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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012
or

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

Commission File Number 00-10039

MANDALAY DIGITAL GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	22-2267658
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
4751 Wilshire Boulevard, Third Floor Los Angeles, CA	90010
(Address of Principal Executive Offices)	(Zip Code)

(310) 601-2500
(Issuer's Telephone Number, Including Area Code)

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

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

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

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

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act subsequent to the distribution of securities under a plan confirmed by a court. Yes ☒ No ☐

As of August 1, 2012, the Company had 85,953,136 shares of its common stock, $0.0001 par value per share, outstanding.

MANDALAY DIGITAL GROUP, INC.
FORM 10-Q QUARTERLY REPORT FOR THE QUARTER ENDED JUNE 30, 2012
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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

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

Consolidated Balance Sheets

(In thousands, except per share amounts)

	June 30, 2012 (Unaudited)	March 31, 2012 (Audited)
ASSETS		
Current assets		
Cash and cash equivalents	$ 8,240	$ 8,799
Accounts receivable, net of allowances of $108 and $108, respectively	1,019	1,190
Prepaid expenses and other current assets	136	120
Total current assets	9,395	10,109
Property and equipment, net	201	230
Intangible assets, net	759	817
Goodwill	3,640	3,640
TOTAL ASSETS	**$ 13,995**	**$ 14,796**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 3,032	$ 3,051
Accrued license fees	1,049	1,155
Accrued compensation	370	582
Current portion of long term debt, net of discounts of $813 and $0, respectively	2,234	75
Warrant derivative liabilities	-	452
Other current liabilities	553	705
Total currrent liabilities	7,238	6,020
Long term debt and convertible debt, net of discounts of $980 and $2,147, respectively	1,378	3,077
Total liabilities	$ 8,616	$ 9,097
Commitments and contingencies (Note 16)		
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, $0.0001 par value: 100,000,000 shares authorized; 86,033,859 issued and 82,260,860 outstanding at June 30, 2012; 83,506,945 issued and 79,733,946 outstanding at March 31, 2012;	7	7
Additional paid-in capital	135,702	133,300
Treasury Stock (3,772,999 shares at June 30, 2012 and March 31, 2012)	(71)	(71)
Accumulated other comprehensive loss	(163)	(194)
Accumulated deficit	(130,196)	(127,443)
Total stockholders' equity	5,379	5,699
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 13,995**	**$ 14,796**

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

Consolidated Statements of Operations (unaudited)

(In thousands, except per share amounts)

	3 Months Ended June 30, 2012	3 Months Ended June 30, 2011
Net revenues	$ 1,290	$ 1,893
Cost of revenues		
License fees	614	492
Other direct cost of revenues	58	58
Total cost of revenues	672	550
Gross profit	618	1,343
Operating expenses		
Product development	366	664
Sales and marketing	103	235
General and administrative	2,401	915
Total operating expenses	2,870	1,814
Loss from operations	(2,252)	(471)
Interest and other income / (expense)		
Interest income/ (expense)	(459)	(367)
Foreign exchange transaction gain / (loss)	(7)	48
Change in fair value of accrued derivative liabilities gain / (loss)	(21)	57
Loss on settlement of debt	-	(7)
Interest and other expense	(487)	(269)
Loss from operations before income taxes	(2,739)	(740)
Income tax provision	(14)	(31)
Net (loss)	$ (2,753)	$ (771)
Other comprehensive income:		
Foreign currency translation adjustment	31	106
Comprehensive (loss)	$ (2,722)	$ (665)
Basic and diluted net (loss) per common share	$ (0.03)	$ (0.02)
Weighted average common shares outstanding, basic and diluted	84,504	41,679

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

Consolidated Statements of Stockholders' Equity and Comprehensive Loss

(In thousands, except share amounts)

	Common Stock		Preferred Stock		Treasury Stock		Additional Paid-In	Accumulated Other Comprehensive	Accumulated	
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Income/(Loss)	Deficit	Total
Balance at March 31, 2012	83,506,945	$ 7	100,000	$ 100	3,772,999	$ (71)	$ 133,300	$ (194)	$ (127,443)	$ 5,699
Net loss									(2,753)	(2,753)
Foreign currency translation								31		31
Issuance of restricted stock for services	733,333						929			929
Warrants exercised	365,010						473			473
Issuance of common stock for cash	1,428,571						1,000			1,000
Balance at June 30, 2012 (unaudited)	86,033,859	$ 7	100,000	$ 100	3,772,999	$ (71)	$ 135,702	$ (163)	$ 130,196	$ 5,379

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

Consolidated Statements of Cash Flows (unaudited)

(In thousands)

	3 Months Ended June 30, 2012	3 Months Ended June 30, 2011
Cash flows from operating activities		
Net (loss)	$ (2,753)	$ (771)
Adjustments to reconcile net (loss) to net cash used in operating activities:		
Depreciation and amortization	87	129
Amortization of debt discount	354	208
Interest accrued	106	-
Stock-based compensation	-	69
Warrants issued for services	-	15
Stock issued for services	929	82
Increase / (decrease) in fair value of derivative liabilities	21	-
(Increase) / decrease in assets:		
Accounts receivable	171	392
Prepaid expenses and other current assets	(16)	(8)
Increase / (decrease) in liabilities:		
Accounts payable	(19)	(423)
Accrued license fees	(106)	132
Accrued compensation	(212)	(132)
Other liabilities and other items	(152)	38
Net cash used in operating activities	(1,590)	(269)
Cash flows from investing activities		
Purchase of property and equipment	-	(34)
Net cash used in investing activities	-	(34)
Cash flows from financing activities		
Issuance of shares for cash	1,000	-
Net cash provided by financing activities	1,000	-
Effect of exchange rate changes on cash and cash equivalents	31	106
Net change in cash and cash equivalents	(559)	(197)
Cash and cash equivalents, beginning of period	8,799	845
Cash and cash equivalents, end of period	$ 8,240	$ 648
Supplemental disclosure of cash flow information:		
Taxes paid	$ -	$ 31
Interest paid	$ -	$ 367

1. Organization

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

Twistbox is a global publisher and distributor of branded entertainment content and services primarily focused on enabling the development, distribution and billing of content across mobile networks. Twistbox publishes and distributes its content in a number of countries. Since operations began in 2003, Twistbox has developed an intellectual property portfolio that includes mobile rights to global brands 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 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.

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

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

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

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

2. Liquidity

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

Our primary sources of liquidity have historically been issuance of common and preferred stock and borrowings under credit facilities. In fiscal year 2012, the Company raised $9.7 million through issuance of convertible debt and equity financings and through restructuring existing debt to convertible debt. Until we become cash flow positive, we anticipate that our primary sources of liquidity will be cash generated by our operating activities, as well as further borrowings or further capital raises. Assuming there are no further changes in expected sales and expense trends subsequent to June 30, 2012, the Company believes that its cash position will be sufficient to continue operations for the foreseeable next twelve months.

3. Summary of Significant Accounting Policies

Basis of Presentation

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and our wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation. 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, mobile billing and mobile games. License arrangements with the end user can be on a perpetual or subscription basis.

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

The Company 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;
- the Company has limited risks, including no inventory risk and limited credit risk.

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

Net Loss per Common Share

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

	3 Months Ended June 30, 2012	3 Months Ended June 30, 2011
Potentially dilutive shares	27,862	16,739

Comprehensive Loss

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

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.

Content Acquired

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

Software Development Costs

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

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

Product Development Costs

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

Advertising Expenses

The Company expenses the costs of advertising, including direct response advertising, the first time the advertising takes place. Advertising expense was $0 and $4 in the periods ended June 30, 2012 and 2011, 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.

Presentation

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

Fair Value of Financial Instruments

As of June 30, 2012 and March 31, 2012, the carrying value of cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued license fees, accrued compensation, derivative liabilities and other current liabilities approximates fair value due to the short-term nature of such instruments.

Derivative Liabilities

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

Foreign Currency Translation

The Company uses the United States dollar for financial reporting purposes. Assets and liabilities of foreign operations are translated using current rates of exchange prevailing at the balance sheet date. Equity accounts have been translated at their historical exchange rates when the capital transaction occurred. Statement of Operations amounts are translated at average rates in effect for the reporting period. The foreign currency translation adjustment gains of $31 and $106 in the periods ended June 30, 2012 and 2011, respectively and has been reported as a component of comprehensive loss in the consolidated statements of stockholders' equity and comprehensive income.

Concentrations of Credit Risk

Financial instruments which potentially subject us to concentration of credit risk consist principally of cash and cash equivalents, and accounts receivable. We have placed cash and cash equivalents with a single high credit-quality institution. Most of our sales are made directly to large national Mobile Phone Operators in the countries that we operate. We have a significant level of business and resulting significant accounts receivable balance with one operator and therefore have a high concentration of credit risk with that operator. We perform ongoing credit evaluations of our customers and maintain an allowance for potential credit losses. As of June 30, 2012, one major customer represented approximately 35% of our gross accounts receivable outstanding, and 39% of gross accounts receivable outstanding as of March 31, 2012. This customer accounted for 34% of our gross revenues in the period ended June 30, 2012; and 43% in the period ended June 30, 2011. Two other major customers accounted for 22% and 10%, respectively, for the period ended June 30, 2012.

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.

In the period ended June 30, 2012 the Company determined that there was no impairment of goodwill. In the year ended March 31, 2012, the Company determined that there was an impairment of goodwill amounting to $2,969.

Impairment of Long-Lived Assets and Finite Life Intangibles

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

In the period ended June 30, 2012, the Company determined that there was no impairment of intangible assets. In the year ended March 31, 2012, the Company determined that there was an impairment of intangible assets amounting to $2,319.

Income Taxes

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

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

Stock-based Compensation

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

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

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

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

Preferred Stock

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

Use of Estimates

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

Recently Adopted Accounting Pronouncements

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

Recently Issued Accounting Pronouncements

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

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

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.

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

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

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

Measured at Fair Value on a Recurring Basis

Warrant derivative liabilities (in thousands)	Total	Level 1	Level 2	Level 3
June 30, 2012	$ -	$ -	$ -	$ -
March 31, 2012	$ 452	$ -	$ 452	$ -

The warrant derivative liability was exercised in the period ending June 30, 2012, and is discussed further at Note 12.

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

5. Accounts Receivable

	June 30, 2012	March 31, 2012
Billed	$ 590	$ 709
Unbilled	537	589
Less: allowance for doubtful accounts	(108)	(108)
Net Accounts receivable	$ 1,019	$ 1,190

The Company had no significant write-offs or recoveries during the periods ended June 30, 2012 and June 30, 2011.

6. Property and Equipment

	June 30, 2012	March 31, 2012
Equipment	$ 1,310	$ 1,310
Furniture & fixtures	484	484
Leasehold improvements	184	184
	1,978	1,978
Accumulated depreciation	(1,777)	(1,748)
Net Property and Equipment	$ 201	$ 230

Depreciation expense for the three months ended June 30, 2012 and 2011 was $29 and $61, respectively.

7. Description of Stock Plans

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

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

— **Individual Grant Limits.** No participant may be granted in aggregate, in any calendar year, Awards covering more than 500,000 shares.

— **No annual "Evergreen" Provision.** The Plan provides for a fixed allocation of shares, thereby requiring stockholder approval of any additional allocation of shares.

— **No Discount Stock Options.** The Plan prohibits the grant of a stock option with an exercise price of less than the fair market value of the closing price of our common stock on the date the stock option is granted.

Summary Description of the Plan

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

Stock options may be either "incentive stock options" ("ISOs"), as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or non-qualified stock options ("NQSOs"). The Plan reserves 4,000,000 shares for issuance, of which 41,667 remain available for issuance as of June 30, 2012. The 4,000,000 shares reserved for issuance will serve as the underlying value for all equity awards under the Plan.

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

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

Option Plans

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

(in thousands)	Number of Shares	Weighted Average Exercise Price
Outstanding at March 31, 2012	4,798	$ 1.80
Granted	-	$ -
Canceled	-	$ -
Forfeited	-	$ -
Exercised	-	$ -
Outstanding at June 30, 2012	4,798	$ 1.80
Exercisable at June 30, 2012	4,798	$ 1.80

The exercise price for options outstanding and options exercisable at June 30, 2012 was as follows:

Range of Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number Outstanding June 30, 2012	Weighted Average Exercise Price	Aggregate Intrinsic Value
$0 - $1.00	4.02	2,698	$ 0.47	$ 807,598
$2.00 - $3.00	5.97	1,300	$ 2.75	$ -
$4.00 - $5.00	5.62	800	$ 4.75	$ -
	4.81	4,798	$ 1.80	$ 807,598

Stock Plans

The Company's 2007 Employee, Director and Consultant Stock Plan equity compensation plan did not contain nonvested options as of June 30, 2012 and March 31, 2012.

As of June 30, 2012, under the Company's 2007 Employee, Director and Consultant Stock Plan equity compensation plan, there was $0 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan.

Option Plans and Stock Plans

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011
Product development	$ -	$ 69
Sales and marketing	-	-
General and administrative	122	-
	$ 122	$ 69

8. Goodwill

Goodwill

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

Balance at March 31, 2012	$	3,640
Goodwill impairment		-
Balance at June 30, 2012	$	3,640

Fair value is defined under ASC 820, Fair Value Measurements and Disclosures as, "The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". The Company considered the income and market approaches to derive an opinion of value. Under the income approach, the Company utilized the discounted cash flow method, and under the market approach, consideration was given to the guideline public company method, the merger and acquisition method, and the market capitalization method.

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 June 30, 2012. The Company recorded an impairment charge of $2,969 for the year ended March 31, 2012.

9. Intangible Assets

The components of intangible assets as at June 30, 2012 and March 31, 2012 were as follows:

	As of June 30, 2012		
	Cost	Accumulated Amortization	Net
Software	$ 1,611	$ (1006)	$ 605
Trade name / Trademark	154	-	$ 154
Customer list	1,220	(1,220)	$ (0)
License agreements	443	(443)	$ (0)
	$ 3,428	$ (2,669)	$ 759

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 June 30, 2012. The Company recorded an impairment charge of $2,319 for the year ended March 31, 2012.

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

The Company has included amortization of acquired intangible assets directly attributable to revenue-generating activities in cost of revenues. During the periods ended June 30, 2012 and 2011, the Company recorded amortization expense in the amount of $58 and $58, respectively, in cost of revenues.

Based on the amortizable intangible assets as of June 30, 2012, we estimate amortization expense for the next three years to be as follows:

Year Ending June 30,	Amortization Expense (in thousands)
2013	$ 232
2014	232
2015	141
	$ 605

10. Debt

	June 30, 2012		March 31, 2012	
Short Term Debt				
Equipment Leases and accrued interest on debt		-		2
Senior secured note, including PIK interest, net of discount, of $813 and $0, respectively	$	2,089	$	-
Senior secured note, short term accrued interest		145		73
	$	2,234	$	75

	June 30, 2012		March 31, 2012	
Long Term Debt				
Senior secured note, including PIK interest, net of discount, of $0 and $1,648, respectively	$	-	$	1,881
Convertible note, including accrued interest, net of discount, of $980 and $0, respectively		215		60
Secured note, including PIK interest and accrued interest		1,163		1,136
	$	1,378	$	3,077

Convertible Debt

ValueAct Note

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

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

On December 29, 2011, the Company and Taja entered into a binding term sheet for convertible note financing ("Taja Convertible Note") and effectively a third amendment to the Second Amended Note ("Third Amended Note"). The Taja Convertible Note became effective on February 27, 2012. The Third Amended Note (1) changed the maturity date of the note from June 21, 2013 to June 21, 2015, (2) extended the payment in kind ("PIK") election to the note through the revised term, and (3) stripped out $3,000 of principal to create the Taja Convertible Note, leaving a principal balance of $500 plus accrued interest of $562 for a total of $1,062. As consideration for amending the note, Taja also received a warrant ("Incentive Warrant") to purchase 2,000 shares of common stock of the Company at an exercise price of $0.25 per share, subject to adjustment. Taja also received 25% warrant coverage ("Coverage Warrant") determined by dividing the principal amount of the Taja Convertible Note by the conversion price multiplied by 25%. The Incentive Warrant and the Coverage Warrant each have a five year term and vest one year from issue date. The Coverage Warrant was initially recorded as a derivative liability upon issuance. As discussed in Note 12, the Company received a waiver from the Senior Secured Convertible note holders on March 26, 2012 which allowed the Company to reclassify the Convertible Note Warrant from a derivative liability to additional paid-in capital. The Company assessed the debt modification for the Third Amended Note and determined that it met the requirements for extinguishment accounting per FASB ASC 470 and accordingly, recorded a loss on extinguishment of debt of $1,459 for the year ended March 31, 2012.

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

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

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

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

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

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

On March 19, 2012, the Company issued 2,600 shares of its common stock to Taja for the conversion of $1,820 of the Amended Taja Convertible Note. The Company expensed to interest expense the debt discount on a pro rata basis of the amount converted to the original debt amount to reflect the conversion of the $1,820. Through the period ended June 30, 2012, the Company recorded interest expense of $146 related to the amortization of the debt discount. The remaining discount of $980 will be amortized over the period ending March 1, 2014. The Company assessed the conversion of $1,820 and determined that it met the requirements for extinguishment accounting per FASB ASC 470 and accordingly, recorded a gain on extinguishment of debt of $1,346 for the year ended March 31, 2012.

As of June 30, 2012, outstanding principal balance of $1,180 of the Amended Taja Convertible Note is convertible into approximately 1,686,000 shares of common stock at a conversion price of $0.70. At June 30, 2012, the if-converted value exceeds the principal by approximately $84.

Senior Secured Convertible Notes

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

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

The Warrants granted to the New Senior Secured Note holders on June 21, 2010 and conversion feature in the New Senior Secured Notes are not considered derivative instruments since the Warrants and the New Senior Secured Notes have a set conversion price and all of the requirements for equity classification were met. The Company determined the fair value of the detachable warrants issued in connection with the New Senior Secured Notes to be $1,678, using the Black-Scholes option pricing model and the following assumptions: expected life of 5 years, a risk free interest rate of 2.05%, a dividend yield of 0% and volatility of 54.62%. In addition, the Company determined the value of the beneficial conversion feature to be $5,833. The combined total discount for the New Senior Secured Notes is limited to the face value of the New Senior Secured Notes of $2,500 and is being amortized over the term of the New Senior Secured Notes. For the period ended June 30, 2012, the Company amortized $207 of the aforesaid discounts as interest and financing costs in the accompanying consolidated statements of operations. The remaining discount of $813 will be amortized over the period ending June 21, 2013.

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

As of March 31, 2012, the outstanding principal and accrued interest of $2,902 is convertible into approximately 19,344,792 shares of common stock at a conversion price of $0.15. At June 30, 2012, the if-converted value exceeds the principal and accrued interest by approximately $11,607. Interest accrued through June 30,2012 that is not convertible, and may not be added to the principal is $145.

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 provided certain management services, including, without limitation, relating to the sourcing, structuring and negotiation of a potential business combination transaction involving the Company in exchange for a fee of $90 per quarter, plus reimbursements of all related expenses reasonably incurred. The Agreement expired on September 14, 2011, but was extended to December 31, 2011. During the periods ended June 30, 2012 and June 30, 2011, the Company incurred management fees under the agreement of $0 and $90, respectively. At June 30, 2012 and March 31, 2012, the accrued payable to Trinad Management was $0 and $135, respectively.

On December 28, 2011, we entered into an executive chairman agreement with Robert Ellin that provides for a one-year term and an annual fee of $450,000, half of which was deferred until certain debt and/or equity financings were consummated. Such financings were consummated, and Mr. Ellin has received his full fee since April 1, 2012 and received a lump sum payment for the portion of his fee that was deferred from December 28, 2011 to March 31, 2012 on April 6, 2012. Mr. Ellin shall be entitled to be paid an annual incentive bonus in cash in an amount of up to one hundred percent (100%) of the annual fee based upon satisfaction of performance-related milestones to be agreed upon between Mr. Ellin and the other members of our board of directors.

Mr. Ellin shall also be reimbursed for the annual fee of a personal assistant of up to $80,000 during the term of this executive chairman agreement.

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

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

— The second grant of 3,600,000 shares was granted on December 28, 2011 and vested fully on the date of the grant. These shares may not be transferred for a period of two years from the date of grant.

— The third grant of 1,000,000 shares was granted on December 28, 2011 and vest one year from the date of grant. These shares may not be transferred for a period of one year from the vesting date.

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

During the period ended June 30, 2012, we did not grant Mr. Ellin any additional stock options or warrants.

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

In June 2012, the Company issued 150,000 shares of common stock of the Company to a vendor. The shares were issued based on a service agreement that began in March 2012. The overall value was determined to be $135, of which $36 was recorded through the period ended June 30, 2012.

In June 2012, the Company sold 1,428,571 shares of common stock of the Company to an investor for $0.70 cents per share. In connection with this sale of common stock, the Company issued warrants to purchase 357,142 shares of common stock of the Company at an exercise price of $0.70 cents per share with a term of 5 years. The fair value of the warrants on the day of issue were determined to be $255

In May 2012, the Company issued 150,000 shares of common stock of the Company to an advisory board member for consulting services. The shares vest over one year. The shares were valued at the closing market price on that date of $1.00 per share. The overall value was determined to be $150, of which $23 was recorded through the period ended June 30, 2012.

In May 2012, the Company issued 433,333 shares of common stock of the Company to a director of the Company. The shares were valued at the closing market price on that date of $1.00 per share. The overall value was determined to be $433, of which $66 was recorded through the period ended June 30, 2012.

Warrants

In May 2012, the Company issued 365,010 shares of common stock of the Company as part of the cashless exercise of a warrant issued to a service provider in March 2011 to purchase 500,000 of common stock of the Company.

Derivative liabilities

As of March 31, 2012, the Company determined that certain warrants were considered derivatives because they did not meet the scope exception in ASC 815-10-15-74. In May 2012, the warrants were exercised. Prior to exercise the Company recorded a loss on the fair value of the warrant of $21. The fair market value of the shares at the time of exercise was $473. The holder forfeited 134,990 shares as a part of a cashless exercise, and the Company issued 365,010 shares of common stock of the Company to the holder. The fair value of these warrants was $0 and $452 at June 30, 2012 and March 31, 2012, respectively.

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

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

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

Restricted Stock Agreements

During the period December 1, 2011 through June 30, 2012, the Company entered into restrictive stock agreements ("RSAs") with certain employees and consultants. The RSAs have performance conditions, market conditions, time conditions or a combination. Once the stock vests, the individual is restricted from selling the shares of stock for a certain defined period from three months to two years depending on the RSA. Certain RSA are granted voting rights while other RSAs are not granted voting rights.

Performance and Market Condition RSAs

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

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

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

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

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

The Company has expensed $3,871 through the period ended June 30, 2012 related to the 15,850 RSAs issued on December 28, 2011 and will expense the remaining $1,914 over the periods ended December 28, 2013.

Time and Performance Condition RSAs

On January 3, 2012, the Company issued 2,375 restricted shares with vesting criteria based on both time and performance conditions. At January 3, 2012, 1,025 restricted shares vested immediately and the remaining 1,375 unvested shares must meet certain performance criteria which has either not been defined by the Board of Directors or the Company has determined that the probability of meeting the performance criteria is 0%.

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

All restricted shares, vested and unvested, have been included in the outstanding shares as of June 30, 2012.

For accounting purposes, the Company determined the grant date fair value to be $0.65 per share which is the closing price of the Company's stock price on January 3, 2012. The Company expensed $662, related to the 2,375 RSAs issued on January 3, 2012. No further expense will be taken until the Board of Directors details the performance criteria, or already defined performance criteria has been met.

Time Condition RSAs

On various dates during the periods ended June 30, 2012 and March 31, 2012, the Company issued 733 and 7,100 restricted shares with vesting criteria based on time conditions. As of June 30, 2012, 3,650 restricted shares were vested with each share being restricted from the individual selling the stock for a period from three months up to two years from the date of vesting.

For accounting purposes, the Company determined the weighted average grant date fair value to be $.476 per share based on the closing price of the Company's stock price on the various issue dates. The Company expensed $609 in the period ended June 30, 2012 and $2,957 in the year ended March 31, 2012 related to the 16,150 RSAs and will expense the remaining $1,946 grant date fair value over the year ended March 31, 2013.

The following table summarizes the RSA activity:

(in thousands, except grant date fair value)	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at March 31, 2012	15,367	$ 0.36
Granted	583	1.00
Canceled	-	-
Vested	-	-
Unvested at June 30, 2012	15,950	$ 0.387

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.

Management has evaluated and concluded that there are no significant uncertain tax positions requiring recognition in the Company's financial statements as of June 30, 2012.

ASC 740 requires the consideration of a valuation allowance to reflect the likelihood of realization of deferred tax assets. Significant management judgment is required in determining any valuation allowance recorded against deferred tax assets. The Company adopted the provisions of ASC 740 on January 1, 2008 and there was no difference between the amounts of unrecognized tax benefits recognized in the balance sheet prior to the adoption of ASC 740 and those after the adoption of ASC 740. There were no unrecognized tax benefits not subject to valuation allowance as of June 30, 2012 and March 31, 2012. The Company recognized no interest and penalties on income taxes in its statement of operations for the periods ended June 30, 2012 and 2011.

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 for the periods ended June 30, 2012 and 2011, and net property and equipment for the periods ended June 30, 2012 and March 31, 2012:

	North America	Europe	Other Regions	Consolidated
Three Months ended June 30, 2012				
Net sales to unaffiliated customers	3	799	488	$ 1,290
Three Months ended June 30, 2011				
Net sales to unaffiliated customers	57	1,519	317	$ 1,893
Property and equipment, net at June 30, 2012	155	45	1	$ 201
Property and equipment, net at March 31, 2012	177	52	1	$ 230

16. Commitments and Contingencies

Operating Lease Obligations

The Company leases office facilities under non-cancelable operating leases expiring in various years through 2013. The future minimum payments under initial terms of leases at June 30, 2012 is $11.

This amount does not reflect future escalations for real estate taxes and building operating expenses. Rental expense amounted to $39 and $45, respectively, for the periods ended June 30, 2012 and 2011.

Other Obligations

As of June 30, 2012, the Company was obligated for payments under various distribution agreements, equipment lease agreements, employment contracts and consulting agreements with initial terms greater than one year at June 30, 2012. Annual payments relating to these commitments at June 30, 2012 is $645.

Litigation

On March 6, 2012 the Company received a notice of levy in the amount of $73 pertaining to a dispute with a service provider. The Company paid the obligation in full on July 9, 2012.

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

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

17. Subsequent Events

Management evaluated all activity of the Company through August 14, 2012 (the issue date of these consolidated financial statements) and concluded that no material subsequent events have occurred that would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements.

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

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

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

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

Historical Operations of Mandalay Digital Group, Inc.

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

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

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

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

SUMMARY OF THE TWISTBOX MERGER

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

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

Twistbox common stock outstanding at the time of the Merger were terminated on or before the effective time of the Merger.

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

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

SUMMARY OF THE AMV ACQUISITION

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

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

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

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

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

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

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

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

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

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

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

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

Company Overview

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

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

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

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, third party mobile billing aggregators, and credit card processing companies.

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

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

RESULTS OF OPERATIONS

	3 Months Ended June 30, 2012	3 Months Ended June 30, 2011	% of Change
	(in thousands)		
Revenues	$ 1,290	$ 1,893	-32%
Cost of revenues	672	550	22%
Gross profit	618	1,343	-54%
SG&A	2,870	1,814	58%
Operating loss	(2,252)	(471)	378%
Interest expense, net	(459)	(367)	25%
Foreign exchange transaction gain / (loss)	(7)	48	-114%
Change in fair value of accrued derivative liabilities gain / (loss)	(21)	57	-138%
Gain / (loss) on settlement of debt	-	(7)	-100%
Loss before income taxes	(2,739)	(740)	270%
Income tax provision	(14)	(31)	-55%
Net (loss) income	$ (2,753)	$ (771)	257%
Basic and Diluted net income / (loss) per common share:	(0.03)	(0.02)	69%
Basic and Diluted weighted average shares outstanding	84,504	41,679	103%

Comparison of the Three Months Ended June 30, 2012 and 2011

Revenues

	Three Months Ended June 30,				% of
	2012		2011		Change
	(In thousands)				
Revenues by type:					
Services	$	249	$	235	6%
Content - Games		52		172	-70%
Content - Other		448		1,192	-62%
Advertising		541		294	84%
Total	$	1,290	$	1,893	-32%

Games revenue – the decline in revenue largely reflects a strategic decision to curtail investment in development of new games for carrier sales, along with the loss of on-deck placement with US carriers. In addition, we have wound down our development work on behalf of third parties. This was partly offset by higher platform and services fees, particularly in Germany. Games revenue includes both licensed and internally developed games for use on mobile phones.

The revenue decline for Other Content is the result of multiple factors. Revenues were impacted by a very challenging European sales environment for our carrier partners and consequently for us. This resulted in lower sales in major territories. Revenues were also affected by the increase in the use of smart phones over feature phones, which hinder the carriers' ability to monetize content revenues effectively. Other content includes a broad range of licensed and internally developed products delivered in the form of WAP, Video, Wallpaper and Mobile.

Cost of Revenues

	Three Months Ended June 30,				% of
	2012		2011		Change
	(In thousands)				
Cost of revenues:					
License fees	$	614	$	492	25%
Other direct cost of revenues		58		58	0%
Total cost of revenues	$	672	$	550	22%
Revenues	$	1,290	$	1,893	-32%
Gross margin		48.0%		70.9%	

License fees represent costs payable to content providers for use of their intellectual property in products sold. Our licensing agreements are predominantly on a revenue-share basis, and have therefore decreased relative to the decrease in revenue. We experienced slight decrease in the area of traffic and advertising costs that affected our sales mix, as well as our gross margin.

Operating Expenses

	Three Months Ended June 30, 2012		2011	% of Change
	(In thousands)			
Product development expenses	$	366	$ 664	-45%
Sales and marketing expenses		103	235	-56%
General and administrative expenses		2,401	915	162%

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, our headcount has been reduced over prior periods.

Sales and marketing expenses represent the costs of sales and marketing personnel, and advertising and marketing campaigns. Selling costs, including our headcount have been reduced in recent periods in an effort to streamline the business. The decrease year-over-year is the result of cost savings made by headcount reductions, as well as reduced travel and entertainment expenses.

General and administrative expenses represent management and support personnel costs in both the parent and subsidiary companies which include professional and consulting costs, and other costs such as stock based compensation, rent, depreciation and bad debt expenses. The increase period to period is mostly due to an increase in stock compensation to management, as well as additional management and consulting personnel.

Other Income and Expenses

	Three Months Ended June 30, 2012		2011	% of Change
	(In thousands)			
Interest and other (expense), net	$	(487)	$ (269)	81%

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

Financial Condition

Assets

Our current assets totaled $9.4 million and $10.1 million at June 30, 2012 and March 31, 2012, respectively. Total assets were $14.0 million and $14.8 million at June 30, 2012 and March 31, 2012, respectively. The decrease in current and total assets is primarily due to a decrease cash due to payment of current expenses, as well as lower accounts receivable balances due to a decrease in revenues.

Liabilities and Working Capital

At June 30, 2012, our current and total liabilities were $8.6 million, compared to $9.1 million at March 31, 2012. The change in liabilities was mainly due to the amortization of debt discount and the exercise of warrants that were derivative liabilities. The Company had positive working capital of $2.2 million at June 30, 2012, less than the positive working capital of $4.1 million at March 31, 2012. This was mainly due to the movement of the Senior Secured Notes from long term debt to short term debt.

Liquidity and Capital Resources

	Three Months Ended June 30, 2012		2011	% of Change
	(In thousands)			
Consolidated Statement of Cash Flows Data:				
Capital expenditures	$	-	$ 34	-100%
Cash flows used in operating activities		1,590	268	493%
Cash flows used in investing activities		-	34	-100%
Issuance of shares for cash		1,000	-	0%
Effect of exchange rate changes on cash and cash equivalents		31	106	-71%

The Company has incurred losses and negative annual cash flows since inception, and although the operating loss increased from $.5 million in the period ending June 30, 2011 to $2.3 million for the period ending June 30, 2012, a significant portion of the loss is represented by non-cash charges to stock compensation.

The consolidated financial statements included in this Quarterly Form 10-Q include the accounts of the Company. The primary sources of liquidity have historically been issuance of common and preferred stock and borrowings under credit facilities. In fiscal year 2012, the Company raised $9.7 million through issuance of convertible debt and equity financings and through restructuring existing debt to convertible debt. Subsequently, the Company raised an additional $1 million in the first quarter of fiscal year 2013. Until we become cash flow positive, we anticipate that our primary sources of liquidity will be our existing cash balances together with cash generated by our operating activities, cash on hand, as well as further borrowings or further capital raises. Assuming there are no further changes in expected sales and expense trends subsequent to June 30, 2012, the Company believes that its cash position will be sufficient to continue operations for the next twelve months.

Operating Activities

In the period ended June 30, 2012, we used $1.6 million of net cash. Net cash used represents a decrease in accounts payable and accrued compensation of $0.2 million, decreases in accounts receivable and prepaid expense of $0.2 million, as well as decreases in accrued license fees and other liabilities of $0.24 million. These changes flow from the loss for the period, but exclude depreciation and amortization of $0.1 million, as well as interest and debt discount costs of $0.5 million, and $0.9 million for stock issued for services. In the period ended June 30, 2011, we used $0.2 million of net cash, including an decrease in accounts payable and accrued compensation of $0.5 million, flowing from the loss, offset by non-cash stock based compensation and depreciation and amortization that total $0.4 million.

As of June 30, 2012, the Company had approximately $8.2 million of cash.

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

Debt obligations include interest payments under the Senior Debt facility, and under the Amended Taja Note. Under the Senior Debt facility, the Company may elect to add interest to the principal, until 18 months following June 21, 2010, with the full amount of the principle and interest payable June 21, 2013. Under the Amended Taja Note the Company may elect to add interest to the principal. The full amount is payable two years from March 1, 2012, if it has not already been converted into shares of common stock of the Company. The Company's operating lease obligations include non-cancelable operating leases for the Company's office facilities in several locations, expiring at various dates through 2013.

Off-Balance Sheet Arrangements

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

Stock Sales and Liquidity

In May 2012, the Company issued 150,000 shares of common stock of the Company to an advisory board member for consulting services. The shares vest over one year.

In May 2012, the Company issued 433,333 shares of common stock of the Company to a director of the Company. The shares vest over one year.

In June 2012, the Company issued 150,000 shares of common stock of the Company to a service provider. The shares vest quarterly over one year.

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

In June 2012, the Company issued warrants to purchase 357,142 shares of common stock of the Company at an exercise price of $0.70 cents per share to an investor.

Revenues

The discussion herein regarding our future operations pertain to the results and operations of Twistbox. Assets from the Digital Turbine acquisition have yet to generate revenues due to the development cycle of the Digital Turbine products. The Company expects to begin earning revenue from the Digital Turbine assets by the end of fiscal year ending March 31, 2013. Twistbox has historically generated and expects to continue to generate the vast majority of its revenues from mobile phone carriers that market, distribute and/or bill for its content. These carriers generally charge a one-time purchase fee or a monthly subscription fee on their subscribers' phone bills when the subscribers download Twistbox's content to their mobile phones. The carriers perform the billing and collection functions and generally remit to Twistbox a contractual percentage of their collected fee for each 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 on their mobile devices. At the same time, carriers and branded content owners are focusing on a small group of enablers that have the ability to provide high-quality mobile content services consistently and cost-effectively with the ability to enable mobile billing across a wide variety of handsets and countries. Additionally, publishers and content owners are seeking enablers that have the ability to distribute content globally through relationships with most or all of the major carriers. We believe Twistbox has created the requisite development, distribution and billing technology and has achieved the scale to operate at a level that provides it with competitive advantages. We also believe that leveraging existing 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, the entry of Digital Turbine into the market, as well as our ability to continue to expand billing for content in new regional markets. Our ability to attain profitability will be affected by the extent to which we must incur additional expenses to expand our sales, marketing, development, and general and administrative capabilities to grow our business. The largest component of our expenses is personnel costs. Personnel costs consist of salaries, benefits and incentive compensation, including bonuses and stock-based compensation, for our employees. Our operating expenses should 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 our content soon after they purchase new handsets, we may experience seasonal sales increases based on this key holiday selling period. However, due to the time between handset purchases and content purchases, much of this holiday impact may occur in the March quarter end. For a variety of reasons, we may experience seasonal sales decreases during the summer, particularly in Europe, which is predominantly reflected in our second fiscal quarter. In addition to these possible seasonal patterns, our revenues may be impacted by declines in users visiting carrier portals, new or changed carrier deals, and by changes in the manner that our major carrier partners marketing our content on their deck. Initial spikes in revenues as a result of successful launches or campaigns may create further aberrations in our revenue patterns.

Cost of Revenues

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

Gross Margin

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

Operating Expenses

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

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

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

Amortization of Intangible Assets. We will record amortization of acquired intangible assets that are directly related to revenue-generating activities as part of our cost of revenues and amortization of the remaining acquired intangible assets, such as customer lists and platform, as part of our operating expenses. We will record intangible assets on our balance sheet based upon their fair value at the time they are acquired. We will determine the fair value of the intangible assets using a contribution approach. We will amortize the amortizable intangible assets using the straight-line method over their estimated useful lives of three to 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 June 2011, the FASB issued new guidance on the presentation of comprehensive income that will require a company to present components of net income and other comprehensive income in one continuous statement or in two separate, but consecutive statements. There are no changes to the components that are recognized in net income or other comprehensive income under current GAAP. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011, with early adoption permitted. It is applicable to the Company's fiscal year beginning April 1, 2012. The Company expects this guidance to have an impact on the disclosures related to comprehensive income.

Recently Issued Accounting Pronouncements

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable as we are a smaller reporting company.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Our principal executive officer and principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q, have concluded that, based on such evaluation, our disclosure controls and procedures were ineffective as of June 30, 2012 because of the material weaknesses described below.

Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

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

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

During management’s review of our internal control over financial reporting, we determined the following processes contain material weaknesses as of June 30, 2012:

Financial Close and Reporting Process

The lack of secondary review of key accounting and financial reporting functions results in a risk in that material accounting errors may not be detected timely. The accounting close and financial reporting process is the responsibility of one individual without sufficient backup for review of accounting functions such as preparation of journal entries and account reconciliations.

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

Our management has identified and is taking the steps necessary to address the material weaknesses existing as of June 30, 2012 described above, as follows:

1. Recruiting a Chief Financial Officer that will oversee that accounting and financial reporting processes

2. Engaged a financial consultant that serves as a liaison between the Board, Senior Management and the Accounting Organization

3. Hiring additional accounting personnel with adequate experience, skills and knowledge to assist in the closing of our financial statements and further segregate duties of financial personnel;

4. Documenting, to standards established by senior accounting personnel and the principal financial officer, the review and analysis and related conclusions with respect to complex, non-routine transactions;

5. Creating policy and guidelines to streamline the corporate reporting process as well as managing non-routine transactions

These remediation efforts are expected be implemented during the fiscal year ending March 31, 2013.

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

Changes in Internal Controls over Financial Reporting

There were no changes in our internal controls over financial reporting or in other factors identified in connection with the evaluation required by Exchange Act Rules 13a-15(d) or 15d-15(d) that occurred during the fiscal period ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

On March 6, 2012 the Company received a notice of levy in the amount of $73 pertaining to a dispute with a service provider. The Company paid the obligation in full on July 9, 2012.

On May 4, 2012 the Company received notice of a judgment in the amount of $36 pertaining to a dispute with a previous employee. The Company has recorded the full amount in Accrued Compensation on the consolidated balance sheet.

Except as set forth above, there have been no material changes in our legal proceedings from those disclosed in our Annual Report on Form 10-K for the year ended March 31, 2012. 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, 2012.

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

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

Item 3. Defaults 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	Separation and Release Agreement, dated April 12, 2012 between the Company and David Mandell.
10.2	Form of Indemnification Agreement. [3]
10.3	Restricted Stock Agreement, dated December 28, 2011, between Mandalay Digital Group, Inc. and Robert Ellin, for 1,000,000 shares of common stock. [4]
10.4	Amendment to Restricted Stock Agreement, dated May 18, 2012, between Mandalay Digital Group, Inc. and Peter Adderton. [4]
10.5	Amendment to Restricted Stock Agreements, dated May 18, 2012, between Mandalay Digital Group, Inc. and Robert Ellin. [4]
10.6	Amended and Restated 2011 Equity Incentive Plan of Mandalay Digital Group, Inc. [4]
10.7	Amended and Restated 2011 Equity Incentive Plan Notice of Grant and Restricted Stock Agreement of Mandalay Digital Group, Inc. [4]
10.8	Amended and Restated 2011 Equity Incentive Plan Notice of Grant and Stock Option Agreement of Mandalay Digital Group, Inc. [4]
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.

(3) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-10039), filed with the Commission on May 10, 2012.

(4) Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-10039), filed with the Commission on May 30, 2012.

SIGNATURES

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

Mandalay Digital Group, Inc.

Dated: August 14, 2012

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

SEPARATION AND GENERAL RELEASE AGREEMENT

This SEPARATION AND GENERAL RELEASE AGREEMENT (the "Agreement") is made by and among Mandalay Digital Group, Inc., a Delaware corporation, previously known as NeuMedia, Inc. and Mandalay Media, Inc., a Delaware corporation (collectively the "Employer"), on the one hand, and David Mandell (the "Executive"), on the other hand (all collectively referred to as the "Parties").

RECITALS

A. WHEREAS, the Employer and the Executive entered into the Employment Agreement, effective February 1, 2012;

B. WHEREAS, the Executive is an attorney who served as the General Counsel of the Employer and in that capacity acquired confidential and attorney-client communications;

B. WHEREAS, the Employer and the Executive also entered into a Restricted Stock Agreement on or about January 3, 2012 (the "Stock Agreement"); and

C. WHEREAS, the Executive now desires to voluntarily resign and sever his employment relationship with the Employer, or any of their past and present affiliated, parent, related, and subsidiary companies, joint ventures and partnerships, specifically including, but not limited to, Twistbox Entertainment, Inc. (the "Employer Entities"), and resolve any and all claims, known and unknown, between them including, but not limited to, claims arising during the Executive's employment with the Employer Entities, and claims relating to the Employment Agreement and Stock Agreement.

NOW, THEREFORE, in consideration of the promises and the mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

AGREEMENTS

1. Consulting Payment. Upon the Effective Date of this Agreement, the Employer agrees to pay the Executive a total sum of One Hundred Twenty Five Thousand Dollars ($125,000) for Executive to perform consulting services as described in Paragraph 5, below. The Employer shall pay this amount to the Executive in equal payments over a nine (9) month period from March 9, 2012, pursuant to its normal payroll cycle (but no less frequently than twice per month), and subject to all required federal and state tax withholdings. While the nine (9) month period shall commence beginning March 9, 2012, the first payment shall be made on the first regular pay day after the Effective Date of this Agreement, provided that, a "catch-up" payment shall be included in such first payment in the event the Effective Date commences after the first regular payroll payment following March 9, 2012. The "catch-up" payment does not change the net amount Executive is to receive under this Section. Failure to make any of these payments as and when due, for any reason, shall be deemed a material breach of this Agreement and shall render any and all release of claims provided by Executive to Employer to be null and void.

2. Rights Under The Stock Agreement. Upon the Effective Date of this Agreement, the Executive shall retain the 375,000 shares of common stock that vested as of the date of the Stock Agreement as set forth in Section 2(a)(i) of the Stock Agreement, subject to all terms and restrictions in the Stock Agreement. The Executive agrees to waive and relinquish any right, interest or claim to the non-vested 375,000 shares of common stock identified in Section 2(a)(ii) of the Stock Agreement, and further acknowledges and agrees that he has no other right, interest or claim to any common stock under the Stock Agreement. The Parties agree that this Agreement shall constitute a modification of the Stock Agreement pursuant to Section 15 of the Stock Agreement. This Section does not affect any other right, interest or claim Executive has to stock acquired by means other than the Stock Agreement. Notwithstanding anything to the contrary herein, the Executive shall retain all rights and remedies as a stockholder contained in the Stock Agreement as respects the 375,000 shares of common stock that vested as of the date of the Stock Agreement.

3. Cobra Payments. Upon the Effective Date of this Agreement, Executive agrees that he shall elect to exercise his rights under COBRA to keep in place his current employer-sponsored health/dental/vision benefits plan for him and his family (which is provided through the Employer's wholly owned subsidiary, Twistbox Entertainment, Inc.,) (the "Health Plan") and Employer agrees to pay the monthly premiums for such Health Plan for nine (9) months through and including December 8, 2012. Alternatively, in the event the Health Plan ceases to be available, for any reason, prior to December 8, 2012, Employer shall reimburse the Executive in an amount not to exceed $2500.00 per month in connection with the monthly premium payments made by the Executive for an alternative comparable health plan. Failure to reimburse the Executive for any of these payments as and when due, for any reason, shall be deemed a material breach of this Agreement and shall render any and all release of claims provided by Executive to Employer to be null and void.

4. Resignation; Hold Harmless. Effective as of the Employer's execution of this Agreement, the Employer and the Executive agree that the Executive voluntarily resigned his employment, and any other positions including, but not limited to, any position as officer, director or secretary, that he ever held with the Employer Entities. Employer Entities shall take all necessary and immediate action to formally and legally remove the Executive from any such positions and to make all appropriate timely regulatory filings as may be required to effectuate such removal. Notwithstanding anything to the contrary herein, the Employer Entities shall continue to hold harmless and indemnify the Executive as provided in that certain Indemnification Agreement dated February 20, 2011 (the "Indemnity Agreement") with respect to Executive's Corporate Status (as that term is defined in the Indemnity Agreement). Executive and Employer agree that the Executive was on an unpaid leave of absence and not accruing any benefits or wages from March 9, 2012 through the date of his execution of this Agreement.

5. Agreement to Consult and Cooperate. In consideration for the mutual promises and covenants herein, Executive agrees to provide reasonable services and consult for the Employer as reasonably requested by the Employer (as and when Executive is or may be reasonably available) as is necessary to orderly transition his duties and responsibilities as directed by the Employer during the nine (9) month period that he is to receive consulting payments under Section 1 of this Agreement, but in no event beyond December 8, 2013.

6. Litigation and Regulatory Cooperation. The Executive shall cooperate reasonably with requests from the Employer Entities' legal counsel, in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of the Employer Entities which relate to events or occurrences that transpired while the Executive was employed by the Employer Entities. The Executive's cooperation in connection with such claims or actions shall include, but not be limited to, being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of the Employer Entities at mutually convenient times. The Executive also shall cooperate fully with the Employer Entities in connection with any investigation or review of any federal, state or local regulatory authority as any such investigation or review relates to events or occurrences that transpired while the Executive was employed by the Employer Entities. The Employer shall reimburse the Executive for any reasonable out-of-pocket expenses incurred in connection with the Executive's performance of obligations pursuant to this Section 6, and if the Executive spends more than five (5) hours in performance of these obligations, the Employer shall pay the Executive $300.00 per hour for each part of an hour over five (5) hours.

7. No Attendance Required. Executive will not be required to be present at the Employer's office or perform any regularly scheduled duties for the Employer. Nothing in this Agreement will prevent Executive from undertaking employment with any other entity on a full-time, part-time or consulting basis, subject to the confidentiality, non-solicitation and other restrictions set forth herein and subject to the duties (fiduciary duty and duty of loyalty) owed by an employee to his employer, at any time subsequent to March 9, 2012.

8. Mutual General Release. In consideration of the mutual promises set forth herein, the Employer, including their past and present affiliated, parent, related, and subsidiary companies, joint ventures and partnerships, as well as their respective past and present directors, officers, shareholders, representatives, employees, agents, attorneys, investors, successors, and assigns, past and present ("the Employer Releasees"), on the one hand, and Executive, including his heirs, executors, administrators, trustees, attorneys, representatives, and assigns ("Executive Releasees"), on the other hand, hereby irrevocably and unconditionally release and forever discharge each other from any and all claims, causes of action, demands, rights, damages, liabilities or suits of any type or kind, whether known or unknown, including, without limitation, any and all claims arising from or in any way related to Executive's employment with, or separation from the Employer Entities, any compensation of any type or nature from the Employer Entities, the Employment Agreement (except as provided in Section 13 of this Agreement) or the Stock Agreement (except as provided in Section 2 of this Agreement); provided, however, notwithstanding any provision herein to the contrary, nothing in this Agreement shall be deemed a release or waiver of (i) Executive's rights of indemnification and directors and officers liability insurance coverage to which Executive was entitled immediately prior to the Effective Date under the Employer's Bylaws, organizational documents, the Employment Agreement, the Indemnity Agreement or otherwise, (ii) Executive's rights under any tax-qualified pension plan maintained by the Employer or claims for accrued, vested benefits under any other employee benefit plan or COBRA, (iii) Executive's rights as a stockholder and stock option holder of the Employer and (iv) any rights under this Agreement.

This release specifically includes, but is not limited to, any claims for fraud; breach of contract; breach of implied covenant of good faith and fair dealing; inducement of breach; interference with contract; wrongful or unlawful discharge or demotion; violation of public policy; assault and battery (sexual or otherwise); invasion of privacy; intentional or negligent infliction of emotional distress; intentional or negligent misrepresentation; conspiracy; failure to pay wages, benefits, vacation pay, bonuses, commissions, salary, severance pay, stock, stock options, attorneys' fees, or other compensation of any sort; retaliation; discrimination or harassment on the basis of age, race, color, sex, gender, national origin, ancestry, religion, disability, handicap, medical condition, marital status, sexual orientation or any other protected category under federal, state or local law; any claim under Title VII of the Civil Rights Act of 1964, as amended, the Americans with Disabilities Act, the Age Discrimination in Employment Act, the Older Workers Benefit Protection Act, the California Fair Employment and Housing Act, the California Labor Code, the Family and Medical Leave Act, the California Family Rights Act, or Section 1981 of Title 42 of the United States Code; violation of COBRA; violation of any safety and health laws, statutes or regulations; violation of ERISA; violation of the Internal Revenue Code; or any other wrongful conduct of any kind, based upon events occurring prior to the Effective Date of this Agreement.

9. Mutual Release of Unknown Claims. In addition, the Parties expressly release and waive all rights and protections of California Civil Code Section 1542, which reads:

> "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT TO THE DEBTOR."

The Parties intend this release to be a full and comprehensive general release, waiving all claims, demands and causes of action, known and unknown, to the fullest extent permitted by law. Nothing in this Agreement is intended to nor shall it be interpreted to release any claim which, by law, may not be released.

10. Reaffirmation of Separation and General Release Agreement. Executive agrees that, on the last day that he has agreed to provide services to Employer pursuant to Section 5 of this Agreement, to execute the Reaffirmation Agreement, attached hereto as Exhibit A, which extends the releases in Paragraphs 8 and 9 of this Agreement to include the period from the date of execution of this Agreement to the execution date of the Reaffirmation Agreement. The Employer shall execute and delivery a copy of the Reaffirmation Agreement to Executive within five (5) business days following receipt thereof from the Executive.

11. Representations and Warranties. Executive makes the following representations and warranties:

11.1 Executive acknowledges that the consideration set forth in this Agreement are things to which Executive would not be entitled except for his decision to sign this Agreement and to abide by the terms of this Agreement.

11.2 Subject to Section 11.3 below, Executive represents and warrants that, other than what is provided for in this Agreement, the Employer has paid to Executive all wages and other benefits owing and due to him by the Employer as a result of Executive's employment with and separation from the Employer, including but not limited to all salary, bonuses, commissions, incentive pay, management fees, director fees, grants of stock, issuances of stock options, vacation pay, severance, or any other remuneration in any type or form.

11.3 Executive represents and warrants that he has no right or interest to additional shares or stock options in the Employer, Twistbox Entertainment, Inc., or any of their past and present affiliated, parent, related, and subsidiary companies, joint ventures and partnerships, other than the following:

a. An option to purchase 58,669 shares of common stock of Mandalay Digital Group, Inc., all of which are vested on the date hereof, at a strike price of $0.80/share as provided for in the December 6, 2006 Non-Qualified Stock Option Agreement;

b. An option to purchase 54,725 shares of common stock of Mandalay Digital Group, Inc., all of which are vested on the date hereof, at a strike price of $0.80/share as provided for in the October 2, 2007 Non-Qualified Stock Option Agreement;

c. 375,000 vested shares of common stock of Mandalay Digital Group, Inc. as set forth in Paragraph 2 of this Agreement and as provided for in the Stock Agreement;

d. An option to purchase 400,000 shares of common stock of Mandalay Digital Group, Inc. , all of which are vested on the date hereof, at a strike price of $0.25/share, as provided for in the February 20, 2011 Non-Qualified Stock Option Agreement;

e. An option to purchase 50,000 shares of Mandalay Digital Group, Inc., all of which are vested on the date hereof, at a strike price of $4.75/share as provided for in the February 12, 2008 Non-Qualified Stock Option Agreement; and

f. 60,000 vested shares of common stock of Mandalay Digital Group, Inc. issued pursuant to the Restricted Stock Agreement dated March 16, 2009 (the “March 16, 2009 Stock Agreement”).

In connection with the Executive’s period of time to exercise any or all of the above referenced options to purchase common stock of Mandalay Digital Group, Inc., the Executive shall have until the later of (i) one (1) year from the date hereof or (ii) ninety (90) days after the Employer notifies the Executive in writing that it has filed a registration statement covering those non-qualified stock options. The Parties agree that this Agreement shall constitute a modification of each of the non-qualified stock option agreements referenced above, provided however, that Executive’s interest is still subject to all terms and restrictions in each of the non-qualified stock option agreements referenced above, except as provided for in this Agreement. All other rights to equity in Employer, Twistbox Entertainment, Inc., or any of their past and present affiliated, parent, related, and subsidiary companies, joint ventures and partnerships, are hereby terminated and released pursuant to Sections 8 and 9 of this Agreement.

12. Knowing and Voluntary. Executive represents and agrees that he is entering into this Agreement knowingly and voluntarily and that he is an attorney and that he has had the opportunity to be represented by counsel of his own choosing in connection with the negotiation and drafting of this Agreement. Executive affirms that no promise or inducement was made to cause him to enter into this Agreement, other than the consideration promised to Executive herein. Executive further confirms that he has not relied upon any other statement or representation by anyone other than what is in this Agreement as a basis for his decision to sign this Agreement.

13. Execution of Agreement. Executive expressly acknowledges that he has been provided twenty-one (21) days to consider this Agreement and that he was informed in writing that he has the right to consult with counsel regarding this Agreement, and that he has had the opportunity to consult with counsel. To the extent that Executive has taken fewer than twenty-one (21) days to consider this Agreement, Executive acknowledges that he had sufficient time to consider the Agreement and to consult with counsel and that he does not desire additional time.

14. Revocation. This Agreement is revocable by Executive for a period of seven (7) calendar days following his execution of this Agreement. The revocation must be in writing, must specifically revoke this Agreement, and must be received by the Employer prior to the eighth calendar day following the execution of this Agreement. This Agreement becomes effective, enforceable and irrevocable on the eighth (8^{th}) calendar day following Executive's execution of this Agreement (the "Effective Date").

15. Attorney-Client Confidentiality, Confidential Information, Non-Solicitation and Cooperation. Executive acknowledges and agrees that Section 8 of the Employment Agreement shall remain in full force and effect and expressly agrees to remain bound by the provisions therein.

16. Non-Disclosure of this Agreement. Executive agrees not to disclose the terms of this Agreement, any claims he has or might have against the Employer, or any of the facts and circumstances which gave rise to the separation of Executive's employment with the Employer or which led to the execution of this Agreement, except in the following circumstances:

a. Executive may disclose the terms of this Agreement to Executive's immediate family, so long as such family members agree to be bound by the confidential nature of this Agreement;

b. As long as they are advised in writing of the confidential nature of this Agreement, Executive may disclose the terms of this Agreement to: (i) Executive's tax advisors; (ii) taxing authorities if requested by such authorities; and (iii) Executive's legal counsel; and

c. Pursuant to the order of a court or governmental agency of competent jurisdiction, or for purposes of securing enforcement of the terms and conditions of this Agreement should that ever be necessary.

17. Taxes/Withholdings. All payments under this Agreement are subject to any applicable employment or tax withholdings or deductions. In addition, the parties hereby agree that it is their intention that all payments or benefits provided under this Agreement comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and this Agreement shall be interpreted accordingly. Executive hereby is advised to seek independent advice from Executive's tax advisor(s) with respect to the application of Section 409A of the Code to any payments under this Agreement. Notwithstanding the foregoing, the Employer does not guarantee the tax treatment of any payments or benefits under this Agreement, including without limitation under the Code, federal, state or local laws. The Employer shall have the right to withhold from any cash consideration paid hereunder any applicable withholding taxes due in connection with any of the cash consideration paid hereunder, and will timely remit to applicable taxing authorities all withholding taxes or other taxes it is required by law to remit in connection therewith.

18. Public Disclosure. In connection with the Employer's public disclosure requirements related to the Executive's resignation and upon inquiry from a prospective employer or third party, it will limit the disclosure to the following statement: The parties have entered into a consulting arrangement whereby Mr. Mandell shall provide certain non-exclusive consulting services to the Employer through December 8, 2012 in exchange for periodic payments totaling $125,000 and the Employer's payment of his COBRA premium payments. Notwithstanding anything in this Agreement to the contrary (including this Section 18), the Company shall be entitled to summarize this Agreement in a publicly filed Current Report on Form 8-K or other appropriate SEC form and file this Agreement as an exhibit to an appropriate publicly filed SEC form, if the Company in good faith determines that such summary and/or filing is required by applicable SEC rules.

19. Dispute Resolution. In the event of any dispute or controversy arising out of, or relating to, any interpretation, construction, performance, termination or breach of this Agreement, the parties hereto agree to submit such dispute or controversy to binding arbitration before one arbitrator at JAMS in Santa Monica, California, in accordance with the rules governing employment disputes of JAMS then in effect. A link to the current JAMS Employment Arbitration Rules & Procedures can be found at the following link: http://www.jamsadr.com/rules-employment-arbitration/. Such arbitration shall be conducted in accordance with Section 1280 et seq. of the California Code of Civil Procedure. Each party hereby waives any right it may have to object to JAMS having sole and exclusive jurisdiction to adjudicate any such dispute and stipulates that the Arbitrator shall have personal jurisdiction over each party for the purpose of litigating any dispute, controversy, or proceeding arising out of or related to this Agreement.

The arbitrator shall be selected by the mutual agreement of the parties. If the parties cannot agree on an arbitrator, the parties shall alternately strike names from a list provided by the American Arbitration Association until only one name remains.

Notwithstanding anything to the contrary in the rules governing employment disputes of JAMS, the arbitration shall provide (i) for written discovery and depositions as provided under California law, and (ii) for a written decision by the arbitrator that includes the essential findings and conclusions upon which the decision is based which shall be issued no later than thirty (30) days after a dispositive motion is heard and/or an arbitration hearing has completed.

The Executive and the Employer shall have the same amount of time to file any claim against any other party as such party would have if such a claim had been filed in state or federal court. In conducting the arbitration, the arbitrator shall follow the rules of evidence of the State of California (including but not limited to all applicable privileges), and the award of the arbitrator must follow California and/or federal law, as applicable.

The decision of the Arbitrator shall be final and binding on all the parties to the arbitration, shall be non-appealable and may be enforced by a court of competent jurisdiction. The Employer shall advance all fees and costs in connection with the arbitration. The prevailing party shall be entitled to recover from the non-prevailing party its reasonable attorney's fees and costs, as well as the costs and fees paid to the arbitrator or JAMS, to the extent allowed by law. The Arbitrator may grant any legal or equitable remedy appropriate including, without limitation, injunctive relief or specific performance, but shall not have the power to grant any remedy that would not be available in a state or federal court in California. By entering into this arbitration provision, the Employer is not waiving the attorney-client privilege.

20. Binding Effect of this Agreement. This Agreement is binding upon Executive and Executive's successors, assigns, heirs, executors, administrators and legal representatives.

21. No Admission. This Agreement may not be cited as, and does not constitute any admission by any Party of, any violation of any law or legal obligation with respect to any aspect of Executive's employment or separation from the Employer or with respect to any other matter which is the subject of this Agreement. The Parties specifically deny that they violated any law, statute, ordinance or regulation.

22. Severability. If any portion of this Agreement is found to be illegal or unenforceable, such action shall not affect the validity or enforceability of the remaining portions of this Agreement. Each party agrees that the restrictions and prohibitions contained herein shall be effective to the fullest extent allowed under applicable law.

23. Entire Agreement. This Agreement sets forth the entire agreement between the parties and fully supersedes all other oral or written understandings or agreements between the parties pertaining to Executive's employment with and separation from the Employer, including but not limited to the Employment Agreement and the Stock Agreement, except as provided in Sections 2 and 15 of this Agreement. Notwithstanding anything to the contrary contained in the Employment Agreement, Executive and the Employer acknowledge and agree that no provisions of, or any covenants of either party contained in, the Employment Agreement shall be deemed to survive the Effective Date other than Executive's obligations under Section 8 of the Employment Agreement and the Employer's obligations under Section 18 of the Employment Agreement. Executive and the Employer agree that no promises, representations, or inducements have been made to either of them which caused either of them to sign this Agreement other than those which are expressly set forth herein. For the avoidance of doubt, this provision shall have no effect whatsoever with respect to (i) Executive's rights of indemnification and directors and officers liability insurance coverage to which Executive was entitled immediately prior to the Effective Date under the Employer's Bylaws, organizational documents, the Employment Agreement, the Indemnity Agreement or otherwise, (ii) Executive's rights under any tax-qualified pension plan maintained by the Employer or claims for accrued, vested benefits under any other employee benefit plan or COBRA, and (iii) Executive's rights as a stockholder and stock option holder of the Employer.

24. Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed an original, all of which together will constitute one and the same agreement. A facsimile copy or pdf copy of a party's signature on this Agreement will be deemed as an original.

25. Modification. This Agreement may not be changed or altered, except by a writing signed by an authorized representative of the Employer and by Executive.

26. Governing Law. This Agreement is entered into in the State of California, and the laws of the State of California will apply to any dispute concerning it, excluding the conflict-of-law principles thereof.

27. Waiver. The failure to enforce any provision of this Agreement shall not be construed to be a waiver of such provision or to affect the validity of this Agreement or the right of any Party to enforce this Agreement.

28. Ambiguities. Both Parties have participated in the negotiation of this Agreement and, thus, it is understood and agreed that the general rule that ambiguities are to be construed against the drafter shall not apply to this Agreement. In the event that any language of this Agreement is found to be ambiguous, each Party shall have an opportunity to present evidence as to the actual intent of the Parties with respect to any such ambiguous language.

PLEASE READ CAREFULLY. THIS AGREEMENT CONTAINS A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS. THE UNDERSIGNED AGREE TO THE TERMS OF THIS AGREEMENT AND VOLUNTARILY ENTER INTO IT WITH THE INTENT TO BE BOUND THEREBY.

IN WITNESS WHEREOF, this Agreement has been executed by the Employer and by the Executive as of the Effective Date.

EMPLOYER

Mandalay Digital Group, Inc., a Delaware Corp.

By: ______________________________ Dated: ______________________

EXECUTIVE

______________________________ Dated: ______________________

David Mandell

EXHIBIT A

REAFFIRMATION OF SEPARATION AND RELEASE AGREEMENT

By his signature below, David Mandell ("Executive") hereby reaffirms the Separation and General Release Agreement entered into between Mandalay Digital Group, Inc., previously known as NeuMedia, Inc. (the "Employer") and Executive on March __, 2012 ("the Separation Agreement"), which is incorporated herein by reference as if set forth fully (this agreement shall hereafter be referred to as the "Reaffirmation"). The intent of this Reaffirmation is to effectuate a complete release of all matters released, as described in Paragraphs 8 and 9 of the Separation Agreement (the "Released Matters"), while extending the timeframe of that release, and its full effect, to and including the date of Executive's signature below.

1. Reaffirmation of Executive's Release of Known and Unknown Claims. In reaffirming the Separation Agreement and in consideration of the Employer's release herein, the Executive, including his heirs, executors, administrators, trustees, attorneys, representatives, and assigns, hereby irrevocably and unconditionally release and forever discharges the Employer, including their past and present affiliated, parent, related, and subsidiary companies, joint ventures and partnerships, as well as their respective directors, officers, shareholders, representatives, executives, agents, attorneys, investors, successors, and assigns, past and present from any and all claims, causes of action, demands, rights, damages, liabilities or suits of any type or kind, whether known or unknown, including, without limitation, any and all claims arising from or in any way related to Executive's employment with, or separation from the Employer, any compensation of any type or nature from the Employer, the Employment Agreement or the Stock Agreement; provided, however, notwithstanding any provision herein or in the Separation Agreement to the contrary, nothing in this Reaffirmation shall be deemed a release or waiver of any rights under the Separation Agreement or this Reaffirmation.

This release specifically includes, but is not limited to, any claims for fraud; breach of contract; breach of implied covenant of good faith and fair dealing; inducement of breach; interference with contract; wrongful or unlawful discharge or demotion; violation of public policy; assault and battery (sexual or otherwise); invasion of privacy; intentional or negligent infliction of emotional distress; intentional or negligent misrepresentation; conspiracy; failure to pay wages, benefits, vacation pay, bonuses, commissions, salary, severance pay, stock, stock options, attorneys' fees, or other compensation of any sort; retaliation; discrimination or harassment on the basis of age, race, color, sex, gender, national origin, ancestry, religion, disability, handicap, medical condition, marital status, sexual orientation or any other protected category under federal, state or local law; any claim under Title VII of the Civil Rights Act of 1964, as amended, the Americans with Disabilities Act, the Age Discrimination in Employment Act, the Older Workers Benefit Protection Act, the California Fair Employment and Housing Act, the California Labor Code, the Family and Medical Leave Act, the California Family Rights Act, or Section 1981 of Title 42 of the United States Code; violation of COBRA; violation of any safety and health laws, statutes or regulations; violation of ERISA; violation of the Internal Revenue Code; or any other wrongful conduct of any kind, based upon events occurring prior to the date of execution of this Agreement.

2. Employer's Release of Known and Unknown Claims. In consideration for Executive's unrevoked execution of this Reaffirmation, the Employer and the Employer's past and present affiliated, parent, related, and subsidiary companies, joint ventures and partnerships, as well as their respective past and present directors, officers, shareholders, representatives, employees, agents, attorneys, investors, successors, and assigns, past and present ("Company Releasors"), agree unconditionally and forever to waive, release and discharge Executive, including his heirs, executors, administrators, trustees, attorneys, representatives, and assigns ("Executive Releasees") from any and all claims, actions, causes of action, demands, rights, or damages of any kind or nature which they may now have, or ever have, whether known or unknown, including but not limited to any claims, causes of action or demands of any nature arising out of or in any way relating to Employee's employment with, or separation from the Employer.

3. Mutual Release of Unknown Claims. In addition, the parties expressly release and waive all rights and protections of California Civil Code Section 1542, which reads:

> "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT TO THE DEBTOR."

The parties intend this release to be a full and comprehensive general release, waiving all claims, demands and causes of action, known and unknown, to the fullest extent permitted by law. Nothing in this Agreement is intended to nor shall it be interpreted to release any claim which, by law, may not be released.

4. Review and Revocation Period. Executive also understands and acknowledges that the review and revocation rights described in the Separation Agreement at Paragraphs 13 and 14 apply equally to this Reaffirmation of Separation Agreement, including the period of twenty-one (21) days to consider the terms of this Reaffirmation and seven (7) days following the date of execution of this Reaffirmation to revoke. The revocation must be in writing, must specifically revoke this Reaffirmation, and must be received by the Employer prior to the eighth calendar day following the execution of this Agreement. This Reaffirmation becomes effective, enforceable and irrevocable on the eighth (8th) calendar day following Executive's execution of this Reaffirmation and the Employer's execution and delivery to Executive of a counter-signed copy of this Reaffirmation.

PLEASE READ CAREFULLY. THIS AGREEMENT CONTAINS A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS. THE UNDERSIGNED AGREE TO THE TERMS OF THIS AGREEMENT AND VOLUNTARILY ENTER INTO IT WITH THE INTENT TO BE BOUND THEREBY.

Mandalay Digital Group, Inc.

Dated:____________________ By: ____________________

I have carefully read this Reaffirmation and understand that it contains a release of known and unknown claims. I acknowledge and agree to all of the terms and conditions of this Reaffirmation. I further acknowledge that I enter into this Reaffirmation voluntarily with a full understanding of its terms.

Dated: ______________________ ______________________________________

David Mandell

Exhibit 31.1

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

I, Peter Adderton, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Mandalay Digital Group, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 14, 2012

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

Exhibit 31.2

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

I, Lisa Higgins-Lucero, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Mandalay Digital Group, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2012

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

Exhibit 32.1

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

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

The Quarterly Report on Form 10-Q for the period ending June 30, 2012 of the Company (the "Form 10-Q") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2012

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

Exhibit 32.2

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

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

The Quarterly Report on Form 10-Q for the period ending June 30, 2012 of the Company (the "Form 10-Q") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2012

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