

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

FORM 8-K/A

(Amendment No. 1)

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

Date of report (Date of earliest event reported) **March 5, 2015**

Digital Turbine, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation)

001-35958

(Commission File Number)

22-2267658

(IRS Employer Identification No.)

1300 Guadalupe Street Suite # 302, Austin TX

(Address of Principal Executive Offices)

78701

(Zip Code)

(512) 387-7717

(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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EXPLANATORY NOTE

Digital Turbine, Inc. (the “Company”) is filing this Amendment No. 1 (this “Amendment”) to its Current Report on Form 8-K, originally filed with the Securities and Exchange Commission on March 11, 2015 (the “Original 8-K”) reporting the consummation of the Company’s acquisition (the “acquisition”) of Appia, Inc. (“Appia”). This Amendment is being filed for the purpose of including the historical audited and unaudited financial statements of Appia and the pro forma financial information required by Item 9.01 of Form 8-K, which financial statements and unaudited pro forma information are filed as exhibits hereto. Except for the foregoing, this Amendment effects no other changes to the Original 8-K.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired.

The audited financial statements of Appia as of and for the years ended December 31, 2013 and December 31, 2012 and the unaudited financial statements of Appia as of and for the nine months ended September 30, 2014, are attached as Exhibits 99.3 and 99.4 to this Amendment, respectively, and are incorporated herein by reference.

(b) Pro Forma Financial Information.

The unaudited pro forma financial information of the Company and Appia as of September 30, 2014 and for the year ended March 31, 2014 and the six months ended September 30, 2014, in each case reflecting, on a pro forma basis, the transaction between the Company and Appia, are attached as Exhibit 99.5 to this Amendment and are incorporated herein by reference.

(d) Exhibits

Exhibit No.	Description
3.1*	Amendment to Bylaws, as amended, dated March 6, 2015.*
4.1*	Common Stock Purchase Warrant dated March 6, 2015 issued to North Atlantic SBIC IV, L.P.*
10.1*	Securities Purchase Agreement dated as of March 6, 2015 between the Registrant and North Atlantic SBIC IV, L.P.
10.2*	Unconditional Secured Guaranty and Pledge Agreement dated as of March 6, 2015 between the Registrant and North Atlantic SBIC IV, L.P.
10.3*	Unconditional Secured Guaranty and Pledge Agreement dated as of March 6, 2015 between the Registrant and Silicon Valley Bank
23.1	Consent of Grant Thornton LLP (Appia)
99.1*	Press Release issued on March 5, 2015
99.2*	Press Release issued on March 9, 2015
99.3	Audited financial statements of Appia, Inc. as of and for the years ended December 31, 2013 and December 31, 2012
99.4	Unaudited financial statements of Appia, Inc. as of and for the nine months ended September 30, 2014
99.5	Unaudited pro forma financial information as of September 30, 2014 and for the year ended March 31, 2014 and the six months ended September 30, 2014

* Previously filed.

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.

Dated: March 19, 2015

Digital Turbine, Inc.

By: /s/ Andrew Schleimer

Andrew Schleimer

Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

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CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our report dated June 26, 2014, with respect to the consolidated financial statements of Appia, Inc. as of December 31, 2013 and 2012 and for the years then ended. We hereby consent to the incorporation by reference of said report in the Registration Statements of Digital Turbine, Inc. on Form S-8 (File No. 333-193022) and on Form S-3 (File No. 333-190943).

/s/ GRANT THORNTON LLP

Raleigh, North Carolina
March 18, 2015

Financial Statements and Report of
Independent Certified Public Accountants

Appia, Inc.

For the years ended December 2013 and 2012

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Appia, Inc.:

We have audited the accompanying consolidated financial statements of **Appia, Inc.** (a Delaware company), and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive loss, changes in stockholders' deficit, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Appia, Inc. and subsidiary as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

Raleigh, North Carolina
June 26, 2014

Consolidated balance sheets

(in thousands, except share data and per share data)

December 31	2013	2012
	\$	\$
Assets		
Current assets:		
Cash and cash equivalents	7,791	3,091
Accounts receivable, net	5,718	4,073
Prepaid expenses and other current assets	565	300
Total current assets	14,074	7,464
Property and equipment, net	1,432	392
Other assets	19	14
Total assets	15,525	7,870
Liabilities, redeemable convertible preferred stock and stockholders' deficit		
Current liabilities:		
Accounts payable	2,732	2,491
Accrued expenses and other current liabilities	2,919	2,754
Short-term capital lease	-	55
Short-term debt	600	501
Deferred revenue	76	359
Total current liabilities	6,327	6,160
Warrant liability	1,109	-
Long-term debt	7,816	910
Total liabilities	15,252	7,070
Commitments (Note 9)		
Redeemable convertible preferred stock, Series A, 3,275,000 shares authorized; 3,275,000 issued and outstanding as of December 31, 2013 and 2012, respectively	4,737	4,469
Redeemable convertible preferred stock, Series B, 2,569,169 shares authorized; 2,569,169 issued and outstanding as of December 31, 2013 and 2012, respectively	19,207	17,986
Redeemable convertible preferred stock, Series C, 2,612,818 shares authorized; 1,348,814 issued and outstanding at December 31, 2013 and 2012, respectively	12,184	11,367
Redeemable convertible preferred stock, Series D, 89,127 shares authorized; 89,127 issued and outstanding at December 31, 2013 and 2012, respectively	1,601	1,468
Total redeemable convertible preferred stock	37,729	35,290
Stockholders' deficit:		
Series FF preferred stock, par value \$0.001; 2,991,500 shares authorized; 2,991,500 shares issued and outstanding as of December 31, 2013 and 2012	3	3
Common stock, par value \$0.001; 17,625,600 shares authorized; 3,909,932 and 3,584,808 shares issued and outstanding as of December 31, 2013 and 2012, respectively	3	3
Accumulated other comprehensive income	-	59
Accumulated deficit	(37,462)	(34,555)
Total stockholders' deficit	(37,456)	(34,490)
Total liabilities, redeemable convertible preferred stock and stockholders' deficit	15,525	7,870

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

Consolidated statements of operations and comprehensive loss

(in thousands)

For the years ended December 31	2013	2012
	\$	\$
Revenues	46,860	10,517
Cost of revenues	33,863	7,086
Gross profit	12,997	3,431
Operating expenses:		
Sales and marketing	3,334	2,245
Technology	2,797	2,531
General and administrative	6,647	3,669
Total operating expenses	12,778	8,445
Income (loss) from operations	219	(5,014)
Other (expense):		
Interest expense	(745)	(65)
Loss before income taxes	(526)	(5,079)
Income tax (benefit)	-	-
Net loss	(526)	(5,079)
Other comprehensive loss:		
Foreign currency translation adjustments	(59)	(30)
Other comprehensive loss	(59)	(30)
Comprehensive loss	(585)	(5,109)

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

Consolidated statements of changes in stockholders' deficit

(in thousands, except share data)

	Series FF Preferred stock		Common stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Deficit
	Shares	Value	Shares	Value				
		\$		\$	\$	\$	\$	\$
Balance as of December 31, 2011	2,991,500	3	3,618,277	3	-	(27,154)	89	(27,059)
Issuance of common stock	-	-	5,906	-	1	-	-	1
Forfeiture of restricted stock shares	-	-	(39,375)	-	-	-	-	-
Stock-based compensation expense	-	-	-	-	28	-	-	28
Accretion of Series A preferred stock	-	-	-	-	(29)	(249)	-	(278)
Accretion of Series B preferred stock	-	-	-	-	-	(1,221)	-	(1,221)
Accretion of Series C preferred stock	-	-	-	-	-	(817)	-	(817)
Accretion of Series D preferred stock	-	-	-	-	-	(35)	-	(35)
Foreign currency translation adjustment	-	-	-	-	-	-	(30)	(30)
Net loss for the period	-	-	-	-	-	(5,079)	-	(5,079)
Balance as of December 31, 2012	2,991,500	3	3,584,808	3	-	(34,555)	59	(34,490)
Issuance of common stock	-	-	75,749	-	20	-	-	20
Issuance of restricted stock	-	-	280,000	-	-	-	-	-
Forfeiture of restricted stock shares	-	-	(30,625)	-	-	-	-	-
Stock-based compensation expense	-	-	-	-	40	-	-	40
Accretion of Series A preferred stock	-	-	-	-	(60)	(209)	-	(269)
Accretion of Series B preferred stock	-	-	-	-	-	(1,222)	-	(1,222)
Accretion of Series C preferred stock	-	-	-	-	-	(817)	-	(817)
Accretion of Series D preferred stock	-	-	-	-	-	(133)	-	(133)
Foreign currency translation adjustment	-	-	-	-	-	-	(59)	(59)
Net loss for the period	-	-	-	-	-	(526)	-	(526)
Balance as of December 31, 2013	<u>2,991,500</u>	<u>3</u>	<u>3,909,932</u>	<u>3</u>	<u>-</u>	<u>(37,462)</u>	<u>-</u>	<u>(37,456)</u>

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

Consolidated statements of cash flows

(in thousands)

For the years ended December 31	2013	2012
	\$	\$
Cash flows from operating activities:		
Net loss	(526)	(5,079)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	366	206
Amortization of deferred loan costs	11	17
Stock-based compensation expense	40	28
Amortization of debt discount	89	
Change in fair market value of warrant liability	85	
Changes in operating assets and liabilities:		
Accounts receivable	(1,733)	(3,728)
Prepaid expenses and other current assets	(281)	(154)
Accounts payable	241	1,433
Deferred revenue	(283)	248
Accrued expenses and other current liabilities	192	644
Net cash flows used in operating activities	<u>(1,799)</u>	<u>(6,385)</u>
Cash flows from investing activities:		
Internally developed software	(1,162)	
Purchases of property and equipment	(244)	(137)
Net cash flows used in investing activities	<u>(1,406)</u>	<u>(137)</u>
Cash flows from financing activities:		
Issuance of redeemable preferred stock, net of issuance costs	-	1,433
Loan proceeds	8,200	1,300
Stock option exercise	20	1
Principal payments on capital leases	(55)	(105)
Payments on term loan	(261)	(667)
Net cash flows provided by financing activities	<u>7,904</u>	<u>1,962</u>
Effect of exchange rate changes on cash and cash equivalents	1	(2)
Net increase (decrease) in cash and cash equivalents	4,700	(4,562)
Cash and cash equivalents, beginning of year	3,091	7,653
Cash and cash equivalents, end of year	7,791	3,091
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	752	68
Supplemental disclosure of non-cash investing and financing activities		
Accretion of redeemable convertible preferred stock	2,441	2,351
Property and equipment purchased through a capital lease	-	50

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

Notes to consolidated financial statements

1 Organization and Basis of Presentation

On April 3, 2008, Pinmot, Inc. was incorporated for the purpose of acquiring a portfolio of mobile technology assets. On June 3, 2008, Pinmot, Inc. acquired the smartphone assets of Motricity, Inc. and the outstanding common stock of Motricity Deutschland GmbH. Pinmot, Inc. was subsequently renamed PocketGear, Inc. and its German subsidiary was renamed PocketGear Deutschland GmbH. PocketGear, Inc. subsequently renamed Appia, Inc. (the Company) as of February 2011. The Company is a mobile advertising network focused on driving installs of mobile applications (iOS/Android) on behalf of advertisers who want to grow their mobile audience. The Company provides mobile advertising performance solutions for both advertisers and publishers. Its technology is focused on driving user acquisition and monetization through ad walls and other ad formats.

2 Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Appia, Inc. and its wholly-owned subsidiary, PocketGear Deutschland GmbH. All significant intercompany balances have been eliminated.

Use of Estimates

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

Revenue Recognition

Advertising Revenue Recognition

The Company recognizes revenue based on the activity of mobile users viewing advertisements and downloading applications via developer applications and mobile websites. Revenues are recognized when the related advertising services are delivered based on the specific terms of the advertising contract/insertion order, which are primarily based on the number of applications installed or downloaded. The Company recognizes revenue based on these terms, as the services have been provided, the fees the Company charges are fixed or determinable, persuasive evidence of an arrangement exists, and collectability is reasonably assured.

In the normal course of business, the Company acts as an intermediary in executing transactions with third parties. The determination of whether revenue should be reported on a gross or net basis is based on an assessment of whether the Company is acting as the principal or an agent in the transaction. In determining whether the Company acts as the principal or an agent, the Company follows the accounting guidance for principal-agent considerations. While none of the factors identified in this guidance is individually considered presumptive or determinative, because the Company is the primary obligor and is responsible for (i) identifying and contracting with third-party advertisers, (ii) performing all billing and collection activities including retaining credit risk, and (iii) discretion in selecting suppliers, the Company acts as the principal in these arrangements and therefore reports revenue earned and costs incurred on a gross basis.

Mobile Storefront Revenues

The Company's revenues are derived from sales of applications developed by third parties for use on handheld devices using the Company's e-commerce services, features and technologies to operate the sites.

The Company recognizes revenue from sales of third-party content related products in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 605 – “Revenue Recognition.” Product sales, net of promotional discounts, rebates, and return allowances, are recorded when the products are shipped and title passes to customers. Retail items are sold to customers pursuant to a sales contract that provides for transfer of both title and risk of loss upon delivery to the customer. Return allowances, which reduce product revenue by an estimate of expected product returns, are estimated using historical experience. The Company periodically provides incentive offers to customers to encourage purchases. Current discount offers, when accepted by customers, are treated as a reduction to the sales price of the related transaction.

The Company utilizes its own proprietary technology platform to accept and verify customer orders, respond to customer support needs and to execute fulfillment on behalf of its own and third-party products. These applications also manage the process of accepting, authorizing, and charging customer credit cards. The Company uses historical results as a basis for providing an allowance for chargebacks and returns.

The Company applies ASC 605 in determining whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned as commissions. Regarding sales of third-party content related products through its own and affiliate websites, the Company believes it is the primary obligor in sales transactions, has latitude in establishing prices, and holds responsibility for processing of cash receipts related to the transactions. As such, the Company records and presents revenue from these transactions on a gross basis.

The Company also enters into arrangements where it builds customized storefronts, supplying tools to ingest content and merchandising as well as providing data hosting and monitoring services. Revenue is generated from sales of applications from the storefronts and split via revenue share basis. In addition, there are instances where customers also pay one-time upfront fees and/or ongoing periodic fees. For the upfront/periodic fees the Company follows a services model. The upfront fees are deferred until the storefront is launched and operational and recognized taken ratably over the estimated life of the customer relationship.

Cost of Revenue

Cost of revenue consists primarily of amounts due to publishers for the advertising inventory utilized in running mobile advertisements. These amounts are typically either a percentage of the advertising revenue earned by the Company based on mobile advertisements that are run on each publishers inventory or a fixed fee for the ad space. The Company recognizes the cost of revenue as the associated revenue is recognized, on a publisher by publisher basis during the period the advertisements run on the publisher’s properties. Costs owed to publisher but not yet paid are recorded as accrued cost of revenue.

Technology Costs

Technology expenses consist primarily of wages and benefits for software application development personnel. The Company has focused its research and development efforts on both improving ease of use and functionality of its existing products as well as developing new offerings. The Company expenses research and development costs that do not meet the capitalization criteria for internal-use software. Research and development expense, which includes the amortization of capitalized internally developed software costs, was \$1,615 and \$1,990, respectively for the years ended December 31, 2013 and 2012.

Advertising Costs

The costs of advertising are expensed as incurred or the first time the advertising takes place in accordance with ASC 720 – “Other Expenses.” For 2013 and 2012, the Company incurred advertising costs of \$229 and \$39, respectively.

Sales and Marketing Costs

Sales and Marketing expense primarily consists of salaries and payroll related costs for Sales and Marketing employees. Additional expenses include costs related to lead generation, communication and promotion.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturity of three months or less at the date of purchase to be cash equivalents. Cash equivalents are stated at cost and consist primarily of money market accounts. Cash and cash equivalents deposited in banks were in excess of federally insured limits as of December 31, 2013 and December 31, 2012.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are presented at their face amount, less an allowance for doubtful accounts, on the Company's accompanying consolidated balance sheet. Accounts receivable consist of amounts currently due from customers. The Company generally does not require collateral on sales. The Company periodically evaluates the collectability of its accounts receivable based on a combination of factors. In circumstances where the Company is aware of a specific customer's inability to meet its financial obligations, a specific reserve for bad debts against amounts due is recorded to reduce the related accounts receivable to an amount that the Company reasonably believes is collectible. As of December 31, 2013 and 2012 the Company had reserved \$546 and \$252, respectively, for allowance for doubtful accounts.

Property and Equipment

Property and equipment is primarily comprised of office furniture and computer equipment, which are recorded at cost and depreciated using the straight-line method over their estimated useful lives ranging from three to five years as follows:

	Useful Life (years)
Computer equipment - Servers	5
Computer equipment - Office	3
Software	5

Included in property and equipment is the cost of internal-use software and website development, including software used to upgrade and enhance the Company's websites. The Company follows the provisions of ASC 350 – "Intangibles – Goodwill and Other." All costs related to the development of internal-use software other than those incurred during the application development stage are expensed. Costs incurred during the application development stage are capitalized and amortized over the estimated useful life of the software (generally three years).

Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is credited or charged to income. Repairs and maintenance costs are expensed as incurred.

Fair Value Measurements

The Company follows ASC 820 – "Fair Value Measurement", which provides a common definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants. ASC 820 does not require any new fair value measurements, but applies to most current accounting pronouncements that require or permit fair value measurements.

The standard provides guidance on the methods used to measure fair value, including the market, income, and cost approach. These approaches require the use of certain assumptions in models that market participants would use in pricing assets and liabilities. The models may use readily observable, market corroborated, or generally unobservable inputs.

The standard also requires assets and liabilities that are measured at fair value on a recurring basis (at least annually) to be classified and disclosed in one of the following three categories:

Level 1 Quoted market prices in active markets for identical assets or liabilities;

Level 2 Observable market-based inputs or unobservable inputs that are corroborated by market data;and

Level 3 Unobservable inputs that are not corroborated by market data.

The fair values of the Company's cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying values because of their short-term nature. The Company's debt approximates fair value due to the nature of having variable interest rates.

The Company has issued warrants to purchase preferred stock in connection with the issuance of subordinated debt. The Company accounted for these warrants in long-term liabilities at fair value upon the issuance based on the specific terms of the agreement. The fair value of the preferred stock warrants was estimated using the Black-Scholes option-pricing model. The warrants are not actively traded and are valued using observable and unobservable market data for inputs. Significant market data inputs used to determine the fair value of the warrants include the estimated the business enterprise value of the Company using a discounted cash flow analysis, expected life of the warrants, risk-free interest rate and the implied volatility of The Company's stock.

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis as of the respective balance sheet dates.

Liabilities (in thousands)	Balance Sheet Classification	December 31, 2013			December 31, 2012		
		Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
		\$	\$	\$	\$	\$	\$
Warrant liability	Noncurrent liabilities	-	-	1,109	-	-	-

The Company follows ASC 825 – "Financial Instruments" which permits companies to voluntarily choose, at specified election dates, to measure specified financial assets and liabilities and other items at fair value that are not currently required to be measured at fair value. Subsequent changes in fair value would then be required to be reported in earnings each reporting period. The Company currently has not elected the fair value option for any eligible items. Any future effect of this pronouncement will be dependent upon the nature and amount of eligible items that the Company elects to account for using the fair value option.

Impairment of Long-lived Assets

The Company evaluates the recoverability of its property and equipment and definite-lived intangible assets in accordance with ASC 360 Property, Plant and Equipment. ASC 360 requires recognition of impairment of long-lived assets in the event the net book value of such assets exceeds the estimated future undiscounted cash flows attributable to such assets. Accordingly, when indicators of impairment are present, the Company evaluates the carrying value of these assets in relation to the operating performance of the business and the future undiscounted cash flows expected to result from the use and disposition of these assets. The Company did not have any impairment for the years ended December 31, 2013 and 2012.

Redeemable Convertible Preferred Stock

The carrying value of redeemable convertible preferred stock is increased each reporting period such that the carrying amount will equal the redemption amount at the redemption date. These increases, if any, are affected through charges against additional paid-in capital, to the extent it is available, and then against accumulated deficit.

Stock-based Compensation

The Company applies ASC 718 – “Compensation – Stock Compensation,” which requires the measurement and recognition of compensation expense, using a fair value-based method, for all share-based awards made to the Company’s employees and directors, including grants of stock options, restricted stock and other stock-based plans. The application of this standard requires significant judgment and the use of estimates, particularly assumptions such as stock price volatility and expected option lives, to value equity-based compensation. The Company recognizes the stock compensation expense over the requisite service period of the individual grants, which generally equals the vesting period.

Foreign Currency Translation

The Euro has been designated as the functional currency of the Company’s wholly-owned subsidiary in Germany. Assets and liabilities recorded in foreign currency are translated into U.S. dollars at period-end exchange rates. Revenues and expenses are recorded at average rates of exchange during the year. The resulting gains and losses arising from the translation of net assets located outside the U.S. are recorded as a cumulative translation adjustment on the consolidated balance sheets. Realized and unrealized transaction gains and losses are included in income or loss in the period in which they occur. Foreign currency transaction gains or losses realized by the Company were insignificant for the period ending December 31, 2013 and 2012.

Income Taxes

The Company accounts for income taxes using an asset and liability method which requires the recognition of deferred tax assets or liabilities for the temporary differences between financial reporting and tax bases of the Company’s assets and liabilities and for tax carryforward at enacted statutory tax rates in effect for the years in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. A full valuation allowance has been recorded at December 31, 2013 and 2012. The Company recognizes the tax benefit of an uncertain tax position only after determining that the relevant tax authority would more-likely-than-not sustain the position following an audit. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense.

Concentration of Credit Risk and Significant Customers

The Company partners with various suppliers to acquire mobile users. For the year ended December 31, 2013 and 2012, one supplier made up 37% and 74%, respectively, of the total cost of revenues.

The Company generally works with numerous advertisers for whom it drives installs and downloads for. During 2013 one customer made up 46% of revenues in the consolidated statement of operations.

Contingencies

In accordance with ASC 450 – “Contingencies” amounts associated with contingencies are recorded as charges to earnings when the Company, after taking into consideration the facts and circumstances associated with each matter, including settlement offers, if any, has determined that it is probable that a liability has been incurred and the amount of the loss can reasonably be estimated. The Company is subject to various legal matters in the ordinary course of business. In the opinion of management, the ultimate outcome of such matters will not have a material adverse effect on the financial condition or results of operation of the Company.

Accumulated Other Comprehensive Loss

In addition to net losses, comprehensive loss includes changes in foreign currency translation adjustments. Comprehensive loss for the period ending December 31, 2013 and 2012 was \$585 and \$5,109, respectively.

Recent Accounting Pronouncements

In July 2013, the FASB issued a revised accounting standard, which clarifies that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforwards, a similar tax loss, or a tax credit carryforwards if such settlement is required or expected in the event the uncertain tax position is disallowed. In situations where a net operating loss carryforwards, a similar tax loss, or a tax credit carryforwards is not available at the reporting date under the tax law of the applicable jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This standard is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. Retrospective application is permitted. The Company will adopt this standard in 2014 and does not expect the adoption to have a material impact on its financial statements.

3 Property and Equipment

Property and equipment consists of the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
	\$	\$
Computer equipment	890	699
Software	1,370	160
Less - Accumulated depreciation and amortization	<u>(828)</u>	<u>(467)</u>
Property and equipment, net	<u>1,432</u>	<u>392</u>

Depreciation and amortization expense for the year ended December 31, 2013 and 2012 was \$170 and \$177, respectively.

Unamortized software development costs as of December 31, 2013 and 2012 were \$1,001 and \$35, respectively. Software development depreciation expense for the year ended December 31, 2013 and 2012 was \$196 and \$29, respectively.

4 Debt

Short-term and long-term portions of debt are as follows as of December 31:

<u>Debt</u>	<u>2013</u>	<u>2012</u>
	\$	\$
Short-term		
Bank debt	600	501
Subordinated debt	-	-
Total	<u>600</u>	<u>501</u>
Long-term		
Bank debt	750	910
Subordinated debt	8,000	-
Less - Debt discount	<u>(934)</u>	<u>-</u>
Total	<u>7,816</u>	<u>910</u>

In February 2010, the Company entered into an agreement with Silicon Valley Bank (SVB) to borrow \$2,000. The funds were used to pay off existing debt that Handango had outstanding with SVB. The borrowings are secured by substantially all of the assets of the Company and bears interest at the greater of prime plus 3% or 7%. Both interest and principal are payable monthly over 36 months. The Company paid and capitalized \$34 of loan origination fees.

In June 2010, the Company entered into an Amendment with SVB. The amendment modified the original loan, lowering the interest rate to the greater of prime plus 2% or 6%. The Company paid and capitalized \$9 of loan origination fees. The loan was paid off in February 2013.

In August 2012, the Company borrowed \$1,300 from Silicon Valley Bank in the form of a term loan, repayable over 36 months. In addition the Company obtained a \$700 line of credit based on outstanding accounts receivable with all amounts due in 1 year. The loan bears interest at the greater of 2.5%+prime or 6.5%. The line of credit has interest at the greater of 1.5%+prime or 5.50%. The Company paid and capitalized interest of \$13 of loan origination fees. The bank is also due a success fee in the event of an exit event. This fee can range from \$0 to \$150, depending on the Company's valuation at the time of the event.

In April 2013, the Company amended its loan agreement with Silicon Valley Bank to increase the term loan to \$1,500 and increase the line of credit to \$2,000. The new maturity date for the term loan and line of credit is April 2016 and the interest rates remain unchanged. The Company paid and capitalized interest of \$12 of loan origination fees. The bank is also due a Make-Whole Premium ranging from 0-2% of the unpaid balance depending on the date of the payoff.

In April 2013, the Company borrowed \$5,000 from North Atlantic SBIC IV, LP in the form of an interest only term loan, repayable in April 2019. The loan bears interest of 10% if paid monthly, otherwise accrues at 15% per month. The borrower is due a prepayment premium ranging from 1-5% of the unpaid balance depending on date of the prepayment. The Company also issued 263,200 Series C preferred stock warrants at a \$0.001 exercise price and 112,800 Series C preferred stock warrants at \$7.41 exercise price. The Company recorded a debt discount of \$615 related to the issuance of these warrants which is being amortized over the term of the debt. The loan is subordinate to Silicon Valley Bank.

In October 2013, the Company amended its loan agreement with Silicon Valley Bank to increase its line of credit to \$3,500. The maturity date and interest remain unchanged. The Company paid and capitalized interest of \$5 of loan origination fees.

In October 2013, the Company borrowed \$3,000 from North Atlantic SBIC IV, LP in the form of an interest only term loan, repayable in April 2019. The loan bears interest of 10% if paid monthly, otherwise accrues at 15% per month. The borrower is due a prepayment premium ranging from 1-5% of the unpaid balance depending on date of the prepayment. The Company also issued 157,920 Series C preferred stock warrants at a \$0.001 exercise price and 67,680 Series C preferred stock warrants at a \$7.41 exercise price. The Company recorded a debt discount of \$408 related to the issuance of these warrants which is being amortized over the term of the debt. The loan is subordinate to Silicon Valley Bank.

The Company's debt agreement with Silicon Valley Bank contain various restrictive covenants. The Company failed to meet some of these required covenants for the fiscal years being reported on. On April 4, 2013, October 2013 and March 2014 the bank provided a waiver to the Company for these requirements.

The Company's debt agreements with North Atlantic SBIC IV, LP contain various restrictive covenants. The Company failed to meet some of these required covenants for year ended December 31, 2013. The Company received waivers from North Atlantic SBIC IV, LP on March 2014.

Future maturities of debt at December 31, 2013 are as follows:

Year	Amount
2014	600
2015	600
2016	150
2017	-
Thereafter	8,000
Total	<u>9,350</u>

The Company also enters into agreements to lease hardware. The Company applies ASC 840 Leases to determine if the leases should be treated as operating or capital. During the years ended December 31, 2013 and 2012 the Company entered into leases of \$0 and \$51, respectively. The leases are typically payable over 24 months. Total accumulated depreciation associated with these assets is \$106 and \$64 for December 31, 2013 and 2012, respectively. These leases are were fully paid off in 2013.

5 Income Taxes

The income tax provision attributable to loss before income taxes for the years ended December 31, 2013 and 2012 was zero due to the valuation allowances recorded against the deferred tax assets associated with the Company's net losses of \$526 and \$5,079 in 2013 and 2012, respectively.

Significant components of the Company's deferred tax assets and liabilities at December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
	\$	\$
Current		
Accrued expenses	78	88
Deferred rent	3	10
Allowance for doubtful accounts	192	97
Deferred revenue	-	9
Valuation allowance	(273)	(204)
Total net deferred tax, current	<u>-</u>	<u>-</u>
Noncurrent		
Tax loss carryforwards	8,521	8,273
Intangible assets	2,171	2,595
Warrant liability	30	-
Property and equipment	(431)	(8)
Stock compensation	(22)	(33)
Valuation allowance	(10,269)	(10,827)
Total net deferred tax, noncurrent	<u>-</u>	<u>-</u>
Net deferred tax	<u>-</u>	<u>-</u>

At December 31, 2013, the Company has federal and state net operating and economic loss carryforwards of \$22,105 and \$15,010, respectively, available to offset future federal and state taxable income which will begin to expire in 2028 and 2023. The Company also has a charitable contribution carryover of \$1 which begin to expire in 2017. The Company has foreign net operating loss carryforwards of \$1,513 available to offset future foreign taxable income which has no expiration date.

The Tax Reform Act of 1986 contains provisions which limit the ability to utilize the net operating loss carryforwards in the case of certain events including significant changes in ownership interests. If the Company's net operating loss carryforwards are limited, and the Company has taxable income which exceeds the permissible yearly net operating loss carryforwards, the Company would incur a federal income tax liability even though net operating loss carryforwards would be available in future years.

During 2010, the Company recorded goodwill in connection with the Handango acquisition that was subsequently fully impaired for book purposes in the year ended December 31, 2010. The goodwill will be amortized for tax purposes over 15 years under Section 197.

The Company has established a valuation allowance against its deferred tax assets due to the uncertainty surrounding the realization of such assets. The valuation allowance decreased by \$489 during 2013, as a result of the increase in the tax loss carryforwards.

The Company files income tax returns in the U.S. federal jurisdiction and various states and foreign countries. With few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2008. As of December 31, 2013 and 2012, no taxing jurisdictions have proposed any significant adjustments to the Company's tax positions. Management does not anticipate any material changes to its financial position or the requirement of material additional payments.

Taxes computed at the statutory federal income tax rate of 34% are reconciled to the provision for income taxes as follows:

	2013		2012	
	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings
	\$	%	\$	%
United States federal tax at statutory rate	(179)	(34.0%)	(1,758)	(34.0%)
State taxes (net of federal benefit)	(5)	(0.9%)	(235)	(4.5%)
Change in valuation reserve	(487)	(92.8%)	1,942	37.5%
Change in state rate	235	44.6%	-	0.0%
Other, including adjustments to true-up prior year tax returns and foreign exchange rate differences	375	71.5%	-	0.0%
Foreign tax rate differential	(2)	(0.4%)	26	0.5%
Nondeductible expenses	63	12%	25	0.5%
Provision for income taxes	-	0.0%	-	0.0%

6 Stockholders' Deficit and Redeemable Convertible Preferred Stock

The Company has authorized 17,625,600 shares of common stock, \$0.001 par value and 11,537,614 shares of preferred stock, par value \$0.001, of which 3,275,000 shares are designated as Series A convertible preferred stock (Series A preferred), 2,569,169 as Series B convertible preferred stock (Series B preferred) and 2,612,818 as Series C convertible preferred stock (Series C preferred), 89,127 as Series D convertible preferred stock (Series D preferred) and 2,991,500 shares are designated as Series FF convertible preferred stock (Series FF preferred).

On April 3, 2008, the Company was founded through the issuance of 1,000,000 shares of common stock at a price of \$0.001 per share.

On April 15, 2008, the Company issued 2,902,250 shares of Series FF preferred stock at a price of \$0.001 per share and 2,424,630 shares of restricted common stock at a price of \$0.001 per share. Shares of restricted common stock vest over a period of four years. On October 13, 2008, the Company repurchased 223,880 shares of restricted common stock at a price of \$0.001 per share.

On June 3, 2008, the Company issued 3,250,000 shares of Series A preferred stock at a price of \$1.00 per share. As part of this transaction, the Company incurred transaction costs of \$83, which were applied against the proceeds of this sale. The carrying value of the preferred stock will be accreted to its redemption price, including dividends.

On December 10, 2008, the Company issued 25,000 shares of Series A preferred stock at a price of \$1.00 per share.

On June 9, 2010, the Company issued 2,140,974 shares of Series B preferred stock at a price of \$5.84 per share. As part of this transaction, the Company incurred transaction costs of \$75, which were applied against the proceeds of this sale. The carrying value of the preferred stock will be accreted to its redemption price, including dividends.

On August 6, 2010, the Company issued 428,195 shares of Series B preferred stock at a price of \$5.84 per share. As part of this transaction, the Company incurred transaction costs of \$31, which were applied against the proceeds of this sale. The carrying value of the preferred stock will be accreted to its redemption price, including dividends.

On April 27, 2010, the Company allowed the exchange of 89,250 shares of Common Stock for Series FF Preferred Stock, for one of the Company's founders.

On March 21, 2011, the Company issued 1,348,814 shares of Series C preferred stock at a price of \$7.41 per share. As part of this transaction, the Company incurred transaction costs of \$85, which were applied against the proceeds of this sale. The carrying value of the preferred stock will be accreted to its redemption price, including dividends.

On September 26, 2012, the Company issued 89,127 shares of Series D preferred stock at a price of \$16.83 per share. As part of this transaction, the Company incurred transaction costs of \$67, which were applied against the proceeds of this sale. The carrying value of the preferred stock will be accreted to its redemption price, including dividends.

Significant features of the common stock and Series A, Series B, Series C, Series D and FF preferred are as follows:

Voting

The holders of Series A, Series B, Series C, Series D and Series FF preferred stock shall be entitled to the number of votes equal to the number of shares of common stock into which such shares of preferred stock could be converted. The holders of common stock are entitled to vote equally based on their respective shares outstanding.

Dividends

Series A, Series B, Series C and Series D preferred stockholders are entitled to receive annual dividends of \$0.08 per share. Holders of Series FF preferred stock and common stock shall be entitled to dividends when and if declared by the Board of Directors and shall share dividends on a pro rata basis based on the number of shares of common stock that would be held by each upon conversion of all Series A, Series B, Series C, Series D and Series FF preferred stock into common stock.

Conversion

Each share of Series A, Series B, Series C and Series D preferred stock shall be convertible, at the option of the holder, at any time after the date of issuance and without payment of additional consideration, into such number of common shares as is determined by dividing the original issue price of \$1.00 by \$1.00 for Series A, by \$5.84 for Series B, by \$7.41 for Series C and by \$16.83 for Series D preferred stock holders. Each share of Series FF preferred stock shall be convertible, at the option of the holder, at any time after the date of issuance and without payment of additional consideration, into such number of common shares as is determined by dividing the original issue price of \$0.001 by \$0.001. The conversion price is subject to adjustment for subdivisions, dividends, combinations, reclassifications, merger, sale, and other transactions. If the Company issues or sells additional shares of Common Stock less than the original issue price, that is deemed dilutive (Qualifying Dilutive Issuance), Series B and Series C are entitled to reduced conversion rates equal to the price the additional shares are issued at. The Series B and Series C Qualifying Dilutive issuance dates expired on April 9, 2012.

Automatic Conversion

Each share of Series A and Series B preferred stock shall automatically be converted into common stock at the then effective conversion price upon the completion of an underwritten public offering involving the sale of the Company's common stock at prices per share greater than three times the Original Issue price of Series C Preferred Stock and net cash proceeds of at least \$50 million. Each share of Series A and B preferred stock shall also automatically be converted into common stock at the then effective conversion price upon the written consent or agreement of two-thirds ($\frac{2}{3}$) of the Series A and Series B preferred voting as a group.

Each share of Series C preferred stock shall automatically be converted into common stock at the then effective conversion price upon the completion of an underwritten public offering involving the sale of the Company's common stock net cash proceeds of at least \$50 million. Each share of Series C preferred stock shall also automatically be converted into common stock at the then effective conversion price upon the written consent or agreement of the majority of the Series C preferred holders voting as a group.

Each share of Series D preferred stock shall automatically be converted into common stock at the then effective conversion price upon the closing of a qualified public offering or upon the written consent or agreement of the majority shares voting together as a single group.

Liquidation Preference

Upon liquidation, dissolution, or winding up of the Company, holders of the Series A, Series B, Series C and Series D preferred shall be entitled to receive, prior and in preference to any distribution of the assets to holders of Series FF preferred or common stock, an amount equal to the original issue price of \$1.00 per share for Series A, \$5.84 per share for Series B, \$7.41 per share for Series C and \$16.83 for Series D, plus all accrued dividends and all declared and unpaid dividends on the Series A, Series B, Series C and Series D preferred stock. Any assets remaining after such preferential distribution shall be distributed ratably to holders of Series FF preferred stock and common stock on an as-if converted basis. The liquidation value per share, aggregate liquidation value and carrying value for the Series A, Series B, Series C and Series D preferred as of December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Series A Preferred	\$	\$
Liquidation values per share	1.45	1.37
Aggregate liquidation value	4,737	4,476
Carrying value	<u>4,737</u>	<u>4,469</u>
Series B Preferred		
Liquidation values per share	7.49	7.02
Aggregate liquidation value	19,238	18,038
Carrying value	<u>19,207</u>	<u>17,986</u>
Series C Preferred		
Liquidation values per share	9.06	8.47
Aggregate liquidation value	12,222	11,422
Carrying value	<u>12,184</u>	<u>11,367</u>
Series D Preferred		
Liquidation values per share	18.53	17.19
Aggregate liquidation value	1,652	1,532
Carrying value	<u>1,601</u>	<u>1,468</u>

Redemption Preference

The certificate of incorporation also provides for the redemption of the Series A, Series B, Series C and Series D preferred upon agreement by two-thirds ($\frac{2}{3}$) of the outstanding Series A, Series B, Series C and Series D shares, voting as a single class of stock, beginning on December 31, 2015. The redemption price for the Series A, Series B, Series C and Series D preferred shall be the greater of the original issue price of \$1.00 per share for Series A, \$5.84 per share for Series B, \$7.41 per share for Series C, \$16.83 for Series D plus all accrued, declared, and unpaid dividends or the fair market value of Series A, Series B, Series C or Series D preferred stock on the date of the request.

7 Stock Options and Restricted Stock

During 2008, the Company adopted the 2008 Stock Option Plan (the Plan). A total of 1,942,247 shares of the Company's common stock have been reserved for issuance to employees, directors and consultants. The terms of the stock option grants are determined by the Board of Directors. Since inception, all options were granted with an exercise price equal to the deemed fair value of the common stock on the date of grant. Under the Plan, options become vested over various periods, generally ranging up to four years, and expire not more than ten years after the date of grant.

In determining the compensation cost of options granted, as specified by ASC 718 – “Compensation – Stock Compensation,” the fair value of each option or restricted stock grant has been estimated on the date of grant using the Black-Scholes option-pricing model. The assumptions used in these calculations are summarized as follows:

	2013	2012
Expected dividend yield		-
Expected stock price volatility	39% - 40%	40% - 45%
Risk-free interest rate	1.71% - 2.96%	1.25% - 2.24%
Expected life of options	10	10
Estimated forfeiture rate for employee option	15%	15%

The Company calculates expected stock volatility using historical volatility for a peer group of companies, as the Company believes the expected volatility will approximate historical volatility of the peer group. The risk-free interest rate for the expected terms of the stock options is based on the rates paid on US Treasury instruments with similar lives at the time of the grant. The estimated forfeiture rate for employee options is based on historic forfeiture rates.

The following table summarizes the Company’s stock option grant activity during the period from January 1, 2012 through December 31, 2013:

	Number of Shares	Weighted Average Exercise Price \$
Balance at December 31, 2011	191,137	0.22
Granted	501,900	0.26
Vested	(5,906)	0.18
Forfeited	(56,581)	0.25
Balance at December 31, 2012	630,550	0.25
Granted	262,018	0.28
Vested	(75,749)	0.26
Forfeited	(141,353)	0.26
Balance at December 31, 2013	675,466	0.26

The following table summarizes the stock options outstanding at December 31, 2013 and 2012:

	Exercise Price	Options Outstanding	Weighted Average Remaining Contractual Life of Options Outstanding	Options Exercisable	Weighted Average Grant Date Fair Value of Options Exercisable \$
	0.10	44,700	6.50	37,200	0.07
	0.26	585,850	9.00	50,030	0.17
December 31, 2012		630,550		87,230	
	.10	41,200	5.40	39,844	0.07
	0.26	416,248	7.95	201,983	0.15
	0.28	218,018	9.65	-	-
December 31, 2013		675,466		241,827	

As of December 31, 2013 and 2012, there was \$55 and \$57, respectively of total unrecognized compensation cost related to non-vested options. The Company recorded \$19 and \$16 of compensation cost for December 31, 2013 and 2012, respectively related to stock options recognized over a weighted average remaining life of 8.3 years.

The following table summarizes non-vested stock options during the period from January 1, 2012 through December 31, 2013:

	Number of Shares	Weighted Average Grant Date Fair Value \$
Non-vested common stock options outstanding, December 31, 2011	145,753	0.11
Granted	501,900	0.15
Vested	(54,424)	0.13
Forfeited	(49,909)	0.15
Non-vested common stock options outstanding, December 31, 2012	543,320	0.14
Granted	262,018	0.15
Vested	(190,438)	0.14
Forfeited	(136,948)	0.14
Non-vested common stock options outstanding, December 31, 2013	477,952	0.15

The Company at times issues Restricted Common Stock grants to employees, directors and consultants. The grants typically vest over a period of 4 years. The Company includes these costs in stock-based compensation and recognized on a straight-line basis. At December 31, 2013 and 2012 there was \$63 and \$26 of unrecognized compensation expense related to restricted stock. The Company recorded \$22 and \$12 as compensation cost related to the restricted stock for the years ended December 31, 2013 and 2012 respectively.

The following table summarizes the Company's restricted stock award activity during the period from January 1, 2012 through December 31, 2013:

	Number of Shares
Non-vested restricted stock outstanding at December 31, 2011	355,687
Granted	-
Vested	(113,500)
Forfeited	(39,375)
Non-vested restricted stock outstanding at December 31, 2012	202,812
Granted	280,000
Vested	(104,062)
Forfeited	(30,625)
Non-vested restricted stock outstanding at December 31, 2013	348,125

8 Employee Benefit Plan

The Company's eligible employees participate in a 401(k) plan. Participants may contribute a percentage of their salary, limited by IRS regulations. The Plan allows the Company to match a percentage of the amount contributed by the employee. In addition, the Company may make discretionary profit-sharing contributions to the plan. The Company did not elect to make any contributions during the years ended December 31, 2013 or 2012.

9 Commitments

The Company leases its office facilities and certain office equipment under operating lease agreements. Non-cancelable leases may contain escalation clauses which require rent to be recognized on a straight-line basis over the term of the lease agreement. Expense related to operating leases, recognized on the straight-line basis, was approximately \$1,013 and \$715 for the years ended December 31, 2013 and 2012, respectively.

Future minimum lease payments under non-cancelable operating leases at December 31, 2013 are as follows:

	<u>Amount</u>
	<u>\$</u>
2014	386
2015	174
Thereafter	-
	<u><u>560</u></u>

10 Subsequent Events

Management has evaluated subsequent events through June 26, 2014, the date of the financial statements were available for issuance. All matters requiring recognition or disclosure have been included in the consolidated financial statements.

Financial Statements

Appia, Inc.

For the nine months ended September 30, 2014 and 2013

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Consolidated balance sheets

(Unaudited)

(in thousands, except share data and per share data)

September 30	2014	2013
	\$	\$
Assets		
Current assets:		
Cash and cash equivalents	1,952	5,600
Accounts receivable, net	5,090	8,058
Prepaid expenses and other current assets	245	306
Total current assets	7,287	13,964
Property and equipment, net	2,677	1,232
Other assets	9	17
Total assets	9,973	15,213
Liabilities, redeemable convertible preferred stock and stockholders' deficit		
Current liabilities:		
Accounts payable	721	2,079
Accrued expenses and other current liabilities	4,494	4,256
Short-term capital lease	-	6
Short-term debt	600	600
Deferred revenue	1	245
Total current liabilities	5,816	7,186
Warrant liability	3,129	615
Long-term debt	7,499	5,336
Total liabilities	16,444	13,137
Commitments (Note 9)		
Redeemable convertible preferred stock, Series A, 3,275,000 shares authorized; 3,275,000 issued and outstanding as of September 30, 2014 and 2013, respectively	4,932	4,672
Redeemable convertible preferred stock, Series B, 2,569,169 shares authorized; 2,569,169 issued and outstanding as of September 30, 2014 and 2013, respectively	20,123	18,902
Redeemable convertible preferred stock, Series C, 2,612,818 shares authorized; 1,348,814 issued and outstanding as of September 30, 2014 and 2013, respectively	12,796	11,981
Redeemable convertible preferred stock, Series D, 89,127 shares authorized; 89,127 issued and outstanding as of September 30, 2014 and 2013, respectively	1,701	1,568
Total redeemable convertible preferred stock	39,552	37,123
Stockholders' deficit:		
Series FF preferred stock, par value \$0.001; 2,991,500 shares authorized; 2,991,500 shares issued and outstanding as of September 30, 2014 and 2013	3	3
Common stock, par value \$0.001; 17,625,600 shares authorized; 3,927,456 and 3,909,932 shares issued and outstanding as of September 30, 2014 and 2013, respectively	3	3
Accumulated other comprehensive income	116	14
Accumulated deficit	(46,145)	(35,067)
Total stockholders' deficit	(46,023)	(35,047)
Total liabilities, redeemable convertible preferred stock and stockholders' deficit	9,973	15,213

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

Consolidated statements of operations and comprehensive income (loss)

(Unaudited)

(in thousands)

For the nine months ended September 30	2014	2013
	\$	\$
Revenues	21,930	38,470
Cost of revenues	17,366	27,912
Gross profit	4,564	10,558
Operating expenses:		
Sales and marketing	2,569	2,655
Technology	2,246	1,823
General and administrative	3,431	4,426
Total operating expenses	8,246	8,904
Income (loss) from operations	(3,682)	1,654
Other (expense):		
Interest expense	(3,215)	(387)
Income (loss) before income taxes	(6,897)	1,267
Income tax (benefit)	-	-
Net income (loss)	(6,897)	1,267
Other comprehensive income (loss):		
Foreign currency translation adjustments	116	(45)
Other comprehensive income (loss)	116	(45)
Comprehensive income (loss)	(6,781)	1,222

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

Consolidated statements of changes in stockholders' deficit

(Unaudited)

(in thousands, except share data)

	Series FF Preferred stock		Common stock		Additional Paid-in Capital	Accumulated Deficit	Other Comprehensive Income	Total Stockholders' Deficit
	Shares	Value \$	Shares	Value \$				
Balance as of December 31, 2013	2,991,500	3	3,909,932	3	-	(37,462)	-	(37,456)
Issuance of common stock	-	-	47,524	-	12	-	-	12
Forfeiture of restricted stock shares	-	-	(30,000)	-	-	-	-	-
Stock-based compensation expense	-	-	-	-	27	0	-	27
Accretion of Series A preferred stock	-	-	-	-	(39)	(157)	-	(196)
Accretion of Series B preferred stock	-	-	-	-	-	(916)	-	(916)
Accretion of Series C preferred stock	-	-	-	-	-	(613)	-	(613)
Accretion of Series D preferred stock	-	-	-	-	-	(100)	-	(100)
Foreign currency translation adjustment	-	-	-	-	-	-	116	116
Net loss for the period	-	-	-	-	-	(6,897)	-	(6,897)
Balance as of September 30, 2014	<u>2,991,500</u>	<u>3</u>	<u>3,927,456</u>	<u>3</u>	<u>-</u>	<u>(46,145)</u>	<u>116</u>	<u>(46,023)</u>

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

Consolidated statements of cash flows

(Unaudited)

(in thousands)

For the nine months ended September 30	2014	2013
	\$	\$
Cash flows from operating activities:		
Net income (loss)	(6,897)	1,267
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	637	238
Amortization of deferred loan costs	10	8
Stock-based compensation expense	27	39
Amortization of debt discount	133	51
Loss on sale of assets	37	
Change in fair market value of warrant liability	2,019	-
Changes in operating assets and liabilities:		
Accounts receivable	628	(3,997)
Prepaid expenses and other current assets	321	(17)
Accounts payable	(2,013)	(413)
Deferred revenue	(75)	(113)
Accrued expenses and other liabilities	1,694	1,478
Net cash flows used in operating activities	(3,479)	(1,459)
Cash flows from investing activities:		
Internally developed software	(1,898)	(907)
Proceeds from sale of assets	22	-
Purchases of property and equipment	(43)	(171)
Net cash flows used in investing activities	(1,919)	(1,078)
Cash flows from financing activities:		
Loan proceeds	-	5,200
Stock option exercise	12	5
Principal payments on capital leases	-	(49)
Payments on term loan	(450)	(111)
Net cash flows provided (used) by financing activities	(438)	5,045
Effect of exchange rate changes on cash and cash equivalents	(3)	1
Net increase (decrease) in cash and cash equivalents	(5,839)	2,509
Cash and cash equivalents, beginning of year	7,791	3,091
Cash and cash equivalents, end of year	1,952	5,600
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	63	286
Supplemental disclosure of non-cash investing and financing activities		
Accretion of redeemable convertible preferred stock	1,825	1,832

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

Notes to consolidated financial statements

1 Organization and Basis of Presentation

On April 3, 2008, Pinmot, Inc. was incorporated for the purpose of acquiring a portfolio of mobile technology assets. On June 3, 2008, Pinmot, Inc. acquired the smartphone assets of Motricity, Inc. and the outstanding common stock of Motricity Deutschland GmbH. Pinmot, Inc. was subsequently renamed PocketGear, Inc. and its German subsidiary was renamed PocketGear Deutschland GmbH. PocketGear, Inc. subsequently renamed Appia, Inc. (the Company) as of February 2011. The Company is a mobile advertising network focused on driving installs of mobile applications (iOS/Android) on behalf of advertisers who want to grow their mobile audience. The Company provides mobile advertising performance solutions for both advertisers and publishers. Its technology is focused on driving user acquisition and monetization through ad walls and other ad formats.

2 Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Appia, Inc. and its wholly-owned subsidiary, PocketGear Deutschland GmbH. All significant intercompany balances have been eliminated.

Use of Estimates

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

Revenue Recognition

Advertising Revenue Recognition

The Company recognizes revenue based on the activity of mobile users viewing advertisements and downloading applications via developer applications and mobile websites. Revenues are recognized when the related advertising services are delivered based on the specific terms of the advertising contract/insertion order, which are primarily based on the number of applications installed or downloaded. The Company recognizes revenue based on these terms, as the services have been provided, the fees the Company charges are fixed or determinable, persuasive evidence of an arrangement exists, and collectability is reasonably assured.

In the normal course of business, the Company acts as an intermediary in executing transactions with third parties. The determination of whether revenue should be reported on a gross or net basis is based on an assessment of whether the Company is acting as the principal or an agent in the transaction. In determining whether the Company acts as the principal or an agent, the Company follows the accounting guidance for principal-agent considerations. While none of the factors identified in this guidance is individually considered presumptive or determinative, because the Company is the primary obligor and is responsible for (i) identifying and contracting with third-party advertisers, (ii) performing all billing and collection activities including retaining credit risk, and (iii) discretion in selecting suppliers, the Company acts as the principal in these arrangements and therefore reports revenue earned and costs incurred on a gross basis.

Mobile Storefront Revenues

The Company's revenues are derived from sales of applications developed by third parties for use on handheld devices using the Company's e-commerce services, features and technologies to operate the sites.

The Company recognizes revenue from sales of third-party content related products in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 605 – “Revenue Recognition.” Product sales, net of promotional discounts, rebates, and return allowances, are recorded when the products are shipped and title passes to customers. Retail items are sold to customers pursuant to a sales contract that provides for transfer of both title and risk of loss upon delivery to the customer. Return allowances, which reduce product revenue by an estimate of expected product returns, are estimated using historical experience. The Company periodically provides incentive offers to customers to encourage purchases. Current discount offers, when accepted by customers, are treated as a reduction to the sales price of the related transaction.

The Company utilizes its own proprietary technology platform to accept and verify customer orders, respond to customer support needs and to execute fulfillment on behalf of its own and third-party products. These applications also manage the process of accepting, authorizing, and charging customer credit cards. The Company uses historical results as a basis for providing an allowance for chargebacks and returns.

The Company applies ASC 605 in determining whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned as commissions. Regarding sales of third-party content related products through its own and affiliate websites, the Company believes it is the primary obligor in sales transactions, has latitude in establishing prices, and holds responsibility for processing of cash receipts related to the transactions. As such, the Company records and presents revenue from these transactions on a gross basis.

The Company also enters into arrangements where it builds customized storefronts, supplying tools to ingest content and merchandising as well as providing data hosting and monitoring services. Revenue is generated from sales of applications from the storefronts and split via revenue share basis. In addition, there are instances where customers also pay one-time upfront fees and/or ongoing periodic fees. For the upfront/periodic fees the Company follows a services model. The upfront fees are deferred until the storefront is launched and operational and recognized taken ratably over the estimated life of the customer relationship.

Cost of Revenue

Cost of revenue consists primarily of amounts due to publishers for the advertising inventory utilized in running mobile advertisements. These amounts are typically either a percentage of the advertising revenue earned by the Company based on mobile advertisements that are run on each publishers inventory or a fixed fee for the ad space. The Company recognizes the cost of revenue as the associated revenue is recognized, on a publisher by publisher basis during the period the advertisements run on the publisher’s properties. Costs owed to publisher but not yet paid are recorded as accrued cost of revenue.

Technology Costs

Technology expenses consist primarily of wages and benefits for software application development personnel. The Company has focused its research and development efforts on both improving ease of use and functionality of its existing products as well as developing new offerings. The Company expenses research and development costs that do not meet the capitalization criteria for internal-use software. Research and development expense, which includes the amortization of capitalized internally developed software costs, was \$2,246 and \$1,823, respectively for the period ended September 30, 2014 and 2013.

Advertising Costs

The costs of advertising are expensed as incurred or the first time the advertising takes place in accordance with ASC 720 – “Other Expenses.” For the period ended September 30, 2014 and 2013, the Company incurred advertising costs of \$267 and \$148, respectively.

Sales and Marketing Costs

Sales and Marketing expense primarily consists of salaries and payroll related costs for Sales and Marketing employees. Additional expenses include costs related to lead generation, communication and promotion.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturity of three months or less at the date of purchase to be cash equivalents. Cash equivalents are stated at cost and consist primarily of money market accounts. Cash and cash equivalents deposited in banks were in excess of federally insured limits as of September 30, 2014 and September 30, 2013.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are presented at their face amount, less an allowance for doubtful accounts, on the Company's accompanying consolidated balance sheet. Accounts receivable consist of amounts currently due from customers. The Company generally does not require collateral on sales. The Company periodically evaluates the collectability of its accounts receivable based on a combination of factors. In circumstances where the Company is aware of a specific customer's inability to meet its financial obligations, a specific reserve for bad debts against amounts due is recorded to reduce the related accounts receivable to an amount that the Company reasonably believes is collectible. As of September 30, 2014 and 2013 the Company had reserved \$560 and \$438, respectively, for allowance for doubtful accounts.

Property and Equipment

Property and equipment is primarily comprised of office furniture and computer equipment, which are recorded at cost and depreciated using the straight-line method over their estimated useful lives ranging from three to five years as follows:

	Useful Life (years)
Computer equipment - Servers	5
Computer equipment - Office	3
Software	5

Included in property and equipment is the cost of internal-use software and website development, including software used to upgrade and enhance the Company's websites. The Company follows the provisions of ASC 350 – "Intangibles – Goodwill and Other." All costs related to the development of internal-use software other than those incurred during the application development stage are expensed. Costs incurred during the application development stage are capitalized and amortized over the estimated useful life of the software (generally three years).

Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is credited or charged to income. Repairs and maintenance costs are expensed as incurred.

Fair Value Measurements

The Company follows ASC 820 – "Fair Value Measurement", which provides a common definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants. ASC 820 does not require any new fair value measurements, but applies to most current accounting pronouncements that require or permit fair value measurements.

The standard provides guidance on the methods used to measure fair value, including the market, income, and cost approach. These approaches require the use of certain assumptions in models that market participants would use in pricing assets and liabilities. The models may use readily observable, market corroborated, or generally unobservable inputs.

The standard also requires assets and liabilities that are measured at fair value on a recurring basis (at least annually) to be classified and disclosed in one of the following three categories:

Level 1 Quoted market prices in active markets for identical assets or liabilities;

Level 2 Observable market-based inputs or unobservable inputs that are corroborated by market data; and

Level 3 Unobservable inputs that are not corroborated by market data.

The fair values of the Company's cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying values because of their short-term nature. The Company's debt approximates fair value due to the nature of having variable interest rates.

The Company has issued warrants to purchase preferred stock in connection with the issuance of subordinated debt. The Company accounted for these warrants in long-term liabilities at fair value upon the issuance based on the specific terms of the agreement. The fair value of the preferred stock warrants was estimated using the Black-Scholes option-pricing model. The warrants are not actively traded and are valued using observable and unobservable market data for inputs. Significant market data inputs used to determine the fair value of the warrants include the equity value of the transaction (see Note 10), estimated the business enterprise value of the Company using a discounted cash flow analysis, expected life of the warrants, risk-free interest rate and the implied volatility of The Company's stock.

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis as of the respective balance sheet dates.

Liabilities (in thousands)	Balance Sheet Classification	September 30, 2014			September 30, 2013		
		Level 1 \$	Level 2 \$	Level 3 \$	Level 1 \$	Level 2 \$	Level 3 \$
Warrant liability	Non-current liabilities	-	-	3,129	-	-	615

The Company follows ASC 825 – “Financial Instruments” which permits companies to voluntarily choose, at specified election dates, to measure specified financial assets and liabilities and other items at fair value that are not currently required to be measured at fair value. Subsequent changes in fair value would then be required to be reported in earnings each reporting period. The Company currently has not elected the fair value option for any eligible items. Any future effect of this pronouncement will be dependent upon the nature and amount of eligible items that the Company elects to account for using the fair value option.

Impairment of Long-lived Assets

The Company evaluates the recoverability of its property and equipment and definite-lived intangible assets in accordance with ASC 360 Property, Plant and Equipment. ASC 360 requires recognition of impairment of long-lived assets in the event the net book value of such assets exceeds the estimated future undiscounted cash flows attributable to such assets. Accordingly, when indicators of impairment are present, the Company evaluates the carrying value of these assets in relation to the operating performance of the business and the future undiscounted cash flows expected to result from the use and disposition of these assets. The Company did not have any impairment for the period ended September 30, 2014 and 2013.

Redeemable Convertible Preferred Stock

The carrying value of redeemable convertible preferred stock is increased each reporting period such that the carrying amount will equal the redemption amount at the redemption date. These increases, if any, are affected through charges against additional paid-in capital, to the extent it is available, and then against accumulated deficit.

Stock-based Compensation

The Company applies ASC 718 – “Compensation – Stock Compensation,” which requires the measurement and recognition of compensation expense, using a fair value-based method, for all share-based awards made to the Company’s employees and directors, including grants of stock options, restricted stock and other stock-based plans. The application of this standard requires significant judgment and the use of estimates, particularly assumptions such as stock price volatility and expected option lives, to value equity-based compensation. The Company recognizes the stock compensation expense over the requisite service period of the individual grants, which generally equals the vesting period.

Foreign Currency Translation

The Euro has been designated as the functional currency of the Company’s wholly-owned subsidiary in Germany. Assets and liabilities recorded in foreign currency are translated into U.S. dollars at period-end exchange rates. Revenues and expenses are recorded at average rates of exchange during the year. The resulting gains and losses arising from the translation of net assets located outside the U.S. are recorded as a cumulative translation adjustment on the consolidated balance sheets. Realized and unrealized transaction gains and losses are included in income or loss in the period in which they occur. Foreign currency transaction gains or losses realized by the Company were insignificant for the period ending September 30, 2014 and 2013.

Income Taxes

The Company accounts for income taxes using an asset and liability method which requires the recognition of deferred tax assets or liabilities for the temporary differences between financial reporting and tax bases of the Company’s assets and liabilities and for tax carryforwards at enacted statutory tax rates in effect for the years in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. A full valuation allowance has been recorded at September 30, 2014 and 2013. The Company recognizes the tax benefit of an uncertain tax position only after determining that the relevant tax authority would more-likely-than-not sustain the position following an audit. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense.

Concentration of Credit Risk and Significant Customers

The Company partners with various suppliers to acquire mobile users. For the periods ended September 30, 2014 and 2013, one supplier made up 11% and 41%, respectively, of the total cost of revenues.

The Company generally works with numerous advertisers for whom it drives installs and downloads for. During the period ended September 30, 2013 one customer made up 54% of revenues in the consolidated statement of operations.

Derecognition of Liabilities

The Company recognized a gain of \$1,268 in September 2014 related to the reversal of liabilities assumed in a previous acquisition. The Company has determined that its obligation to pay these liabilities has expired. The gain is recorded as a reduction to general and administrative expenses in the consolidated statement of operations for the nine months ended September 30, 2014.

Contingencies

In accordance with ASC 450 – “Contingencies” amounts associated with contingencies are recorded as charges to earnings when the Company, after taking into consideration the facts and circumstances associated with each matter, including settlement offers, if any, has determined that it is probable that a liability has been incurred and the amount of the loss can reasonably be estimated. The Company is subject to various legal matters in the ordinary course of business. In the opinion of management, the ultimate outcome of such matters will not have a material adverse effect on the financial condition or results of operation of the Company.

Accumulated Other Comprehensive Income (Loss)

In addition to net losses, comprehensive loss includes changes in foreign currency translation adjustments. Comprehensive income (loss) for the period ending September 30, 2014 and 2013 was (\$6,781) and \$1,222, respectively.

Recent Accounting Pronouncements

In August 2014, the FASB issued new accounting guidance which addresses management's responsibility to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern and to provide related footnote disclosures. Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. This guidance is effective for the fiscal year ending after December 15, 2016, and for fiscal years and interim periods thereafter. Early adoption is permitted. The Company does not expect to early adopt this guidance and does not believe that the adoption of this guidance will have a material impact on its financial statements.

In May 2014, the FASB issued new accounting guidance on revenue recognition, which provides for a single five-step model to be applied to all revenue contracts with customers. The new standard also requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. Companies have an option to use either a retrospective approach or cumulative effect adjustment approach to implement the standard. This guidance is effective for private companies for fiscal years and interim periods within those years beginning after December 15, 2017. Early adoption is not permitted. The Company is currently evaluating the impact that the implementation of this standard will have on its financial statements.

3 Property and Equipment

Property and equipment consists of the following at September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
	\$	\$
Computer equipment	780	822
Software	3,275	1,115
Less - Accumulated depreciation and amortization	<u>(1,378)</u>	<u>(705)</u>
Property and equipment, net	<u><u>2,677</u></u>	<u><u>1,232</u></u>

Depreciation and amortization expense for the period ended September 30, 2014 and 2013 was \$637 and \$238, respectively.

Unamortized software development costs as of September 30, 2014 and 2013 were \$2,395 and \$831, respectively. Software development depreciation expense for the period ended September 30, 2014 and 2013 was \$497 and \$101, respectively.

4 Debt

Short-term and long-term portions of debt are as follows as of September 30:

Debt	2014	2013
	\$	\$
Short-term		
Bank debt	600	600
Subordinated debt	-	-
Total	600	600
Long-term		
Bank debt	300	900
Subordinated debt	8,000	5,000
Less - Debt discount	(801)	(564)
Total	7,499	5,336

In February 2010, the Company entered into an agreement with Silicon Valley Bank (SVB) to borrow \$2,000. The funds were used to pay off existing debt that Handango had outstanding with SVB. The borrowings are secured by substantially all of the assets of the Company and bears interest at the greater of prime plus 3% or 7%. Both interest and principal are payable monthly over 36 months. The Company paid and capitalized \$34 of loan origination fees.

In June 2010, the Company entered into an Amendment with SVB. The amendment modified the original loan, lowering the interest rate to the greater of prime plus 2% or 6%. The Company paid and capitalized \$9 of loan origination fees. The loan was paid off in February 2013.

In August 2012, the Company borrowed \$1,300 from Silicon Valley Bank in the form of a term loan, repayable over 36 months. In addition the Company obtained a \$700 line of credit based on outstanding accounts receivable with all amounts due in 1 year. The loan bears interest at the greater of 2.5%+prime or 6.5%. The line of credit has interest at the greater of 1.5%+prime or 5.50%. The Company paid and capitalized interest of \$13 of loan origination fees. The bank is also due a success fee in the event of an exit event. This fee can range from \$0 to \$150, depending on the Company's valuation at the time of the event.

In April 2013, the Company amended its loan agreement with Silicon Valley Bank to increase the term loan to \$1,500 and increase the line of credit to \$2,000. The new maturity date for the term loan and line of credit is April 2016 and the interest rates remain unchanged. The Company paid and capitalized interest of \$12 of loan origination fees. The bank is also due a Make-Whole Premium ranging from 0-2% of the unpaid balance depending on the date of the payoff.

In April 2013, the Company borrowed \$5,000 from North Atlantic SBIC IV, LP in the form of an interest only term loan, repayable in April 2019. The loan bears interest of 10% if paid monthly, otherwise accrues at 15% per month. The borrower is due a prepayment premium ranging from 1-5% of the unpaid balance depending on date of the prepayment. The Company also issued 263,200 Series C preferred stock warrants at a \$0.001 exercise price and 112,800 Series C preferred stock warrants at \$7.41 exercise price. The Company recorded a debt discount of \$615 related to the issuance of these warrants which is being amortized over the term of the debt. The loan is subordinate to Silicon Valley Bank. The Company has elected to not pay interest starting with the January 1, 2014 payment and is accruing it at 15%.

In October 2013, the Company amended its loan agreement with Silicon Valley Bank to increase its line of credit to \$3,500. The maturity date and interest remain unchanged. The Company paid and capitalized interest of \$5 of loan origination fees.

In October 2013, the Company borrowed \$3,000 from North Atlantic SBIC IV, LP in the form of an interest only term loan, repayable in April 2019. The loan bears interest of 10% if paid monthly, otherwise accrues at 15% per month. The borrower is due a prepayment premium ranging from 1-5% of the unpaid balance depending on date of the prepayment. The Company also issued 157,920 Series C preferred stock warrants at a \$0.001 exercise price and 67,680 Series C preferred stock warrants at a \$7.41 exercise price. The Company recorded a debt discount of \$408 related to the issuance of these warrants which is being amortized over the term of the debt. The loan is subordinate to Silicon Valley Bank. The Company has elected to not pay interest starting with the January 1, 2014 payment and is accruing it at 15%.

In March 2014, the Company entered into an Amendment with SVB. The amendment modified the terms of the line of credit to expand the amount of foreign accounts receivable to be included in the eligible borrowing base. The maturity date and interest remain unchanged.

The Company's debt agreement with Silicon Valley Bank contain various restrictive covenants. The Company failed to meet some of these required covenants for the periods being reported on. On April 4, 2013, October 2013 and March 2014 and November 2014 the bank provided a waiver to the Company for these requirements.

The Company's debt agreements with North Atlantic SBIC IV, LP contain various restrictive covenants. The Company failed to meet some of these required covenants for the periods being reported on. The Company received waivers from North Atlantic SBIC IV, LP on March 2014 and November 2014.

Future maturities of debt at September 30, 2014 are as follows:

Year	Amount
	\$
2014	150
2015	600
2016	150
2017	-
Thereafter	8,000
Total	<u>8,900</u>

The Company also enters into agreements to lease hardware. The Company applies ASC 840 Leases to determine if the leases should be treated as operating or capital. Total accumulated depreciation associated with these assets is \$52 and \$96 for the period ended September 30, 2014 and 2013, respectively. These leases are were fully paid off in 2013.

5 Income Taxes

The Company computes its provision for income taxes by applying the estimated annual effective tax rate, adjusted for any material items. For each of the nine months ended September 30, 2014 and 2013, no provision or benefits for income taxes have been recorded and accordingly the Company's effective tax rate for each of the nine months ended September 30, 2014 and 2013 was 0%. The Company has recorded a full valuation allowance against its net deferred tax assets based on the Company's assessment regarding the realizability of these net deferred tax assets in future periods. At September 30, 2014, the Company had no unrecognized tax benefits that would affect the Company's effective tax rate.

Estimated net operating loss carryforwards (NOL's) as of September 30, 2014 are \$26,765 for federal purposes and \$17,810 for state purposes. The NOL's begin to expire in 2028 and 2023 respectively. With few exceptions, the company is no longer subject to US federal, state, and local non-US income tax examinations by tax authorities for years before 2010.

6 Stockholders' Deficit and Redeemable Convertible Preferred Stock

The Company has authorized 17,625,600 shares of common stock, \$0.001 par value and 11,537,614 shares of preferred stock, par value \$0.001, of which 3,275,000 shares are designated as Series A convertible preferred stock (Series A preferred), 2,569,169 as Series B convertible preferred stock (Series B preferred) and 2,612,818 as Series C convertible preferred stock (Series C preferred), 89,127 as Series D convertible preferred stock (Series D preferred) and 2,991,500 shares are designated as Series FF convertible preferred stock (Series FF preferred).

On April 3, 2008, the Company was founded through the issuance of 1,000,000 shares of common stock at a price of \$0.001 per share.

On April 15, 2008, the Company issued 2,902,250 shares of Series FF preferred stock at a price of \$0.001 per share and 2,424,630 shares of restricted common stock at a price of \$0.001 per share. Shares of restricted common stock vest over a period of four years. On October 13, 2008, the Company repurchased 223,880 shares of restricted common stock at a price of \$0.001 per share.

On June 3, 2008, the Company issued 3,250,000 shares of Series A preferred stock at a price of \$1.00 per share. As part of this transaction, the Company incurred transaction costs of \$83, which were applied against the proceeds of this sale. The carrying value of the preferred stock will be accreted to its redemption price, including dividends.

On December 10, 2008, the Company issued 25,000 shares of Series A preferred stock at a price of \$1.00 per share.

On June 9, 2010, the Company issued 2,140,974 shares of Series B preferred stock at a price of \$5.84 per share. As part of this transaction, the Company incurred transaction costs of \$75, which were applied against the proceeds of this sale. The carrying value of the preferred stock will be accreted to its redemption price, including dividends.

On August 6, 2010, the Company issued 428,195 shares of Series B preferred stock at a price of \$5.84 per share. As part of this transaction, the Company incurred transaction costs of \$31, which were applied against the proceeds of this sale. The carrying value of the preferred stock will be accreted to its redemption price, including dividends.

On April 27, 2010, the Company allowed the exchange of 89,250 shares of Common Stock for Series FF Preferred Stock, for one of the Company's founders.

On March 21, 2011, the Company issued 1,348,814 shares of Series C preferred stock at a price of \$7.41 per share. As part of this transaction, the Company incurred transaction costs of \$85, which were applied against the proceeds of this sale. The carrying value of the preferred stock will be accreted to its redemption price, including dividends.

On September 26, 2012, the Company issued 89,127 shares of Series D preferred stock at a price of \$16.83 per share. As part of this transaction, the Company incurred transaction costs of \$67, which were applied against the proceeds of this sale. The carrying value of the preferred stock will be accreted to its redemption price, including dividends.

Significant features of the common stock and Series A, Series B, Series C, Series D and FF preferred are as follows:

Voting

The holders of Series A, Series B, Series C, Series D and Series FF preferred stock shall be entitled to the number of votes equal to the number of shares of common stock into which such shares of preferred stock could be converted. The holders of common stock are entitled to vote equally based on their respective shares outstanding.

Dividends

Series A, Series B, Series C and Series D preferred stockholders are entitled to receive annual dividends of \$0.08 per share. Holders of Series FF preferred stock and common stock shall be entitled to dividends when and if declared by the Board of Directors and shall share dividends on a pro rata basis based on the number of shares of common stock that would be held by each upon conversion of all Series A, Series B, Series C, Series D and Series FF preferred stock into common stock.

Conversion

Each share of Series A, Series B, Series C and Series D preferred stock shall be convertible, at the option of the holder, at any time after the date of issuance and without payment of additional consideration, into such number of common shares as is determined by dividing the original issue price of \$1.00 by \$1.00 for Series A, by \$5.84 for Series B, by \$7.41 for Series C and by \$16.83 for Series D preferred stock holders. Each share of Series FF preferred stock shall be convertible, at the option of the holder, at any time after the date of issuance and without payment of additional consideration, into such number of common shares as is determined by dividing the original issue price of \$0.001 by \$0.001. The conversion price is subject to adjustment for subdivisions, dividends, combinations, reclassifications, merger, sale, and other transactions. If the Company issues or sells additional shares of Common Stock less than the original issue price, that is deemed dilutive (Qualifying Dilutive Issuance), Series B and Series C are entitled to reduced conversion rates equal to the price the additional shares are issued at. The Series B and Series C Qualifying Dilutive issuance dates expired on April 9, 2012.

Automatic Conversion

Each share of Series A and Series B preferred stock shall automatically be converted into common stock at the then effective conversion price upon the completion of an underwritten public offering involving the sale of the Company's common stock at prices per share greater than three times the Original Issue price of Series C Preferred Stock and net cash proceeds of at least \$50 million. Each share of Series A and B preferred stock shall also automatically be converted into common stock at the then effective conversion price upon the written consent or agreement of two-thirds ($\frac{2}{3}$) of the Series A and Series B preferred voting as a group.

Each share of Series C preferred stock shall automatically be converted into common stock at the then effective conversion price upon the completion of an underwritten public offering involving the sale of the Company's common stock net cash proceeds of at least \$50 million. Each share of Series C preferred stock shall also automatically be converted into common stock at the then effective conversion price upon the written consent or agreement of the majority of the Series C preferred holders voting as a group.

Each share of Series D preferred stock shall automatically be converted into common stock at the then effective conversion price upon the closing of a qualified public offering or upon the written consent or agreement of the majority shares voting together as a single group.

Liquidation Preference

Upon liquidation, dissolution, or winding up of the Company, holders of the Series A, Series B, Series C and Series D preferred shall be entitled to receive, prior and in preference to any distribution of the assets to holders of Series FF preferred or common stock, an amount equal to the original issue price of \$1.00 per share for Series A, \$5.84 per share for Series B, \$7.41 per share for Series C and \$16.83 for Series D, plus all accrued dividends and all declared and unpaid dividends on the Series A, Series B, Series C and Series D preferred stock. Any assets remaining after such preferential distribution shall be distributed ratably to holders of Series FF preferred stock and common stock on an as-if converted basis. The liquidation value per share, aggregate liquidation value and carrying value for the Series A, Series B, Series C and Series D preferred as of September 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
	\$	\$
Series A Preferred		
Liquidation values per share	1.52	1.43
Aggregate liquidation value	4,932	4,672
Carrying value	<u>4,932</u>	<u>4,672</u>
Series B Preferred		
Liquidation values per share	7.84	7.37
Aggregate liquidation value	20,140	18,940
Carrying value	<u>20,123</u>	<u>18,902</u>
Series C Preferred		
Liquidation values per share	9.51	8.91
Aggregate liquidation value	12,824	12,024
Carrying value	<u>12,796</u>	<u>11,981</u>
Series D Preferred		
Liquidation values per share	19.54	18.20
Aggregate liquidation value	1,744	1,624
Carrying value	<u>1,701</u>	<u>1,568</u>

Redemption Preference

The certificate of incorporation also provides for the redemption of the Series A, Series B, Series C and Series D preferred upon agreement by two-thirds ($\frac{2}{3}$) of the outstanding Series A, Series B, Series C and Series D shares, voting as a single class of stock, beginning on December 31, 2015. The redemption price for the Series A, Series B, Series C and Series D preferred shall be the greater of the original issue price of \$1.00 per share for Series A, \$5.84 per share for Series B, \$7.41 per share for Series C, \$16.83 for Series D plus all accrued, declared, and unpaid dividends or the fair market value of Series A, Series B, Series C or Series D preferred stock on the date of the request.

7 Stock Options and Restricted Stock

During 2008, the Company adopted the 2008 Stock Option Plan (the Plan). A total of 1,942,247 shares of the Company's common stock have been reserved for issuance to employees, directors and consultants. The terms of the stock option grants are determined by the Board of Directors. Since inception, all options were granted with an exercise price equal to the deemed fair value of the common stock on the date of grant. Under the Plan, options become vested over various periods, generally ranging up to four years, and expire not more than ten years after the date of grant.

In determining the compensation cost of options granted, as specified by ASC 718 – “Compensation – Stock Compensation,” the fair value of each option or restricted stock grant has been estimated on the date of grant using the Black-Scholes option-pricing model. The assumptions used in these calculations are summarized as follows as of September 30, 2014 and December 31, 2013:

	2014	2013
Expected dividend yield		
Expected stock price volatility	39% - 40%	39% - 40%
Risk-free interest rate	2.42% - 2.71%	1.71% - 2.96%
Expected life of options	10	10
Estimated forfeiture rate for employee option	15%	15%

The Company calculates expected stock volatility using historical volatility for a peer group of companies, as the Company believes the expected volatility will approximate historical volatility of the peer group. The risk-free interest rate for the expected terms of the stock options is based on the rates paid on US Treasury instruments with similar lives at the time of the grant. The estimated forfeiture rate for employee options is based on historic forfeiture rates.

The following table summarizes the Company’s stock option grant activity during the period from December 31, 2013 through September 30, 2014:

	Number of Shares	Weighted Average Exercise Price \$
Balance at December 31, 2013	675,466	0.26
Granted	42,850	0.28
Vested	(47,522)	0.25
Forfeited	(31,050)	0.27
Balance at September 30, 2014	<u>639,744</u>	<u>0.26</u>

The following table summarizes the stock options outstanding at September 30, 2014 and December 31, 2013:

	Exercise Price	Options Outstanding	Weighted Average Remaining Contractual Life of Options Outstanding	Options Exercisable	Weighted Average Grant Date Fair Value of Options Exercisable \$
	.10	41,200	5.40	39,844	0.07
	0.26	416,248	7.95	201,983	0.15
	<u>0.28</u>	<u>218,018</u>	<u>9.65</u>	<u>-</u>	<u>-</u>
December 31, 2013		<u>675,466</u>		<u>241,827</u>	
	.10	39,000	4.63	39,000	0.07
	0.26	349,826	7.18	190,016	0.15
	<u>0.28</u>	<u>250,918</u>	<u>8.88</u>	<u>50,180</u>	<u>0.15</u>
September 30, 2014		<u>639,744</u>		<u>279,196</u>	

As of September 30, 2014 and December 31, 2013, there was \$36 and \$55, respectively of total unrecognized compensation cost related to non-vested options. The Company recorded \$13 of compensation cost for September 30, 2014 related to stock options recognized over a weighted average remaining life of 8.2 years.

The following table summarizes non-vested stock options during the period from December 31, 2013 through September 30, 2014:

	<u>Number of Shares</u>	<u>Weighted Average Grant Date Fair Value</u> \$
Non-vested common stock options outstanding, December 31, 2013	477,952	0.15
Granted	42,850	0.15
Vested	(135,704)	0.15
Forfeited	(24,550)	0.14
Non-vested common stock options outstanding, September 30, 2014	<u>360,548</u>	<u>0.15</u>

The Company at times issues Restricted Common Stock grants to employees, directors and consultants. The grants typically vest over a period of 4 years. The Company includes these costs in stock-based compensation and recognized on a straight-line basis. At September 30, 2014 and December 31, 2013 there was \$34 and \$63 of unrecognized compensation expense related to restricted stock. The Company recorded \$14 as compensation cost related to the restricted stock for the period ended September 30, 2014.

The following table summarizes the Company's restricted stock award activity during the period from December 31, 2013 through September 30, 2014:

	<u>Number of Shares</u>
Non-vested restricted stock outstanding at December 31, 2013	348,125
Granted	-
Vested	(112,813)
Forfeited	(30,000)
Non-vested restricted stock outstanding at September 30, 2014	<u>205,312</u>

8 Employee Benefit Plan

The Company's eligible employees participate in a 401(k) plan. Participants may contribute a percentage of their salary, limited by IRS regulations. The Plan allows the Company to match a percentage of the amount contributed by the employee. In addition, the Company may make discretionary profit-sharing contributions to the plan. The Company did not elect to make any contributions during the period ended September 30, 2014 or 2013.

9 Commitments

The Company leases its office facilities and certain office equipment under operating lease agreements. Non-cancelable leases may contain escalation clauses which require rent to be recognized on a straight-line basis over the term of the lease agreement. Expense related to operating leases, recognized on the straight-line basis, was approximately \$332 and \$317 for the period ended September 30, 2014 and 2013, respectively.

Future minimum lease payments under non-cancelable operating leases at September 30, 2014 are as follows:

	<u>Amount</u>
	\$
2014	78
2015	235
Thereafter	-
	<u>313</u>

10 Subsequent Events

Management has evaluated subsequent events through December 2, 2014, the date of the financial statements were available for issuance. All matters requiring recognition or disclosure have been included in the consolidated financial statements.

On November 13, 2014 the Company has signed a definitive agreement to sell all of its outstanding shares to a Mandalay Digital Group Inc. Both companies still must obtain shareholder approval before the transaction can close. Mandalay Digital will issue at closing a number of shares and stock options to purchase its common stock equivalent to \$100 million less Appia's net debt and transaction expenses (subject to working capital adjustments), at a agreed-upon value for Mandalay Digital common stock of \$4.50 per common share. Based on an estimate of Appia's net debt at closing, including transaction fees and expenses, Appia stockholders would receive in the aggregate approximately 19 million shares, representing pro forma ownership of the combined company of 33%.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The Unaudited Pro Forma Condensed Combined Balance Sheet combines the consolidated balance sheets of Digital Turbine, Inc. (the “Company”) and Appia, Inc. (“Appia”), giving effect to the acquisition of Appia (the “acquisition”) pursuant to the Agreement and Plan of Merger, dated as of November 13, 2014 (the “merger agreement”), by and among the Company, DTM Merger Sub, Inc., a wholly-owned subsidiary of the Company, Appia and Shareholder Representative Services LLC, as the stockholder representative, as if it had been consummated on September 30, 2014. The Company completed the acquisition of Appia on March 6, 2015. The Unaudited Pro Forma Combined Statements of Operations for the six months ended September 30, 2014, and for the year ended March 31, 2014, combine the historical consolidated statements of operations of the Company and Appia, giving effect to the acquisition as if it had been consummated on April 1, 2013, the beginning of the earliest period presented. The Company and Appia have different fiscal year ends, with the most recent annual period of the Company ended on March 31, 2014, and the most recent annual period of Appia ended on December 31, 2013. As such, amounts related to the historical operations of Appia have been adjusted to align the period over which those operations occurred with the periods presented by adding the necessary quarterly results to match the Company’s fiscal reporting periods. In addition, certain line items of the balance sheet and income statements were combined or reclassified in order to make the information comparable.

The Unaudited Pro Forma Condensed Combined Financial Statements were prepared using the acquisition method of accounting in accordance with FASB ASC Topic 805, Business Combinations, with the Company considered as the accounting acquirer and Appia as the accounting acquiree. Accordingly, consideration to be given by the Company to complete the acquisition with Appia will be allocated to assets and liabilities of Appia based on their estimated fair values as of the completion date of the acquisition. As of the date of this current report, the Company has not completed the detailed valuation studies necessary to arrive at the required estimates of the fair value of the Appia assets to be acquired and the liabilities to be assumed and the related allocations of purchase price, nor has it identified all of the adjustments necessary to conform Appia’s accounting policies to the Company’s accounting policies. A final determination of the fair value of Appia assets and liabilities will be based on the actual net tangible and intangible assets and liabilities of Appia that exist as of the date of completion of the acquisition and, therefore, cannot be made prior to the completion of the transaction. Additionally, the value of the consideration given by the Company to complete the acquisition is determined in part based on the trading price of the Company’s common stock at the time of the completion of the acquisition. Accordingly, the pro forma purchase price adjustments are preliminary and are subject to further adjustments as additional information becomes available and as additional analyses are performed. The preliminary pro forma purchase price adjustments have been made solely for the purpose of providing the Unaudited Pro Forma Combined Financial Statements presented below. The Company estimated the fair value of Appia’s assets and liabilities based on discussions with Appia management, preliminary valuation studies, due diligence and information presented in public filings. Upon completion of the acquisition, final valuations will be performed. Increases or decreases in the fair value of relevant balance sheet amounts will result in adjustments to the balance sheet and/or statements of operations. There can be no assurance that such finalization will not result in material changes. There are no pro forma tax adjustments as both the Company and Appia have historically incurred losses and have an effective US tax rate of 0%. The actual effective tax rate after the acquisition may differ from this rate.

These Unaudited Pro Forma Condensed Combined Financial Statements have been developed from, and should be read in conjunction with, (1) the accompanying notes thereto, (2) the unaudited interim consolidated financial statements of the Company contained in its Quarterly Report on Form 10-Q for the six months ended September 30, 2014, (3) the audited consolidated financial statements of the Company contained in its Annual Report on Form 10-K for the fiscal year ended March 31, 2014, (4) the unaudited interim consolidated balance sheet of Appia as of September 30, 2014, and the related consolidated statements of comprehensive income (loss) and cash flows for the nine months September 30, 2014, and (5) the audited consolidated balance sheets of Appia as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive income (loss), shareholders’ equity, and cash flows for each of the two fiscal years in the period ended December 31, 2013. The Unaudited Pro Forma Condensed Combined Financial Statements are provided for illustrative purposes only and do not purport to represent what the actual consolidated results of operations or the consolidated financial position of the Company would have been if the acquisition had occurred on the dates assumed, nor are they necessarily indicative of future consolidated results of operations or consolidated financial position.

The Unaudited Pro Forma Condensed Combined Financial Statements do not reflect the costs of any integration activities including planning costs or any benefits that may result from realization of future cost savings from operating efficiencies or revenue synergies expected to result from the acquisition, except to the extent that such integration costs have been incurred during the periods presented. In addition, the Unaudited Pro Forma Condensed Combined Financial Statements (excluding the balance sheet) do not include one-time costs directly attributable to the transaction or professional fees incurred by the Company or Appia pursuant to provisions contained in the merger agreement as those costs are not considered part of the purchase price.

Unaudited Pro Forma Condensed Combined Balance Sheet
As of September 30, 2014
(In thousands)

	Historical Mandalay US\$	Historical Appia US\$	Pro Forma Adjustments US\$	Footnote	Pro Forma Combined US\$
ASSETS					
Current assets					
Cash and cash equivalents	16,715	1,952	(3,343)	(a)	15,324
Restricted cash	200	-			200
Accounts receivable, net	4,337	5,090	(64)	(b)	9,363
Deposits	86	-			86
Prepaid expenses and other current assets	349	245			594
Total current assets	21,687	7,287	(3,407)		25,567
Property and equipment, net	422	2,677	2,605	(c)	5,704
Other long-term assets	-	9	(9)	(f)	-
Deferred tax assets	541	-			541
Intangible assets, net	6,913	-	8,000	(d)	14,913
Goodwill	6,309	-	52,832	(e)	59,140
TOTAL ASSETS	35,872	9,973	60,020		105,865
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities					
Accounts payable	3,817	721			4,538
Accrued license fees and revenue share	2,373	2,477	(64)	(b)	4,786
Accrued compensation	2,122	727			2,849
Current portion of long term debt	-	600			600
Deferred tax liabilities	1,024	-			1,024
Other current liabilities	708	1,291	(1,058)	(a)	941
Total current liabilities	10,044	5,816	(1,122)		14,738
Long term and convertible debt, net of discount	-	7,499	801	(f)	7,599
			(701)	(i)	
Other long-term liabilities	-	3,129	(3,129)	(g)	123
			123	(i)	
Total liabilities	10,044	16,444	(4,028)		22,460
Redeemable convertible preferred stock	-	39,552	(39,552)	(g)	-
Stockholders' equity:					
Preferred stock	100	3	(3)	(g)	100
Common stock	7	3	(3)	(g)	9
			2	(h)	
Additional paid-in capital	196,040	-	56,997	(h)	253,615
			578	(i)	
Treasury Stock	(71)	-			(71)
Accumulated other comprehensive loss	(129)	116	(116)	(g)	(129)
Accumulated deficit	(170,119)	(46,145)	46,145	(g)	(170,119)
Total stockholders' equity	25,828	(46,023)	103,600		83,405
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	35,872	9,973	60,020		105,865

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements

Unaudited Pro Forma Condensed Combined Statement of Operations
For the Year Ended March 31, 2014
(In thousands, except per-share amounts)

	Historical Mandalay US\$	Historical Appia US\$	Pro Forma Adjustments US\$	Footnote	Pro Forma Combined US\$
Net revenues	\$ 24,404	\$ 49,129			\$ 73,533
Cost of revenues					
License fees and revenue share	14,789	36,080			50,869
Other direct cost of revenues	1,769	-			1,769
Total cost of revenues	16,558	36,080	-		52,638
Gross profit	7,846	13,049	-		20,895
Operating expenses					
Product development	7,869	4,016	868	(l)	12,753
Sales and marketing	1,915	1,871			3,786
General and administrative	13,432	6,547			19,979
Amortization of intangible assets			3,917	(m)	3,917
Impairment of intangible assets	154	-			154
Total operating expenses	23,370	12,434	4,785		40,589
Loss from operations	(15,524)	615	(4,785)		(19,694)
Interest and other income / (expense)					
Interest income / (expense)	(1,407)	(1,003)	(207)	(o)	(2,617)
Foreign exchange transaction gain / (loss)	33	-			33
Change in fair value of warrant derivative liabilities gain / (loss)	(811)	(85)	85	(n)	(811)
Loss on extinguishment of debt	(442)	-			(442)
Gain / (loss) on settlement of debt	74	-			74
Gain/ (loss) on disposal of fixed assets	-	-			-
Gain on change on valuation of long term contingent liability	603	-			603
Other income	-	-			-
Interest and other expense	(1,950)	(1,088)	(122)		(3,160)
Loss from operations before income taxes	(17,474)	(473)	(4,907)		(22,854)
Income tax provision / (benefit)	(272)	-			(272)
Net loss from continuing operations, net of taxes	\$ (17,202)	\$ (473)	\$ (4,907)		\$ (22,582)
Basic and diluted net loss per common share from continuing operations	\$ (0.63)				\$ 0.48
Weighted average common shares outstanding, basic and diluted	27,478		19,553		47,031

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements

Unaudited Pro Forma Condensed Combined Statement of Operations
For the Six Months Ended September 30, 2014
(In thousands, except per-share amounts)

	Historical Mandalay US\$	Historical Appia US\$	Pro Forma Adjustments US\$	Footnote	Pro Forma Combined US\$
Net revenues	\$ 11,016	\$ 14,596	\$ (126)	(j)	\$ 25,486
Cost of revenues					
License fees and revenue share	7,112	11,567	(126)	(j)	18,553
Other direct cost of revenues	689	-	-		689
Total cost of revenues	7,801	11,567	(126)		19,242
Gross profit	3,215	3,029	-		6,244
Operating expenses					
Product development	4,114	1,496	434	(l)	6,044
Sales and marketing	1,504	1,700	-		3,204
General and administrative	6,922	2,852	(240)	(k)	9,534
Amortization of intangible assets	-	-	1,958	(m)	1,958
Total operating expenses	12,540	6,048	2,152		20,740
Loss from operations	(9,325)	(3,019)	(2,152)		(14,496)
Interest and other income / (expense)					
Interest income / (expense)	(128)	(827)	(138)	(o)	(1,253)
Foreign exchange transaction gain / (loss)	(7)	-	-	(p)	(7)
Change in fair value of warrant derivative liabilities gain / (loss)	-	(2,019)	2,019	(n)	-
Loss on extinguishment of debt	-	-	-		-
Gain / (loss) on settlement of debt	(10)	-	-		(10)
Gain/ (loss) on disposal of fixed assets	2	-	-		2
Gain on change on valuation of long term contingent liability	-	-	-		-
Other income	12	-	-		12
Interest and other expense	(131)	(2,846)	1,721		(1,256)
Loss from operations before income taxes	(9,456)	(5,865)	(431)		(15,752)
Income tax provision / (benefit)	355	-	-		355
Net loss from continuing operations, net of taxes	\$ (9,811)	\$ (5,865)	\$ (431)		\$ (16,107)
Basic and diluted net loss per common share from continuing operations	\$ (0.26)				\$ (0.28)
Weighted average common shares outstanding, basic and diluted	37,464		19,553		57,017

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

1. Basis of Presentation

On November 13, 2014, the Company and Appia announced that they had entered into an Agreement and Plan of Merger pursuant to which the Company will issue shares of its common stock in exchange for all of Appia's outstanding common and preferred stock and warrants. The number of shares to be issued by the Company is subject to adjustment based on Appia's working capital and net indebtedness as of the closing date of the acquisition. Based on Appia's working capital and net indebtedness as of September 30, 2014, the Company would issue approximately 19,553,000 shares of common stock. Additionally, Appia's equity awards outstanding at the closing date will be assumed by the Company and converted into equity awards with respect to the Company common stock. Vested equity awards held by Appia's employees and service providers are considered part of the purchase price; accordingly, the estimated purchase price includes an estimated fair value of equity awards to be issued by the Company of approximately \$491 thousand.

The preliminary total purchase price of the proposed transaction is as estimated follows (in thousands):

Fair value of Mandalay common shares	\$	56,508
Fair value of Mandalay options issued in exchange for Appia options		491
Assumption of Appia net debt		6,948
Total estimated purchase price	\$	<u>63,947</u>

The value of the Company's common stock used to estimate the purchase price was \$2.89 per share, the closing price on January 23, 2015. An increase or decrease in the market price of the Company's common stock of 20% would increase or decrease the value of the the Company common stock to be received by Appia stockholders upon completion of the transactions as set forth below, with a corresponding increase or decrease in goodwill that will be recorded in connection with the transaction (in thousands, except per-share amounts):

	Percentage change in stock price	
	-20%	20%
Market price of Mandalay common stock	\$ 2.31	\$ 3.47
Fair value of Mandalay common shares to be issued	\$ 45,206	\$ 67,810

Under the acquisition method of accounting, the total preliminary estimated purchase price as shown in the table above is allocated to the Appia net tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the date of the completion of the transaction. The preliminary estimated purchase price has been allocated based on estimates taking into account various factors as described in the introduction to these unaudited pro forma condensed combined financial statements. The allocation of the estimated purchase price discussed below is preliminary because the transaction has not yet been completed. The final allocation of the purchase price will be based on the fair values of Appia's assets and liabilities as of the closing of the Merger. The preliminary allocation of the estimated purchase price is as follows (in thousands):

Current assets	\$	5,335
Property and equipment, excluding developed technology		282
Developed technology		5,000
Advertiser relationships		5,000
Publisher relationships		2,500
Trade name and trademarks		500
Goodwill		52,832
Current liabilities		(7,502)
Total estimated purchase price	\$	<u>63,947</u>

Upon completion of the fair value assessment after the acquisition, it is anticipated that the final purchase price allocation will differ from the preliminary assessment outlined above. Any changes to the initial estimates of the fair value of assets and liabilities will be recorded as adjustments to those assets and liabilities and residual amounts will be allocated to goodwill.

2. Adjustment of Appia Financial Statements

The Company and Appia have different fiscal year ends, with the most recent annual period of the Company ended on March 31, 2014, and the most recent annual period of Appia ended on December 31, 2013. As such, amounts related to the historical operations of Appia have been adjusted to align the period over which those operations occurred with the periods presented by (i) adding the results for the quarter ended March 31, 2014 to, and deducting the results for the quarter ended March 31, 2013 from, the results for the fiscal year ended December 31, 2013, and (ii) deducting the results for the quarter ended March 31, 2014 from the results for the nine month period ended September 30, 2014.

3. Pro Forma Adjustments

Certain reclassifications have been made to conform Appia's historical reported balances to the Company's financial statement basis of presentation.

The pro forma adjustments included in the unaudited pro forma condensed financial statements are as follows:

Pro Forma Balance Sheet Adjustments:

- (a) Cash. Adjustment to cash reflects payment of certain Appia liabilities due upon closing, including accrued interest and prepayment fees, and transaction costs.
- (b) Intercompany balances. Adjustment to accounts receivable and accrued license fees reflects the elimination of intercompany balances between the Company and Appia.
- (c) Property and Equipment. Adjustment reflects the portion of the preliminary purchase price allocation relating to the excess of the fair value of developed technology over the historical balance of capitalized software costs, net of amortization.
- (d) Intangible assets. Adjustment reflects the portion of the preliminary purchase price allocation relating to identified intangible assets, including advertiser and publisher relationships and trade names.
- (e) Goodwill. Adjustment reflects the portion of the preliminary purchase price allocation relating to goodwill.
- (f) Long-term debt. Adjustment eliminates the remaining unamortized discount on Appia's debt, and eliminates historical debt issuance costs. Appia's debt is summarized as follows (in thousands):

	Historical	Pro Forma
	US \$	US \$
Bank debt—current portion	\$ 600	\$ 600
Bank debt—noncurrent portion	300	300
Subordinated debt	8,000	8,000
Less discount	(801)	(701)
Subtotal—noncurrent	7,499	7,599
Total debt	\$ 8,099	\$ 8,199

- (g) Appia stockholders' equity, redeemable convertible preferred stock and warrant liability. Adjustment eliminates all of Appia's historical equity balances, preferred stock, and warrant liabilities which will be exchanged for the Company common stock.

- (h) Equity interests issued to holders of Appia equity interests. Adjustment reflects the issuance of approximately 19,553,000 shares of the Company common stock to the holders of Appia's equity, redeemable convertible preferred stock and warrant liability and approximately 203,000 the Company options issued in exchange for vested Appia options. Unvested equity awards, consisting of approximately 129,000 the Company options and approximately 47,000 restricted shares of the Company common stock, are excluded from the calculation of the purchase price.
- (i) Common stock and warrant issued to lender. Adjustment reflects the issuance of 200,000 shares of the Company common stock to the holder of Appia's subordinated debt. The holder will also receive a warrant to acquire 400,000 additional shares of the Company common stock, exercisable only the subordinated note is not repaid in full within twelve months of the closing of the acquisition. The estimated fair value of the warrant is \$123 thousand.

Pro Forma Statements of Operations Adjustments:

- (j) Intercompany transactions. Adjustment to revenues and cost of revenues eliminates transactions between the Company and Appia.
 - (k) Transaction-related costs. Adjustment to eliminate professional fees and other direct costs incurred by the Company and Appia related to the acquisition.
 - (l) Amortization of technology. Adjustment to amortize the excess of the fair value of developed technology over the historical balance of capitalized software costs, based on an estimated useful life of 3 years.
 - (m) Amortization of intangible assets. Adjustment to record the estimated amortization expense on identified intangible assets recorded as part of the purchase price allocation. The adjustment is based on estimated useful lives of 2 years for advertiser and publisher relationships and 3 years for trade names and trademarks.
 - (n) Other expenses. Adjustment to eliminate historical expense relating to changes in the fair value of the warrant liability.
 - (o) Interest expense. Adjustment to eliminate historical amortization of debt discount and debt issuance costs, and record amortization of the new discount relating to the common shares and warrant to be issued to the holder of Appia's subordinated debt.
 - (p) Interest expense. Adjustment to record additional interest expense on Appia's subordinated debt due to the increase in the contractual interest rate from 10% to 14% following the first anniversary of the closing of the acquisition.
-