 million ii) if the Company's calculated total enterprise value exceeds \$100 million, and iii) if the Company's calculated total enterprise value exceeds \$200 million. On December 29, 2011 1,133,333 of the shares vested. The overall value was determined to be \$692, and was recorded as an expense in the quarter ended December 31, 2011. The remaining 2,266,667 shares are not yet vested.

Warrants

On April 6, 2011, the Company issued warrants to purchase 75,000 shares of the Company's common stock to a vendor, as compensation for services rendered, at \$0.25 cents per share. The Company determined the fair value of the warrants issued to be a \$28, using the Black-Scholes option pricing model and the following assumptions: expected life of 3.00 years, a risk free interest rate of 1.36%, a dividend yield of 0% and volatility of 75%. The warrants vest over a six month period and \$34 of expense has been recorded through the period ended September 30, 2011.

In June 2011, the Company entered into a consulting agreement, pursuant to which, the Company issued warrants to purchase 150,000 shares of the Company's common stock at an exercise price of \$0.47 cents per share. At December 31, 2011 the Company determined the fair value of the warrants issued to be \$92, using the Black-Scholes option pricing model and the following assumptions: expected life of 3.00 years, a risk free interest rate of 0.83%, a dividend yield of 0% and volatility of 175%. The warrants vest over a one year period and \$53 of expense has been recorded through the period ended December 31, 2011.

In June 2011, the Company entered into a consulting agreement, pursuant to which, the Company issued warrants to purchase 150,000 shares of the Company's common stock at an exercise price of \$0.47 cents per share. At December 31, 2011 the Company determined the fair value of the warrants issued to be \$92, using the Black-Scholes option pricing model and the following assumptions: expected life of 3.00 years, a risk free interest rate of 0.83%, a dividend yield of 0% and volatility of 175%. The warrants vest over a one year period and \$48 of expense has been recorded through the period ended December 31, 2011.

On December 29, 2011, the Company issued a convertible promissory note for \$7,000, pursuant to which the Company issued warrants to purchase 3,500,000 shares based on 25% coverage and a conversion rate of \$0.50. The exercise price was \$0.50 at the date of issuance with a five year life. At December 29, 2011, the Company determined the fair value of the warrants to be \$2,177 using the Black-Scholes option pricing model and the following assumptions: expected life of 5 years, a risk free interest rate of 0.88%, a dividend yield of 0% and volatility of 175%. The fair value of the warrants was recorded as a debt discount and will be amortized over one year.

13. 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.

14. 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 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 December 31, 2011.

ASC 740 requires the consideration of a valuation allowance to reflect the likelihood of realization of deferred tax assets. Significant management judgment is required in determining any valuation allowance recorded against deferred tax assets. The Company adopted the provisions of ASC 740 on January 1, 2008 and there was no difference between the amounts of unrecognized tax benefits recognized in the balance sheet prior to the adoption of ASC 740 and those after the adoption of ASC 740. There were no unrecognized tax benefits not subject to valuation allowance as of December 31, 2011 and March 31, 2011. The Company recognized no interest and penalties on income taxes in its statement of operations for the periods ended December 31, 2011 and 2010.

15. Segment and Geographic information

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

	<u>North America</u>	<u>Europe</u>	<u>Other Regions</u>	<u>Consolidated</u>
Three Months ended December 31, 2011				
Net sales to unaffiliated customers	32	1,252	673	\$ 1,957
Nine Months ended December 31, 2011				
Net sales to unaffiliated customers	138	4,087	1,562	\$ 5,788
Property and equipment, net at December 31, 2011				
	207	57	1	\$ 265

Our largest customer accounted for 43% of gross revenues in the period ended December 31, 2011; and 49% in the period ended December 31, 2010.

16. Commitments and Contingencies

Operating Lease Obligations

The Company leases office facilities under non-cancelable operating leases expiring in various years through 2012.

Following is a summary of future minimum payments under initial terms of leases at December 31, 2011:

Year Ending December 31,	
2012	\$ 21
2013	\$ 3
Total minimum lease payments	\$ 24

These amounts do not reflect future escalations for real estate taxes and building operating expenses. Rental expense for continuing operations amounted to \$133 and \$284, respectively, for the periods ended December 31, 2011 and 2010.

Other Obligations

As of December 31, 2011, the Company was obligated for payments under various distribution agreements, equipment lease agreements, employment contracts and the management agreement described in Note 11 with initial terms greater than one year at December 31, 2011. As of December 31, 2011, accrued management fees payable to Trinad Management are \$180. Annual payments relating to these commitments are as of

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Year Ending December 31,

2012	\$ 1,064
Total minimum payments	<u>\$ 1,064</u>

Litigation

Twistbox's wholly owned subsidiary, WAAT Media Corp. ("WAAT") and General Media Communications, Inc. ("GMCI") were 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 counter-sued claiming GMCI was not entitled to the claimed amount and that it had 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 filed a demurrer to the counter-claim. WAAT subsequently filed an amended counter-claim. On August 16, 2011, the LA Superior Court ruled in favor of WAAT's Summary Judgment Motion. As a result, GMCI's potential damages were limited to the amount of minimum royalty installments that accrued prior to termination of the content license agreement in the amount of approximately \$800. Trial had been scheduled for April 16, 2012, however on December 22, 2011 the parties agreed to a settlement of \$300 in favor of GMCI, pursuant to which WAAT will be required to pay GMCI \$300 over a 30 month period, beginning December 28, 2011. As of December 31, 2011 the Company has accrued \$290, which is included in Accounts Payable on the balance sheet.

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.

17. Subsequent Events

On February 1, 2012, the Company entered into an employment agreement with David Mandell that appoints him as Executive Vice President, General Counsel of Mandalay Digital Group, Inc.

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, as amended, for the year ended March 31, 2011. 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", "Mandalay Digital" or the "Company" refer to the business and operations of Mandalay Digital Group, Inc. through its operating and wholly-owned subsidiary, Twistbox Entertainment, Inc. ("Twistbox").

Historical Operations of Mandalay Digital Group, Inc.

Mandalay Digital Group, Inc., formerly known as NeuMedia, Inc., 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 11, 2010, the Company merged with a wholly-owned, newly formed subsidiary, changing its name to NeuMedia, Inc.

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

On October 27, 2004, and as amended on December 17, 2004, Mandalay Digital 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) Mandalay Digital's net operating assets and liabilities were transferred to the holders of the secured notes in satisfaction of the principal and accrued interest thereon; (2) \$400,000 was transferred to a liquidation trust and used to pay administrative costs and certain preferred creditors; (3) \$100,000 was retained by Mandalay Digital to fund the expenses of remaining public; (4) 3.5% of the new common stock of Mandalay Digital (140,000 shares) was issued to the holders of record of Mandalay Digital's preferred stock in settlement of their liquidation preferences; (5) 3.5% of the new common stock of Mandalay Digital (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 Mandalay Digital (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, Mandalay Digital 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, Mandalay Digital was a public shell company with no operations, and controlled by its significant stockholder, Trinad Capital Master Fund, L.P.

SUMMARY OF THE TWISTBOX MERGER

Mandalay Digital 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 Mandalay Digital ("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 Mandalay Digital 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 Mandalay Digital, 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 Mandalay Digital common stock issuable upon exercise of each Twistbox option was determined by multiplying the number of shares of Twistbox common stock that were subject to such Twistbox option immediately prior to the Merger by 0.72967 (the "Option Conversion Ratio"), rounded down to the nearest whole number; and (b) the per share exercise price for the shares of Mandalay Digital common stock issuable upon exercise of each Twistbox option was determined by dividing the per share exercise price of Twistbox common stock subject to such Twistbox option, as in effect prior to the Merger, by the Option Conversion Ratio, subject to any adjustments required by the Internal Revenue Code. As part of the Merger, Mandalay Digital also assumed all unvested Twistbox options. The Merger consideration consisted of an aggregate of up to 12,325,000 shares of Mandalay Digital common stock, which included the conversion of all shares of Twistbox capital stock and the reservation of 2,144,700 shares of Mandalay Digital common stock required for assumption of the vested Twistbox options. Mandalay Digital reserved an additional 318,772 shares of Mandalay Digital 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, Mandalay Digital or any subsidiary of Twistbox or Mandalay Digital 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, Mandalay Digital agreed to guarantee up to \$8,250,000 of Twistbox's outstanding debt to ValueAct SmallCap Master Fund L.P. ("ValueAct" or "VAC"), with certain amendments. On July 30, 2007, Twistbox had entered into a Securities Purchase Agreement by and among Twistbox, the Subsidiary Guarantors (as defined therein) and ValueAct, pursuant to which ValueAct purchased a note in the amount of \$16,500,000 (the "ValueAct Note" or the "VAC Note") and a warrant which entitled ValueAct to purchase from Twistbox up to a total of 2,401,747 shares of Twistbox's common stock (the "Warrant"). Twistbox and ValueAct - also entered into a Guarantee and Security Agreement by and among Twistbox, each of the subsidiaries of Twistbox, the Investors, as defined therein, and ValueAct, as collateral agent, pursuant to which the parties agreed that the ValueAct Note would be secured by substantially all of the assets of Twistbox and its subsidiaries (the "VAC Note Security Agreement"). In connection with the Merger, the Warrant was terminated and we issued two warrants in place thereof to ValueAct to purchase shares of our common stock. One of such warrants entitled ValueAct to purchase up to a total of 1,092,622 shares of our common stock at an exercise price of \$7.55 per share. The other warrant entitled ValueAct to purchase up to a total of 1,092,621 shares of our common stock at an initial exercise price of \$5.00 per share, which, if not exercised in full by February 12, 2009, would have been permanently increased to an exercise price of \$7.55 per share. Both warrants were scheduled to expire on July 30, 2011. The warrants were subsequently modified on October 23, 2008 and cancelled on June 21, 2010, as set forth below. We also entered into a Guaranty (the "ValueAct Note Guaranty") with ValueAct whereby Mandalay Digital agreed to guarantee Twistbox's payment to ValueAct of up to \$8,250,000 of principal under the ValueAct Note in accordance with the terms, conditions and limitations contained in the ValueAct Note, which was subsequently amended as set forth below. The financial covenants of the ValueAct Note were also amended, pursuant to which Twistbox was required to maintain a cash balance of not less than \$2,500,000 at all times and Mandalay Digital 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, Mandalay Digital 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, Mandalay Digital, 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 Mandalay Digital and Twistbox maintain certain minimum combined cash balances and provided for certain covenants with respect to the indebtedness of Mandalay Digital 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, Mandalay Digital 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, Mandalay Digital entered into a Securities Purchase Agreement with certain investors identified therein (the "Investors"), pursuant to which Mandalay Digital 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 Mandalay Digital 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 Mandalay Digital 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, Mandalay Digital, Twistbox and ValueAct entered into a Third Amendment to the ValueAct Note. Pursuant to the Third Amendment, the maturity date was changed to July 31, 2010 and the interest rate of the ValueAct Note increased from 10% to 12.5%.

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

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

On June 21, 2010, Mandalay Digital 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 Mandalay Digital held by ValueAct were cancelled and all warrants and common stock of Mandalay Digital held by AMV founders Nate MacLeitch and Jonathan Cresswell were repurchased by Mandalay Digital for a price of \$0.02 per share.

Also on June 21, 2010, for purposes of capitalizing Mandalay Digital, Mandalay Digital 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, Mandalay Digital - 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 Mandalay Digital 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 Mandalay Digital 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 Mandalay Digital 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 Mandalay Digital. Each Warrant has a five year term.

On December 16, 2011 the Amended ValueAct Note was purchased by Taja, LLC ("Taja") and immediately amended to remove certain negative covenants (as amended, the "Taja Note"). The purchase of the ValueAct Note was independent of the Company, and the Company did not receive or pay out any cash related to this transaction.

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, mobile data services company primarily focused on enabling and optimizing the development, distribution and billing of content and applications across mobile networks. Operating since 2003, Twistbox publishes content in over 28 countries with distribution representing more than five hundred million subscribers. Twistbox has developed an intellectual property portfolio that includes worldwide or territory exclusive mobile rights to content, a proprietary publishing platform that includes tools to automate device management and billing of content and applications; a mobile games development and distribution platform that automates the porting of mobile games and applications to over 1,500 handsets; a content standards and ratings system globally adopted by major wireless carriers to assist with the responsible deployment of age-verified programming and services; a suite of value added billing technologies that allow for in-application billing, and Digital Rights Management (DRM) solutions. Twistbox has leveraged its intellectual property and carrier-class technology to secure direct distribution and/or enabling agreements with leading mobile operators throughout Europe, North America and Latin America, including, among others, Vodafone, Telefonica, Orange, Hutchison's 3, and SFR.

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

In addition to its carrier publishing and enabling business, Twistbox operates a mobile ad network and suite of direct to consumer services that are promoted through advertising, as well as from other mobile publishers. Payments for the Company's direct to consumer services are processed through integration with the Company's own mobile billing solutions, 3rd party mobile billing aggregators, and credit card processing companies.

Twistbox target customers are the lucrative, tech-savvy 18 to 40 year old demographic. This group is a leading consumer of new mobile handsets and represents more than 50% of mobile content consumption revenue globally. In addition, this group is very focused on consumer lifestyle brands and is much sought after by advertisers.

During the quarter, the Company purchased the assets of Digital Turbine. With the acquisition and integration of the assets of Digital Turbine, the Company will be able to provide a modular platform to new and existing carrier customers and original equipment manufacturers (OEMs). The platform can be integrated with different mobile operating systems to provide a more organized and unified experience for end-users of mobile content across search, discovery, billing, and delivery. Innovative aspects of the Digital Turbine platform include the Magnet toolbar, which allows carriers and OEMs to control the data presented to their users while giving them a more efficient way of finding and purchasing content.

RESULTS OF OPERATIONS

	3 months ended December 31, 2011	3 months ended December 31, 2010	9 Months Ended December 31, 2011	9 Months Ended December 31, 2010	Year ended March 31, 2011
Revenues	\$ 1,957	\$ 2,048	\$ 5,788	\$ 6,983	\$ 9,186
Cost of revenues	790	1,258	2,057	3,006	3,210
Gross profit	1,167	790	3,731	3,977	5,976
SG&A	7,281	2,844	11,002	8,976	11,368
Amortization of intangible assets	-	18	-	54	54
Impairment of goodwill	-	6,028	-	6,028	6,028
Operating loss	(6,114)	(8,100)	(7,271)	(11,081)	(11,474)
Interest expense, net	(1,693)	(358)	(2,438)	(1,397)	(1,761)
Other income / (expenses)	961	12	1,193	(499)	(949)
Loss before income taxes	(6,846)	(8,446)	(8,516)	(12,977)	(14,184)
Income tax provision	(32)	(45)	(64)	(178)	(224)
Loss from continuing operations	(6,878)	(8,491)	(8,580)	(13,155)	(14,408)
Profit from discontinued operations, net of taxes	-	-	-	709	809
Gain on disposal of discontinued operations, net of taxes	-	-	-	4,315	4,215
Net (loss) income	<u>\$ (6,878)</u>	<u>\$ (8,491)</u>	<u>\$ (8,580)</u>	<u>\$ (8,131)</u>	<u>\$ (9,384)</u>
Basic and Diluted net income / (loss) per common share:					
Continuing operations	\$ (0.16)	\$ (0.23)	\$ (0.21)	\$ (0.35)	\$ (0.38)
Discontinued operations	\$ -	\$ -	\$ -	\$ 0.14	\$ 0.13
Net loss	<u>\$ (0.16)</u>	<u>\$ (0.23)</u>	<u>\$ (0.21)</u>	<u>\$ (0.22)</u>	<u>\$ (0.25)</u>
Basic and Diluted weighted average shares outstanding	41,978	36,174	41,812	37,159	37,664

Comparison of the Three and Nine Months Ended December 31, 2011 and 2010

Revenues

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2011	2010	2011	2010
	(In thousands)		(In thousands)	
Revenues by type:				
Services	\$ 461	\$ 149	\$ 930	\$ 974
Content - Games	76	242	391	842
Content - Other	904	1,285	3,273	4,253
Advertising	516	372	1,194	915
Total	<u>\$ 1,957</u>	<u>\$ 2,048</u>	<u>\$ 5,788</u>	<u>\$ 6,983</u>

Revenue has been analyzed based on the primary revenue drivers for the Company's businesses, as follows:

"Services" includes carrier platform management, content aggregation services and development fees derived primarily as an outsourced extended services contract basis. Services revenue tends to be project-based, often resulting in significant variances from period to period, dependent on the timing of customers' projects. The increase in Services revenue in the quarter ended December 31, 2011 is primarily the result of the completion of development projects completed by our technology and development team in the quarter.

"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 games for on-deck carrier sales. We intend to focus on enabling this category of publishers and developers with sophisticated technologies that allow for more flexible business models and advanced application interaction. Games sales through our games platform in Germany have declined in the period, as a result of both our refocused strategy and an overall shift within the market ecosystem toward off-deck application storefronts.

“Content – Other” includes a broad range of licensed and internally developed products such as WAP, Video, Wallpaper, and Mobile TV. The decline in revenue year over year is attributable to several factors, but primarily due to the market shift away from on-deck discovery to off-deck discovery. The Company has invested and focused its efforts over the last year on re-engineering its products and marketing capabilities to address this market shift.

“Advertising” includes revenues derived from the sale of advertising inventory within our affiliate partners, internal mobile sites, and from the direct monetization and mediation of traffic through all of the aforementioned.

Cost of Revenues

	<u>Three Months Ended December 31,</u>		<u>Nine Months Ended December 31,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	<u>(In thousands)</u>		<u>(In thousands)</u>	
Cost of revenues:				
License fees	\$ 733	\$ 1,172	\$ 1,885	\$ 2,747
Other direct cost of revenues	57	86	172	259
Total cost of revenues	<u>\$ 790</u>	<u>\$ 1,258</u>	<u>\$ 2,057</u>	<u>\$ 3,006</u>
Revenues	<u>\$ 1,957</u>	<u>\$ 2,048</u>	<u>\$ 5,788</u>	<u>\$ 6,983</u>
Gross margin	<u>59.6%</u>	<u>38.5%</u>	<u>64.5%</u>	<u>57.0%</u>

License fees represent costs payable to content providers for use of their brands and intellectual property in products sold. Our licensing agreements are mainly on a revenue-share basis. Margins in the current quarter are lower than the same quarter in the prior year. In the current year quarter, the Company improved margins through better optimization of content properties across its network of sites and distribution channels.

Operating Expenses

	<u>Three Months Ended December 31,</u>		<u>Nine Months Ended December 31,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	<u>(In thousands)</u>		<u>(In thousands)</u>	
Product development expenses	\$ 430	\$ 929	\$ 1,578	\$ 3,063
Sales and marketing expenses	204	597	660	1,647
General and administrative expenses	6,648	1,318	8,764	4,266
Amortization of intangible assets	-	18	-	54
Impairment of goodwill and intangible assets	-	6,028	-	6,028

Product development expenses include the costs to build, edit and optimize content formats for consumption on a mobile phone. Expenses in this area are primarily driven by personnel costs. Due to strategic changes in the focus of the development business as well as the consolidation of the device operating systems within the marketplace, headcount has been reduced from period to period. In the three months ended December 31, 2011, product development expenses included \$31 that relates to an acquisition of an asset that was determined to be comprised of research and development expense.

Sales and marketing expenses represent the costs of sales and marketing personnel, and advertising and marketing campaigns. Selling costs, including headcount have been reduced from period to period in an effort to streamline the business.

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. While salaries and related expenses decreased in the quarter, this was more than offset by the increase in consulting and professional fees, mainly incurred through stock compensation.

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 reduced basis following the impairment write down in the last fiscal year.

Other Income and Expenses

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2011	2010	2011	2010
	(In thousands)		(In thousands)	
Interest and other (expense)	\$ (732)	\$ (346)	\$ (1,245)	\$ (1,896)
Profit from discontinued operations, net of taxes	\$ -	\$ -	\$ -	\$ 709
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 Taja Note and the Senior Secured Note, as well as financing costs related to the new short term debt, foreign exchange transaction losses, and the loss resulting from the change in fair value measurement of derivative liabilities. Interest costs are lower due to the significant reduction in debt that occurred in the first quarter of last year. Other income was the result of the settlement of debt with a service provider.

Financial Condition

Assets

Our current assets related to continuing operations totaled \$9.7 million and \$3.8 million at December 31, 2011 and March 31, 2011, respectively. Total assets related to continuing operations were \$19.8 million and \$14.2 million at December 31, 2011 and March 31, 2011, respectively. The decrease in both current and total assets is primarily due to lower cash and receivables balances.

Liabilities and Working Capital

At December 31, 2011, our total liabilities were \$37.0 million, compared to \$11.6 million at March 31, 2011. The Company had negative working capital of \$17.5 million at December 31, 2011 and positive working capital of \$2.6 million at March 31, 2011. The change reflects an increase in cash offset by an increase in derivative liabilities of \$26.1 million, and there was a decrease in accounts payable and other liabilities of \$1.3 million.

Liquidity and Capital Resources

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2011	2010	2011	2010
	(In thousands)		(In thousands)	

Consolidated Statement of Cash Flows Data:

Capital expenditures	\$ (10)	\$ (60)	\$ (10)	\$ (60)
Cash flows used in operating activities	(803)	(1,477)	(487)	(1,119)
Cash flows used in investing activities	(4)	(3,214)	-	(1,547)
Cash flows provided by financing activities	6,989	-	6,989	2,500

The Company has incurred losses and negative annual cash flows since inception, although the operating loss narrowed from \$13.1 million in fiscal year 2011 and continued to narrow to \$8.6 million as of December 31, 2011.

The consolidated financial statements included in this Form 10-Q have been prepared assuming that the Company will continue as a going concern. This basis of accounting contemplates the ability of the Company to stem negative cash flows and achieve profitable operations, while undertaking the satisfaction of its liabilities in the normal course of business. The Company has significantly reduced personnel and other overhead costs over the last year to address a decline in revenues and margins, and to bring costs in line with revenues in order to achieve profitability.

The primary sources of liquidity have historically been issuance of common and preferred stock, and borrowings under credit facilities. This quarter the Company raised \$7 million through convertible debt and in the future, we anticipate that our primary sources of liquidity will be cash generated by our operating activities, further borrowings or further capital raises. Assuming there are no further changes in expected sales and expense trends subsequent to December 31, 2011, the Company believes that its cash position will be sufficient to continue operations for the foreseeable future.

Operating Activities

In the period ended December 31, 2011, we used \$0.49 million of net cash, flowing from the overall loss of \$8.6 million (offset by non-cash charges of \$8.7 million that include depreciation, amortization, stock based compensation, debt discount, fair value of warrants and conversion options issued for financing costs, and other comprehensive income of \$0.69 million). While items generating cash included decreases in accounts receivable of \$0.8 million, the Company decreased accounts payable, accrued compensation and other liabilities by \$1.3 million. The decrease in accounts payable and other liabilities was due mainly to a settlement with a supplier.

As of December 31, 2011, the Company had approximately \$7.4 million of cash. We may require additional cash resources for working capital, or 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 Senior Debt facility, and also under the Amended Taja Note. Under the Senior Debt facility the Company may elect to add interest to the principal, until December 21, 2011, with the full amount payable at the end of the term. Under the Amended Taja Note, the Company may elect to add interest to the principal until June 21, 2013.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partners, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not have any undisclosed borrowings or debt, and we have not entered into any synthetic leases. We 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

In April 2011, the Company issued an aggregate of 497,244 shares of the Company's common stock in private placements (1) to two former employees of a subsidiary of the Company as a severance payment, and (2) a consultant for services.

In April 2011, the Company issued warrants to purchase 75,000 shares of the Company's common stock at an exercise price of \$0.25 per share to a service provider of the Company as payment for past services to the Company.

In May 2011, the Company issued 150,000 shares of the Company's common stock to a service provider to the Company as payment for past services to the Company.

In June 2011, the Company issued options to purchase an aggregate of 300,000 shares of the Company's common stock at an exercise price of \$0.47 per share to two advisory board members for consulting services.

In June 2011, the Company issued 150,000 shares of the Company's common stock to an advisory board member for consulting services.

In December 2011, the Company issued 50,000 shares of the Company's common stock in exchange for the assets of Digital Turbine Group, LLC.

In December 2011, in connection with the acquisition of assets from Digital Turbine Group, LLC, the Company issued 4,150,000 shares of the Company's common stock to consultants as payment for services.

In December 2011, the Company issued an aggregate 10,000,000 of shares of the Company's common stock to directors of the Company.

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 majority of its revenues from mobile phone carriers that market, distribute and/or bill for content. These carriers generally charge a one-time purchase fee or a subscription fee on their subscribers' phone bills when the subscribers download content published or enabled by Twistbox technology to their mobile phones. The carriers and 3rd party billing aggregators perform the billing and collection functions and generally remit to Twistbox a contractual percentage of their collected fee for each transaction. 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 content 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 the improving quality and greater availability of smartphones is in turn encouraging consumer awareness and demand for high quality content with more flexible purchase options via their mobile devices. At the same time, carriers and major publishers are focusing on a small group of experienced enablers that have the ability to provide high-quality mobile content services consistently and cost-effectively with the ability to enable mobile billing across a wide variety of handsets and countries. Additionally, 3rd party platforms and publishers are seeking enablers that have the ability to distribute content and solutions globally through trusted relationships with carriers. We believe Twistbox has created the requisite development, distribution and billing technology and has achieved the scale to operate at a level few companies are capable of. We also believe that leveraging carrier and publisher 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, our ability to leverage our distribution and content relationships, and continued expansion of our ability to bill for content in new regional markets. Our ability to attain profitability will be affected by the extent to which we must incur additional expenses to expand our sales, marketing, development, and general and administrative capabilities to grow our business. The largest component of our expenses is personnel 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.

Because many new mobile handset models are released in the fourth calendar quarter to coincide with the holiday shopping season, and because many end users download 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 declines in users visiting carrier portals, new or changed carrier deals, and by changes in the manner that our major carrier partners market 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 platform and 3rd party delivery charges are included in cost of revenues. Our cost of revenues also includes noncash expenses—amortization of certain acquired intangible assets, and any impairment of guarantees. We generally do not pay advance royalties to licensors. Where we acquire rights in perpetuity or for a specific time period without revenue share or additional fees, we record the payments made to content owners as prepaid royalties on our balance sheet when payment is made to the licensor. We recognize royalties in cost of revenues based upon the revenues derived from the relevant product sold multiplied by the applicable royalty rate. If applicable, we will record an impairment of prepaid royalties or accrue for future guaranteed royalties that are in excess of anticipated recoupment. At each balance sheet date, we perform a detailed review of prepaid royalties and guarantees that considers multiple factors, including forecasted demand, anticipated share for specific content providers, development and launch plans, and current and anticipated sales levels. We expense the costs for development of our content prior to technological feasibility as we incur them throughout the development process, and we include these costs in product development expenses.

Gross Margin

Our gross margin going forward will be determined principally by the mix of content that we deliver, 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 or applications, which are based on our own intellectual property, require no royalty payments to licensors. 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 non-game content such as videos and mobile TV, 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. For other content, we believe that success is driven by the carrier's deck placement, the popularity of the content, by quality and by brand recognition. If our product mix shifts more to licensed content with higher royalty rates, our gross margin would decline. For other content as we increase scale, we believe that we will have the opportunity to move the mix towards higher margin acquired product. Our gross margin is also affected by direct costs such as platform and 3rd party delivery charges, and by periodic charges for impairment of intangible assets and of prepaid royalties and guarantees. These charges can cause gross margin variations, particularly from quarter to quarter.

Operating Expenses

Our operating expenses going forward will primarily include product development expenses, sales and marketing expenses and general and administrative expenses. Our product development expenses consist primarily of salaries and benefits for employees working on creating, developing, editing, programming, porting, quality assurance, carrier certification and deployment of our content, on technologies related to interoperating with our various mobile phone carriers and on our internal platforms, payments to third parties for developing our content, and allocated facilities costs. We devote substantial resources to the development, supporting technologies, porting and quality assurance of our content. For acquired content, typically we will receive content from our licensors which must be edited for use on mobile phones, combined with other appropriate content, and packaged for end 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 business.

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 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

Adopted Accounting Pronouncements

In December 2010, the FASB issued updated guidance on when and how to perform certain steps of the periodic goodwill impairment test for public entities that may have reporting units with zero or negative carrying amounts. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010, with early adoption prohibited. It is applicable to the Company's fiscal year beginning April 1, 2011. The Company evaluated this guidance, and determined it doesn't have a material effect on its consolidated financial statements.

In December 2010, the FASB also issued guidance to clarify the reporting of pro forma financial information related to business combinations of public entities and to expand certain supplemental pro forma disclosures. This guidance is effective prospectively for business combinations that occur on or after the beginning of the fiscal year beginning on or after December 15, 2010, with early adoption permitted. It is applicable to the Company's fiscal year beginning April 1, 2011. The Company evaluated this guidance, and determined it doesn't have a material effect on its consolidated financial statements.

Recently Issued Accounting Pronouncements

In May 2011, the FASB issued guidance to amend certain measurement and disclosure requirements related to fair value measurements to improve consistency with international reporting standards. This guidance is effective prospectively for public entities for interim and annual reporting periods beginning after December 15, 2011, with early adoption by public entities prohibited, and is applicable to the Company's fiscal quarter beginning January 1, 2012. The Company is currently evaluating this guidance, but does not expect its adoption will have a material effect on its consolidated financial statements.

In June 2011, the FASB issued new guidance on the presentation of comprehensive income that will require a company to present components of net income and other comprehensive income in one continuous statement or in two separate, but consecutive statements. There are no changes to the components that are recognized in net income or other comprehensive income under current GAAP. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011, with early adoption permitted. It is applicable to the Company's fiscal year beginning April 1, 2012. The Company is currently evaluating this guidance, but does not expect its adoption will have a material effect on its consolidated financial statements.

In September 2011, the Financial Accounting Standards Board (FASB) issued amended accounting guidance related to goodwill impairment testing. The new guidance provides the option to perform a qualitative assessment by applying a more likely than not scenario to determine whether the fair value of a reporting unit is less than its carrying amount, which may then allow a company to skip the annual two-step quantitative goodwill impairment test depending on the determination. The amended guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Earlier adoption is permitted. Management does not expect the adoption of the amended guidance to have a material impact on the Company's consolidated financial statements.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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 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 Brazil 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 December 31, 2011, our largest customer (in multiple territories) represented approximately 49% 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 Securities Exchange Act of 1934, as amended ("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 third quarter ended December 30, 2011 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.

Twistbox's wholly owned subsidiary, WAAT Media Corp. ("WAAT") and General Media Communications, Inc. ("GMCI") were 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 counter-sued claiming GMCI was not entitled to the claimed amount and that it had breached 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 filed a demurrer to the counter-claim. WAAT subsequently filed an amended counter-claim. On August 16, 2011, the LA Superior Court ruled in favor of WAAT's Summary Judgment Motion. As a result, GMCI's potential damages were limited to the amount of minimum royalty installments that accrued prior to the termination of the content license agreement in the amount of approximately \$800. Trial had been scheduled for April 16, 2012, however on December 22, 2012 the parties agreed to a settlement, pursuant to which WAAT will be required to pay GMCI \$300 over a 30 month period, beginning December 28, 2011.

Except as set forth above, there have been no material changes in our legal proceedings from those disclosed in our Annual Report on Form 10-K for the year ended March 31, 2011. 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 have 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, 2011 and our Quarterly Report on Form 10-Q for the period ended September 30, 2011.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

None

Item 6. Exhibits.

Exhibit No.	Description
3.1	Certificate of Incorporation. ¹
3.2	Bylaws. ¹
3.3	Certificate of Amendment of Bylaws. ²
10.1	Subordinated Convertible Promissory Note, dated December 23, 2011, made by NeuMedia, Inc. in favor of Adage Capital Management L.P.*
10.2	Warrant, dated December 23, 2011, made by NeuMedia, Inc. in favor of Adage Capital Management L.P.*
10.3	Letter Agreement, dated December 23, 2011, made by and between NeuMedia, Inc. and Adage Capital Management L.P.*
10.4	Letter Agreement, dated December 28, 2011, made by and between NeuMedia, Inc. and Trinad Management, LLC.*
10.5	Second Amended and Restated Senior Subordinated Secured Note due June 21, 2013, made by Twistbox Entertainment, Inc. in favor of Taja, LLC.*
31.1	Certification of Peter Adderton, Principal Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
31.2	Certification of Lisa Lucero, Principal Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
32.1	Certification of Peter Adderton, Principal Executive Officer, pursuant to 18 U.S.C. Section 1350. *
32.2	Certification of Lisa Lucero, Principal Financial Officer, pursuant to 18 U.S.C. Section 1350. *

* Filed herewith

(1) 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.

(2) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-10039), filed with the Commission on February 7, 2012.

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

Mandalay Digital Group, Inc..

Date: February 21, 2012

By: /s/ Peter Adderton
Peter Adderton
Chief Executive Officer
(Authorized Officer and Principal Executive Officer)

Date: February 21, 2012

By: /s/ Lisa Lucero
Lisa Lucero
CFO, Twistbox Entertainment, Inc.
(Principal Financial Officer)

THIS NOTE AND THE SECURITIES ISSUABLE UPON THE CONVERSION HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL SATISFACTORY TO THE CORPORATION THAT SUCH REGISTRATION IS NOT REQUIRED.

NEUMEDIA, INC.

SUBORDINATED CONVERTIBLE PROMISSORY NOTE

\$7,000,000

December 23, 2011

Los Angeles, California

FOR VALUE RECEIVED, NeuMedia, Inc., a Delaware corporation (the “**Company**”) promises to pay to Adage Capital Management L.P. (“**Investor**”), or its registered assigns, in lawful money of the United States of America the principal sum of Seven Million Dollars (\$7,000,000), together with interest from the date of this Note on the unpaid principal balance at a rate equal to 3.00% per annum, computed on the basis of the actual number of days elapsed and a year of 360 days. All unpaid principal, together with any then unpaid and accrued interest and other amounts payable hereunder, shall be due and payable on the earlier of (i) the date of the Qualified Equity Financing (as defined below) and (ii) the first anniversary of the date of this Note (the “**Maturity Date**”), or when, upon or after the occurrence of an Event of Default (as defined below), such amounts are declared due and payable by Investor or made automatically due and payable in accordance with the terms hereof.

The following is a statement of the rights of Investor and the conditions to which this Note is subject, and to which Investor, by the acceptance of this Note, agrees:

1. **Definitions.** As used in this Note, the following capitalized terms have the following meanings:

(a) “**Common Stock**” shall mean the common stock of the Company, par value \$0.0001 per share, and any securities into which such common stock may hereafter be reclassified.

(b) the “**Company**” includes the corporation initially executing this Note and any Person which shall succeed to or assume the obligations of the Company under this Note.

(c) “**Event of Default**” has the meaning given in **Section 4** hereof.

(d) “**Investor**” shall mean the Person specified in the introductory paragraph of this Note or any Person who shall at the time be the registered holder of this Note.

(e) “**Obligations**” shall mean and include all loans, advances, debts, liabilities and obligations, howsoever arising, owed by the Company to Investor of every kind and description (whether or not evidenced by any note or instrument and whether or not for the payment of money), now existing or hereafter arising under or pursuant to the terms of this Note, including, all interest, fees, charges, expenses, attorneys’ fees and costs and accountants’ fees and costs chargeable to and payable by the Company hereunder, in each case, whether direct or indirect, absolute or contingent, due or to become due, and whether or not arising after the commencement of a proceeding under Title 11 of the United States Code (11 U. S. C. Section 101 *et seq.*), as amended from time to time (including post-petition interest) and whether or not allowed or allowable as a claim in any such proceeding.

(f) “**Person**” shall mean and include an individual, a partnership, a corporation (including a business trust), a joint stock company, a limited liability company, an unincorporated association, a joint venture or other entity or a governmental authority.

(g) “**Securities Act**” shall mean the Securities Act of 1933, as amended.

(h) “**Senior Indebtedness**” shall mean, unless expressly subordinated to or made on a parity with the amounts due under this Note, the principal of (and premium, if any), unpaid interest on and amounts reimbursable, fees, expenses, costs of enforcement and other amounts due in connection with, (i) indebtedness of Company, to banks, commercial finance lenders or other lending institutions regularly engaged in the business of lending money, which is for money borrowed whether or not secured, and (ii) any such indebtedness or any debentures, notes or other evidence of indebtedness issued in exchange for such Senior Indebtedness, or any indebtedness arising from the satisfaction of such Senior Indebtedness by a guarantor.

(i) “**Subsidiary**” shall mean (a) any corporation of which more than 50% of the issued and outstanding equity securities having ordinary voting power to elect a majority of the Board of Directors of such corporation is at the time directly or indirectly owned or controlled by the Company, (b) any partnership, joint venture, or other association of which more than 50% of the equity interest having the power to vote, direct or control the management of such partnership, joint venture or other association is at the time directly or indirectly owned and controlled by the Company, (c) any other entity included in the financial statements of the Company on a consolidated basis.

2. **Interest.** Accrued interest on this Note shall be added to the outstanding principal amount on the last business day of each month.

3. **Prepayment.** This Note may not be prepaid.

4. **Events of Default.** The occurrence of any of the following shall constitute an “**Event of Default**” under this Note:

(a) *Failure to Pay.* The Company shall fail to pay (i) when due any principal or interest payment on the due date hereunder or (ii) any other payment required under the terms of this Note on the date due and such payment shall not have been made within five days of the Company's receipt of Investor's written notice to the Company of such failure to pay; or

(b) *Breaches of Covenants.* The Company [*or any of its Subsidiaries*] shall fail to observe or perform any other covenant, obligation, condition or agreement contained in this Note (other than those specified in **Sections 4(a)**) and (i) such failure shall continue for 15 days, or (ii) if such failure is not curable within such 15-day period, but is reasonably capable of cure within 30 days, either (A) such failure shall continue for 30 days or (B) the Company or its Subsidiary shall not have commenced a cure in a manner reasonably satisfactory to Investor within the initial 15-day period; or

(c) *Representations and Warranties.* Any representation, warranty, certificate, or other statement (financial or otherwise) made or furnished by or on behalf of the Company to Investor in writing in connection with this Note, or as an inducement to Investor to enter into this Note, shall be false, incorrect, incomplete or misleading in any material respect when made or furnished; or

(d) *Other Payment Obligations.* Any indebtedness under any bonds, debentures, notes or other evidences of indebtedness for money borrowed (or any guarantees thereof, excluding this Note) by the Company [*or any of its Subsidiaries*] in an aggregate principal amount in excess of **[\$100,000]** is not paid when due either at its stated maturity or upon acceleration thereof, and such indebtedness is not discharged, or such acceleration is not rescinded or annulled; or

(e) *Voluntary Bankruptcy or Insolvency Proceedings.* The Company [*or any of its Subsidiaries*] shall (i) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian of itself or of all or a substantial part of its property, (ii) be unable, or admit in writing its inability, to pay its debts generally as they mature, (iii) make a general assignment for the benefit of its or any of its creditors, (iv) be dissolved or liquidated, (v) become insolvent (as such term may be defined or interpreted under any applicable statute), (vi) commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or consent to any such relief or to the appointment of or taking possession of its property by any official in an involuntary case or other proceeding commenced against it, or (vii) take any action for the purpose of effecting any of the foregoing; or

(f) *Involuntary Bankruptcy or Insolvency Proceedings.* Proceedings for the appointment of a receiver, trustee, liquidator or custodian of the Company [*or any of its Subsidiaries*] or of all or a substantial part of the property thereof, or an involuntary case or other proceedings seeking liquidation, reorganization or other relief with respect to the Company [*or any of its Subsidiaries*] or the debts thereof under any bankruptcy, insolvency or other similar law now or hereafter in effect shall be commenced and an order for relief entered or such proceeding shall not be dismissed or discharged within 30 days of commencement; or

(g) *Judgments.* A final judgment or order for the payment of money in excess of **[\$50,000]** shall be rendered against the Company **[or any of its Subsidiaries]** and the same shall remain undischarged for a period of 30 days during which execution shall not be effectively stayed, or any judgment, writ, assessment, warrant of attachment, or execution or similar process shall be issued or levied against a substantial part of the property of the Company **[or any of its Subsidiaries]** and such judgment, writ, or similar process shall not be released, stayed, vacated or otherwise dismissed within 30 days after issue or levy; or

5. *Rights of Investor upon Default.* Upon the occurrence or existence of any Event of Default (other than an Event of Default described in **Sections 4(e)** or **4(f)**) and at any time thereafter during the continuance of such Event of Default, Investor may, by written notice to the Company, declare all outstanding Obligations payable by the Company hereunder to be immediately due and payable without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, anything contained herein to the contrary notwithstanding. Upon the occurrence or existence of any Event of Default described in **Sections 4(e)** and **4(f)**, immediately and without notice, all outstanding Obligations payable by the Company hereunder shall automatically become immediately due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, anything contained herein to the contrary notwithstanding. In addition to the foregoing remedies, upon the occurrence or existence of any Event of Default, Investor may exercise any other right power or remedy permitted to it by law, either by suit in equity or by action at law, or both.

6. *Conversion.*

(a) *Automatic Conversion.* In the event the Company consummates an equity financing pursuant to which it sells securities with the principal purpose of raising capital (a “**Qualified Equity Financing**”), then the outstanding principal amount of and all accrued interest under this Note shall automatically convert into shares of Common Stock at a price equal to 75% of the price paid by the other investors that purchase the securities in the Qualified Equity Financing. In the event the Company does not consummate a Qualified Equity Financing prior to the first anniversary of the date of this Note, then the outstanding principal amount of and all accrued interest under this Note shall automatically convert into shares of Common Stock at a price equal to 75% of the average trading price of Issuer’s Common Stock for the 30-day period immediately prior to such conversion. Upon any such conversion of this Note, the Investor hereby agrees to execute and deliver to the Company all transaction documents related to the Qualified Equity Financing, including a purchase agreement and other ancillary agreements, with customary representations and warranties and transfer restrictions, and having the same terms as those agreements entered into by the other purchasers of the Common Stock. The Investor also agrees to deliver the original of this Note (or a notice to the effect that the original Note has been lost, stolen or destroyed and an agreement acceptable to the Company whereby the holder agrees to indemnify the Company from any loss incurred by it in connection with this Note) at the closing of the Qualified Equity Financing for cancellation; *provided, however,* that upon satisfaction of the conditions set forth in this **Section 6(a)**, this Note shall be deemed converted and of no further force and effect, whether or not it is delivered for cancellation as set forth in this sentence.

(b) *Fractional Shares; Interest; Effect of Conversion.* No fractional shares shall be issued upon conversion of this Note. In lieu of the Company issuing any fractional shares to Investor upon the conversion of this Note, the Company shall pay to Investor an amount equal to the product obtained by multiplying the conversion price by the fraction of a share not issued pursuant to the previous sentence. In addition, the Company shall pay to Investor any interest accrued on the amount converted and on the amount to be paid to the Company pursuant to the previous sentence. Upon conversion of this Note in full and the payment of any amounts specified in this **Section 6(b)**, the Company shall be forever released from all its obligations and liabilities under this Note.

7. *Subordination.* The indebtedness evidenced by this Note is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all of the Company's Senior Indebtedness.

(a) *Insolvency Proceedings.* If there shall occur any receivership, insolvency, assignment for the benefit of creditors, bankruptcy, reorganization, or arrangements with creditors (whether or not pursuant to bankruptcy or other insolvency laws), sale of all or substantially all of the assets, dissolution, liquidation, or any other marshaling of the assets and liabilities of the Company, (i) no amount shall be paid by the Company in respect of the principal of, interest on or other amounts due with respect to this Note at the time outstanding, unless and until the principal of and interest on the Senior Indebtedness then outstanding shall be paid in full, and (ii) no claim or proof of claim shall be filed with the Company by or on behalf of Investor which shall assert any right to receive any payments in respect of the principal of and interest on this Note except subject to the payment in full of the principal of and interest on all of the Senior Indebtedness then outstanding.

(b) *Default on Senior Indebtedness.* If there shall occur an event of default which has been declared in writing with respect to any Senior Indebtedness, as defined therein, or in the instrument under which it is outstanding, permitting the holder to accelerate the maturity thereof and Investor shall have received written notice thereof from the holder of such Senior Indebtedness, then, unless and until such event of default shall have been cured or waived or shall have ceased to exist, or all Senior Indebtedness shall have been paid in full, no payment shall be made in respect of the principal of or interest on this Note, unless within one hundred eighty (180) days after the happening of such event of default, the maturity of such Senior Indebtedness shall not have been accelerated. Not more than one notice may be given to Investor pursuant to the terms of this **Section 7(b)** during any 360 day period.

(c) *Acceleration; Enforcement Rights.* Investor, prior to the payment in full in cash of the Senior Indebtedness shall have no right to accelerate the maturity of the amounts due under this Note or otherwise demand payment thereof, enforce any claim with respect to the amounts due under this Note, institute or attempt to institute any bankruptcy or insolvency proceedings against the Company or otherwise to take any action against the Company or the Company's property without the prior written consent of each holder of Senior Indebtedness.

(d) Turnover of Payments. Except for payments permitted under **Section 7(b)**, should any payment or distribution whether in cash, securities or other property, be received by Investor upon or with respect to the amounts payable under this Note by any means, including, without limitation, setoff, prior to the payment in full in cash of the Senior Indebtedness, Investor shall receive and hold the same in trust, as trustee, for the benefit of the holder(s) of the Senior Indebtedness, and shall forthwith deliver the same to the holder(s) of the Senior Indebtedness (ratably according to the aggregate amounts remaining unpaid on account of the Senior Indebtedness held by each) or to a trustee or other representative for holder(s) of Senior Indebtedness in precisely the form received for application to the Senior Indebtedness (whether or not it is then due).

(e) Further Assurances. By acceptance of this Note, Investor agrees to execute and deliver customary forms of subordination agreement requested from time to time by holders of Senior Indebtedness, and as a condition to Investor's rights hereunder, the Company may require that Investor execute such forms of subordination agreement; provided that such forms shall not impose on Investor terms less favorable than those provided herein.

(f) Other Indebtedness. No indebtedness which does not constitute Senior Indebtedness shall be senior in any respect to the indebtedness represented by this Note.

(g) Subrogation. Subject to the payment in full of all Senior Indebtedness, Investor shall be subrogated to the rights of the holder(s) of such Senior Indebtedness (to the extent of the payments or distributions made to the holder(s) of such Senior Indebtedness pursuant to the provisions of this **Section 7**) to receive payments and distributions of assets of the Company applicable to the Senior Indebtedness. No such payments or distributions applicable to the Senior Indebtedness shall, as between the Company and its creditors, other than the holders of Senior Indebtedness and Investor, be deemed to be a payment by the Company to or on account of this Note; and for purposes of such subrogation, no payments or distributions to the holders of Senior Indebtedness to which Investor would be entitled except for the provisions of this **Section 7** shall, as between the Company and its creditors, other than the holders of Senior Indebtedness and Holder, be deemed to be a payment by the Company to or on account of the Senior Indebtedness.

(h) No Impairment. Subject to the rights, if any, of the holders of Senior Indebtedness under this **Section 7** to receive cash, securities or other properties otherwise payable or deliverable to Investor, nothing contained in this **Section 7** shall impair, as between the Company and Investor, the obligation of the Company, subject to the terms and conditions hereof, to pay to Investor the principal hereof and interest hereon as and when the same become due and payable, or shall prevent Investor, upon default hereunder, from exercising all rights, powers and remedies otherwise provided herein or by applicable law.

(i) Lien Subordination. Any lien of Investor on any assets or property of the Company or any proceeds or revenues therefrom which Investor may have at any time as security for any amounts due and obligations under this Note shall be subordinate to all liens now or hereafter granted to a holder of Senior Indebtedness by Company or by law, notwithstanding the date or order of attachment or perfection of any such lien or the provisions of any applicable law. Until payment in full in cash of all of the Company's Senior Indebtedness, Investor agrees that a holder of Senior Indebtedness may dispose of any or all of the collateral for the Senior Indebtedness held by such holder free and clear of any and all liens in favor of Investor in accordance with applicable law including taking title to such collateral after notice to Investor. Investor agrees that any such sale or other disposition by a holder of Senior Indebtedness as is necessary to satisfy in full, all of the principal of, interest on and reasonable costs of collection of the Senior Indebtedness shall be made free and clear of any lien granted to Investor provided the entire proceeds (after deducting reasonable expenses of sale) are applied to reduce the Senior Indebtedness. Upon the request of a holder of Senior Indebtedness, Investor shall execute and deliver or cause to be executed and delivered any releases or other documents and agreements that a holder of Senior Indebtedness may reasonably request to dispose of the collateral for the Senior Indebtedness free of any lien of Investor in such collateral.

(j) Continuing Subordination. The subordination effected by these provisions is a continuing subordination and may not be modified or terminated by Investor until payment in full in cash of the Senior Indebtedness. At any time and from time to time, without consent of or notice to Investor, and without impairing or affecting the obligations of Investor hereunder: (i) the time for the Company's performance of, or compliance with any agreement relating to Senior Indebtedness may be modified or extended or such performance may be waived; (ii) a holder of Senior Indebtedness may exercise or refrain from exercising any rights under any agreement relating to the Senior Indebtedness; (iii) any agreement relating to the Senior Indebtedness may be revised, amended or otherwise modified for the purpose of adding or changing any provision thereof or changing in any manner the rights of the Company, any holder of Senior Indebtedness or any guarantor thereunder; (iv) payment of Senior Indebtedness or any portion thereof may be accelerated or extended or refunded or any instruments evidencing the Senior Indebtedness may be renewed in whole or in part; (v) any Person liable in any manner for payment of the Senior Indebtedness may be released by a holder of Senior Indebtedness; (vi) a holder of Senior Indebtedness may make loans or otherwise extend credit to the Company whether or not any default or event of default exists with respect to such Senior Indebtedness; and (vii) a holder of Senior Indebtedness may take and/or release any Lien at any time on any collateral now or hereafter securing the Senior Indebtedness and take or fail to take any action to perfect any Lien at any time granted therefor, and take or fail to take any action to enforce such Liens. Notwithstanding the occurrence of any of the foregoing, these subordination provisions shall remain in full force and effect with respect to the Senior Indebtedness, as the same may have been modified, extended, renewed or refunded. Investor has established adequate, independent means of obtaining from the Company on a continuing basis financial and other information pertaining to the Company's financial condition.

(k) Investor's Waivers. Investor hereby expressly waives for the benefit of the holder(s) of Senior Indebtedness (i) all notices not specifically required pursuant to the terms of this Note whatsoever, including without limitation any notice of the incurrence of Senior Indebtedness; (ii) any claim which Investor may now or hereafter have against a holder of Senior Indebtedness arising out of any and all actions which a holder of Senior Indebtedness in good faith, takes or omits to take with respect to the Senior Indebtedness (including, without limitation, (A) actions with respect to the creation, perfection or continuation of Liens in or on any collateral security for the Senior Indebtedness, (B) actions with respect to the occurrence of an event of default under any Senior Indebtedness, (C) actions with respect to the foreclosure upon, sale, release, or depreciation of, or failure to realize upon, any of the collateral security for the Senior Indebtedness and (D) actions with respect to the collection of any claim for all or any part of the Senior Indebtedness or the valuation, use, protection or release of any collateral security for the Senior Indebtedness); and (iii) any right to require holders of Senior Indebtedness to exhaust any collateral or marshal any assets.

(l) Reliance of Holders of Senior Indebtedness. Investor, by its acceptance hereof, shall be deemed to acknowledge and agree that the foregoing subordination provisions are, and are intended to be, an inducement to and a consideration of each holder of Senior Indebtedness, whether such Senior Indebtedness was created or acquired before or after the creation of the indebtedness evidenced by this Note, and each such holder of Senior Indebtedness shall be deemed conclusively to have relied on such subordination provisions in acquiring and holding, or in continuing to hold, such Senior Indebtedness.

8. **Successors and Assigns.** Subject to the restrictions on transfer described in **Sections 10** and **11** below, the rights and obligations of the Company and Investor shall be binding upon and benefit the successors, assigns, heirs, administrators and transferees of the parties.

9. **Waiver and Amendment.** Any provision of this Note may be amended, waived or modified upon the written consent of the Company and Investor.

10. **Transfer of this Note or Securities Issuable on Conversion Hereof.** With respect to any offer, sale or other disposition of this Note or securities into which such Note may be converted, Investor will give written notice to the Company prior thereto, describing briefly the manner thereof, together with a written opinion of Investor's counsel, or other evidence if reasonably satisfactory to the Company, to the effect that such offer, sale or other distribution may be effected without registration or qualification (under any federal or state law then in effect). Upon receiving such written notice and reasonably satisfactory opinion, if so requested, or other evidence, the Company, as promptly as practicable, shall notify Investor that Investor may sell or otherwise dispose of this Note or such securities, all in accordance with the terms of the notice delivered to the Company. If a determination has been made pursuant to this **Section 10** that the opinion of counsel for Investor, or other evidence, is not reasonably satisfactory to the Company, the Company shall so notify Investor promptly after such determination has been made. Each Note thus transferred and each certificate representing the securities thus transferred shall bear a legend as to the applicable restrictions on transferability in order to ensure compliance with the Act, unless in the opinion of counsel for the Company such legend is not required in order to ensure compliance with the Act. the Company may issue stop transfer instructions to its transfer agent in connection with such restrictions. Subject to the foregoing transfers of this Note shall be registered upon registration books maintained for such purpose by or on behalf of the Company. Prior to presentation of this Note for registration of transfer, the Company shall treat the registered holder hereof as the owner and holder of this Note for the purpose of receiving all payments of principal and interest hereon and for all other purposes whatsoever, whether or not this Note shall be overdue and the Company shall not be affected by notice to the contrary.

11. **Assignment by the Company.** Neither this Note nor any of the rights, interests or obligations hereunder may be assigned, by operation of law or otherwise, in whole or in part, by the Company without the prior written consent of Investor.

12. **Notices.** All notices, requests, demands, consents, instructions or other communications required or permitted hereunder shall be in writing and faxed, mailed or delivered to each party at:

The Company: NeuMedia, Inc.
14242 Ventura Boulevard, 3rd Floor
Sherman Oaks, California 91423
Attn: David Mandell, Esq.

Investor: Adage Capital Management L.P.

Attn: _____

or at such other address or facsimile number as the Company shall have furnished to Investor in writing. All such notices and communications will be deemed effectively given the earlier of (i) when received, (ii) when delivered personally, (iii) one business day after being delivered by facsimile (with receipt of appropriate confirmation), (iv) one business day after being deposited with an overnight courier service of recognized standing or (v) four days after being deposited in the U.S. mail, first class with postage prepaid.

13. **Payment.** Payment shall be made in lawful tender of the United States.

14. **Default Rate; Usury.** During any period in which an Event of Default has occurred and is continuing, the Company shall pay interest on the unpaid principal balance hereof at a rate per annum equal to the rate otherwise applicable hereunder plus five percent (5%). In the event any interest is paid on this Note which is deemed to be in excess of the then legal maximum rate, then that portion of the interest payment representing an amount in excess of the then legal maximum rate shall be deemed a payment of principal and applied against the principal of this Note.

15. **Expenses; Waivers.** If action is instituted to collect this Note, the Company promises to pay all costs and expenses, including, without limitation, reasonable attorneys' fees and costs, incurred in connection with such action. The Company hereby waives notice of default, presentment or demand for payment, protest or notice of nonpayment or dishonor and all other notices or demands relative to this instrument.

16. **Governing Law.** This Note and all actions arising out of or in connection with this Note shall be governed by and construed in accordance with the laws of the State of California, without regard to the conflicts of law provisions of the State of California, or of any other state.

[Signature Page Follows]

The Company has caused this Note to be issued as of the date first written above.

NEUMEDIA, INC.,
a Delaware corporation

By: _____

Name:

Title:

Signature page to Subordinated Convertible Promissory Note

NEITHER THESE SECURITIES NOR THE SECURITIES ISSUABLE UPON EXERCISE OF THESE SECURITIES HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY. THESE SECURITIES AND THE SECURITIES ISSUABLE UPON EXERCISE OF THESE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT SECURED BY SUCH SECURITIES.

NEUMEDIA, INC.

WARRANT

Warrant No. 1

Original Issue Date: December 23, 2011

NeuMedia, Inc, a Delaware corporation (the "**Company**"), hereby certifies that, for value received, Adage Capital Management L.P. or its registered assigns (the "**Holder**"), is entitled to purchase from the Company up to the Warrant Number of shares of Common Stock (each such share, a "**Warrant Share**" and all such shares, the "**Warrant Shares**"), at any time and from time to time from and after the Original Issue Date and through and including the fifth anniversary of the Original Issue Date (the "**Expiration Date**"), and subject to the following terms and conditions:

1. Definitions. As used in this Warrant, the following terms shall have the respective definitions set forth in this Section 1.

"**Business Day**" means any day except Saturday, Sunday and any day that is a federal legal holiday in the United States or a day on which banking institutions in the State of California are authorized or required by law or other government action to close.

"**California Courts**" means the state and federal courts sitting in Los Angeles County, California.

"**Common Stock**" means the common stock of the Company, par value \$0.0001 per share, and any securities into which such common stock may hereafter be reclassified.

“Conversion Price” means (x) if the Note is converted into Common Stock in connection with a Qualified Equity Financing, a price equal to 75% of the price paid by the investors that purchase securities in such Qualified Equity Financing, and (y) if the Note is converted into Common Stock in connection with an event other than a Qualified Equity Financing, a price equal to 75% of the average trading price of the Common Stock for the 30-day period immediately prior to such conversion.

“Exercise Price” means the Conversion Price, subject to adjustment in accordance with Section 9.

“Fundamental Transaction” means any of the following: (1) the Company effects any merger or consolidation of the Company with or into another Person, (2) the Company effects any sale of all or substantially all of its assets in one or a series of related transactions, (3) any tender offer or exchange offer (whether by the Company or another Person) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property, or (4) the Company effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property.

“Note” means the Subordinated Convertible Promissory Note in the original principal amount of \$7,000,000 issued by the Company to the Holder on the Original Issue Date.

“Original Issue Date” means the Original Issue Date first set forth on the first page of this Warrant.

“Qualified Equity Financing” means an equity financing pursuant to which the Company sells securities with the principal purpose of raising capital.

“Trading Day” means (i) a day on which the Common Stock is traded on a Trading Market (other than the OTC Bulletin Board), or (ii) if the Common Stock is not listed on a Trading Market (other than the OTC Bulletin Board), a day on which the Common Stock is traded in the over-the-counter market, as reported by the OTC Bulletin Board, or (iii) if the Common Stock is not quoted on any Trading Market, a day on which the Common Stock is quoted in the over-the-counter market as reported by the Pink Sheets LLC (or any similar organization or agency succeeding to its functions of reporting prices); provided, that in the event that the Common Stock is not listed or quoted as set forth in (i), (ii) and (iii) hereof, then Trading Day shall mean a Business Day.

“Warrant Number” means the number of shares of Common Stock calculated by dividing the principal amount of the Note outstanding immediately prior to any conversion of the Note into Common Stock by the Conversion Price.

2. **Registration of Warrant.** The Company shall register this Warrant upon records to be maintained by the Company for that purpose (the **“Warrant Register”**), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

3. Registration of Transfers. The Company shall register the transfer of any portion of this Warrant in the Warrant Register, upon surrender of this Warrant, with the Form of Assignment attached hereto duly completed and signed, to the Company at its address specified herein. Upon any such registration or transfer, a new Warrant to purchase Common Stock, in substantially the form of this Warrant (any such new Warrant, a “**New Warrant**”), evidencing the portion of this Warrant so transferred shall be issued to the transferee and a New Warrant evidencing the remaining portion of this Warrant not so transferred, if any, shall be issued to the transferring Holder. The acceptance of the New Warrant by the transferee thereof shall be deemed the acceptance by such transferee of all of the rights and obligations of a holder of a Warrant.

4. Exercise and Duration of Warrants. This Warrant may only be exercised by the Holder on or after the date on which the Common Stock has traded on the NASDAQ (or other nationally recognized securities exchange) at a price equal to or greater than the Conversion Price for a period of 60 consecutive Trading Days with an average daily volume of at least 200,000 shares (the “**Vesting Date**”). This Warrant shall be exercisable by the registered Holder at any time and from time to time on or after the Vesting Date through and including the Expiration Date. At 6:30 p.m., Los Angeles time on the Expiration Date, the portion of this Warrant not exercised prior thereto shall be and become void and of no value. The Company may not call or redeem any portion of this Warrant without the prior written consent of the affected Holder.

5. Delivery of Warrant Shares.

(a) To effect exercises hereunder, the Holder shall not be required to physically surrender this Warrant unless the aggregate Warrant Shares represented by this Warrant is being exercised. Upon delivery of the Exercise Notice (in the form attached hereto) to the Company (with the attached Warrant Shares Exercise Log) at its address for notice set forth herein and upon payment of the Exercise Price multiplied by the number of Warrant Shares that the Holder intends to purchase hereunder, the Company shall promptly (but in no event later than three Trading Days after the Date of Exercise (as defined herein)) issue and deliver to the Holder, a certificate for the Warrant Shares issuable upon such exercise, which shall be free of restrictive legends. The Company shall, upon request of the Holder and subsequent to the date on which a registration statement covering the resale of the Warrant Shares has been declared effective by the Securities and Exchange Commission, use its reasonable best efforts to deliver Warrant Shares hereunder electronically through the Depository Trust Corporation or another established clearing corporation performing similar functions, if available, provided, that, the Company may, but will not be required to change its transfer agent if its current transfer agent cannot deliver Warrant Shares electronically through the Depository Trust Corporation. A “**Date of Exercise**” means the date on which the Holder shall have delivered to the Company: (i) the Exercise Notice (with the Warrant Exercise Log attached to it), appropriately completed and duly signed and (ii) if such Holder is not utilizing the cashless exercise provisions set forth in this Warrant, payment of the Exercise Price for the number of Warrant Shares so indicated by the Holder to be purchased.

(b) If by the third Trading Day after a Date of Exercise the Company fails to deliver the required number of Warrant Shares in the manner required pursuant to Section 5(a), then the Holder will have the right to rescind such exercise.

(c) If by the third Trading Day after a Date of Exercise the Company fails to deliver the required number of Warrant Shares in the manner required pursuant to Section 5(a), and if after such third Trading Day and prior to the receipt of such Warrant Shares, the Holder purchases (in an open market transaction or otherwise) shares of Common Stock to deliver in satisfaction of a sale by the Holder of the Warrant Shares which the Holder anticipated receiving upon such exercise (a “**Buy-In**”), then the Company shall (1) pay in cash to the Holder the amount by which (x) the Holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (y) the amount obtained by multiplying (A) the number of Warrant Shares that the Company was required to deliver to the Holder in connection with the exercise at issue by (B) the closing bid price of the Common Stock on the Date of Exercise and (2) at the option of the Holder, either reinstate the portion of the Warrant and equivalent number of Warrant Shares for which such exercise was not honored or deliver to the Holder the number of shares of Common Stock that would have been issued had the Company timely complied with its exercise and delivery obligations hereunder. The Holder shall provide the Company written notice indicating the amounts payable to the Holder in respect of the Buy-In.

(d) The Company's obligations to issue and deliver Warrant Shares in accordance with the terms hereof are absolute and unconditional, irrespective of any action or inaction by the Holder to enforce the same, any waiver or consent with respect to any provision hereof, the recovery of any judgment against any Person or any action to enforce the same, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder or any other Person of any obligation to the Company or any violation or alleged violation of law by the Holder or any other Person, and irrespective of any other circumstance which might otherwise limit such obligation of the Company to the Holder in connection with the issuance of Warrant Shares. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Company's failure to timely deliver certificates representing Warrant Shares upon exercise of the Warrant as required pursuant to the terms hereof.

6. Charges, Taxes and Expenses. Issuance and delivery of Warrant Shares upon exercise of this Warrant shall be made without charge to the Holder for any issue or transfer tax, withholding tax, transfer agent fee or other incidental tax or expense in respect of the issuance of such certificates, all of which taxes and expenses shall be paid by the Company; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the registration of any certificates for Warrant Shares or Warrants in a name other than that of the Holder. The Holder shall be responsible for all other tax liability that may arise as a result of holding or transferring this Warrant or receiving Warrant Shares upon exercise hereof.

7. Replacement of Warrant. If this Warrant is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation hereof, or in lieu of and substitution for this Warrant, a New Warrant, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction and customary and reasonable indemnity (which shall not include a surety bond), if requested. Applicants for a New Warrant under such circumstances shall also comply with such other reasonable regulations and procedures and pay such other reasonable third-party costs as the Company may prescribe. If a New Warrant is requested as a result of a mutilation of this Warrant, then the Holder shall deliver such mutilated Warrant to the Company as a condition precedent to the Company's obligation to issue the New Warrant.

8. Reservation of Warrant Shares. The Company covenants that it will at all times reserve and keep available out of the aggregate of its authorized but unissued and otherwise unreserved Common Stock, solely for the purpose of enabling it to issue Warrant Shares upon exercise of this Warrant as herein provided, the number of Warrant Shares which are then issuable and deliverable upon the exercise of this entire Warrant, free from preemptive rights or any other contingent purchase rights of Persons other than the Holder (taking into account the adjustments and restrictions of Section 9). The Company covenants that all Warrant Shares so issuable and deliverable shall, upon issuance and the payment of the applicable Exercise Price in accordance with the terms hereof, be duly and validly authorized, issued and fully paid and nonassessable.

9. Certain Adjustments. The Exercise Price and number of Warrant Shares issuable upon exercise of this Warrant are subject to adjustment from time to time as set forth in this Section 9.

(a) Stock Dividends and Splits. If the Company, at any time after the Note is converted into Common Stock, (i) pays a stock dividend on its Common Stock or otherwise makes a distribution on any class of capital stock that is payable in shares of Common Stock, (ii) subdivides outstanding shares of Common Stock into a larger number of shares, or (iii) combines outstanding shares of Common Stock into a smaller number of shares, then in each such case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event. Any adjustment made pursuant to clause (i) of this paragraph shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution, and any adjustment pursuant to clause (ii) or (iii) of this paragraph shall become effective immediately after the effective date of such subdivision or combination.

(b) Fundamental Transactions. If, at any time while this Warrant is outstanding there is a Fundamental Transaction, then the Holder shall have the right thereafter to receive, upon exercise of this Warrant, the same amount and kind of securities, cash or property as it would have been entitled to receive upon the occurrence of such Fundamental Transaction if it had been, immediately prior to such Fundamental Transaction, the holder of the number of Warrant Shares then issuable upon exercise in full of this Warrant (the "**Alternate Consideration**"). For purposes of any such exercise, the determination of the Exercise Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. The terms of any agreement pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this paragraph (b) and insuring that the Warrant (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction.

(c) Number of Warrant Shares. Simultaneously with any adjustment to the Exercise Price pursuant to this Section 9, the number of Warrant Shares that may be purchased upon exercise of this Warrant shall be increased or decreased proportionately, so that after such adjustment the aggregate Exercise Price payable hereunder for the adjusted number of Warrant Shares shall be the same as the aggregate Exercise Price in effect immediately prior to such adjustment.

(d) Calculations. All calculations under this Section 9 shall be made to the nearest cent or the nearest 1/100th of a share, as applicable. The number of shares of Common Stock outstanding at any given time shall not include shares owned or held by or for the account of the Company, and the disposition of any such shares shall be considered an issue or sale of Common Stock.

(e) Notice of Adjustments. Upon the occurrence of each adjustment pursuant to this Section 9, the Company at its expense will promptly compute such adjustment in accordance with the terms of this Warrant and prepare a certificate setting forth such adjustment, including a statement of the adjusted Exercise Price and adjusted number or type of Warrant Shares or other securities issuable upon exercise of this Warrant (as applicable), describing the transactions giving rise to such adjustments and showing in detail the facts upon which such adjustment is based. Upon written request, the Company will promptly deliver a copy of each such certificate to the Holder and to the Company's Transfer Agent.

(f) Notice of Corporate Events. If the Company (i) declares a dividend or any other distribution of cash, securities or other property in respect of its Common Stock, including without limitation any granting of rights or warrants to subscribe for or purchase any capital stock of the Company or any Subsidiary, (ii) authorizes or approves, enters into any agreement contemplating or solicits stockholder approval for any Fundamental Transaction or (iii) authorizes the voluntary dissolution, liquidation or winding up of the affairs of the Company, then the Company shall deliver to the Holder a notice describing the material terms and conditions of such transaction (but only to the extent such disclosure would not result in the dissemination of material, non-public information to the Holder) at least 10 calendar days prior to the applicable record or effective date on which a Person would need to hold Common Stock in order to participate in or vote with respect to such transaction, and the Company will take all steps reasonably necessary in order to insure that the Holder is given the practical opportunity to exercise this Warrant prior to such time so as to participate in or vote with respect to such transaction; provided, however, that the failure to deliver such notice or any defect therein shall not affect the validity of the corporate action required to be described in such notice.

10. Payment of Exercise Price. The Holder may pay the Exercise Price in one of the following manners:

(a) Cash Exercise. The Holder may deliver immediately available funds; or

(b) Cashless Exercise. If an Exercise Notice is delivered at a time when a registration statement permitting the Holder to resell the Warrant Shares is not then effective or the prospectus forming a part thereof is not then available to the Holder for the resale of the Warrant Shares, then the Holder may notify the Company in an Exercise Notice of its election to utilize cashless exercise, in which event the Company shall issue to the Holder the number of Warrant Shares determined as follows:

$$X = Y [(A-B)/A]$$

where:

X = the number of Warrant Shares to be issued to the Holder.

Y = the number of Warrant Shares with respect to which this Warrant is being exercised.

A = the average of the closing prices for the five Trading Days immediately prior to (but not including) the Date of Exercise.

B = the Exercise Price.

For purposes of Rule 144 promulgated under the Securities Act, it is intended, understood and acknowledged that the Warrant Shares issued in a cashless exercise transaction shall be deemed to have been acquired by the Holder, and the holding period for the Warrant Shares shall be deemed to have commenced, on the date this Warrant was originally issued.

11. No Fractional Shares. No fractional shares of Warrant Shares will be issued in connection with any exercise of this Warrant. In lieu of any fractional shares which would, otherwise be issuable, the Company shall pay cash equal to the product of such fraction multiplied by the closing price of one Warrant Share as reported by the applicable Trading Market on the date of exercise.

12. Notices. Any and all notices or other communications or deliveries hereunder (including, without limitation, any Exercise Notice) shall be in writing and shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified in this Section prior to 6:30 p.m. (Los Angeles time) on a Trading Day, (ii) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified in this Section on a day that is not a Trading Day or later than 6:30 p.m. (Los Angeles time) on any Trading Day, (iii) the Trading Day following the date of mailing, if sent by nationally recognized overnight courier service, or (iv) upon actual receipt by the party to whom such notice is required to be given. The addresses for such communications shall be: (i) if to the Company, to NeuMedia, Inc., 14242 Ventura Boulevard, 3rd Floor, Sherman Oaks, California 91423, Attn: David Mandell, Esq., or to Facsimile No.: (818) 301-6239 (or such other address as the Company shall indicate in writing in accordance with this Section), or (ii) if to the Holder, to the address or facsimile number appearing on the Warrant Register or such other address or facsimile number as the Holder may provide to the Company in accordance with this Section.

13. Warrant Agent. The Company shall serve as warrant agent under this Warrant. Upon 10 days' notice to the Holder, the Company may appoint a new warrant agent. Any corporation into which the Company or any new warrant agent may be merged or any corporation resulting from any consolidation to which the Company or any new warrant agent shall be a party or any corporation to which the Company or any new warrant agent transfers substantially all of its corporate trust or shareholders services business shall be a successor warrant agent under this Warrant without any further act. Any such successor warrant agent shall promptly cause notice of its succession as warrant agent to be mailed (by first class mail, postage prepaid) to the Holder at the Holder's last address as shown on the Warrant Register.

14. Miscellaneous.

(a) This Warrant shall be binding on and inure to the benefit of the parties hereto and their respective successors and assigns. Subject to the preceding sentence, nothing in this Warrant shall be construed to give to any Person other than the Company and the Holder any legal or equitable right, remedy or cause of action under this Warrant. This Warrant may be amended only in writing signed by the Company and the Holder and their successors and assigns.

(b) All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be governed by and construed and enforced in accordance with the internal laws of the State of California, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of this Warrant and the transactions herein contemplated ("**Proceedings**") (whether brought against a party hereto or its respective Affiliates, employees or agents) shall be commenced exclusively in the California Courts. Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the California Courts for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any Proceeding, any claim that it is not personally subject to the jurisdiction of any California Court, or that such Proceeding has been commenced in an improper or inconvenient forum. Each party hereto hereby irrevocably waives personal service of process and consents to process being served in any such Proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Warrant and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Warrant or the transactions contemplated hereby. If either party shall commence a Proceeding to enforce any provisions of this Warrant, then the prevailing party in such Proceeding shall be reimbursed by the other party for its attorney's fees and other costs and expenses incurred with the investigation, preparation and prosecution of such Proceeding.

(c) The headings herein are for convenience only, do not constitute a part of this Warrant and shall not be deemed to limit or affect any of the provisions hereof.

(d) In case any one or more of the provisions of this Warrant shall be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this Warrant shall not in any way be affected or impaired thereby and the parties will attempt in good faith to agree upon a valid and enforceable provision which shall be a commercially reasonable substitute therefor, and upon so agreeing, shall incorporate such substitute provision in this Warrant.

(e) Prior to exercise of this Warrant, the Holder hereof shall not, by reason of being a Holder, be entitled to any rights of a stockholder with respect to the Warrant Shares.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK,
SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed by its authorized officer as of the date first indicated above.

NEUMEDIA, INC.

By: _____
Name:
Title:

Signature Page to Warrant

EXERCISE NOTICE
NEUMEDIA, INC.
WARRANT DATED DECEMBER 23, 2011

The undersigned Holder hereby irrevocably elects to purchase _____ shares of Common Stock pursuant to the above referenced Warrant. Capitalized terms used herein and not otherwise defined have the respective meanings set forth in the Warrant.

(1) The undersigned Holder hereby exercises its right to purchase _____ Warrant Shares pursuant to the Warrant.

(2) The Holder intends that payment of the Exercise Price shall be made as (check one):

_____ "Cash Exercise" under Section 10

_____ "Cashless Exercise" under Section 10

(3) If the holder has elected a Cash Exercise, the holder shall pay the sum of \$_____ to the Company in accordance with the terms of the Warrant.

(4) Pursuant to this Exercise Notice, the Company shall deliver to the holder _____ Warrant Shares in accordance with the terms of the Warrant.

(5) By its delivery of this Exercise Notice, the undersigned represents and warrants to the Company that in giving effect to the exercise evidenced hereby the Holder will not beneficially own in excess of the number of shares of Common Stock (determined in accordance with Section 13(d) of the Securities Exchange Act of 1934) permitted to be owned under Section 11 of this Warrant to which this notice relates.

Dated: _____, ____

Name of Holder:

(Print) _____

By: _____

Name: _____

Title: _____

(Signature must conform in all respects to name of holder as specified on the face of the Warrant)

Warrant Shares Exercise Log

<u>Date</u>	<u>Number of Warrant Shares Available to be Exercised</u>	<u>Number of Warrant Shares Exercised</u>	<u>Number of Warrant Shares Remaining to be Exercised</u>
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NEUMEDIA, INC.
WARRANT ORIGINALLY ISSUED DECEMBER 23, 2011
WARRANT NO. 1

FORM OF ASSIGNMENT

[To be completed and signed only upon transfer of Warrant]

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto _____ the right represented by the above-captioned Warrant to purchase _____ shares of Common Stock to which such Warrant relates and appoints _____ attorney to transfer said right on the books of the Company with full power of substitution in the premises.

Dated: _____, ____

(Signature must conform in all respects to name of holder as specified on the face of the Warrant)

Address of Transferee

In the presence of:

December 23, 2011

This letter agreement is executed and delivered in connection with that certain Convertible Note Financing Binding Term Sheet, dated December 23, 2011 (the "Term Sheet"), by and between NeuMedia, Inc., a Delaware corporation ("Issuer"), and Adage Capital Management L.P. ("Investor"), pursuant to which, among other things, Issuer has agreed to provide certain registration and participation rights in accordance with the terms and conditions set forth herein. Capitalized terms used but not otherwise defined herein shall have their respective meanings set forth in the Term Sheet.

The undersigned hereby agree as follows:

1. Within one hundred twenty (120) calendar days after the date the Note is converted, Issuer shall use its best efforts to file, or cause to be filed, one Registration Statement (the "Investor Registration Statement") on Form S-3, or if Issuer is not then eligible to use Form S-3 in connection with such transaction, on Form S-1 (or a similar form that may be promulgated in the future), covering all of the shares of Common Stock underlying the Note and the Warrant. After the Investor Registration Statement has been filed, Issuer shall use its best efforts to cause the Investor Registration Statement to become effective as soon as possible thereafter. Notwithstanding the foregoing, Issuer shall be permitted to postpone the filing of any Investor Registration Statement pursuant to this Section 1 if Issuer furnishes to Investor a certificate signed by the Chief Executive Officer of Issuer stating that in the good faith judgment of the Board of Directors, it would be materially detrimental to Issuer or its stockholders for the Investor Registration Statement to be filed and/or effected at such time; provided, that Issuer shall use its best efforts to file and make effective the Investor Registration Statement promptly thereafter.
 2. For a period of two (2) years following the effectiveness of the Investor Registration Statement, in the event Issuer proposes to issue any equity securities, Issuer shall give Investor written notice of its intention, describing such equity securities, the price of such equity securities, the number of equity securities to be offered, and the terms and conditions upon which Issuer proposes to issue the same. Subject to applicable securities laws, Investor shall have ten (10) calendar days from the giving of such notice, to participate in such offering, on a pro rata basis in accordance with Investor's equity ownership interest in Issuer at such time on a fully-diluted basis assuming conversion of the Note and the Warrant, upon the terms and conditions specified in the notice, by giving written notice to Issuer and stating therein the quantity of equity securities Investor desires to purchase. Notwithstanding the foregoing, Issuer shall not be required to provide such notice and Investor shall not have the right to participate with respect to an offering consisting of the following securities: (a) securities issued or to be issued after the date hereof to employees, officers or directors of, or consultants or advisors to, Issuer or any subsidiary approved by the Board of Directors; (b) securities issued or issuable pursuant to any rights or agreements, options, warrants or convertible securities outstanding as of the date of this letter agreement; (c) securities issued for consideration other than cash pursuant to a merger, consolidation, acquisition, strategic alliance or other business combination approved by the Board of Directors, (d) securities issued in connection with any stock split, stock dividend or recapitalization by Issuer; (e) securities issued pursuant to any equipment loan or leasing arrangement, real property leasing arrangement, or debt financing from a bank or similar financial or lending institution approved by the Board of Directors, (f) securities issued in connection with strategic transactions involving Issuer and other entities, including, without limitation (i) joint ventures, manufacturing, marketing or distribution arrangements, or (ii) technology transfer or development arrangements; provided that (1) the issuance of such securities has been approved the Board of Directors, and (2) such transaction is not primarily for equity financing purposes (as determined in the sole, good faith discretion of the Board of Directors); and (g) securities issued by Issuer pursuant to the terms of the Term Sheet.
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3. Each party to this letter agreement agrees to perform any further acts and to execute and deliver any documents that may be reasonably necessary to carry out the provisions of this letter agreement.
4. This letter agreement shall be binding on the parties hereto and their respective successors and assigns. This letter agreement will be governed by and construed in accordance with the laws of the State of California. Any disputes arising out of or relating to this letter agreement shall be heard exclusively in state or federal courts located in California, each party waiving any and all objections to such venue. This letter agreement and the Term Sheet sets forth the entire understanding of the parties with respect to the subject matter hereof. This letter agreement shall not be amended, or any provision hereof waived, except in a writing signed by each party hereto. This letter agreement may be executed in any number of original, facsimile or other electronic counterparts.

In Witness Whereof, the parties hereto have executed this letter agreement as of the date first above written.

Issuer:

Investor:

NEUMEDIA, INC.

ADAGE CAPITAL MANAGEMENT L.P.

By: _____
Name:
Title:

By: _____
Name:
Title:

NeuMedia, Inc.
4751 Wilshire Blvd., 3rd Floor
Los Angeles, California 90010

December 28, 2011

Trinad Management, LLC
2121 Avenue of the Stars, Suite 1650
Los Angeles, California 90067
Attention: Robert Ellin

Re: Management Agreement, dated as of August 3, 2006 (the "Management Agreement"), between Mediavest, Inc. ("Mediavest") and Trinad Management, LLC ("Trinad")

Dear Robert:

Reference is made to the above-defined Management Agreement. NeuMedia, Inc. ("NeuMedia") is the successor-in-interest to Mediavest. The Management Agreement expired in accordance with its terms on September 14, 2011. Prior to the expiration of the Management Agreement, Trinad and NeuMedia agreed to defer, and did defer, payment to Trinad of a portion of the management fee payable to Trinad under the Management Agreement. The aggregate amount of such deferred management fee is equal to \$180,000. In addition, following the expiration of the Management Agreement, Trinad continued performing services comparable to those set forth in the Management Agreement, and, subject to receiving the approval by ValueAct SmallCap Master Fund, L.P., or its successor-in-interest, to such payment (the "ValueAct Consent"), NeuMedia has agreed to pay for such services at the rate set forth in the Management Agreement. The aggregate amount of such fees, as of the date hereof, is \$90,000 (collectively with the \$180,000 deferred management fee, the "Deferred Fee"). This letter agreement sets forth our agreement with respect to the payment of the Deferred Fee.

The Deferred Fee shall be payable to Trinad upon the receipt by NeuMedia of the ValueAct Consent; provided that if, in the determination of NeuMedia's board of directors in its reasonable judgment, NeuMedia is unable to pay any or the entire amount of the Deferred Fee at such time, NeuMedia shall pay only such portion of the Deferred Fee as NeuMedia is then able to pay, with the timing and amounts of further payments to be determined in the same manner by the board of directors based on NeuMedia's ability to pay. NeuMedia shall endeavor to pay all unpaid portions of the Deferred Fee as promptly as reasonably practicable. If Trinad so elects, all or part of the Deferred Fee may be paid in kind by the issuance of shares of common stock of NeuMedia on such terms as may be approved by the disinterested directors of NeuMedia's Board of Directors (which shall, for such purposes, not include Rob Ellin, Peter Guber or Paul Schaeffer). The Deferred Fee does not accrue interest.

Please sign below to indicate your agreement to the foregoing. This letter agreement may be executed in original, facsimile or other electronic counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

Very truly yours,

NEUMEDIA, INC.

By: _____

Name:

Title:

AGREED:

TRINAD MANAGEMENT, LLC

By: _____

Name:

Title:

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR APPLICABLE STATE SECURITIES LAWS AND MAY NOT BE SOLD, TRANSFERRED, OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS.

THIS NOTE AMENDS AND RESTATES THAT CERTAIN AMENDED AND RESTATED SENIOR SUBORDINATED SECURED NOTE DUE JUNE 21, 2013 (AS THE SAME MAY HAVE BEEN AMENDED, SUPPLEMENTED OR OTHERWISE MODIFIED FROM TIME TO TIME PRIOR TO THE DATE HEREOF, THE "FIRST AMENDED AND RESTATED NOTE") ISSUED IN AN ORIGINAL PRINCIPAL AMOUNT EQUAL TO THREE MILLION FIVE HUNDRED THOUSAND DOLLARS AND ZERO CENTS, WHICH FIRST AMENDED AND RESTATED NOTE AMENDED AND RESTATED THAT CERTAIN SENIOR SECURED NOTE DATED AS OF JULY 30, 2007 (AS THE SAME MAY HAVE BEEN AMENDED, SUPPLEMENTED OR OTHERWISE MODIFIED FROM TIME TO TIME PRIOR TO JUNE 21, 2013, THE "ORIGINAL NOTE") ISSUED IN AN AGGREGATE PRINCIPAL AMOUNT EQUAL TO SIXTEEN MILLION FIVE HUNDRED THOUSAND DOLLARS AND ZERO CENTS (\$16,500,000.00) PURSUANT TO THE SECURITIES PURCHASE AGREEMENT, DATED AS OF JULY 30, 2007 (AS THE SAME MAY BE AMENDED, SUPPLEMENTED OR OTHERWISE MODIFIED FROM TIME TO TIME, THE "SECURITIES PURCHASE AGREEMENT") BY AND AMONG THE COMPANY AND THE INVESTOR PARTY THERETO, AND THIS NOTE IS ENTITLED TO THE BENEFITS OF THE SECURITIES PURCHASE AGREEMENT AND TO THE EXERCISE OF THE REMEDIES PROVIDED THEREBY OR OTHERWISE AVAILABLE IN RESPECT THEREOF.

ALL INDEBTEDNESS EVIDENCED BY THIS NOTE IS SUBORDINATED TO OTHER INDEBTEDNESS PURSUANT TO, AND TO THE EXTENT PROVIDED IN, AND IS OTHERWISE SUBJECT TO THE TERMS OF, THE SUBORDINATION AGREEMENT, DATED AS OF JUNE 21, 2010 (THE "SUBORDINATION AGREEMENT"), AS THE SAME MAY BE AMENDED, SUPPLEMENTED OR OTHERWISE MODIFIED FROM TIME TO TIME, BY AND AMONG THE INVESTOR (AS ASSIGNEE OF VALUEACT SMALLCAP MASTER FUND, L.P., THE ORIGINAL PARTY THERETO), THE COMPANY, TRINAD CAPITAL MASTER FUND, LTD. AND NEUMEDIA, INC.

\$ 3,500,000.00

TWISTBOX ENTERTAINMENT, INC.

SECOND AMENDED AND RESTATED SENIOR SUBORDINATED SECURED NOTE DUE JUNE 21, 2013

Section 1. General.

FOR VALUE RECEIVED, TWISTBOX ENTERTAINMENT, INC., a Delaware corporation (the "**Company**"), hereby promises to pay to the order of TAJA, LLC ("**TAJA**"), and together with its successors and assigns, the "**Investor**", the principal sum of THREE MILLION FIVE HUNDRED THOUSAND DOLLARS AND ZERO CENTS (\$3,500,000.00), or such lesser amount as shall then equal the outstanding principal amount hereof, together with interest ("**Interest**") thereon at a rate (the "**Interest Rate**") equal to 10.0% per annum from, and including, June 21, 2010 to, but excluding, June 21, 2013, each computed on the basis of a year of 360 days comprised of twelve 30 day months. The Company represents and warrants that (a) the aggregate amount of interest accruing and becoming due and payable hereunder on or before July 1, 2011 was \$368,958.33, (b) no part of such interest has been paid in cash and, in lieu of any payment in cash, the Company has made a PIK Election (as hereinafter defined) with respect to all such interest, causing all such interest to have been added to principal hereunder, and (c) as a result, the total outstanding principal balance under this Note as of July 1, 2011 was \$3,868,958.33. All unpaid principal, together with any then unpaid and accrued interest and other amounts payable hereunder, shall be due and payable on the earlier of (i) June 21, 2013 (the "**Maturity Date**") or (ii) when such amounts become due and payable as a result of, and following, an Event of Default in accordance with Section 3.

This Note (the “**Note**”) shall be prepayable without penalty, in whole or in part, at any time at the Company’s option at 100% of the principal amount plus accrued but unpaid interest to and including the date of prepayment. Any prepayments will be applied first to any accrued but unpaid interest and then to unpaid principal.

Capitalized terms used herein without definition have the meanings assigned thereto in the Securities Purchase Agreement. In the event of any conflict between this Note and the Securities Purchase Agreement, the provisions of this Note shall control. Unless the context otherwise requires, an accounting term not otherwise defined has the meaning assigned to it in accordance with the United States generally accepted accounting principles (“**GAAP**”).

Interest on this Note shall accrue from, and including, June 21, 2010 through and until repayment of the principal amount of this Note and payment of all Interest in full, and shall be payable in cash semi-annually in arrears on each January 1 and July 1 that the Notes are outstanding or, if any such date shall not be a Business Day, on the next succeeding Business Day to occur after such date (each date upon which interest shall be so payable, an “**Interest Payment Date**”), to holders of record on each preceding December 15 and June 15 to the applicable Interest Payment Date, beginning on July 1, 2010, by wire transfer of immediately available funds to an account at a bank designated in writing by the Investor on reasonable notice. For avoidance of doubt, and notwithstanding any other provision of this Note, (a) the next Interest Payment Date following the date hereof shall be January 1, 2012 (or, if such date shall not be a Business Day, the next succeeding Business Day after January 1, 2012) and (b) all interest on this Note payable on such Interest Payment Date shall be due and payable to TAJA.

Notwithstanding the foregoing provisions of this Section 1, any overdue principal of, overdue Interest on, and any other overdue amounts payable under, this Note shall bear interest, payable on demand in immediately available funds, for each day from the date payment thereof was due to the date of actual payment at a rate equal to the sum of (i) the Interest Rate and (ii) an additional two percent (2.00%) per annum. Subject to applicable law, any interest that shall accrue on overdue interest on this Note as provided in the preceding sentence and shall not have been paid in full in cash on or before the next Interest Payment Date to occur after the date on which the overdue interest became due and payable shall itself be deemed to be overdue interest on this Note to which the preceding sentence shall apply. In addition, notwithstanding the foregoing provisions of this Section 1, if an Event of Default has occurred and is continuing, then, so long as such Event of Default is continuing, all outstanding principal of this Note shall bear interest, after as well as before judgment, at a rate equal to the sum of (i) the Interest Rate and (ii) an additional two percent (2.00%) per annum.

Notwithstanding anything to the contrary set forth herein, until (and including) the Interest Payment Date occurring on January 1, 2012, the Company may, at its option, in lieu of making any cash payment to the Investor with respect to the Interest Payment Dates occurring on or before January 1, 2012, elect that the amount of any Interest due and payable on such date be added to the principal amount then due under this Note. This election by the Company to pay the Interest by adding the amount of such payment to the principal under this Note is hereafter referred to as the “**PIK Election**.” The Company shall provide written notice of the PIK Election to the Investor at least five (5) days before the applicable Interest Payment Date. For the avoidance of doubt, immediately after each PIK Election, the outstanding principal amount of the Note shall equal the sum of (i) the outstanding principal amount of the Note immediately before the PIK Election, and (ii) the amount of Interest otherwise due and payable on the applicable Interest Payment Date. For avoidance of doubt, the Company hereby (a) acknowledges that the amount of interest hereunder due on the next Interest Payment Date following the date hereof (*i.e.*, January 1, 2012 or, if such date shall not be a Business Day, the next succeeding Business Day after January 1, 2012) shall be \$193,447.92, (b) provides the Investor with written notice of its PIK Election with respect to all such interest payable on such next Interest Payment Date following the date hereof, (c) acknowledges that the full amount of such interest shall be added to principal hereunder effective as of January 1, 2012, resulting in a total outstanding principal balance under this Note of \$4,062,406.25 as of such date, and (d) acknowledges that the Company is not entitled to any further PIK Elections with respect to interest accruing hereunder.

In accordance with Section 1(d) of the letter agreement dated as of June 21, 2010, by and among the Investor, the Guarantor, the Lead Participating Investors party thereto, Jonathan Cresswell and Nathaniel MacLeitch (the "**Letter Agreement**"), if and to the extent that, the Guarantor or any other Obligor (as defined in the Subordination Agreement) receives cash proceeds from the sale of the Assets (as defined in the Letter Agreement) pursuant to Section 1(d)(x) of the Letter Agreement, the Guarantor or such Obligor shall promptly: remit (and the First Lien Agent and the First Lien Creditors (each as defined in the Subordination Agreement) consent to such remittance) such cash sales proceeds to Investor to pay in cash the obligations then outstanding under this Note (and Investor agrees that it will accept such amounts in payment of the Note and, to the extent such amounts represent a satisfaction in full in cash of the principal amount of this Note and all interest, fees, and all other amounts then due under the Note, it will mark this Note "Cancelled" and return it to the Company).

Section 2. Repurchase Right Upon a Fundamental Change.

Notwithstanding anything to the contrary contained herein and in addition to any other right of the Investor, upon the occurrence of a Fundamental Change the Investor shall have the right for a period of thirty days, by written notice to the Company, to require the Company to repurchase all of this Note on the repurchase date that is five Business Days after the date of delivery of such notice to the Company at a price equal to 100% of the outstanding principal amount under this Note plus all accrued and unpaid interest on such principal amount to, but excluding, the date of such repurchase plus any other amounts due hereunder. A "**Fundamental Change**" shall be deemed to have occurred upon the occurrence of any of the following events: (a) any merger or consolidation of the Company with or into another Person or any sale of all or substantially all of the stock or assets of the Company, unless (i) the holders of capital stock of the Company immediately prior to such transaction are entitled to exercise, directly or indirectly, 50% or more of the voting power of all shares of capital stock entitled to vote generally in the election of directors of the continuing or surviving corporation, and (ii) such Fundamental Change does not result in a reclassification, conversion, exchange or cancellation of the Common Stock, (b) the approval of a plan relating to the liquidation or dissolution of the Company by its stockholders, (c) the Company's first domestic or foreign public offering of its capital stock, (d) a consolidation or merger of NeuMedia, Inc., formerly known as Mandalay Media, Inc. (the "**Guarantor**") with or into any other corporation or corporations, (e) a sale of all or substantially all of the assets of the Guarantor, (f) the issuance and/or sale by the Guarantor in a single or integrated transaction of shares of common stock (or securities convertible into shares of common stock) constituting a majority of the shares of common stock outstanding immediately following such issuance (treating all securities convertible into shares of common stock as having been fully converted and all options and other rights to acquire shares of common stock or securities convertible into shares of common stock as having been fully exercised), (g) any other form of acquisition or business combination where the Guarantor is the target of such acquisition and where a change in control occurs such that the Person or entity seeking to acquire the Guarantor has the power to elect a majority of the board of directors of the Company as a result of the transaction (each such event an "**Acquisition**"), and (h) any liquidation, dissolution or winding up of the Guarantor, provided, however, that (A) any conversion of the two senior notes, dated as of June 21, 2010, issued by the Guarantor in the principal amount of \$1,500,000 and \$1,000,000, respectively (the "**NeuMedia Notes**") into equity of the Guarantor, (B) the exercise of any rights under a Warrant Agreement between the Guarantor and each of the purchasers of the NeuMedia Notes and the issuance of shares of capital stock of the Guarantor in respect of such exercise or (C) the issuance of any capital stock or options, rights or warrants to purchase capital stock of the Guarantor to Rob Ellin, Trinad, Peter Guber, Paul Schaeffer or any of their respective affiliates, shall not constitute a change of control. A "**Person**" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government or other entity.

Section 3. Events of Defaults.

The occurrence of any of the following shall constitute an “**Event of Default**” under this Note:

- (a) The Company shall fail to pay any principal owing under this Note when due; or
- (b) The Company shall fail to pay any interest owing under this Note when due, and such failure shall continue for fourteen (14) days; or
- (c) The Guarantor, the Company or any Subsidiary shall fail to observe or perform any other covenant, obligation, condition or agreement contained in this Note (other than those specified in clauses (a) or (b) above), the Amended and Restated Guaranty, dated as of June 21, 2010, made by Guarantor in favor of the Investor (as the same may be amended, supplemented or otherwise modified from time to time, and together with all other documents, agreements and instruments executed in connection therewith, the “**Guaranty**”) or the Amended and Restated Guarantee and Security Agreement, dated June 21, 2010, among the Company, the Guarantor, the subsidiaries party thereto and TAJA, LLC, as assignee of ValueAct SmallCap Master Fund, L.P., as Collateral Agent for the benefit of the Investor (as the same may be amended, supplemented or otherwise modified from time to time, and together with all other documents, agreements and instruments executed in connection therewith, the “**Guarantee and Security Agreement**”), and, to the extent such failure is capable of being cured, such failure shall continue for fourteen (14) days after notice is given to the Company by the Investors holding more than 25% of the aggregate principal balance of the Notes then outstanding; or
- (d) The Guarantor, the Company or any Subsidiary shall (i) fail to make any payment when due under the terms of any bond, debenture, note or other evidence of Indebtedness (as defined below) to be paid by the Guarantor, the Company or such Subsidiary (excluding this Note, which default is addressed by clauses (a) and (b) above, but including any other evidence of Indebtedness of the Guarantor, the Company or such Subsidiary) and such failure shall continue beyond any period of grace provided with respect thereto, or (ii) default in the observance or performance of any other agreement, term or condition contained in any such bond, debenture, note or other evidence of Indebtedness, and the effect of such failure or default is to cause, or permit the holder thereof to cause, Indebtedness of the Guarantor, the Company and the Subsidiaries in an aggregate amount of Two Hundred and Fifty Thousand Dollars (\$250,000) or more to become due prior to its stated date of maturity; or
- (e) An involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of the Guarantor, the Company or any Subsidiary or its debts, or of a substantial part of its assets, under any federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Guarantor, the Company or any Subsidiary or for a substantial part of the Guarantor’s, the Company’s or such Subsidiary’s assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered; or

(f) The Guarantor, the Company or any Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (e) of this Section, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Guarantor, the Company or any Subsidiary or for a substantial part of the Guarantor's, the Company's or such Subsidiary's assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing; or

(g) Except for such matters disclosed on Exhibit A hereto, one or more judgments for the payment of money in an amount in excess of Two Hundred and Fifty Thousand Dollars (\$250,000) in the aggregate, outstanding at any one time, shall be rendered against the Guarantor, the Company and the Subsidiaries and the same shall remain undischarged for a period of sixty (60) days during which execution shall not be effectively stayed, or any judgment, writ, assessment, warrant of attachment, or execution or similar process shall be issued or levied against a substantial part of the property of the Guarantor, the Company or any Subsidiary and such judgment, writ, or similar process shall not be released, stayed, vacated or otherwise dismissed within sixty (60) days after issue or levy; or

(h) Any Note, the Guarantee and Security Agreement or the Guaranty shall be asserted in writing by the Guarantor, the Company or any Subsidiary not to be in full force and effect, or the Guarantor, the Company or any Subsidiary shall disavow any of its obligations thereunder; or

(i) Any Lien purported to be created under the Guarantee and Security Agreement shall be asserted by the Company or any Subsidiary not to be, a valid and perfected Lien on any Collateral, with the priority required by the Guarantee and Security Agreement; or

(j) The Company shall have failed to make filings within sixty (60) days of June 21, 2010 with the United States Patent and Trademark Office in respect of the security interests granted in the Company's Trademarks (as defined in the Guarantee and Security Agreement) to the Investor under the Guarantee and Security Agreement; or

(k) Any Event of Default under and as defined in the Guarantee and Security Agreement shall have occurred; or

(l) Guarantor is in default under the NeuMedia Notes.

Section 4. Rights Of Investor Upon Default.

Upon the occurrence or existence of any Event of Default (other than an Event of Default referred to in Sections 3(e) or 3(f) hereof) and at any time thereafter during the continuance of such Event of Default, the Investor may, upon the approval of Investor holding more than 25% of the aggregate principal balance of the Notes then outstanding, by written notice to the Company, declare all outstanding amounts payable by the Company hereunder to be immediately due and payable without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, anything contained herein to the contrary notwithstanding. Upon the occurrence or existence of any Event of Default described in Sections 3(e) or 3(f) hereof, immediately and without notice, all outstanding amounts payable by the Company hereunder shall automatically become immediately due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, anything contained herein to the contrary notwithstanding. In addition to the foregoing remedies, upon the occurrence or existence of any Event of Default, the Investor may exercise, upon the approval of Investor holding more than a majority of the aggregate principal balance of the Notes, any other right, power or remedy permitted to it by law, either by suit in equity or by action at law, or both

Section 5. Affirmative Covenant, Board Observer Rights. For as long as the Note remains outstanding, the Investor shall have the right, but not the obligation, to designate one individual reasonably acceptable to the Guarantor to serve as an observer (the “**Observer**”) who shall be entitled to attend all meetings of each of the boards of directors of the Guarantor, the Company, or any Subsidiary (each, a “**Board**”), and any committee thereof in a nonvoting, observer capacity, and to receive (on a concurrent basis) copies of all notices, minutes, consents and other materials that the Guarantor provides to its directors; provided, however, that the Observer shall execute a confidentiality agreement, reasonably satisfactory to the Guarantor, with respect to the information to be provided or the matters to be discussed at any meeting of the Board. Notwithstanding the foregoing, the Guarantor reserves the right to withhold any information and exclude such Observer from any meeting of the Board, or any portion thereof, if access to such information or attendance at such meeting could (based on the advice of the Guarantor’s counsel) adversely affect the attorney-client privilege with respect to any matters to be discussed or any matters included in the information to be distributed.

Section 6. Negative Covenants.

Until all principal and interest and any other amounts due and payable under this Note have been paid in full in cash, the Company (and the Guarantor, in the case of Section 6(b)) shall not, and shall not permit any Subsidiary to, without the prior written approval of the Investor holding a majority in principal amount of the Notes:

(a) Indebtedness. Incur, create, assume or permit to exist any Indebtedness, except

(i) guarantees of the NeuMedia Notes by the Company and any Grantor (as defined in the Guarantee and Security Agreement), provided that the outstanding principal amount (and the guaranteed amount permitted under this Section 6(a)(i)) of the NeuMedia Notes does not exceed \$2,500,000;

(ii) Indebtedness under this Note, the Guarantee and Security Agreement, the guarantee given by AMV Holding Limited and the debenture securing such guarantee dated August 23, 2008; and

(iii) unsecured Indebtedness, provided the Indebtedness is expressly subordinate in right of payment to the Note on terms acceptable to ValueAct.

“**Indebtedness**” means (i) all indebtedness, whether or not contingent, for borrowed money or for the deferred purchase price of property or services (but excluding trade accounts payable in the ordinary course of business not overdue for more than sixty (60) days), (ii) any other indebtedness that is evidenced by a note, bond, debenture or similar instrument, (iii) all obligations under financing leases or letters of credit, (iv) all obligations in respect of acceptances issued or created, (v) all liabilities secured by any lien on any property, and (vi) all guarantee obligations, in each case including the principal amount thereof, any accrued interest thereon and any prepayment premiums or fees or termination fees with respect thereto.

(b) Affiliate Transaction. Excluding (x) the transactions with Affiliates as of June 21, 2010 and as set forth on Exhibit B hereto (each, an “**Existing Affiliate Transaction**”) and (y) transactions between or among the Company, the Guarantor and its Subsidiaries, enter into any transaction, including, without limitation, the purchase, sale, or exchange of property or the rendering of any service, with any Affiliate (each, an “**Affiliate Transaction**”), unless

(i) the Affiliate Transaction is in the ordinary course of and pursuant to the reasonable requirements of the Guarantor's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Guarantor or such Subsidiary than would obtain in a comparable arm's length transaction with a Person not an Affiliate; and

(A) if the Affiliate Transaction or series of related Affiliate Transactions involves aggregate consideration less than or equal to \$250,000, the Guarantor shall deliver to the Investor a resolution of the Board of Directors of the Guarantor set forth in an officers' certificate certifying that such Affiliate Transaction complies with this covenant and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors of the Guarantor; and

(B) if the Affiliate Transaction or series of related Affiliate Transactions involves aggregate consideration greater than \$250,000, the Guarantor shall either deliver to the Investor an opinion as to the fairness to the Guarantor of such Affiliate Transaction from financial point of view issued by an accounting, appraisal or investment banking firm of national standing or shall receive the Investor's affirmative written consent.

For the avoidance of doubt, neither this covenant nor any other shall prohibit or restrict any distribution of any cash between any direct or indirect wholly-owned subsidiaries of the Guarantor or to the Guarantor from any direct or indirect wholly-owned subsidiary of the Guarantor.

(c) Dividends. Declare or make, or agree to declare or make, directly or indirectly, any dividends on any Equity Interests (as defined in the Guarantee and Security Agreement) or apply any of its property or assets to the purchase, redemption or other retirement of, or set apart any sum for the payment of any dividends on, or for the purchase, redemption or other retirement of, or make any other distribution by reduction of capital or otherwise in respect of, any Equity Interests, except repurchases of equity incentive grants issued to employees, officers, directors and agents of the Company and its Subsidiaries in the ordinary course of business, provided that such repurchases shall not exceed \$150,000 in any twelve (12) month period.

(d) Subsidiaries. Create, own or acquire any Subsidiary (other than any Subsidiary owned as of June 21, 2010), except that the Company and its wholly-owned subsidiaries may create or own wholly-owned Subsidiaries, provided that any such Subsidiary created or owned in reliance of this Section 6(d) shall execute a joinder to the Guarantee and Security Agreement in form and substance satisfactory to the Investor in its sole discretion.

Section 7. Defenses.

The obligations of the Company under this Note shall not be subject to reduction, limitation, impairment, termination, defense, set-off, counterclaim or recoupment for any reason.

This Note is a senior secured obligation of the Company. The Company's obligations under this Note are (i) guaranteed by the Guarantor and by the subsidiaries of the Guarantor and (ii) secured by a security interest in substantially all of the assets of the Guarantor and such Subsidiaries, in each case pursuant to the terms and provisions of the Guaranty and the Guarantee and Security Agreement. This Note is subject to the terms and provisions of the Guaranty and the Guarantee and Security Agreement, and the Investor, by its acceptance of this Note, hereby acknowledges and agrees to such terms and provisions.

Section 8. Transfer of Note: Lost or Stolen Note.

(a) The Investor may sell, transfer or otherwise dispose of all or any part of this Note (including without limitation pursuant to a pledge) to any Person or entity as long as such sale, transfer or disposition is in accordance with the provisions of the Securities Purchase Agreement. From and after the date of any such sale, transfer or disposition, the transferee hereof shall be deemed to be the holder of a Note in the principal amount acquired by such transferee, and the Company shall, as promptly as practicable, issue and deliver to such transferee a new Note identical in all respects to this Note, in the name of such transferee and, if such transferee acquires less than the entire principal amount of this Note, the Company shall contemporaneously issue to the Investor a new Note identical in all respects to this Note, representing the outstanding balance of this Note. The Company shall be entitled to treat the original Investor as the holder of this entire Note unless and until it receives written notice of the sale, transfer or disposition hereof.

(b) Upon receipt by the Company of evidence of the loss, theft, destruction or mutilation of this Note, and (in the case of loss, theft or destruction) of indemnity or security reasonably satisfactory to the Company, and upon surrender and cancellation of the Note, if mutilated, the Company shall execute and deliver to the Investor a new Note identical in all respects to this Note.

Section 9. Attorneys' and Collection Fees.

Should the indebtedness evidenced by this Note or any part hereof be collected at law or in equity or in bankruptcy, receivership or other court proceedings, the Company agrees to pay, in addition to the principal and interest due and payable hereon, all costs of collection, including reasonable attorneys' fees and expenses, incurred by the Investor or its agent in collecting or enforcing this Note.

Section 10. Indemnification.

(a) The Company shall indemnify the Investor, and any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such Investor (each an "Affiliate" of the Investor) (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the fees, charges, disbursements of any counsel for any Indemnitee, incurred by or asserted against any Indemnitee by a third party arising out of, in connection with, or as a result of (i) the execution or delivery of this Note, the Securities Purchase Agreement, the Guaranty and Security Agreement, the Guaranty or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations hereunder or the consummation of or the use of the proceeds therefrom, (ii) the breach by the Company or any Subsidiary of any representation, warranty, covenant or agreement contained herein, in the Securities Purchase Agreement, the Guaranty or in the Guaranty and Security Agreement, or (iii) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by judgment of a court of competent jurisdiction to have primarily resulted from the gross negligence or willful misconduct of such Indemnitee.

(b) To the extent permitted by applicable law, the Company shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages arising out of, in connection with, or as a result of, this Note, the Securities Purchase Agreement, the Guaranty and Security Agreement or any agreement or instrument contemplated hereby or thereby, or the use of the proceeds thereof, other than claims predicated upon the gross negligence or willful misconduct of such Indemnitee.

Section 11. Waivers.

(a) The Company hereby waives presentment, demand for payment, notice of dishonor, notice of protest and all other notices or demands in connection with the delivery, acceptance, performance or default of this Note. No delay by the Investor in exercising any power or right hereunder shall operate as a waiver of any power or right, nor shall any single or partial exercise of any power or right preclude other or further exercise thereof, or the exercise thereof, or the exercise of any other power or right hereunder or otherwise; and no waiver whatsoever or modification of the terms hereof shall be valid unless set forth in writing by the Investor and then only to the extent set forth therein.

(b) The Company covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any usury law wherever enacted, now or at any time hereafter in force, that may affect the covenants or the performance of this Note; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it shall not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Investor, but shall suffer and permit the execution of every such power as though no such law has been enacted.

Section 12. Amendments.

No amendment, modification or other change to, or waiver of any provision of, this Note may be made unless such amendment, modification or change is set forth in writing and is signed by the Company and Investor holding more than 75% of the aggregate principal balance of the Notes.

Section 13. Governing Law; Jurisdiction; Consent to Service of Process; Waiver of Jury Trial.

(a) THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK, INCLUDING, WITHOUT LIMITATION, SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW AND NEW YORK CIVIL PRACTICE LAWS AND RULES 327(b).

(b) THE COMPANY HEREBY IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF THE SUPREME COURT OF THE STATE OF NEW YORK SITTING IN NEW YORK COUNTY AND OF THE UNITED STATES' DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER TRANSACTION DOCUMENT IN CONNECTION WITH THIS NOTE OR THE NEUMEDIA NOTES, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT, AND EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NEW YORK STATE OR, TO THE EXTENT PERMITTED BY LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT SHALL AFFECT ANY RIGHT THAT INVESTOR MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT AGAINST THE COMPANY OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

(c) THE COMPANY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT IT MAY LEGALLY AND EFFECTIVELY DO SO, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS NOTE, THE SECURITIES PURCHASE AGREEMENT OR THE GUARANTEE AND SECURITY AGREEMENT IN ANY COURT REFERRED TO IN PARAGRAPH (B) OF THIS SECTION. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

(d) EACH PARTY TO THIS AGREEMENT IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 15. NOTHING IN THIS AGREEMENT WILL AFFECT THE RIGHT OF ANY PARTY TO THIS AGREEMENT TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW.

(e) EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS NOTE, THE SECURITIES PURCHASE AGREEMENT, THE GUARANTEE AND SECURITY AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

Section 14. Successors and Assigns.

The terms and conditions of this Note shall inure to the benefit of and be binding upon the respective successors (whether by merger or otherwise) and permitted assigns of the Company and the Investor. The Company may not assign its rights or obligations under this Note.

Section 15. Notices.

Whenever notice is required to be given under this Note, unless otherwise provided herein, such notice shall be delivered in accordance with Section 9.4 of the Securities Purchase Agreement.

Section 16. Entire Agreement.

The Securities Purchase Agreement, the Notes, the Guaranty, the Guarantee and Security Agreement and the other Secured Transaction Documents (as defined in the Guarantee and Security Agreement) constitute the full and entire understanding and agreement between the parties with regard to the subjects hereto and thereof.

Section 17. Headings.

The headings used in this Note are used for convenience only and are not to be considered in construing or interpreting this Note.

Section 18. Severability.

In case any one or more of the provisions of this Note shall be held invalid, illegal or unenforceable, in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions shall not in any way be affected or impaired thereby, it being intended that all of the provisions hereof shall be enforceable to the fullest extent permitted by law.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this Second Amended and Restated Senior Subordinated Secured Note to be duly executed by its duly authorized officer as of the date indicated below.

Date: December 16, 2011

TWISTBOX ENTERTAINMENT, INC.

By: _____
Name:
Title:

Consented by (pursuant to the Guaranty, given as of June 21, 2010, by the Guarantor to the Investors):

NEUMEDIA, INC., formerly known as Mandalay Media, Inc.

By: _____
Name: []
Title: []

Note No. []
Amount: \$3,868,958.33 as of July 1, 2011
Investor Name: TAJA, LLC
Address: c/o David J. Barton, Esq.
Pachulski Stang Ziehl & Jones LLP
Thirteenth Floor
Los Angeles, CA 90067
Tel: (310) 277-6910
Fax: (310) 201-0760

EXHIBIT A

Existing Litigation

1. Any litigation arising from the conduct of the AMV subsidiaries after the date of this Note.
2. Any claim or litigation involving Vivid Media, Inc.
3. Any claims or litigation involving Penthouse.
4. Any claims or litigation involving Cardplayer.
5. Any claims or litigation involving former legal counsel to NeuMedia, Inc.

EXHIBIT B

Existing Affiliate Transactions

- Trinad management agreement - \$90,000 per quarter through September 2011;
- Trinad – rental sublet of Century City office – month to month – presently at \$5,000 per month; and
- Berkshire holdings - rental of Sherman Oaks office premises - \$21,000 per month through July 15, 2010.

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

I, Peter Adderton, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Mandalay Digital Group, Inc.;
2. Based on my knowledge, this 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: February 21, 2012

/s/ Peter Adderton
Peter Adderton
Chief Executive Officer
(Principal Executive Officer)

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

I, Lisa Lucero, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Mandalay Digital Group, Inc.;
2. Based on my knowledge, this 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: February 21, 2012

/s/ Lisa Lucero

Lisa Lucero
CFO, Twistbox Entertainment, Inc.
(Principal Financial Officer)

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

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

The Quarterly Report on Form 10-Q for the period ended December 31, 2011 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: February 21, 2012

/s/ Peter Adderton
Peter Adderton
Chief Executive Officer
(Principal Executive Officer)

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

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

The Quarterly Report on Form 10-Q for the period ended December 31, 2011 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: February 21, 2012

/s/ Lisa Lucero

Lisa Lucero
CFO, Twistbox Entertainment, Inc.
(Principal Financial Officer)
