

**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 September 30, 2009

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

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

MANDALAY MEDIA, INC.

(Exact name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

22-2267658

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

2121 Avenue of the Stars, Suite 2550, Los Angeles, CA

(Address of Principal Executive Offices)

90067

(Zip Code)

(310) 601-2500

(Registrant's Telephone Number, including area code)

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

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

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

Large Accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐
(do not check if a smaller reporting company)

Smaller reporting company ☒

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☒ No ☐

On November 13, 2009, there were 39,863,191 shares of the Registrant's common stock, par value \$0.0001 per share, issued and outstanding.

MANDALAY MEDIA, INC.
Table of Contents

	<u>Page</u>
<hr/> PART I - FINANCIAL INFORMATION <hr/>	
Item 1.	Financial Statements
	Consolidated Balance Sheets as of September 30, 2009 (Unaudited) and March 31, 2009
	Consolidated Statements of Operations (Unaudited) For the Three Month and the Six Month Periods Ended September 30, 2009 and 2008
	Consolidated Statements of Cash Flows (Unaudited) For the Three Month and the Six Month Periods September 30, 2009 and 2008
	Notes to the Unaudited Consolidated Financial Statements
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations
Item 3.	Quantitative and Qualitative Disclosures About Market Risk
Item 4T.	Controls and Procedures
<hr/> PART II - OTHER INFORMATION <hr/>	
Item 1.	Legal Proceedings
Item 1A.	Risk Factors
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds
Item 3.	Defaults Upon Senior Securities
Item 4.	Submission of Matters to a Vote of Security Holders
Item 5.	Other Information
Item 6.	Exhibits
Signatures	

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

	Page(s)
Consolidated Balance Sheets as of September 30, 2009 (Unaudited) and March 31, 2009	1
Consolidated Statements of Operations (Unaudited) for the three months and the six months ended September 30, 2009 and September 30, 2008	2
Consolidated Statements of Stockholders' Equity and Comprehensive Loss (Unaudited) for the period ended September 30, 2009	3
Consolidated Statements of Cash Flows (Unaudited) for the six months ended September 30, 2009 and September 30, 2008	4
Notes to Unaudited Consolidated Financial Statements	5-31

Mandalay Media, Inc. and Subsidiaries
Consolidated Balance Sheets

(In thousands, except share amounts)

	September 30, 2009 (unaudited)	March 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,807	\$ 5,927
Accounts receivable, net of allowances of \$177 and \$174, respectively	10,886	10,745
Prepaid expenses and other current assets	961	1,334
Total current assets	14,654	18,006
Property and equipment, net	1,159	1,230
Intangible assets, net	15,511	16,121
Goodwill	55,833	55,833
TOTAL ASSETS	\$ 87,157	\$ 91,190
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 7,365	\$ 9,557
Accrued license fees	2,387	2,795
Accrued compensation	603	592
Current portion of long term debt	24,506	23,296
Other current liabilities	4,463	5,899
Total current liabilities	39,324	42,139
Other long-term liabilities	-	27
Total liabilities	39,324	42,166
Commitments and contingencies (Note 15)		
Stockholders' equity		
Preferred stock		
Series A convertible preferred stock at \$0.0001 par value; 100,000 shares authorized, issued and outstanding (liquidation preference of \$1,000,000)	100	100
Common stock, \$0.0001 par value: 100,000,000 shares authorized; 39,863,191 issued and outstanding at September 30, 2009; 39,653,125 issued and outstanding at March 31, 2009	4	4
Additional paid-in capital	95,048	93,918
Accumulated other comprehensive income/(loss)	(288)	(129)
Accumulated deficit	(47,031)	(44,869)
Total stockholders' equity	47,833	49,024
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 87,157	\$ 91,190

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

Mandalay Media, Inc. and Subsidiaries
Consolidated Statement of Operations (Unaudited)

(In thousands, except per share amounts)

	3 Months Ended September 30 2009	3 Months Ended September 30 2008	6 Months Ended September 30 2009	6 Months Ended September 30 2008
Net revenues	\$ 10,141	\$ 5,003	\$ 20,224	\$ 10,349
Cost of revenues				
License fees	857	1,785	1,876	3,934
Other direct cost of revenues	2,149	102	3,986	204
Total cost of revenues	3,006	1,887	5,862	4,138
Gross profit	7,135	3,116	14,362	6,211
Operating expenses				
Product development	1,358	1,800	2,780	3,567
Sales and marketing	3,024	1,004	6,405	2,283
General and administrative	2,956	2,559	5,344	5,372
Amortization of intangible assets	177	137	354	274
Total operating expenses	7,515	5,500	14,883	11,496
Loss from operations	(380)	(2,384)	(521)	(5,285)
Interest and other income/(expense)				
Interest income	3	44	7	121
Interest expense	(737)	(468)	(1,406)	(952)
Foreign exchange transaction gain/(loss)	139	(57)	294	73
Other income / (expense)	154	(102)	149	(187)
Interest and other income/(expense)	(441)	(583)	(956)	(945)
Loss from operations before income taxes	(821)	(2,967)	(1,477)	(6,230)
Income tax provision	(380)	(74)	(685)	(148)
Net loss	\$ (1,201)	\$ (3,041)	\$ (2,162)	\$ (6,378)
Comprehensive loss	\$ (1,563)	\$ (3,147)	\$ (2,321)	\$ (6,494)
Basic and diluted net loss per common share	\$ (0.03)	\$ (0.09)	\$ (0.05)	\$ (0.20)
Weighted average common shares outstanding, basic and diluted	39,863	32,423	39,836	32,377

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

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

(In thousands, except share amounts)

	Common Stock		Preferred Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income/(Loss)	Accumulated Deficit	Total	Comprehensive Loss
	Shares	Amount	Shares	Amount					
Balance at March 31, 2009	39,653,125	\$ 4	100,000	\$ 100	\$ 93,918	\$ (129)	\$ (44,869)	\$ 49,024	
Net Loss							(961)	(961)	(961)
Foreign currency translation gain/(loss)						203		203	203
Issuance of common stock as part of compensation	210,066				172			172	
Deferred stock-based compensation					311			311	
Comprehensive loss									\$ (758)
Balance at June 30, 2009	39,863,191	\$ 4	100,000	\$ 100	\$ 94,401	\$ 74	\$ (45,830)	\$ 48,749	
Net Loss							(1,201)	(1,201)	(1,201)
Foreign currency translation gain/(loss)						(362)		(362)	(362)
Issuance of warrants to vendor for services rendered					134			134	
Deferred stock-based compensation					513			513	
Comprehensive loss									\$ (1,563)
Balance at September 30, 2008	39,863,191	\$ 4	100,000	\$ 100	\$ 95,048	\$ (288)	\$ (47,031)	\$ 47,833	

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

Mandalay Media, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	6 Months Ended September 30, 2009	6 Months Ended September 30, 2008
Cash flows from operating activities		
Net loss	\$ (2,162)	(6,378)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	853	642
Allowance for doubtful accounts	3	(45)
Stock-based compensation	996	1,966
Warrants issued as compensation for services	134	-
(Increase) / decrease in assets:		
Accounts receivable	(290)	4
Prepaid expenses and other current assets	327	(22)
Increase / (decrease) in liabilities:		
Accounts payable	(2,230)	2,022
Accrued license fees	(429)	(1,020)
Accrued compensation	(9)	58
Other liabilities	(331)	(750)
Net cash used in operating activities	(3,138)	(3,523)
Cash flows from investing activities		
Purchase of property and equipment	(172)	(120)
Transaction costs related to merger with Twistbox	-	(59)
Net cash used in investing activities	(172)	(179)
Effect of exchange rate changes on cash and cash equivalents	190	(112)
Net decrease in cash and cash equivalents	(3,122)	(3,814)
Cash and cash equivalents, beginning of period	5,927	10,936
Cash and cash equivalents, end of period	<u>\$ 2,807</u>	<u>7,122</u>
Supplemental disclosure of cash flow information:		
Taxes paid	<u>109</u>	<u>148</u>

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

Mandalay Media, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

1. Organization

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

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

On February 12, 2008, Mandalay Media completed a merger (the “Merger”) with Twistbox Entertainment, Inc. (“Twistbox”) through an exchange of all outstanding capital stock of Twistbox for 10,180 shares of common stock of the Company. In connection with the Merger, the Company assumed of all the outstanding options under Twistbox’s Stock Incentive Plan by the issuance of options to purchases 2,463 shares of common stock of the Company, including 2,145 vested and 319 unvested options.

After the Merger, Twistbox became a wholly-owned subsidiary of the Company, and the Company’s only active subsidiary.

Twistbox Entertainment, Inc. (formerly known as The WAAT Corporation) is incorporated in the State of Delaware.

Twistbox is a global publisher and distributor of branded entertainment content, including images, video, TV programming and games, for Third Generation (3G) mobile networks. Twistbox publishes and distributes its content in a number of countries. Since operations began in 2003, Twistbox has developed an intellectual property portfolio that includes mobile rights to global brands and content from leading film, television and lifestyle content publishing companies. Twistbox has built a proprietary mobile publishing platform that includes: tools that automate handset portability for the distribution of images and video; a mobile games development suite that automates the porting of mobile games and applications to multiple handsets; and a content standards and ratings system globally adopted by major wireless carriers to assist with the responsible deployment of age-verified content. Twistbox has distribution agreements with many of the largest mobile operators in the world.

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

Mandalay Media, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

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

In consideration for the shares, and subject to adjustment as set forth in the Stock Purchase Agreement ("Stock Purchase Agreement"), the aggregate purchase price (the "Purchase Price") consisted of: (a) \$5,375 in cash (the "Cash Consideration"); (b) 4,500 fully paid shares of Common Stock (the "Stock Consideration"); (c) a secured promissory note in the aggregate original principal amount of \$5,375 (the "AMV Note"); and (d) additional earn-out amounts, if any, if the acquired companies achieve certain targeted earnings for each of the periods from October 1, 2008 to March 31, 2009, April 1, 2009 to March 31, 2010, and April 1, 2010 to September 30, 2010, as determined in accordance with the Stock Purchase Agreement. The Purchase Price was subject to certain adjustments based on the working capital of AMV, to be determined initially within 75 days of the closing, and subsequently within 60 days following June 30, 2009. Any such adjustment of the Purchase Price will be made first by means of an adjustment to the principal sum due under the AMV Note, as set forth in the Stock Purchase Agreement. An initial adjustment of \$443 was made subsequent to closing, and has been added to the AMV Note. The initial period earn-out was recognized in the year ended March 31, 2009 and was added to the amount of consideration for the acquisition, as described in Note 6.

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.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission. In the opinion of management, the accompanying consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, which the Company believes are necessary for a fair statement of the Company's financial position as of September 30, 2009 and its results of operations for the three months and the six months ended September 30, 2009 and 2008, respectively. These consolidated financial statements are not necessarily indicative of the results to be expected for the entire year. The consolidated balance sheet presented as of September 30, 2009 has been derived from the unaudited consolidated financial statements as of that date, and the consolidated balance sheet presented as of March 31, 2009 has been derived from the audited consolidated financial statements as of that date.

Mandalay Media, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

Principles of Consolidation

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

Revenue Recognition

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

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

The Company either markets and distributes its products directly to consumers, or distributes products through mobile telecommunications service providers ("carriers"), in which case the carrier markets the product, images or games to end users. License fees for perpetual and subscription licenses are usually billed upon download of the product, image or game by the end user. In the case of subscriber licenses, many subscriber agreements provide for automatic renewal until the subscriber opts-out, while others provide opt-in renewal. In either case, subsequent billings for subscription licenses are generally billed monthly. The Company applies the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("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 new handsets, growth of 3G subscribers by carrier, promotions during the period and economic trends. When the Company receives the final carrier reports, to the extent not received within a reasonable time frame following the end of each month, the Company records any differences between estimated revenues and actual revenues in the reporting period when the Company determines the actual amounts. Revenues earned from certain carriers may not be reasonably estimated. If the Company is unable to reasonably estimate the amount of revenues to be recognized in the current period, the Company recognizes revenues upon the receipt of a carrier revenue report and when the Company's portion of licensed revenues are fixed or determinable and collection is probable. To monitor the reliability of the Company's estimates, management, where possible, reviews the revenues by country, by carrier and by product line on a regular basis to identify unusual trends such as differential adoption rates by carriers or the introduction of new handsets. If the Company deems a carrier not to be creditworthy, the Company defers all revenues from the arrangement until the Company receives payment and all other revenue recognition criteria have been met.

Mandalay Media, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

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

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

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

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 were as follows:

	3 Months Ended September 30 2009	3 Months Ended September 30 2008	6 Months Ended September 30 2009	6 Months Ended September 30 2008
Potentially dilutive shares	100	2,300	100	3,695

Mandalay Media, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

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

Comprehensive Loss

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

Cash and Cash Equivalents

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

Content Provider Licenses

Content Provider License Fees and Minimum Guarantees

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

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

Content Acquired

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

Software Development Costs

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

Mandalay Media, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

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

Product Development Costs

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

Advertising Expenses

The Company expenses the production costs of advertising, including direct response advertising, the first time the advertising takes place. Advertising expense was \$2,176 and \$139 in the three months ended September 30, 2009 and 2008, respectively and \$4,515 and \$563 in the six months ended September 30, 2009 and 2008, respectively.

Restructuring

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

Fair Value of Financial Instruments

As of September 30, 2009 and March 31, 2009, the carrying value of cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued license fees, accrued compensation and other current liabilities approximates fair value due to the short-term nature of such instruments. The carrying value of current portion of long-term debt approximates fair value as the related interest rates approximate rates currently available to the Company.

Foreign Currency Translation.

The Company uses the United States dollar for financial reporting purposes. Assets and liabilities of foreign operations are translated using current rates of exchange prevailing at the balance sheet date. Equity accounts have been translated at their historical exchange rates when the capital transaction occurred. Statement of Operations amounts are translated at average rates in effect for the reporting period. The foreign currency translation adjustment loss of \$362 in the three months ended September 30, 2009 and \$159 in the six months ended September 30, 2009 has been reported as a component of comprehensive loss in the consolidated statement of stockholders equity and comprehensive loss. Translation gains or losses are shown as a separate component of shareholder's equity.

Concentrations of Credit Risk

Financial instruments which potentially subject us to concentration of credit risk consist principally of cash and cash equivalents and accounts receivable. We have placed cash and cash equivalents with a single high credit-quality institution. Most of our sales are made directly to large national Mobile Phone Operators in the countries that we operate. We have a significant level of business and resulting significant accounts receivable balance with one operator and therefore have a high concentration of credit risk with that operator. We perform ongoing credit evaluations of our customers and maintain an allowance for potential credit losses. As of September 30, 2009, two major customers represented approximately 12% and 11%, respectively, of our gross accounts receivable outstanding. These two customers accounted for 22% and 14%, respectively, of our gross revenues in the three months ended September 30, 2009; and 21% and 15% in the six months ended September 30, 2009. As of March 31, 2009, our two largest customers represented approximately 19% and 13% of our gross accounts receivable outstanding. These customers accounted for 5% and 19% respectively, of our gross sales in the year ended March 31, 2009.

Property and Equipment

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

Goodwill and Indefinite Life Intangible Assets

Goodwill represents the excess of cost over fair value of net assets of businesses acquired. In accordance with FASB ASC 350-20 *Goodwill and Other Intangible Assets*, the value assigned to goodwill and indefinite lived intangible assets, including trademarks and tradenames, is not amortized to expense, but rather they are evaluated at least on an annual basis to determine if there are potential impairments. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the implied fair value of the reporting unit goodwill is less than the carrying value. If the fair value of an indefinite lived intangible (such as trademarks and trade names) is less than its carrying amount, an impairment loss is recorded. Fair value is determined based on discounted cash flows, market multiples or appraised values, as appropriate. Discounted cash flow analysis requires assumptions about the timing and amount of future cash inflows and outflows, risk, the cost of capital, and terminal values. Each of these factors can significantly affect the value of the intangible asset. The estimates of future cash flows, based on reasonable and supportable assumptions and projections, require management's judgment. Any changes in key assumptions about the Company's businesses and their prospects, or changes in market conditions, could result in an impairment charge. Some of the more significant estimates and assumptions inherent in the intangible asset valuation process include: the timing and amount of projected future cash flows; the discount rate selected to measure the risks inherent in the future cash flows; and the assessment of the asset's life cycle and the competitive trends impacting the asset, including consideration of any technical, legal or regulatory trends.

Mandalay Media, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

In the year ended March 31, 2009, the Company determined that there was an impairment of goodwill, amounting to \$27,844. In performing the related valuation analysis, the Company used various valuation methodologies including probability weighted discounted cash flows, comparable transaction analysis, and market capitalization and comparable company multiple comparison. The impairment is detailed in Note 6 below.

Impairment of Long-Lived Assets and Finite Life Intangibles

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

In the year ended March 31, 2009, the Company determined that there was an impairment of intangible assets, amounting to \$3,940. In performing the related valuation analysis the Company used various valuation methodologies including probability weighted discounted cash flows, comparable transaction analysis, and market capitalization and comparable company multiple comparison. The impairment is detailed in Note 8 below.

Intangible assets subject to amortization primarily consist of customer lists, license agreements and software that have been acquired. The intangible asset values assigned to the identified assets for each acquisition were generally determined based upon the expected discounted aggregate cash flows to be derived over the estimated useful life. The method of amortizing the intangible asset values are based upon the Company's historical experience. The Company reviews the recoverability of its finite-lived intangible assets for recoverability whenever events or circumstances indicated that the carrying amount of an asset may not be recoverable. Recoverability is assessed by comparison to associated undiscounted cash flows. We have determined that there is no impairment in the current period.

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.

Mandalay Media, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

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

Stock-based compensation.

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

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

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

Preferred Stock

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

Use of Estimates

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

Mandalay Media, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(all numbers in thousands except per share amounts)

Recent Accounting Pronouncements

With the exception of those discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the three and six months ended September 30, 2009, as compared to the recent accounting pronouncements described in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2009, that are of significance, or potential significance to the Company.

Adopted Accounting Pronouncements

Effective July 1, 2009, the Company adopted FASB ASC 105-10, *Generally Accepted Accounting Principles* ("ASC 105-10") (the "Codification"). ASC 105-10 establishes the exclusive authoritative reference for U.S. GAAP for use in financial statements, except for SEC rules and interpretive releases, which are also authoritative GAAP for SEC registrants. The Codification will supersede all existing non-SEC accounting and reporting standards. The Company has included the references to the Codification, as appropriate, in these consolidated financial statements. As the Codification was not intended to change or alter existing GAAP, it did not have any impact on the Company's consolidated financial statements.

Effective April 1, 2009, the Company adopted ASC 855, *Subsequent Events* ("ASC 855-10"). The standard modifies the names of the two types of subsequent events either as "recognized subsequent events" (previously referred to in practice as Type I subsequent events) or "non-recognized subsequent events" (previously referred to in practice as Type II subsequent events). In addition, the standard modifies the definition of subsequent events to refer to events or transactions that occur after the balance sheet date, but before the financial statements are issued (for public entities) or available to be issued (for nonpublic entities). It also requires the disclosure of the date through which subsequent events have been evaluated. The standard did not result in significant changes in the practice of subsequent event disclosures or the related accounting thereof, and therefore the adoption did not have any impact on the Company's consolidated financial statements.

Effective April 1, 2009, the Company adopted three accounting standard updates which were intended to provide additional application guidance and enhanced disclosures regarding fair value measurements and impairments of securities. They also provide additional guidelines for estimating fair value in accordance with fair value accounting. The first update, as codified in ASC 820-10-65, provides additional guidelines for estimating fair value in accordance with fair value accounting. The second accounting update, as codified in ASC 320-10-65, changes accounting requirements for other-than-temporary-impairment (OTTI) for debt securities by replacing the current requirement that a holder have the positive intent and ability to hold an impaired security to recovery in order to conclude an impairment was temporary with a requirement that an entity conclude it does not intend to sell an impaired security and it will not be required to sell the security before the recovery of its amortized cost basis. The third accounting update, as codified in ASC 825-10-65, increases the frequency of fair value disclosures. These updates were effective for fiscal years and interim periods ended after June 15, 2009. The adoption of these accounting updates did not have any impact on the Company's consolidated financial statements.

Mandalay Media, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

Effective April 1, 2009, the Company adopted a new accounting standard update regarding business combinations, ASC 805, which establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. ASC 805-10 also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. ASC 805-10 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We will apply the requirements of ASC 805-10 prospectively to any future acquisitions. Although the Company did not enter into any business combinations during the first six months of 2009, the Company believes ASC 805-10 may have a material impact on the Company's future consolidated financial statements if the Company were to enter into any future business combinations depending on the size and nature of any such future transactions.

New Accounting Pronouncements

In September 2009, the FASB issued Update No. 2009-13, *Multiple-Deliverable Revenue Arrangements*—a consensus of the FASB Emerging Issues Task Force ” (ASU 2009-13). It updates the existing multiple-element revenue arrangements guidance currently included under ASC 605-25, which originated primarily from the guidance in EITF Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables” (EITF 00-21). The revised guidance primarily provides two significant changes: (1) eliminates the need for objective and reliable evidence of the fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting, and (2) eliminates the residual method to allocate the arrangement consideration. In addition, the guidance also expands the disclosure requirements for revenue recognition. ASU 2009-13 will be effective for the first annual reporting period beginning on or after June 15, 2010, with early adoption permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. The Company is currently assessing the future impact of this new accounting update to its consolidated financial statements.

In August 2009, the FASB issued Update No. 2009-05, *Fair Value Measurements and Disclosures* (Topic 820) — *Measuring Liabilities at Fair Value* (ASU 2009-05). ASU 2009-05 amends ASC 820, Fair Value Measurements and Disclosures, of the Codification to provide further guidance on how to measure the fair value of a liability, an area where practitioners have been seeking further guidance. It primarily does three things: (1) sets forth the types of valuation techniques to be used to value a liability when a quoted price in an active market for the identical liability is not available, (2) clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability and (3) clarifies that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. This standard is effective beginning fourth quarter of 2009 for the Company. The adoption of this standard update is not expected to impact the Company's consolidated financial statements.

3. Liquidity

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles, which contemplates continuation of the Company as a going concern. One of the Company's operating subsidiaries, Twistbox, has sustained substantial operating losses since commencement of operations. The Company has also incurred negative cash flows from operating activities and the majority of the Company's assets are intangible assets and goodwill, which have been subject to impairment in the current year.

Mandalay Media, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

In addition, Twistbox has a significant amount of debt, in the form of a secured note, as detailed in Note 8. The Company has guaranteed 50% of this debt, and the group is subject to certain covenants. The debt and the operation of covenants were restructured on August 11, 2009.

The realization of a major portion of the assets in the accompanying consolidated balance sheet is dependent upon continued operations of the Company, which is in turn dependent on reaching a positive cash flow position while maintaining adequate liquidity.

The Company has undertaken a number of specific steps to achieve positive cashflow in the future and to improve liquidity. These actions include the debt restructuring described in Note 8, and the Company has taken further action to reduce its ongoing operating cost base, and has been in discussions with unsecured creditors regarding restructuring of commitments. Other actions include continued increases in revenues by introducing new products and revenue streams, reductions in the cost of revenues, continued expansion into new territories, reviewing additional financing options, and accretive acquisitions. Management believes that actions undertaken as a whole provide the opportunity for the Company to continue as a going concern, although this will be highly dependent on the ability to restructure commitments, and to obtain additional debt and/or equity placements.

4. Fair Value Measurements

The carrying amounts of cash and cash equivalents, accounts receivables, accounts payable and accrued liabilities approximate their fair values due to the short-term maturities of these instruments.

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

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

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

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

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

As of September 30, 2009, the Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis, including its cash and cash equivalents. The fair value of these assets and liabilities was determined using the following inputs in accordance with ASC 820-10 at September 30, 2009:

Mandalay Media, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(all numbers in thousands except per share amounts)

Description	Fair Value Measurement as of September 30, 2009			
	Total	Level 1	Level 2	Level 3
	\$	\$	\$	\$
Cash and cash equivalents	2,807	2,807	-	-

5. Balance Sheet Components

Accounts Receivable

	September 30, 2009 (unaudited)	March 31, 2009
Accounts receivable	\$ 11,063	\$ 10,919
Less: allowance for doubtful accounts	\$ (177)	(174)
	<u>\$ 10,886</u>	<u>\$ 10,745</u>

Accounts receivable includes amounts billed and unbilled as of the respective balance sheet dates. The Company had no significant write-offs or recoveries during the period ended September 30, 2009.

Property and Equipment

	September 30, 2009 (unaudited)	March 31, 2009
Equipment	\$ 1,318	\$ 1,192
Furniture & fixtures	432	386
Leasehold improvements	140	140
	1,890	1,718
Accumulated depreciation	(731)	(488)
	<u>\$ 1,159</u>	<u>\$ 1,230</u>

Depreciation expense for the three months ended September 30, 2009 and 2008 was \$133 and \$86, respectively; and for the six months ended September 30, 2009 and 2008 was \$243 and \$164 respectively.

6. Description of Stock Plans

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

On February 12, 2009, 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, 2009, 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.

Mandalay Media, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

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

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2006	-	-
Granted	1,600	\$ 2.64
Canceled	-	-
Exercised	-	-
Outstanding at December 31, 2007	1,600	\$ 2.64
Granted	2,752	\$ 4.57
Transferred in from Twistbox	2,462	\$ 0.64
Canceled	(12)	\$ 0.81
Outstanding at March 31, 2008	6,802	\$ 2.70
Granted	1,860	\$ 2.67
Canceled	(1,702)	\$ 0.48
Exercised	-	\$ 0.48
Outstanding at March 31, 2009	6,960	\$ 2.51
Granted	-	\$ -
Canceled	(380)	\$ 0.81
Exercised	-	\$ -
Outstanding at September 30, 2009 (unaudited)	6,580	\$ 2.51
Exercisable at September 30, 2009 (unaudited)	5,308	\$ 2.27

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

	Options Granted Three Months Ended September 30, 2008	Options Granted	Options transferred from Twistbox
Expected life (years)	4	4 to 6	3 to 7
Risk-free interest rate	3.89	2.7% to 3.89%	2.03% to 5.03%
Expected volatility	75.20%	70% to 75.2%	70% to 75%
Expected dividend yield	0%	0%	0%

The exercise price for options outstanding at September 30, 2009 was as follows:

Mandalay Media, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

Options outstanding				
Range of Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number Outstanding September 30, 2009	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$0 - \$1.00	6.83	2,264	\$ 0.64	\$ 23,608
\$2.00 - \$3.00	8.58	2,616	\$ 2.67	\$ -
\$4.00 - \$5.00	8.38	1,700	\$ 4.75	\$ -
	7.92	<u>6,580</u>	\$ 2.51	<u>\$ 23,608</u>

The exercise price for options exercisable at September 30, 2009 was as follows:

Options Exercisable				
Range of Exercise Price	Weighted Average Remaining Contractual Life (Years)	Options Exercisable September 30, 2009	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$0 - \$1.00	6.81	2,206	\$ 0.63	\$ 23,541
\$2.00 - \$3.00	8.53	1,969	\$ 2.66	\$ -
\$4.00 - \$5.00	8.38	1,133	\$ 4.75	\$ -
	7.78	<u>5,308</u>	\$ 2.27	<u>\$ 23,541</u>

A summary of the status of the Company's nonvested shares as of September 30, 2009 pursuant to the Plan, and changes during the three months ended September 30, 2009 is presented below:

Nonvested shares	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at March 31, 2009	498,767	\$ 0.85
Granted	229,388	\$ 0.89
Vested	219,550	\$ 0.86
Nonvested at June 30, 2009	508,605	\$ 0.86
Vested	233,955	\$ 0.86
Nonvested at September 30, 2009	<u>274,650</u>	<u>\$ 0.86</u>
Forfeited	<u>(81,333)</u>	<u>\$ 0.88</u>

Mandalay Media, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

As of September 30, 2009, there was \$236 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a period of a further 8 months. The total fair value of shares vested during the three months ended September 30, 2009 was \$202; the total fair value of shares vested during the six months ended September 30, 2009 was \$392.

Stock compensation expense is included in the following income statement components:

	3 Months Ended September 30 2009	3 Months Ended September 30 2008	6 Months Ended September 30 2009	6 Months Ended September 30 2008
Product development	\$ 3	\$ 9	\$ 6	\$ 19
Sales and marketing	7	7	14	14
General and administrative	503	728	995	1,933
	<u>\$ 513</u>	<u>\$ 744</u>	<u>\$ 1,014</u>	<u>\$ 1,966</u>

7. Acquisitions/Purchase Price Accounting

Twistbox Entertainment Inc. and related entities

On February 12, 2008, the Company completed an acquisition of Twistbox through an exchange of all outstanding capital stock of Twistbox for 10,180 shares of common stock of the Company and the Company's assumption of all the outstanding options of Twistbox's 2006 Stock Incentive Plan by the issuance of options to purchase 2,463 shares of common stock of the Company, including 2,145 vested and 318 unvested options. After the Merger, Twistbox became a wholly-owned subsidiary of the Company.

Twistbox is a global publisher and distributor of branded entertainment content, including images, video, TV programming and games, for Third Generation (3G) mobile networks. It publishes and distributes its content globally and has developed an intellectual property portfolio unique to its target demographic that includes worldwide mobile rights to global brands and content from leading film, television and lifestyle content publishing companies. Twistbox has built a proprietary mobile publishing platform and has leveraged its brand portfolio and platform to secure "direct" distribution agreements with the largest mobile operators in the world. These factors contributed to a purchase price in excess of the fair value of net tangible and intangible assets acquired, and, as a result, the Company recorded goodwill in connection with this transaction.

In connection with the Merger, the Company guaranteed up to \$8,250 of principal under an existing note of Twistbox in accordance with the terms, conditions and limitations contained in the note. In connection with the guaranty, the Company issued the lender two warrants, one to purchase 1,093 and the other to purchase 1,093 shares of common stock of the Company, exercisable at \$7.55 per share, and at \$5.00 per share, (increasing to \$7.55 per share, if not exercised in full by February 12, 2009), respectively, through July 30, 2011. The warrants have been included as part of the purchase consideration and have been valued using the Black Scholes method, using the stock price at the merger date of \$4.75 per share discounted for certain restrictions, a volatility of 70%, and the exercise price and the expected time to vest for each group. These warrants were subsequently amended as described in Note 8.

Mandalay Media, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

The purchase consideration was determined to be \$67,479, consisting of \$66,025 attributed to the common stock and options exchanged and warrants issued, and \$1,454 in transaction costs. During the year, a further \$59 of transaction costs were recognized, with the result that the purchase consideration was increased to \$67,538, with an equivalent increase in Goodwill. The options and warrants were valued using the Black Scholes method, using the stock price at the merger date of \$4.75 per share, a volatility of 70%, and in the case of options the exercise price and the expected time to vest for each group. Under the purchase method of accounting, the Company allocated the total purchase price of \$67,538 to the net tangible and intangible assets acquired and liabilities assumed based upon their respective estimated fair values as of the acquisition date as follows:

Cash	\$ 6,679
Accounts receivable	4,966
Prepaid expenses and other current assets	1,138
Property and equipment	1,062
Other long-term assets	361
Accounts Payable, accrued license fees and accruals	(6,882)
Other current liabilities	(814)
Accrued license fees, long term portion	(2,796)
Long term debt	(16,483)
Identified Intangibles	19,905
Merger related restructuring reserves	(1,034)
Goodwill	61,436
	<u>\$ 67,538</u>

The Merger related restructuring reserves were subsequently reduced by \$215, increasing net assets acquired and consequentially reducing goodwill by that amount. As a result, goodwill recognized in the above transaction amounted to \$61,221. Goodwill in relation to the acquisition of Twistbox is not expected to be deductible for income tax purposes. Merger related restructuring reserves include reserves for employee severance and for office relocation.

AMV Holding Limited group

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

Subject to adjustment as set forth in the Stock Purchase Agreement, the aggregate purchase price (the "Purchase Price") consisted of: (a) \$5,375 in cash (the "Cash Consideration"); (b) 4,500 fully paid and non-assessable shares of Common Stock (the "Stock Consideration"); (c) a secured promissory note in the aggregate original principal amount of \$5,375 (the "AMV Note"); and (d) additional earn-out amounts, if any, if the Acquired Companies achieve certain targeted earnings for each of the periods from October 1, 2008 to March 31, 2009, April 1, 2009 to March 31, 2010, and April 1, 2010 to September 30, 2010, as determined in accordance with the Stock Purchase Agreement. The Purchase Price is subject to certain adjustments based on the working capital of AMV, to be determined initially within 75 days of the closing, and subsequently within 60 days following June 30, 2009. Any such adjustment of the Purchase Price will be made first by means of an adjustment to the principal sum due under the AMV Note, as set forth in the Stock Purchase Agreement. The initial adjustment has been determined preliminarily as \$443, to be added to the AMV Note.

Mandalay Media, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

Prior to closing, each outstanding option to purchase shares of capital stock of AMV was either exercised in full or terminated. The AMV Note matures on July 31, 2010, and bears interest at an initial rate of 5% per annum, subject to adjustment as provided therein. In the event the Company completes an equity financing that results in gross proceeds of over \$6,000, the Company will prepay a portion of the AMV Note in an amount equal to one-third of the excess of the gross proceeds of such financing over \$6,000. In addition, if within nine months of the issuance date of the AMV Note, the Company completes a financing that results in gross proceeds of over \$15,000, then the Company shall prepay the entire principal amount then outstanding under the AMV Note, plus accrued interest. If within nine months of the issuance date of the Note, the aggregate principal sum then outstanding under the AMV Note plus accrued interest thereon has not been prepaid, then on and after such date, interest shall accrue on the unpaid principal balance of the AMV Note at a rate of 7% per annum. Additionally, in connection with the AMV Note, AMV granted to the Sellers a security interest in its assets. Such security interest is subordinate to the security interest granted to ValueAct Small Cap Master Fund, L.P. ("ValueAct") under the Senior Secured Note, issued by Twistbox, due January 30, 2010, as amended on February 12, 2008 (the "ValueAct Note"), and as subsequently amended on October 23, 2008. AMV also agreed to guarantee Mandalay Media's repayment of the AMV Note to the Sellers.

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

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

Mandalay Media, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(all numbers in thousands except per share amounts)

Net assets associated with Fierce Media Limited were insignificant. Goodwill recognized in the above transaction is preliminarily estimated at \$22,456. The business acquired is not capital intensive and does not require significant identifiable intangible assets – as a result the greater proportion of consideration has been allocated to goodwill. Goodwill in relation to the acquisition of AMV is not expected to be deductible for US income tax purposes. The preliminary purchase price allocation, including the allocation of goodwill, will be updated as additional information becomes available.

Unaudited Pro Forma Summary

The following pro forma consolidated amounts give effect to the acquisition of AMV by the Company accounted for by the purchase method of accounting as if it had occurred as at the beginning of each of the period. The pro forma consolidated results are not necessarily indicative of the operating results that would have been achieved had the transaction been in effect as of the beginning of the period presented and should not be construed as being representative of future operating results.

	3 months ended September 30, 2008	6 months ended September 30, 2008
Revenues	\$ 14,296	\$ 30,827
Cost of revenues	4,079	11,642
Gross profit/(loss)	10,217	19,185
Operating expenses net of interest income and other expense	12,642	23,015
Income tax expense and minority interests	(197)	(370)
Net loss	<u>\$ (2,622)</u>	<u>\$ (4,200)</u>
Basic and Diluted net loss per common share	\$ (0.07)	\$ (0.11)

8. Other Intangible Assets

A reconciliation of the changes to the Company's carrying amount of intangible assets for the six months ended September 30, 2009 was as follows:

Balance at March 31, 2009	\$ 16,121
Amortization	(305)
Balance at June 30, 2009	15,816
Amortization	(305)
Balance at September 30, 2009	<u>\$ 15,511</u>

The Company performed its annual review of the fair value of intangible assets in the fourth quarter of fiscal 2009. As a result of the assessment, the Company determined that its net book value exceeded the implied fair value; and recorded an impairment charge of \$3,940 to write down intangible assets.

Mandalay Media, Inc. and Subsidiaries**Notes to Unaudited Consolidated Financial Statements**

(all numbers in thousands except per share amounts)

The components of intangible assets as at September 30, 2009 and 2008 were as follows:

	September 30, 2009 (unaudited)	March 31, 2009
Software	\$ 1,922	\$ 1,922
Trade name / Trademark	9,824	9,824
Customer list	4,378	4,378
License agreements	886	886
Non-compete agreements	323	323
	17,333	17,333
Accumulated amortization	(1,822)	(1,212)
	<u>\$ 15,511</u>	<u>\$ 16,121</u>

The Company has included amortization of acquired intangible assets directly attributable to revenue-generating activities in cost of revenues. The Company has included amortization of acquired intangible assets not directly attributable to revenue-generating activities in operating expenses. During the three months ended September 30, 2009 and 2008, the Company recorded amortization expense in the amount of \$128 and \$102, respectively, in cost of revenues; and amortization expense in the amount of \$177 and \$137 respectively in operating expenses. During the six months ended September 30, 2009 and 2008 the Company recorded amortization expense in the amount of \$256 and \$204, respectively, in cost of revenues; and amortization expense in the amount of \$354 and \$274, respectively, in operating expenses.

As of September 30, 2009, the total expected future amortization related to intangible assets was as follows:

	12 Months Ended September 30,						Thereafter
	2010	2011	2012	2013	2014		
Software	\$ 334	\$ 334	\$ 230	\$ 230	\$ 230	\$ 85	
Customer List	547	547	547	547	547	751	
License Agreements	177	177	177	65	-	-	
Non-compete agreements	162	-	-	-	-	-	
	<u>\$ 1,220</u>	<u>\$ 1,058</u>	<u>\$ 954</u>	<u>\$ 842</u>	<u>\$ 777</u>	<u>\$ 836</u>	

Mandalay Media, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

9. Debt

	September 30, 2009 (unaudited)	March 31, 2009
Short Term Debt		
Senior secured note, inclusive of accrued interest net of discount of \$98 and \$247, respectively	\$ 18,389	17,351
Deferred purchase consideration inclusive of accrued interest	6,117	5,945
	<u>\$ 24,506</u>	<u>\$ 23,296</u>

In July 2007 Twistbox entered into a debt financing agreement pursuant to the ValueAct Note amounting to \$16,500, payable at 30 months. The holder of the ValueAct Note was granted first lien over all of the Company's assets. The ValueAct Note carries interest of 9% annually for the first year and 10% subsequently, with semi-annual interest only payments. The debt-financing agreement included certain restrictive covenants. In conjunction with the Merger described in Note 6, the Company guaranteed up to \$8,250 of the principal; and the restrictive covenants were modified, including a requirement for both Mandalay Media and Twistbox to maintain certain minimum cash balances. In connection with the guaranty, the Company issued the lender warrants to purchase 1,093 and 1,093 shares of common stock of the Company, exercisable at \$7.55 per share, and at \$5.00 per share, (increasing to \$7.55 per share, if not exercised in full by February 12, 2009), respectively, through July 30, 2011. These warrants replaced warrants originally issued by Twistbox in conjunction with the ValueAct Note.

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

Mandalay Media, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

As described above, the Company had previously issued to ValueAct two warrants to purchase shares of the Company's common stock, \$0.0001 par value per share (the "Common Stock"). One warrant entitled ValueAct to purchase up to a total of 1,093 shares of Common Stock at an exercise price of \$7.55 per share ("\$7.55 Warrant"). The other warrant entitled ValueAct to purchase up to a total of 1,093 shares of Common Stock at an initial exercise price of \$5.00 per share ("\$5.00 Warrant," and together with the \$7.55 Warrant, the "ValueAct Warrants"). On October 23, 2008, the Company and ValueAct entered into an allonge to each of the ValueAct Warrants. Among other things, the exercise price of each of the ValueAct Warrants was amended to be \$4.00 per share. The price change resulted in an adjustment to the valuation of the warrants and therefore to the debt discount which is amortized over the life of the term of the debt.

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

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

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

Minimum future obligations, including interest, under the ValueAct Note are \$20,118 during the year ended September 30, 2010 including repayment of the principal.

10. Related Party Transactions

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

Mandalay Media, Inc.

On September 14, 2006, the Company entered into a management agreement ("Agreement") with Trinad Management for five years. Pursuant to the terms of the Agreement, Trinad Management will provide certain management services, including, without limitation, the sourcing, structuring and negotiation of a potential business combination transaction involving the Company in exchange for a fee of \$90 per quarter, plus reimbursements of all expenses reasonably incurred in connection with the provision of Agreement. The Agreement expires on September 14, 2011. Either party may terminate with prior written notice. However, if the Company terminates, it shall pay a termination fee of \$1,000. For the three months ended September 30, 2009 and 2008, the Company paid management fees under the agreement of \$90 and \$90 respectively. For the six months ended September 30, 2009 and 2008, the Company paid management fees under the Agreement of \$180 and \$180 respectively.

In March 2008, the Company entered into a month to month lease for office space with Trinad Management for rent of \$9 per month. Rent expense in connection with this lease was \$26 and \$26 respectively for the three months ended September 30, 2009 and 2008. Rent expense was \$52 and \$52 respectively for the six months ended September 30, 2009 and 2008.

11. Capital Stock Transactions

Preferred Stock

There are 100 shares of Series A Convertible Preferred Stock authorized, issued and outstanding. The stock has a par value of \$0.0001 per share. The Series A holders shall be entitled to: (1) vote on an equal per share basis as common, (2) dividends on an 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 on an if-converted basis.

Common Stock

In October 2009, the Company granted warrants to purchase 1,200 shares of common stock of the Company a vendor. The warrants are exercisable at \$1.25 per share, through September 23, 2014.

12. Employee Benefit Plans

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

13. Income Taxes

The income tax provision for the quarter represents foreign withholding taxes paid in jurisdictions outside of the US and income taxes currently payable in foreign jurisdictions, primarily the United Kingdom based on revenue derived in that territory. AMV Limited had taxable income in the quarter which is subject to taxation in the United Kingdom. The effective tax rate used for calculation of the UK tax provision in the quarter was 28% and the difference between the US statutory rate of 34% and the effective rate of (43%) primarily relates to the taxes related to the Company's UK operations and the increase in the reserve for deferred tax assets for the US operations.

As of September 30, 2009, there were no material changes to either the nature or the amounts of the uncertain tax positions previously determined and disclosed as at March 31, 2009.

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. There were no unrecognized tax benefits not subject to valuation allowance as at September 30, 2009, and March 31, 2009. The Company will classify interest and penalties on any unrecognized tax benefits as a component of the provision for income taxes.

Mandalay Media, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(all numbers in thousands except per share amounts)

14. Segment and Geographic information

The Company operates in one reportable segment in which it is a developer and publisher of branded entertainment content for mobile phones. Revenues are attributed to geographic areas based on the country in which the carrier's principal operations are located. The company attributes its long-lived assets, which primarily consist of property and equipment, to a country primarily based on the physical location of the assets. Goodwill and intangibles are not included in this allocation. The following information sets forth geographic information on our sales and net property and equipment for the period ended September 30, 2009:

	<u>North America</u>	<u>Europe</u>	<u>South Africa</u>	<u>South America</u>	<u>Other Regions</u>	<u>Consolidated</u>
Three Months ended September 30, 2009						
Net sales to unaffiliated customers	1,131	6,943	1,642	214	211	\$ 10,141
Six Months ended September 30, 2009						
Net sales to unaffiliated customers	3,043	13,754	3,029	309	89	\$ 20,224
Property and equipment, net at September 30, 2009	632	530	-	2	8	\$ 1,172

Our two largest customers accounted for 22% and 14%, respectively, of gross revenues in the three months ended September 30, 2009; and 21% and 15% in the six months ended September 30, 2009.

15. Commitments and Contingencies

Operating Lease Obligations

The Company leases office facilities under noncancelable operating leases expiring in various years through 2014.

Following is a summary of future minimum payments under initial terms of leases at September 30, 2009:

<u>Year Ending September 30</u>	
2010	\$ 304
2011	175
2012	107
2013 and thereafter	280
Total minimum lease payments	<u>\$ 866</u>

These amounts do not reflect future escalations for real estate taxes and building operating expenses. Rental expense amounted to \$235 for the three months ended September 30, 2009; and \$458 for the six months ended September 30, 2009.

Minimum Guaranteed Royalties

The Company has entered into license agreements with various owners of brands and other intellectual property so that it could develop and publish branded products for mobile handsets.

Mandalay Media, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(all numbers in thousands except per share amounts)

Pursuant to some of these agreements, the Company is required to pay minimum royalties over the term of the agreements regardless of actual sales. Future minimum royalty payments for those agreements as of September 30, 2009 were as follows:

Year Ending September 30	Minimum Guaranteed Royalties
2010	\$ 90
2011	120
Total minimum payments	\$ 210

Commitments in the above table include guaranteed royalties to licensors that are included as a liability in the Company's consolidated balance sheet of \$210 at September 30, 2009, because the Company has determined that recoupment is unlikely.

Other Obligations

As of September 30, 2009, the Company was obligated for payments under various distribution agreements, equipment lease agreements, employment contracts and the management agreement described in Note 9 with initial terms greater than one year at September 30, 2009. Annual payments relating to these commitments at September 30, 2009 are as follows:

Year Ending September 30	Commitments
2010	\$ 2,382
2011	724
2012	48
Total minimum payments	\$ 3,154

Litigation

Twistbox's wholly owned subsidiary, WAAT Media Corp. ("WAAT") and General Media Communications, Inc. ("GMCI") are parties to a content license agreement dated May 30, 2006, whereby GMCI granted to WAAT certain exclusive rights to exploit GMCI branded content via mobile devices. GMCI terminated the agreement on January 26, 2009 based on its claim that WAAT failed to cure a material breach pertaining to the non-payment of a minimum royalty guarantee installment in the amount of \$485,000. On or about March 16, 2009, GMCI filed a complaint seeking the balance of the minimum guarantee payments due under the agreement in the approximate amount of \$4,085,000. WAAT has counter-sued claiming GMCI is not entitled to the claimed amount and that it has breached the agreement by, among other things, failing to promote, market and advertise the mobile services as required under the agreement and by fraudulently inducing WAAT to enter into the agreement based on GMCI's repeated assurances of its intention to reinvigorate its flagship brand. GMCI has filed a demurrer to the counter-claim. WAAT intends to vigorously defend against this action. Principals of both parties continue to communicate to find a mutually acceptable resolution. The Company has accrued for its estimated liability in this matter.

Mandalay Media, Inc. and Subsidiaries**Notes to Unaudited Consolidated Financial Statements****(all numbers in thousands except per share amounts)**

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

16. Subsequent Events

Management has evaluated subsequent events through November 16, 2009, the business date that this Quarterly Report on the Form 10-Q was filed with the SEC.

No subsequent were noted which would have a significant impact on the 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" and similar expressions, as they relate to our management or us, are intended to identify such forward-looking statements. Our actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements as a result of a variety of factors including those set forth under "Risk Factors" in our Annual Report on Form 10-K for the period ended March 31, 2009. Historical operating results are not necessarily indicative of the trends in operating results for any future period.

Unless the context otherwise indicates, the use of the terms "we," "our" "us" or the "Company" refer to the business and operations of Mandalay Media, Inc. ("Mandalay Media") through its operating and wholly-owned subsidiaries, Twistbox Entertainment, Inc. ("Twistbox") and AMV Holding Limited, a United Kingdom private limited company ("AMV").

Historical Operations of Mandalay Media, Inc.

Mandalay Media was originally incorporated in the State of Delaware on November 6, 1998 under the name eB2B Commerce, Inc. On April 27, 2000, Mandalay Media merged into DynamicWeb Enterprises Inc., a New Jersey corporation, and changed its name to eB2B Commerce, Inc. On April 13, 2005, Mandalay Media 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 October 27, 2004, and as amended on December 17, 2004, Mandalay Media filed a plan for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (the "Plan of Reorganization"). Under the Plan of Reorganization, as completed on January 26, 2005: (1) Mandalay Media's net operating assets and liabilities were transferred to the holders of the secured notes in satisfaction of the principal and accrued interest thereon; (2) \$400,000 were transferred to a liquidation trust and used to pay administrative costs and certain preferred creditors; (3) \$100,000 were retained by Mandalay Media to fund the expenses of remaining public; (4) 3.5% of the new common stock of Mandalay Media (140,000 shares) was issued to the holders of record of Mandalay Media's preferred stock in settlement of their liquidation preferences; (5) 3.5% of the new common stock of Mandalay Media (140,000 shares) was issued to common stockholders of record as of January 26, 2005 in exchange for all of the outstanding shares of the common stock of the company; and (6) 93% of the new common stock of Mandalay Media (3,720,000 shares) was issued to the sponsor of the Plan of Reorganization in exchange for \$500,000 in cash. Through January 26, 2005, Mandalay Media 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 MERGER

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

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

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

As part of the Merger, Mandalay Media agreed to guarantee up to \$8,250,000 of Twistbox's outstanding debt to ValueAct SmallCap Master Fund L.P. ("ValueAct"), with certain amendments. On July 30, 2007, Twistbox had entered into a Securities Purchase Agreement by and among Twistbox, the Subsidiary Guarantors (as defined therein) and ValueAct, pursuant to which ValueAct purchased a note in the amount of \$16,500,000 (the "ValueAct Note") and a warrant which entitled ValueAct to purchase from Twistbox up to a total of 2,401,747 shares of Twistbox's common stock (the "Warrant"). Twistbox and ValueAct had 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. 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 entitles 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 entitles 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, will be permanently increased to an exercise price of \$7.55 per share. Both warrants expire on July 30, 2011. The terms of the warrants were subsequently modified on October 23, 2008, as set forth below. We also entered into a Guaranty with ValueAct whereby Mandalay Media agreed to guarantee Twistbox's payment to ValueAct of up to \$8,250,000 of principal under the Note in accordance with the terms, conditions and limitations contained in the ValueAct Note. The financial covenants of the ValueAct Note were also amended, pursuant to which Twistbox is required to maintain a cash balance of not less than \$2,500,000 at all times and Mandalay Media is required to maintain a cash balance of not less than \$4,000,000 at all times. These covenants were subsequently amended as set forth below.

SUMMARY OF THE AMV ACQUISITION

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

The AMV Note matures on July 31, 2010, and bears interest at an initial rate of 5% per annum, subject to adjustment as provided therein. In the event Mandalay Media completes an equity financing which results in gross proceeds of over \$6,000,000, Mandalay Media will prepay a portion of the Note in an amount equal to one-third of the excess of the gross proceeds of such financing over \$6,000,000. In addition, if within nine months of the issuance date of the AMV Note, Mandalay Media completes a financing that results in gross proceeds of over \$15,000,000, then Mandalay Media shall prepay the entire principal amount then outstanding under the AMV Note, plus accrued interest. If within nine months of the issuance date of the AMV Note, the aggregate principal sum then outstanding under the AMV Note plus accrued interest thereon has not been prepaid, then on and after such date, interest shall accrue on the unpaid principal balance of the AMV Note at a rate of 7% per annum.

In addition, also on October 23, 2008, in connection with the AMV Acquisition, Mandalay Media, Twistbox and ValueAct entered into a Second Amendment to the ValueAct Note, which among other things, provides for a payment in kind election at the option of Twistbox, modifies the financial covenants set forth in the ValueAct Note to require that Mandalay Media and Twistbox maintain certain minimum combined cash balances and provides for certain covenants with respect to the indebtedness of Mandalay Media and its subsidiaries. Also on October 23, 2008, AMV granted to ValueAct a security interest in its assets to secure the obligations under the ValueAct Note. In addition, Mandalay Media 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. On August 14, 2009, Mandalay Media, 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 Note increased from 10% to 12.5%. Additionally, the Third Amendment provides that Twistbox may prepay the ValueAct Note in whole or in part at any time without penalty. In the event of any such prepayment prior to January 31, 2010, in an aggregate amount of not less than 50% of the then outstanding and unpaid principal plus accrued interest under the ValueAct Note, the balance of the ValueAct Note shall be payable on the earlier of July 31, 2015, or the date when such amount becomes due and payable as a result of an event of default under the ValueAct Note (the earlier of such date, the "New Maturity Date"). If Twistbox receives any net proceeds from a debt financing (other than any proceeds from a Company Receivables Facility as defined in the ValueAct Note) not to exceed \$9,000,000, at least 50% of such proceeds shall be paid by Twistbox to ValueAct to satisfy a portion of the then-outstanding and unpaid principal plus accrued interest under the Note; any indebtedness incurred by Twistbox in connection with such a prepayment shall be excluded from Twistbox's covenants, as set forth in the Note, not to incur additional indebtedness. If the Company receives any net proceeds from an equity financing, at least 50% of such proceeds shall be paid to ValueAct to satisfy a portion of the then-outstanding and unpaid principal plus accrued interest under the Note, and the balance of the Note shall be payable on the New Maturity Date. In the event Twistbox or the Company have made any prepayments in connection with a debt or equity financing, as applicable, which payments are greater than or equal to \$9,000,000 in the aggregate, then the balance of the Note shall be payable on the New Maturity Date. Lastly, if certain of the earn-out payments set forth in that certain Stock Purchase Agreement, by and among the Company, Jonathan Creswell, Nathaniel MacLeitch and the shareholders of AMV, dated as of October 23, 2008, as amended, have been paid, the Company and Twistbox agreed to maintain certain minimum combined cash balances.

Also, on August 14, 2009, the Company and ValueAct entered into a Second Allonge to Warrant to Purchase 1,092,621 Shares of Common Stock (the “Second Allonge”), which amended that certain warrant to purchase 1,092,621 shares of the Company’s common stock, issued to ValueAct on February 12, 2008, as amended (the “ValueAct Warrant”). Pursuant to the Second Allonge, the exercise price of the ValueAct Warrant decreased from \$4.00 per share to the lesser of \$1.25 per share, or the exercise price per share for any warrant to purchase shares of the Company’s common stock issued by the Company to certain other parties.

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

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. Subsequent to the Merger and the AMV Acquisition, the average trading price of the Common Stock has decreased significantly. If the decrease in trading price is deemed to “not be temporary in nature”, management expects that an impairment of goodwill and other long lived intangible assets could occur by year end. Other factors affecting management’s estimate of impairment include the current profitability and expected future cash flows from the acquired business.

Comparison of the Three Months Ended September 30, 2009 and 2008

Revenues

	Three Months Ended September 30,	
	2009	2008
	unaudited	unaudited
	(In thousands)	
Revenues by type:		
Games	\$ 1,223	\$ 1,217
Other content	8,918	3,786
Total	\$ 10,141	\$ 5,003

Games revenue – expanded development revenue in the US in the period offset declines experienced in European platform management revenues. Games revenue includes both licensed and internally developed games for use on mobile phones.

The increase in other content revenues over the second quarter of fiscal 2009 is primarily due to the inclusion of revenues from AMV which was acquired in the third quarter of fiscal 2009. This was partially offset by decreased carrier sales as a result of a very challenging European sales environment. Other content includes a broad range of licensed and internally-developed product delivered in the form of WAP, Video, Wallpaper and Mobile TV as well as interactive voice services.

Cost of Revenues

	Three Months Ended September 30,	
	2009	2008
	unaudited	unaudited
(In thousands)		
Cost of revenues:		
License fees	\$ 967	\$ 1,785
Other direct cost of revenues	2,149	102
Total cost of revenues	<u>\$ 3,116</u>	<u>\$ 1,887</u>
Revenues	<u>\$ 10,141</u>	<u>\$ 5,003</u>
Gross margin	<u>69.3%</u>	<u>62.3%</u>

License fees represent costs payable to content providers for use of their intellectual property in products sold. License fees have decreased as a result of reductions in the revenue share attributable to several licensed product arrangements and a significant change in mix towards product for which the rights have been acquired in perpetuity. In addition license fees in the quarter benefited from the reversal of previously accrued license fees in the quarter, following resolution with providers. Other direct cost of revenues includes costs to deliver products, and amortization of the intangibles identified as part of the purchase price accounting and attributed to cost of revenues. The increase in other direct costs is largely attributable to AMV cost of revenues. The improvement in margin is due the mix changes noted above and the impact of AMV, which has higher margin sales, and adjustments related to settlement agreements with certain content providers.

Operating Expenses

	Three Months Ended September 30,	
	2009	2008
	unaudited	unaudited
(In thousands)		
Product development expenses	\$ 1,358	\$ 1,800
Sales and marketing expenses	3,024	1,004
General and administrative expenses	2,956	2,559
Amortization of intangible assets	177	137

Product Development expenses include the costs to develop, edit and make content ready for consumption on a mobile phone. The decrease in expenses compared to the second quarter of the prior year are primarily the result of restructuring during the year resulting in a reduction in employees, particularly in the product development areas.

Sales and Marketing Expenses represent the costs of sales and marketing personnel, and advertising and marketing campaigns – advertising has increased significantly with the AMV Acquisition in October 2008 due to the “direct to consumer” nature of that business, with a significant element of direct marketing required to stimulate revenues. In addition, a significant portion of AMV’s employee base is classified as sales and marketing employees.

General and administrative expenses represent management and support personnel costs in each of the subsidiary companies and related expenses, as well as professional and consulting costs, and other costs such as stock based compensation, depreciation and bad debt expenses. The increase in expenses over the second quarter in the prior year is largely the result of higher professional costs in the quarter, including costs related to the company’s restructuring initiatives.

Amortization of intangibles represents amortization of the intangibles identified as part of the purchase price accounting related to both acquisitions and attributed to operating expenses.

Other Expenses

Three Months Ended September 30,

2009	2008
unaudited	unaudited

(In thousands)

Interest and other income/(expense)	\$ (441)	\$ (583)
-------------------------------------	----------	----------

Interest and other income/(expense) includes interest income on invested funds, interest expense related to the ValueAct and AMV Notes, foreign exchange transaction gains, and other income/expense. The decrease in net expense compared to the second quarter of the prior year relates to foreign exchange gains (versus losses in the prior year period) and miscellaneous income related to asset disposals, partially offset by increased interest expense related to the increase in the balance due under the ValueAct Note, and the addition of the AMV Note, which represents deferred purchase consideration related to the AMV Acquisition;

Comparison of the Six Months Ended September 30, 2009 and 2008

Revenues

Six Months Ended September 30,

2009	2008
unaudited	unaudited

(In thousands)

Revenues by type:

Games	\$ 2,525	\$ 2,493
Other content	17,699	7,856
Total	<u>\$ 20,224</u>	<u>\$ 10,349</u>

Games revenue – expansion of the Play 4 Prizes platform and higher development revenue in the US offset declines in European games sales and platform management revenues. Games revenue includes both licensed and internally developed games for use on mobile phones.

The increase in other content revenues over the first half of fiscal 2009 over the prior year is primarily due to the inclusion of revenues from AMV Holding which was acquired in the third quarter of fiscal 2009. This was partially offset by decreased carrier sales as a result of a very challenging European sales environment. Other content includes a broad range of licensed and internally-developed product delivered in the form of WAP, Video, Wallpaper and Mobile TV as well as interactive voice services.

Cost of Revenues

Six Months Ended September 30,

2009	2008
unaudited	unaudited

(In thousands)

Cost of revenues:

License fees	\$ 1,986	\$ 3,934
Other direct cost of revenues	3,986	204
Total cost of revenues	<u>\$ 5,972</u>	<u>\$ 4,138</u>
Revenues	<u>\$ 20,224</u>	<u>\$ 10,349</u>
Gross margin	<u>70.5%</u>	<u>60.0%</u>

License fees represent costs payable to content providers for use of their intellectual property in products sold. License fees have decreased as a result of reductions in the revenue share attributable to several licensed product arrangements and a significant change in mix towards product for which the rights have been acquired in perpetuity. In addition license fees in the half benefited from the reversal of previously accrued license fees, following resolution with providers. Other direct cost of revenues includes costs to deliver products, and amortization of the intangibles identified as part of the purchase price accounting and attributed to cost of revenues. The increase in other direct costs is largely attributable to AMV cost of revenues. The improvement in margin is due the mix changes noted above and the impact of AMV, which has higher margin sales, and adjustments related to settlement agreements with certain content providers.

Operating Expenses

	Six Months Ended September 30,	
	2009	2008
	unaudited	unaudited
	(In thousands)	
Product development expenses	\$ 2,780	\$ 3,567
Sales and marketing expenses	6,405	2,283
General and administrative expenses	5,344	5,372
Amortization of intangible assets	354	274

Product Development expenses include the costs to develop, edit and make content ready for consumption on a mobile phone. The decrease in expenses compared to the same period of the prior year are primarily the result of restructuring during the year resulting in a reduction in employees, particularly in the product development areas.

Sales and Marketing Expenses represent the costs of sales and marketing personnel, and advertising and marketing campaigns – advertising has increased significantly with the AMV Acquisition in October 2008 due to the “direct to consumer” nature of that business, with a significant element of direct marketing required to stimulate revenues. In addition, a significant portion of AMV’s employee base is classified as sales and marketing employees.

General and administrative expenses represent management and support personnel costs in each of the subsidiary companies and related expenses, as well as professional and consulting costs, and other costs such as stock based compensation, depreciation and bad debt expenses. The net decrease in expenses over the same period in the prior year are the result of employee reductions and cost savings initiatives implemented during the period, offset by higher professional costs in the period, including costs related to the company’s restructuring initiatives.

Amortization of intangibles represents amortization of the intangibles identified as part of the purchase price accounting related to both acquisitions and attributed to operating expenses.

Other Expenses

	Six Months Ended September 30,	
	2009	2008
	unaudited	unaudited
	(In thousands)	
Interest and other income/(expense)	\$ (956)	\$ (945)

Interest and other income/(expense) includes interest income on invested funds, interest expense related to the ValueAct and AMV Notes, foreign exchange transaction gains, and other income/expense. In the first half of fiscal 2009, the net expense included foreign exchange gains (versus losses in the prior year period) and miscellaneous income related to a asset disposals, which were offset by increased interest expense related to the increase in the balance due under the ValueAct Note, and the addition of the AMV Note, representing deferred purchase consideration related to the AMV Acquisition.

Financial Condition

Assets

Our current assets totaled \$14.7 million and \$18.0 million at September 30, 2009 and March 31, 2009, respectively. Total assets were \$87.2 million and \$91.2 million at September 30, 2009 and March 31, 2009, respectively. The decrease in current assets is primarily due to the lower cash balances. The decrease in total assets is primarily due to the amortization of intangibles assets, as well as the movement in cash balances.

Liabilities and Working Capital

At September 30, 2009, our total liabilities were \$39.3 million. Our current liabilities totaled \$39.3 million and \$42.1 million at September 30, 2009 and March 31, 2009, respectively. The change in current liabilities was primarily related to the reduction in accounts payable and other current liabilities. The Company had negative working capital of \$24.7 million at September 30, 2009 and \$24.1 million at March 31, 2009 as a result of the timing of maturity of the ValueAct Note.

Liquidity and Capital Resources

Six Months Ended September 30,	
2009	2008
unaudited	unaudited
(In thousands)	

Consolidated Statement of Cash Flows Data:

Capital expenditures	\$	172	\$	120
Cash flows used in operating activities		3,138		3,523
Cash flows used in investing activities		-		59

Twistbox has incurred losses and negative annual cash flows since inception, although the operating loss has narrowed significantly in the current period. AMV has generally experienced profits and strongly positive cash flows. The primary sources of liquidity have historically been issuance of common and preferred stock, in the case of Twistbox, borrowings under credit facilities with aggregate proceeds of \$16.5 million. In the future, we anticipate that our primary sources of liquidity will be cash generated by our operating activities.

Operating Activities

In the six months ended September 30, 2009, we used \$3.1 million of net cash, flowing from the loss of \$2.3 million as well as decreases in accounts payable of \$2.2 million and in accrued license fees/other liabilities of \$0.8 million, offset by non cash stock based compensation and depreciation and amortization. In the six months ended September 30, 2008, we used \$3.1 million of net cash in operating expenses. This primarily related to the net loss of \$6.4 million, and reductions in accrued license fees/other liabilities of \$1.7 million, partially offset by non cash stock based compensation and depreciation and amortization included in the net loss and increases in accounts payable.

As of September 30, 2009, the Company had approximately \$2.8 million of cash. The Company has restructured its debt, as described in Note 8 to the financial statements. Among other things, this provides for the due date to be extended to July 31, 2010, an interest rate of 12.5% from the date of the agreement through maturity, an extension of the payment in kind ("PIK") election through to the interest payment otherwise due in January 2010, and a reduction in the minimum cash covenant to \$1 million until January 31, 2010 and \$4 million thereafter, subject to certain conditions. In addition the Company and the sellers of AMV Limited entered into an agreement which extended the maturity date of the AMV Note, which represents deferred purchase consideration in relation to the AMV Acquisition, until July 31, 2010.

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

Debt obligations include interest payments under the ValueAct Note, payable at the end of the term, in July 2010, and interest payments under the AMV Note, payable at the end of the term, in July 2010. The ValueAct Note was amended during fiscal 2009 such that the Company may elect to add interest to the principal, with the full amount payable at the end of the term. The Company's operating lease obligations include non-cancelable operating leases for the Company's office facilities in several locations, expiring in various years through 2014. Twistbox has entered into license agreements with various owners of brands and other intellectual property in order to develop and publish branded products for mobile handsets. Pursuant to some of these agreements, we are required to pay minimum royalties over the term of the agreements regardless of actual sales.

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate and Credit Risk

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

Currently, our cash and cash equivalents are maintained by financial institutions in the United States, Germany, the United Kingdom, Poland, Russia, Argentina and Colombia, and our current deposits are likely in excess of insured limits. We believe that the financial institutions that hold our investments are financially sound and, accordingly, minimal credit risk exists with respect to these investments. Our accounts receivable primarily relate to revenues earned from domestic and international Mobile phone carriers. We perform ongoing credit evaluations of our carriers' financial condition but generally require no collateral from them. As of September 30, 2009, our largest customer represented approximately 12% of our gross accounts receivable outstanding.

Foreign Currency Risk

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

Inflation

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

Item 4T. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Members of our management, including our Principal Executive Officer, Ray Schaaf, and Principal Financial Officer, Russell Burke, have evaluated the effectiveness of our disclosure controls and procedures, as defined by the Securities Exchange Act of 1934 (the "Exchange Act") Rules 13a-15(e) or 15d-15(e), as of September 30, 2009, the end of the period covered by this report. Based upon that evaluation, Messrs. Schaaf and Burke concluded that our disclosure controls and procedures are adequate and effective to ensure that material information was made known to them by others within those entities, particularly during the period for which this Quarterly Report on Form 10-Q was prepared.

Changes in Controls and Procedures

There were no changes in our internal control over financial reporting or in other factors identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13(a)-15 and 15(d)-15 that occurred during the second quarter ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

There has been no material changes in our legal proceedings from those disclosed in our Annual Report on Form 10-K for the year ended March 31, 2009, filed with the Securities and Exchange Commission on July 14, 2009. From time to time, we are subject to various claims, complaints and legal actions in the normal course of business. As of the date of filing this Quarterly Report on Form 10-Q, we are not a party to any litigation that we believe would have a material adverse effect on us.

Item 1A. Risk Factors.

There has been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended March 31, 2009, filed with the Securities and Exchange Commission on July 14, 2009.

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

On September 23, 2009, the Company granted a warrant to purchase 1,200,000 shares of Common Stock at an exercise price of \$1.25 per share to Vivid Entertainment, LLC in connection with a Content License and Output Agreement. The securities were issued pursuant to Section 4(2) of the Securities Act of 1933, as amended.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

- | | |
|------|--|
| 4.1 | Warrant dated September 23, 2008 issued to Vivid Entertainment, LLC |
| 10.1 | Registration Rights Agreement, dated September 23, 2008, by and between Mandalay Media, Inc. and Vivid Entertainment, Inc. |
| 31.1 | Certification of Ray Schaaf, Principal Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. * |
| 31.2 | Certification of Russell Burke, Principal Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. * |
| 32.1 | Certification of Ray Schaaf, Principal Executive Officer, pursuant to 18 U.S.C. Section 1350. * |
| 32.1 | Certification of Russell Burke, Principal Financial Officer, pursuant to 18 U.S.C. Section 1350. * |

* Filed herewith

Signatures

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

Mandalay Media, Inc.

Date: November 16, 2009

By: /s/ Ray Schaaf

Ray Schaaf

President

(Authorized Officer and Principal Executive Officer)

Date: November 16, 2009

By: /s/ Russell Burke

Russell Burke

Chief Financial Officer and Secretary

(Authorized Officer and Principal Financial Officer)

THIS WARRANT AND THE SHARES OF COMMON STOCK ISSUED UPON ANY EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY APPLICABLE STATE SECURITIES LAWS AND MAY NOT BE SOLD OR OTHERWISE TRANSFERRED TO ANY PERSON, INCLUDING A PLEDGEE, UNLESS (1) EITHER (A) A REGISTRATION STATEMENT WITH RESPECT THERETO SHALL BE EFFECTIVE UNDER THE SECURITIES ACT, OR (B) THE COMPANY SHALL HAVE RECEIVED AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT IS AVAILABLE, AND (2) THERE SHALL HAVE BEEN COMPLIANCE WITH ALL APPLICABLE STATE SECURITIES OR "BLUE SKY" LAWS.

No. _____

For the Purchase
of 1,200,000 shares
of Common Stock

WARRANT TO PURCHASE

COMMON STOCK

OF

MANDALAY MEDIA, INC.

(A DELAWARE CORPORATION)

MANDALAY MEDIA, INC., a Delaware corporation (the "Company"), for value received, hereby certifies that VIVID ENTERTAINMENT, LLC (the "Holder"), is entitled, subject to the terms set forth below, to purchase from the Company, at any time or from time to time at or before the earlier of 5:00 p.m. New York City time on September 23, 2014 (the "Expiration Date") and the termination of this Warrant as provided in Section 7 hereof, 1,200,000 shares of Common Stock, par value \$0.0001 per share, of the Company (the "Common Stock"), at a purchase price per share equal to \$1.25 per share (the "Base Price"), as adjusted upon the occurrence of certain events as set forth in Section 2 of this Warrant. The shares of Common Stock issuable upon exercise of this Warrant, and the purchase price per share, are hereinafter referred to as the "Warrant Stock" and the "Purchase Price," respectively. If at any time prior to September 23, 2014 a lender, creditor or investor receives a more favorable exercise price than the Purchase Price and provided that Holder has not exercised the Warrant in full or in part, Company shall amend the Warrant, as soon as reasonably practicable, to replace the Purchase Price with the more favorable exercise price.

1. Exercise.

1.1 Manner of Exercise: Payment in Cash. This Warrant may be exercised by the Holder, in whole or in part, by surrendering this Warrant, with the purchase form appended hereto as Exhibit A duly executed by the Holder, at the principal office of the Company, or at such other place as the Company may designate, accompanied by payment in full of the Purchase Price payable in respect of the number of shares of Warrant Stock purchased upon such exercise. Payment of the Purchase Price shall be in cash or by certified or official bank check payable to the order of the Company.

1.2 Effectiveness. Each exercise of this Warrant shall be deemed to have been effected immediately prior to the close of business on the day on which this Warrant shall have been

surrendered to the Company as provided in Section 1.1 above. At such time, the person or persons in whose name or names any certificates for Warrant Stock shall be issuable upon such exercise as provided in Section 1.3 below shall be deemed to have become the holder or holders of record of the Warrant Stock represented by such certificates.

1.3. Delivery of Certificates. As soon as practicable after the exercise of this Warrant in full or in part, and in any event within ten (10) business days thereafter, the Company at its sole expense will cause to be issued in the name of, and delivered to, the Holder, or, subject to the terms and conditions hereof, as such Holder (upon payment by such Holder of any applicable transfer taxes) may direct:

(a) A certificate or certificates for the number of full shares of Warrant Stock to which such Holder shall be entitled upon such exercise plus, in lieu of any fractional share to which such Holder would otherwise be entitled, cash in an amount determined pursuant to Section 1.4 hereof, and

(b) In case such exercise is in part only, a new warrant or warrants (dated the date hereof) of like tenor, calling in the aggregate on the face or faces thereof for the number of shares of Warrant Stock, evidencing the right to purchase the number of shares of Warrant Stock as to which this Warrant has not been exercised, which new Warrant shall be signed by the Chief Executive Officer of the Company.

1.4. Fractional Shares. The Company shall not be required upon the exercise of this Warrant to issue any fractional shares, but shall make an adjustment therefor in cash on the basis of the fair market value of the Warrant Stock reasonably determined by The Board of Directors of the Company.

2. Certain Adjustments. The Purchase Price and the number of shares of Warrant Stock deliverable upon exercise of the Warrant shall be subject to adjustment from time to time as follows:

2.1 Subdivision, Consolidation, Reclassification or Change in Warrant Stock. In the event of any consolidation, reclassification or change of the Warrant Stock into a lesser number or different class or classes of stock, the number of shares of Warrant Stock deliverable upon exercise of this Warrant shall be proportionally decreased and the Purchase Price for such Warrant Stock shall be proportionately increased. In the event of any subdivision, reclassification or change of the Warrant Stock into a greater number or different class or classes of stock, the number of shares of Warrant Stock deliverable upon exercise of this Warrant shall be proportionally increased and the Purchase Price for such Warrant Stock shall be proportionately reduced.

2.2 Dividends or Other Distributions. In the event that the Company issues additional shares of Common Stock as a dividend or other distribution with respect to the Common Stock, the number of shares of Warrant Stock deliverable upon exercise of this Warrant shall be determined in accordance with the terms of the Certificate of Incorporation, and the Purchase Price for such Warrant Stock shall be proportionately reduced.

2.3 Reorganizations. If there shall occur any capital reorganization of the Common Stock or the Warrant Stock (excluding mergers and consolidations covered under Section 2.5 hereto and other than a subdivision, combination, reclassification or change in par value), then, as part of any such reorganization, lawful provision shall be made so that the Holder shall have the right thereafter to receive upon the exercise of this Warrant the kind and amount of shares of stock or other

securities or property which such Holder would have been entitled to receive if, immediately prior to any such reorganization, such Holder had held the number of shares of Common Stock which were then purchasable upon the exercise of this Warrant. In any such case, appropriate adjustment (as reasonably determined by the Board of Directors of the Company) shall be made in the application of the provisions set forth herein with respect to the rights and interests thereafter of the Holder such that the provisions set forth in this Section 2 (including provisions with respect to adjustment of the Purchase Price) shall thereafter be applicable, as nearly as is reasonably practicable, in relation to any shares of stock or other securities or property thereafter deliverable upon the exercise of this Warrant.

2.4 Merger, Consolidation or Sale of Assets. Subject to the provisions of Section 6, if there shall be a merger or consolidation of the Company with or into another corporation (other than a merger or reorganization involving only a change in the state of incorporation of the Company or the acquisition by the Company of other businesses where the Company survives as a going concern), or the sale of all or substantially all of the Company's capital stock or assets to any other person, then as a part of such transaction, provision shall be made so that the Holder shall thereafter be entitled to receive the number of shares of stock or other securities or property of the Company, or of the successor corporation resulting from the merger, consolidation or sale, to which the Holder would have been entitled if the Holder had exercised its rights pursuant to this Warrant immediately prior thereto. In any such case, appropriate adjustment shall be made in the application of the provisions of this Section 2 to the end that the provisions of this Section 2 shall be applicable after that event in as nearly equivalent a manner as may be practicable.

2.5 Certificate of Adjustment. When any adjustment is required to be made in the Purchase Price, the Company shall promptly mail to the Holder a certificate setting forth the Purchase Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment. Such certificate shall also set forth the kind and amount of stock or other securities or property into which this Warrant shall be exercisable following the occurrence of any of the events specified in this Section 2.

3. Compliance with Securities Act.

3.1 Unregistered Securities. The Holder acknowledges that this Warrant and the Warrant Stock have not been registered under the Securities Act of 1933, as amended, and the rules and regulations thereunder, or any successor legislation (the "Securities Act"), and agrees not to sell, pledge, distribute, offer for sale, transfer or otherwise dispose of this Warrant or any Warrant Stock in the absence of (i) an effective registration statement under the Securities Act covering this Warrant or such Warrant Stock and registration or qualification of this Warrant or such Warrant Stock under any applicable "blue sky" or state securities law then in effect, or (ii) an opinion of counsel, satisfactory to the Company, that such registration and qualification are not required. The Company may delay issuance of the Warrant Stock until completion of any action or obtaining of any consent, which the Company deems reasonably necessary under any applicable law (including without limitation state securities or "blue sky" laws).

3.2 Investment Letter. Without limiting the generality of Section 3.1, unless the offer and sale of any shares of Warrant Stock shall have been effectively registered under the Securities Act, the Company shall be under no obligation to issue the Warrant Stock unless and until the Holder shall have executed an investment letter in form and substance satisfactory to the Company, including a warranty at the time of such exercise that the Holder is acquiring such shares for its own account, for investment and not with a view to, or for sale in connection with, the distribution of any such shares.

3.3 Legend. Certificates delivered to the Holder pursuant to Section 1.3 shall bear the following legend or a legend in substantially similar form:

“THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE BEEN TAKEN FOR INVESTMENT AND THEY MAY NOT BE SOLD OR OTHERWISE TRANSFERRED BY ANY PERSON, INCLUDING A PLEDGEE, IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SHARES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY, THAT AN EXEMPTION FROM REGISTRATION IS THEN AVAILABLE.”

3.4 Obligation to Register. The Company shall be obligated to register the resale of the Common Stock issued to Holder following exercise of the Warrant in accordance with the Registration Rights Agreement of even date herewith.

4. Reservation of Stock. The Company agrees that, prior to the expiration of this Warrant, the Company will at all times have authorized and in reserve, and will keep available, solely for issuance or delivery upon the exercise of this Warrant, the shares of Common Stock and other securities and properties as from time to time shall be receivable upon the exercise of this Warrant, free and clear of all restrictions on sale or transfer and free and clear of all preemptive rights and rights of first refusal.

5. Replacement of Warrants. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and (in the case of loss, theft or destruction) upon delivery of an indemnity agreement (with surety if reasonably required) in an amount reasonably satisfactory to the Company, or (in the case of mutilation) upon surrender and cancellation of this Warrant, the Company will issue, in lieu thereof, a new Warrant of like tenor.

6. Termination Upon Certain Events. If there shall be a merger or consolidation of the Company with or into another corporation (other than a merger or reorganization involving only a change in the state of incorporation of the Company or the acquisition by the Company of other businesses where the Company survives as a going concern), or the sale of all or substantially all of the Company's capital stock (other than a reverse merger transaction) or assets to any other person, or the liquidation or dissolution of the Company, then as a part of such transaction, at the option of the Holder, either:

(a) provision shall be made so that the Holder shall thereafter be entitled to receive the number of shares of stock or other securities or property of the Company, or of the successor corporation resulting from the merger, consolidation or sale, to which the Holder would have been entitled if the Holder had exercised its rights pursuant to this Warrant immediately prior thereto (and, in such case, appropriate adjustment shall be made in the application of the provisions of this Section 6(a) to the end that the provisions of Section 3 shall be applicable after that event in as nearly equivalent a manner as may be practicable); or

(b) this Warrant shall terminate on the effective date of such merger, consolidation or sale (the “Termination Date”) and become null and void, provided that if this Warrant shall not have otherwise terminated or expired, (1) the Company shall have given the Holder written notice of such Termination Date at least five business days prior to the occurrence thereof and (2) the Holder shall have the right until 5:00 p.m. Eastern Standard Time, on the day immediately prior to the Termination Date to exercise its rights hereunder to the extent not previously exercised.

7. Transferability. Without the prior written consent of the Company (which such consent shall not be unreasonably withheld), this Warrant shall not be assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar

process. Any attempted transfer, assignment, pledge, hypothecation or other disposition of this Warrant or of any rights granted hereunder contrary to the provisions of this Section 7, or the levy of any attachment or similar process upon this Warrant or such rights, shall be null and void. Notwithstanding anything else contained in this Section 7, the Holder may transfer or assign this Warrant in connection with estate planning purposes on behalf of the members of the Holder.

8. No Rights as Stockholder. Until the exercise of this Warrant, the Holder shall not have or exercise any rights by virtue hereof as a stockholder of the Company. In case (a) the Company shall take a record of the holders of its Common Stock for the purpose of entitling them to receive any dividend (other than a cash dividend at the same rate as the rate of the last cash dividend theretofore paid) or other distribution, or any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities, or to receive any other right; or (b) of any capital reorganization of the Company, any reclassification of the capital stock of the Company, any consolidation or merger of the Company with or into another corporation, or any conveyance of all or substantially all of the assets of the Company to another corporation; or (c) of any voluntary or involuntary dissolution, liquidation or winding up of the Company then, and in each such case, the Company shall mail or cause to be mailed to each Holder of a Warrant at the time outstanding a notice specifying, as the case may be, (i) the date on which a record is to be taken for the purpose of such dividend, distribution or right, and stating the amount and character of such dividend, distribution or right, or (ii) the date on which such reorganization, reclassification, consolidation, merger, conveyance, dissolution, liquidation or winding up is to take place, and the time, if any, to be fixed, as to which holders of record of Warrant Stock (or such other securities at the time receivable upon the exercise of these Warrants) shall be entitled to exchange their shares of Warrant Stock (or such other securities) for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, conveyance, dissolution, liquidation or winding up. Such notice shall be mailed at least ten (10) days prior to the date therein specified and these Warrants may be exercised prior to said date during the term of these Warrants.

9. Notices. All notices, requests and other communications hereunder shall be in writing, shall be either (i) delivered by hand, (ii) sent by overnight courier, or (iii) sent by registered mail, postage prepaid, return receipt requested. In the case of notices from the Company to the Holder, they shall be sent to the address furnished to the Company in writing by the last Holder who shall have furnished an address to the Company in writing. All notices from the Holder to the Company shall be delivered to the Company at Mandalay Media, Inc., 2121 Avenue of the Stars, Suite 2550, Los Angeles, CA, 90067, Attn: President, or such other address as the Company shall so notify the Holder. All notices, requests and other communications hereunder shall be deemed to have been given (i) by hand, at the time of the delivery thereof to the receiving party at the address of such party described above, (ii) if sent by overnight courier, on the next business day following the day such notices is delivered to the courier service, or (iii) if sent by registered mail, on the fifth business day following the day such mailing is made.

10. Amendment, Modification and Waiver. This Warrant and any provision hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the Company and the then current Holder, and such change, waiver, discharge or termination shall be binding on all future Holders.

11. Headings. The headings in this Warrant are for convenience of reference only and shall in no way modify or affect the meaning or construction of any of the terms or provisions of this Warrant.

12. Governing Law. This Warrant will be governed by and construed in accordance with and governed by the law of the State of Delaware, without giving effect to the conflict of law principles thereof.

[SIGNATURE PAGE FOLLOWS]

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

MANDALAY MEDIA, INC.

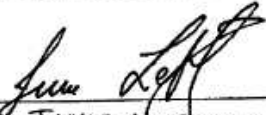
By: 
Name: JAMES LEFKOWITZ
Title: PRESIDENT

EXHIBIT A

PURCHASE FORM

To: MANDALAY MEDIA, INC.

The undersigned pursuant to the provisions set forth in the attached Warrant (No. W-____), hereby irrevocably elects to purchase ____ shares of Common Stock, par value \$0.0001 per share (the "Common Stock") of MANDALAY MEDIA, INC., covered by such Warrant and herewith makes payment of \$_____, representing the full purchase price for such shares at the price per share provided for in such Warrant.

The Common Stock for which the Warrant may be exercised or converted shall be known herein as the "Warrant Stock."

The undersigned is aware that the Warrant Stock has not been registered under the Securities Act of 1933, as amended (the "Securities Act") or any state securities laws. The undersigned understands that reliance by the Company on exemptions under the Securities Act is predicated in part upon the truth and accuracy of the statements of the undersigned in this Purchase Form.

The undersigned represents and warrants that (1) it has been furnished with all information which it deems necessary to evaluate the merits and risks of the purchase of the Warrant Stock, (2) it has had the opportunity to ask questions concerning the Warrant Stock and the Company and all questions posed have been answered to its satisfaction, (3) it has been given the opportunity to obtain any additional information it deems necessary to verify the accuracy of any information obtained concerning the Warrant Stock and the Company and (4) it has such knowledge and experience in financial and business matters that it is able to evaluate the merits and risks of purchasing the Warrant Stock and to make an informed investment decision relating thereto.

The undersigned hereby represents and warrant that it is purchasing the Warrant Stock for its own account for investment and not with a view to the sale or distribution of all or any part of the Warrant Stock.

The undersigned understands that because the Warrant Stock has not been registered under the Securities Act, it must continue to bear the economic risk of the investment for an indefinite period of time and the Warrant Stock cannot be sold unless it is subsequently registered under applicable federal and state securities laws or an exemption from such registration is available.

The undersigned agrees that it will in no event sell or distribute or otherwise dispose of all or any part of the Warrant Stock unless (1) there is an effective registration statement under the Securities Act and applicable state securities laws covering any such transaction involving the Warrant Stock, or (2) the Company receives an opinion satisfactory to the Company of the undersigned's legal counsel stating that such transaction is exempt from registration. The

undersigned consents to the placing of a legend on its certificate for the Warrant Stock stating that the Warrant Stock has not been registered and setting forth the restriction on transfer contemplated hereby and to the placing of a stop transfer order on the books of the Company and with any transfer agents against the Warrant Stock until the Warrant Stock may be legally resold or distributed without restriction.

The undersigned has considered the federal and state income tax implications of the exercise of the Warrant and the purchase and subsequent sale of the Warrant Stock.

Dated: _____

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "**Agreement**") is made and entered into as of September 23, 2009, by and between Mandalay Media, Inc., a Delaware corporation (the "**Company**"), and Vivid Entertainment, LLC (the "**Investor**").

This Agreement is made in connection with the issuance of that certain Warrant, dated as of the date hereof, by the Company to the Investor (the "**Warrant**").

The Company and the Investor hereby agree as follows:

1. **Definitions.** Capitalized terms used and not otherwise defined herein that are defined in the Warrant shall have the meanings given such terms in the Warrant. As used in this Agreement, the following terms shall have the respective meanings set forth in this Section 1:

"**Business Day**" means any day except Saturday, Sunday and any day which shall be a federal legal holiday or a day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close.

"**Commission**" means the United States Securities and Exchange Commission.

"**Common Stock**" means the Common Stock, par value \$0.0001 per share, of the Company.

"**Effective Date**" means the date that the Registration Statement is first declared effective by the Commission.

"**Effectiveness Date**" means the 90th calendar day following the date on which the Warrant is exercised such that one or more Holders hold the Minimum Shares.

"**Effectiveness Period**" shall have the meaning set forth in Section 2(c).

"**Exchange Act**" means the Securities Exchange Act of 1934, as amended.

"**Exercise Date**" shall have the meaning set forth in Section 2(a).

"**Filing Date**" means the 30th calendar day following the date on which the Warrant is exercised in full.

"**Holder**" or "**Holders**" means the holder or holders, as the case may be, from time to time of Registrable Securities.

"**Indemnified Party**" shall have the meaning set forth in Section 5(c).

"**Indemnifying Party**" shall have the meaning set forth in Section 5(c).

"**Losses**" shall have the meaning set forth in Section 5(a).

"Minimum Shares" shall mean 600,000 shares of Common Stock, as adjusted for stock splits, recapitalizations or the like with respect to such shares of Common Stock after the date hereof.

"Proceeding" means an action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened.

"Prospectus" means the prospectus included in a Registration Statement (including, without limitation, a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated under the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by the Registration Statement, and all other amendments and supplements to the Prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such Prospectus.

"Registrable Securities" means the Warrant Shares (and any additional securities issued or issuable in connection with a stock dividend or stock split thereof or in connection with any recapitalization, merger, consolidation or reorganization).

"Registration Statement" means the initial registration statement required to be filed in accordance with Section 2(a) and any additional registration statement(s) required to be filed hereunder, including (in each case) the Prospectus, amendments and supplements to such registration statements or Prospectus, including pre- and post-effective amendments, all exhibits thereto, and all material incorporated by reference or deemed to be incorporated by reference in such registration statements.

"Rule 144" means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"Rule 415" means Rule 415 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"Rule 424" means Rule 424 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"Securities Act" means the Securities Act of 1933, as amended.

"Trading Day" means (i) a day on which the Common Stock is traded on a Trading Market, or (ii) if the Common Stock is not listed on a Trading Market, a day on which the Common Stock is traded in the over-the-counter market and is quoted in the over-the-counter market as reported by the National Quotation Bureau Incorporated (or any similar organization or agency succeeding to its functions of reporting prices); provided, that in the event that the

Common Stock is not listed or quoted as set forth in (i) or (ii) hereof, then Trading Day shall mean a Business Day.

"Trading Market" means whichever of the NYSE, the NYSE Amex, the NASDAQ Stock Market or the OTC Bulletin Board on which the Common Stock is listed or quoted for trading on the date in question.

"Warrant Shares" means the shares of Common Stock issued or issuable upon exercise of the Warrant.

2. Registration.

(a) As promptly as possible after the exercise of the Warrant by the Investor (and/or its permitted transferees thereunder) which results in a Holder or Holders holding at least the Minimum Shares (the "Exercise Date"), and in any event on or prior to the Filing Date, the Company shall prepare and file with the Commission a Registration Statement covering the resale of all Registrable Securities for an offering to be made on a continuous basis pursuant to Rule 415. The Registration Statement shall be on Form S-3 (except if the Company is not then eligible to register for resale the Registrable Securities on Form S-3, in which case such registration shall be on another appropriate form in accordance with the Securities Act and the Exchange Act).

(b) The Investor agrees to furnish to the Company a completed selling stockholder questionnaire in the form requested by the Company (the "Selling Stockholder Questionnaire") not more than five (5) Trading Days following the date that the Selling Stockholder Questionnaire is provided by the Company to the Investor. At least five (5) Trading Days prior to the first anticipated filing date of a Registration Statement for any registration under this Agreement, the Company will notify the Investor of the information the Company requires from the Investor other than the information contained in the Selling Stockholder Questionnaire, if any, which shall be completed and delivered to the Company promptly upon request and, in any event, within two (2) Trading Days prior to the applicable anticipated filing date. The Investor further agrees that it shall not be entitled to be named as a selling security holder in the Registration Statement or use the Prospectus for offers and resales of Registrable Securities at any time, unless such Investor has returned to the Company a completed and signed Selling Stockholder Questionnaire and a response to any reasonable requests for further information as described in the previous sentence. If the Investor returns a Selling Stockholder Questionnaire or a request for further information, in either case, after its respective deadline, the Company shall use its commercially reasonable efforts at the expense of the Investor to take such actions as are required to name the Investor as a selling security holder in the Registration Statement or any pre-effective or post-effective amendment thereto and to include (to the extent not theretofore included) in the Registration Statement the Registrable Securities identified in such late Selling Stockholder Questionnaire or request for further information. The Investor acknowledges and agrees that the information in the Selling Stockholder Questionnaire or request for further information as described in this Section 2(b) will be used by the Company in the preparation of the Registration Statement and hereby consents to the inclusion of such information in the Registration Statement.

(c) The Company shall use its commercially reasonable efforts to cause the Registration Statement to be declared effective by the Commission as promptly as possible after the filing thereof, but in any event prior to the Effectiveness Date, and shall use its commercially reasonable efforts to keep the Registration Statement continuously effective under the Securities Act until the earlier of the date that all Warrant Shares covered by such Registration Statement have been sold or that all Warrant Shares that would otherwise be covered by such Registration Statement can be resold by the Investor without restriction (including volume limitations and current public information requirements) pursuant to Rule 144 of the Securities Act (the "Effectiveness Period").

(d) Notwithstanding anything in this Agreement to the contrary, after sixty (60) consecutive Trading Days of continuous effectiveness of the initial Registration Statement filed and declared effective pursuant to this Agreement, the Company may, by written notice to the Investor, suspend sales under a Registration Statement after the Effective Date thereof and/or require that the Investor immediately cease the sale of shares of Common Stock pursuant thereto and/or defer the filing of any subsequent Registration Statement if the Company is engaged in a material merger, acquisition or sale and its Board of Directors determines in good faith, by appropriate resolutions, that, as a result of such activity, (A) it would be materially detrimental to the Company (other than as relating solely to the price of the Common Stock) to maintain a Registration Statement at such time or (B) it is in the best interests of the Company (other than as relating solely to the price of the Common Stock) to suspend sales under such registration at such time. Upon receipt of such notice, the Investor shall immediately discontinue any sales of Registrable Securities pursuant to such registration until the Investor is advised in writing by the Company that the current Prospectus or amended Prospectus, as applicable, may be used. In no event, however, shall this right be exercised to suspend sales beyond the period during which (in the good faith determination of the Company's Board of Directors) the failure to require such suspension would be materially detrimental to the Company. The Company's rights under this Section 2(d) may be exercised for a period of no more than 20 Trading Days at a time and not more than once in any twelve-month period. Immediately after the end of any suspension period under this Section 2(d), the Company shall take all necessary actions (including filing any required supplemental prospectus) to restore the effectiveness of the applicable Registration Statement and the ability of the Investor to publicly resell their Registrable Securities pursuant to such effective Registration Statement.

(e) The Company and the Investor agree and acknowledge that there may be other individuals or entities to whom piggy-back registration rights have been or will be in the future granted by the Company who are entitled to have certain shares of capital stock of the Company issued or underlying securities be included in any Registration Statement filed hereunder. Notwithstanding any other provision of this Agreement, if any publicly-available written or oral guidance of the Commission staff, or any comments, requirements or requests of the Commission staff and the Securities Act (the "SEC Guidance") sets forth a limitation on the number of Registrable Securities permitted to be registered on a particular Registration Statement (and notwithstanding that the Company used diligent efforts to advocate with the Commission for the registration of all or a greater portion of Registrable Securities), the Company will reduce, on a pro rata basis, all Registrable Securities and any other securities included in the Registration Statement. If for any reason the Commission does not permit all of the Registrable Securities to be included in the Registration Statement filed pursuant to this

Section 2, or for any other reason any Registrable Securities are not permitted by the Commission to be included in a Registration Statement filed under this Agreement, then the Company shall prepare and file as soon as possible after the date on which the Commission shall indicate as being the first date or time that such filing may be made, an additional Registration Statement covering the resale of all Registrable Securities not already covered by an existing and effective Registration Statement for an offering to be made on a continuous basis pursuant to Rule 415. Notwithstanding anything else contained in this Section 2 relating to any type of registration right, the Company shall only have the obligations set forth in the immediately preceding sentence until the earlier to occur of (i) the date upon which all Registrable Securities have been registered pursuant to an effective Registration Statement, and (ii) the date upon which all Registrable Securities may be resold without restriction (including volume limitations and current public information requirements) pursuant to Rule 144 of the Securities Act.

(f) The Holders shall have unlimited piggyback registration rights as described in this Section 2(f). The Holder's piggyback registration rights shall be with respect to public offerings of the Company and registrations initiated by third parties and shall be as follows:

(i) Procedure: The Company shall notify all Holders of Registrable Securities in writing at least thirty (30) days prior to filing any registration statement under the Securities Act for purposes of effecting a public offering of securities of the Company (including, but not limited to, registration statements relating to secondary offerings of securities of the Company and registration statements effected by the Company for stockholders other than the Investor, but excluding registration statements relating to any employee benefit plan or a corporate reorganization or other transaction covered by Rule 145 promulgated under the Securities Act, or a registration on any registration form which does not permit secondary sales or does not include substantially the same information as would be required to be included in a registration statement covering the sale of Registrable Securities) and will afford each such Holder an opportunity to include in such registration statement all or any part of the Registrable Securities then held by such Holder. Each Holder desiring to include in any such registration statement all or any part of the Registrable Securities held by such Holder shall, within twenty (20) days after receipt of the above-described notice from the Company, so notify the Company in writing, and in such notice shall inform the Company of the number of Registrable Securities such Holder wishes to include in such registration statement. If the Holder decides not to include all of its Registrable Securities in any registration statement thereafter filed by the Company, such Holder shall nevertheless continue to have the right to include any Registrable Securities in any subsequent registration statement or registration statements as may be filed by the Company with respect to offerings of its securities, all upon the terms and conditions set forth herein.

(ii) Underwriting: If a registration statement under which the Company gives notice under this Section 2(f) is for an underwritten offering, then the Company shall so advise the Holder of Registrable Securities. In such event, the right of any such Holder's Registrable Securities to be included in a registration pursuant to this Section 2(f) shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. If the Holder proposes to distribute its Registrable Securities through such underwriting, the Holder shall enter into an underwriting agreement in customary form with the managing underwriter or underwriter(s) selected for such underwriting. Notwithstanding any other provision of this

Agreement, if the managing underwriter determine(s) in good faith that marketing factors require a limitation of the number of shares to be underwritten, then the managing underwriter(s) may exclude shares (including Registrable Securities) from the registration and the underwriting, and the number of shares that may be included in the registration and the underwriting shall be allocated, *first*, to the Company and *second* to Holders requesting inclusion of their Registrable Securities in such registration statement on a pro rata basis with other such entities or individuals that may be included in such registration statement based on the number of such Registrable Securities each such entity or person, including each Holder, has requested to be included in the registration statement. If Holder disapproves of the terms of any such underwriting, the Holder may elect to withdraw therefrom by written notice delivered at least ten (10) days prior to the effective date of the registration statement. Any Registrable Securities excluded or withdrawn from such underwriting shall be excluded and withdrawn from the registration.

(g) Limitations on Registration Rights. The Company has not granted, and shall not grant, any registration rights which conflict with the rights granted to the Holders hereunder.

3. Registration Procedures

In connection with the Company's registration obligations under Section 2 hereunder, the Company shall:

(a) Prepare and file with the Commission such amendments, including post-effective amendments, to each Registration Statement and the Prospectus used in connection therewith as may be necessary to keep the Registration Statement continuously effective, as to the applicable Registrable Securities for the Effectiveness Period and prepare and file with the Commission such additional Registration Statements in order to register for resale under the Securities Act all of the Registrable Securities; (ii) cause the related Prospectus to be amended or supplemented by any required Prospectus supplement, and as so supplemented or amended to be filed pursuant to Rule 424; (iii) respond as promptly as reasonably possible (except to the extent that the Company reasonably requires additional time to respond to accounting comments), to any comments received from the Commission with respect to the Registration Statement or any amendment thereto; and (iv) comply in all material respects with the provisions of the Securities Act and the Exchange Act with respect to the disposition of all Registrable Securities covered by the Registration Statement during the applicable period in accordance with the intended methods of disposition by the Investor thereof set forth in the Registration Statement as so amended or in such Prospectus as so supplemented.

(b) Notify the Investor as promptly as reasonably possible, and (if requested by the Investor confirm such notice in writing no later than two Trading Days thereafter, of any of the following events: (i) the Commission notifies the Company whether there will be a "review" of any Registration Statement; (ii) the Commission comments in writing on any Registration Statement; (iii) any Registration Statement or any post-effective amendment is declared effective; (iv) the Commission or any other Federal or state governmental authority requests any amendment or supplement to any Registration Statement or Prospectus or requests additional information related thereto; (v) the Commission issues any stop order suspending the effectiveness of any Registration Statement or initiates any Proceedings for that purpose; (vi) the

Company receives notice of any suspension of the qualification or exemption from qualification of any Registrable Securities for sale in any jurisdiction, or the initiation or threat of any Proceeding for such purpose; or (vii) the financial statements included in any Registration Statement become ineligible for inclusion therein or any Registration Statement or Prospectus or other document contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and (viii) the occurrence or existence of any pending corporate development with respect to the Company that the Company believes may be material and that, in the determination of the Company, makes it not in the best interest of the Company to allow continued availability of a Registration Statement or Prospectus, provided that, any and all of such information shall remain confidential to each Holder until such information otherwise becomes public, unless disclosure by a Holder is required by law; provided, further, that notwithstanding each Holder's agreement to keep such information confidential, each such Holder makes no acknowledgement that any such information is material, non-public information.

(c) Use its commercially reasonable efforts to avoid the issuance of or, if issued, obtain the withdrawal of (i) any order suspending the effectiveness of any Registration Statement, or (ii) any suspension of the qualification (or exemption from qualification) of any of the Registrable Securities for sale in any jurisdiction, as soon as possible.

(d) If requested by the Investor, provide the Investor without charge, at least one conformed copy of each Registration Statement and each amendment thereto, including financial statements and schedules, all documents incorporated or deemed to be incorporated therein by reference to the extent requested by such Person, and all exhibits to the extent requested by such Person (including those previously furnished or incorporated by reference) promptly after the filing of such documents with the Commission; provided, that any such item which is available on the EDGAR system (or successor thereto) need not be furnished in physical form.

(e) (i) In the time and manner as may be required by each Trading Market, prepare and file with such Trading Market an additional shares listing application covering all of the Registrable Securities; (ii) take all steps necessary to cause such shares of Common Stock to be approved for listing on each Trading Market as soon as possible thereafter; (iii) provide to the Investor evidence of such listing; and (iv) during the Effectiveness Period, maintain the listing of such shares of Common Stock on each such Trading Market, as applicable.

(f) Prior to any resale of Registrable Securities, use its reasonable efforts to register or qualify or cooperate with the selling Investor in connection with the registration or qualification (or exemption from such registration or qualification) of such Registrable Securities for resale under the securities or Blue Sky laws of such jurisdictions within the United States as the Investor requests in writing, to keep each such registration or qualification (or exemption therefrom) effective for so long as required, but not to exceed the duration of the Effectiveness Period, and to do any and all other acts or things reasonably necessary or advisable to enable the disposition in such jurisdictions of the Registrable Securities covered by a Registration Statement; provided, however, that the Company shall not be obligated to file any general consent to service of process or to qualify as a foreign corporation or as a dealer in securities in

any jurisdiction in which it is not so qualified or to subject itself to taxation in respect of doing business in any jurisdiction in which it is not otherwise so subject.

(g) Cooperate with the Investor to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be delivered to a transferee pursuant to a Registration Statement, which certificates shall be free, to the extent permitted by this Agreement and under law, of all restrictive legends, and to enable such certificates to be in such denominations and registered in such names as the Investor may reasonably request.

(h) Upon the occurrence of any event described in Section 3(b)(vii), as promptly as reasonably possible, prepare a supplement or amendment, including a post-effective amendment, to the Registration Statement or a supplement to the related Prospectus or any document incorporated or deemed to be incorporated therein by reference, and file any other required document so that, as thereafter delivered, neither the Registration Statement nor such Prospectus will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(i) Cooperate with any reasonable due diligence investigation undertaken by the Investor in connection with the sale of Registrable Securities, including, without limitation, by making available documents and information; provided that the Company will not deliver or make available to the Investor material, nonpublic information unless the Investor requests in advance in writing to receive material, nonpublic information and agrees to keep such information confidential.

(j) Comply with all rules and regulations of the Commission applicable to the registration of the Registrable Securities.

(k) It shall be a condition precedent to the obligations of the Company to complete the registration pursuant to this Agreement with respect to the Registrable Securities that the Investor furnish to the Company information regarding itself, the Registrable Securities and other shares of Common Stock held by it and the intended method of disposition of the Registrable Securities held by it as shall be reasonably required to effect the registration of such Registrable Securities and shall complete and execute such documents in connection with such registration as the Company may reasonably request.

(l) The Company shall comply with all applicable rules and regulations of the Commission under the Securities Act and the Exchange Act, including, without limitation, Rule 172 under the Securities Act, file any final Prospectus, including any supplement or amendment thereof, with the Commission pursuant to Rule 424 under the Securities Act, promptly inform the Investor in writing if, at any time during the Effectiveness Period, the Company does not satisfy the conditions specified in Rule 172 and, as a result thereof, the Investor is required to make available a Prospectus in connection with any disposition of Registrable Securities and take such other actions as may be reasonably necessary to facilitate the registration of the Registrable Securities hereunder.

4. Registration Expenses. The Company shall pay all fees and expenses incident to the performance of or compliance with this Agreement, whether or not any Registrable Securities are sold pursuant to a Registration Statement. The fees and expenses referred to in the foregoing sentence shall include, without limitation, (i) all registration and filing fees (including, without limitation, fees and expenses of the Company's counsel and independent registered public accountants) (A) with respect to filings made with the Commission, (B) with respect to filings required to be made with any Trading Market on which the Common Stock is then listed for trading, (C) in compliance with applicable state securities or Blue Sky laws reasonably agreed to by the Company in writing (including, without limitation, fees and disbursements of counsel for the Company in connection with Blue Sky qualifications or exemptions of the Registrable Securities) and (D) if not previously paid by the Company in connection with any documents or information required by FINRA Rule 5110 to be filed with FINRA, with respect to any filing that may be required to be made by any broker through which an Investor intends to make sales of Registrable Securities with FINRA pursuant to FINRA Rule 5110, so long as the broker is receiving no more than a customary brokerage commission in connection with such sale; (ii) printing expenses (including, without limitation, expenses of printing certificates for Registrable Securities); (iii) messenger, telephone and delivery expenses; (iv) fees and disbursements of counsel for the Company; and (v) Securities Act liability insurance if the Company so desires such insurance. In no event shall the Company be responsible for any broker or similar commissions of the Holders.

5. Indemnification.

(a) Indemnification by the Company. The Company shall, notwithstanding any termination of this Agreement, indemnify and hold harmless each Holder, the officers, directors, agents, investment advisors, partners, members and employees of each of them, each Person who controls any such Holder (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) and the officers, directors, agents and employees of each such controlling Person, to the fullest extent permitted by applicable law, from and against any and all losses, claims, damages, liabilities, costs (including, without limitation, reasonable costs of preparation and reasonable attorneys' fees) and expenses (collectively, "Losses"), as incurred, arising out of or relating to any untrue or alleged untrue statement of a material fact contained in any Registration Statement, any Prospectus or any form of prospectus or in any amendment or supplement thereto or in any preliminary prospectus, or arising out of or relating to any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of any Prospectus or form of prospectus or supplement thereto, in light of the circumstances under which they were made) not misleading, except to the extent, but only to the extent, that (1) such untrue statements or omissions are based solely upon information regarding such Holder furnished in writing to the Company by such Holder expressly for use therein, or to the extent that such information relates to such Holder or such Holder's proposed method of distribution of Registrable Securities and was reviewed and expressly approved in writing by such Holder expressly for use in the Registration Statement, such Prospectus or such form of Prospectus or in any amendment or supplement thereto or (2) with respect to any Prospectus, if the untrue statement or omission of material fact contained in such prospectus was corrected on a timely basis in the Prospectus, as then amended or supplemented, if such corrected Prospectus was timely made available by the Company to the Investor, and the

Investor seeking indemnity hereunder was advised in writing not to use the incorrect prospectus prior to the use giving rise to Losses.

(b) Indemnification by Holders. Each Holder shall, severally and not jointly, indemnify and hold harmless the Company, its directors, officers, agents and employees, each Person who controls the Company (within the meaning of Section 15 of the Securities Act and Section 20 of the Exchange Act), and the directors, officers, agents or employees of such controlling Persons, to the fullest extent permitted by applicable law, from and against all Losses, as incurred, arising solely out of or based solely upon: (x) such Holder's failure to comply with the prospectus delivery requirements of the Securities Act or (y) any untrue statement of a material fact contained in any Registration Statement, any Prospectus, or any form of prospectus, or in any amendment or supplement thereto, or arising solely out of or based solely upon any omission of a material fact required to be stated therein or necessary to make the statements therein not misleading to the extent, but only to the extent that, (1) such untrue statements or omissions are based solely upon information regarding the Investor furnished to the Company by the Investor in writing expressly for use therein, or to the extent that such information relates to the Investor or such Investor's proposed method of distribution of Registrable Securities and was reviewed and expressly approved in writing by such Investor expressly for use in the Registration Statement (it being understood that the information provided by the Investor to the Company in the Selling Stockholder Questionnaire and other information provided by the Investor to the Company constitutes information reviewed and expressly approved by such Investor in writing expressly for use in the Registration Statement), such Prospectus or such form of prospectus or in any amendment or supplement thereto. In no event shall the liability of any selling Holder hereunder be greater in amount than the dollar amount of the net proceeds received by such Holder upon the sale of the Registrable Securities giving rise to such indemnification obligation.

(c) Conduct of Indemnification Proceedings. If any Proceeding shall be brought or asserted against any Person entitled to indemnity hereunder (an "Indemnified Party"), such Indemnified Party shall promptly notify the Person from whom indemnity is sought (the "Indemnifying Party") in writing, and the Indemnifying Party shall assume the defense thereof, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of all fees and expenses incurred in connection with defense thereof; provided, that the failure of any Indemnified Party to give such notice shall not relieve the Indemnifying Party of its obligations or liabilities pursuant to this Agreement, except (and only) to the extent that it shall be finally determined by a court of competent jurisdiction (which determination is not subject to appeal or further review) that such failure shall have proximately and materially adversely prejudiced the Indemnifying Party.

An Indemnified Party shall have the right to employ separate counsel in any such Proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party or Parties unless: (1) the Indemnifying Party has agreed in writing to pay such fees and expenses; (2) the Indemnifying Party shall have failed promptly to assume the defense of such Proceeding and to employ counsel reasonably satisfactory to such Indemnified Party in any such Proceeding; or (3) the named parties to any such Proceeding (including any impleaded parties) include both such Indemnified Party and the Indemnifying Party, and such Indemnified Party shall have been advised by counsel that a

conflict of interest is likely to exist if the same counsel were to represent such Indemnified Party and the Indemnifying Party (in which case, if such Indemnified Party notifies the Indemnifying Party in writing that it elects to employ separate counsel at the expense of the Indemnifying Party, the Indemnifying Party shall not have the right to assume the defense thereof and such counsel shall be at the expense of the Indemnifying Party). The Indemnifying Party shall not be liable for any settlement of any such Proceeding effected without its written consent, which consent shall not be unreasonably withheld. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending Proceeding in respect of which any Indemnified Party is a party, unless such settlement includes an unconditional release of such Indemnified Party from all liability on claims that are the subject matter of such Proceeding.

All fees and expenses of the Indemnified Party (including reasonable fees and expenses to the extent incurred in connection with investigating or preparing to defend such Proceeding in a manner not inconsistent with this Section) shall be paid to the Indemnified Party, as incurred, within ten (10) Trading Days of written notice thereof to the Indemnifying Party (regardless of whether it is ultimately determined that an Indemnified Party is not entitled to indemnification hereunder; provided, that the Indemnifying Party may require such Indemnified Party to undertake to reimburse all such fees and expenses to the extent it is finally judicially determined that such Indemnified Party is not entitled to indemnification hereunder).

(d) Contribution. If a claim for indemnification under Section 5(a) or 5(b) is unavailable to an Indemnified Party (by reason of public policy or otherwise), then each Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such Losses, in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and Indemnified Party in connection with the actions, statements or omissions that resulted in such Losses as well as any other relevant equitable considerations. The relative fault of such Indemnifying Party and Indemnified Party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission of a material fact, has been taken or made by, or relates to information supplied by, such Indemnifying Party or Indemnified Party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action, statement or omission. The amount paid or payable by a party as a result of any Losses shall be deemed to include, subject to the limitations set forth in Section 5(c), any reasonable attorneys' or other reasonable fees or expenses incurred by such party in connection with any Proceeding to the extent such party would have been indemnified for such fees or expenses if the indemnification provided for in this Section was available to such party in accordance with its terms.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 5(d) were determined by pro rata allocation or by any other method of allocation that does not take into account the equitable considerations referred to in the immediately preceding paragraph. Notwithstanding the provisions of this Section 5(d), no Holder shall be required to contribute, in the aggregate, any amount in excess of the amount by which the proceeds actually received by such Holder from the sale of the Registrable Securities subject to the Proceeding exceeds the amount of any damages that such Holder has otherwise

been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission.

The indemnity and contribution agreements contained in this Section are in addition to any liability that the Indemnifying Parties may have to the Indemnified Parties.

6. Miscellaneous

(a) Remedies. In the event of a breach by the Company or by a Holder, of any of their obligations under this Agreement, each Holder or the Company, as the case may be, in addition to being entitled to exercise all rights granted by law and under this Agreement, including recovery of damages, will be entitled to specific performance of its rights under this Agreement. The Company and each Holder agree that monetary damages would not provide adequate compensation for any losses incurred by reason of a breach by it of any of the provisions of this Agreement and hereby further agrees that, in the event of any action for specific performance in respect of such breach, it shall waive the defense that a remedy at law would be adequate.

(b) Compliance. Each Holder covenants and agrees that it will comply with any prospectus delivery requirements of the Securities Act as applicable to it in connection with sales of Registrable Securities pursuant to the Registration Statement.

(c) Amendments and Waivers. No provision of this Agreement may be waived or amended except in a written instrument signed by the Company and the Holders of no less than a majority of the outstanding Registrable Securities. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of either party to exercise any right hereunder in any manner impair the exercise of any such right.

(d) Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in this Section prior to 6:30 p.m. (New York City time) on a Trading Day, (ii) the Trading Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in this Agreement later than 6:30 p.m. (New York City time) on any date and earlier than 11:59 p.m. (New York City time) on such date, (iii) the Trading Day following the date of mailing, if sent by nationally recognized overnight courier service, or (iv) upon actual receipt by the party to whom such notice is required to be given. The address for such notices and communications shall be as follows:

If to the Company:

With a copy to: Mintz, Levin, Cohn, Ferris, Glovsky & Popeo P.C.
666 Third Avenue
New York, NY 10017

Facsimile No.: 212-983-3115
Attn: Kenneth Koch, Esq.

If to the Investor: To the address set forth under such Investor's name on the signature pages hereto.

If to any other Person who is then the registered Holder:

To the address of such Holder as it appears in the stock transfer books of the Company

or such other address as may be designated in writing hereafter, in the same manner, by such Person.

(e) Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of each of the parties and shall inure to the benefit of each Holder. The Company may not assign its rights or obligations hereunder without the prior written consent of each Holder. Each Holder may assign its respective rights hereunder in the manner and to the Persons as permitted under the Warrant.

(f) Execution and Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and, all of which taken together shall constitute one and the same Agreement. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature were the original thereof.

(g) Governing Law; Jurisdiction; Venue. All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all Proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement (whether brought against a party hereto or its respective affiliates, employees or agents) may be commenced non-exclusively in the state and federal courts sitting in the City of New York, Borough of Manhattan, (the "New York Courts"). Each party hereto hereby irrevocably submits to the non-exclusive jurisdiction of the New York Courts for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any Proceeding, any claim that it is not personally subject to the jurisdiction of any New York Court, or that such Proceeding has been commenced in an improper or inconvenient forum. Each party hereto hereby irrevocably waives personal service of process and consents to process being served in any such Proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law.

Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any Proceeding arising out of or relating to this Agreement or the transactions contemplated hereby. If either party shall commence a Proceeding to enforce any provisions of this Agreement, then the prevailing party in such Proceeding shall be reimbursed by the other party for its attorney's fees and other costs and expenses incurred with the investigation, preparation and prosecution of such Proceeding.

(h) Cumulative Remedies. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

(i) Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

(j) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

MANDALAY MEDIA, INC.

By: [Signature]
Name: JAMES GERSHWIN
Title: PRESIDENT

VIVID ENTERTAINMENT, LLC

By: [Signature]
Name: William Asher
Title: CEO
Address for Notice: 3599 Calvernia Blvd West
Suite 400
Los Angeles CA 90068
Facsimile No.: (323) 436-2006
Attn: William Asher

With a copy to:

Lipsitz Green Scime Cambria, LLP
42 Delaware Avenue
Suite 120
Buffalo, New York 14202-3924
(716) 849-1333 Ext. 390

Facsimile No.: (716) 849-1315
Attn: Michael Weremblewski, Esq.

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

I, Ray Schaaf, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Mandalay Media, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 16, 2009

/s/ Ray Schaaf

Ray Schaaf

President

(Principal Executive Officer)

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

I, Russell Burke, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Mandalay Media, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 16, 2009

/s/ Russell Burke

Russell Burke

Chief Financial Officer and Secretary

(Principal Financial Officer)

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

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

The Quarterly Report on Form 10-Q for the period ended September 30, 2009 of the Company (the "Form 10-Q") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 16, 2009

/s/ Ray Schaaf

Ray Schaaf

President

(Principal Executive Officer)

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

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

The Quarterly Report on Form 10-Q for the period ended September 30, 2009 of the Company (the "Form 10-Q") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 16, 2009

/s/ Russell Burke

Russell Burke
Chief Financial Officer and Secretary
(Principal Financial Officer)
