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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended December 31, 2013

or

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

Commission File Number 001-35958

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**MANDALAY DIGITAL GROUP, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**2811 Cahuenga Boulevard West**  
**Los Angeles, CA**  
(Address of Principal Executive Offices)

**22-2267658**  
(I.R.S. Employer  
Identification No.)

**90068**  
(Zip Code)

**(323) 472-5461**

(Issuer's Telephone Number, Including Area Code)

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer  (do not check if smaller reporting company)

Smaller Reporting Company

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

As of February 12, 2014, the Company had 32,892,851 shares of its common stock, \$0.0001 par value per share, outstanding.

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Mandalay Digital Group, Inc. and Subsidiaries

**Consolidated Balance Sheets**

(In thousands, except share and per share amounts)

	December 31, 2013 <u>(Unaudited)</u>	March 31, 2013 <u>(Audited)</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 4,656	1,149
Accounts receivable, net of allowances of \$130 and \$130, respectively	6,310	1,995
Deposits	124	563
Prepaid expenses and other current assets	338	285
Total current assets	11,428	3,992
Property and equipment, net	459	148
Deferred tax assets	497	—
Intangible assets, net	10,095	4,757
Goodwill	4,770	3,588
<b>TOTAL ASSETS</b>	<b>\$ 27,249</b>	<b>\$ 12,485</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 4,916	\$ 3,783
Accrued license fees	3,680	669
Accrued compensation	1,266	692
Current portion of long term debt, net of discounts of \$0 and \$726, respectively	6	3,777
Deferred tax liabilities	315	134
Other current liabilities	565	600
Total current liabilities	10,748	9,655
Long term debt and convertible debt, net of discounts of \$0 and \$980, respectively	—	1,252
Long term contingent liability, less discount of \$762 and \$159, respectively	238	841
Total liabilities	\$ 10,986	\$ 11,748
Stockholders' equity		
Preferred stock		
Series A convertible preferred stock at \$0.0001 par value; 2,000,000 shares authorized, 100,000 issued and outstanding (liquidation preference of \$1,000,000)	100	100
Common stock, \$0.0001 par value: 200,000,000 shares authorized; 32,122,817 issued and 31,368,217 outstanding at December 31, 2013; 19,222,493 issued and 18,467,894 outstanding at March 31, 2013	7	7
Additional paid-in capital	173,806	142,571
Treasury Stock (754,600 shares at December 31, 2013 and March 31, 2013)	(71)	(71)
Accumulated other comprehensive income/(loss)	109	(266)
Accumulated deficit	(157,688)	(141,604)
Total stockholders' equity	16,263	737
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 27,249</b>	<b>\$ 12,485</b>

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Mandalay Digital Group, Inc. and Subsidiaries

**Consolidated Statements of Operations and Comprehensive (Loss) Income (Unaudited)**

(In thousands, except per share amounts)

	3 Months Ended December 31, 2013	3 Months Ended December 31, 2012	9 Months Ended December 31, 2013	9 Months Ended December 31, 2012
Net revenues	\$ 7,033	\$ 2,049	\$ 19,121	\$ 4,252
Cost of revenues				
License fees	4,466	190	11,228	957
Other direct cost of revenues	513	737	1,488	1,018
Total cost of revenues	4,979	927	12,716	1,975
Gross profit	2,054	1,122	6,405	2,277
Operating expenses				
Product development	2,120	577	6,299	1,308
Sales and marketing	555	329	1,569	647
General and administrative	3,567	3,795	10,770	9,386
Total operating expenses	6,242	4,701	18,638	11,341
Loss from operations	(4,188)	(3,579)	(12,233)	(9,064)
Interest and other income / (expense)				
Interest expense	(4)	(536)	(3,282)	(1,490)
Foreign exchange transaction gain / (loss)	9	(18)	62	(52)
Loss on change in fair value of derivative liabilities loss	—	—	(811)	(22)
Loss on disposal of fixed assets	(1)	—	(14)	—
Gain/ (loss) on settlement of debt	27	(4)	67	(4)
Gain / (loss) on change on valuation of long term contingent liability	—	(44)	603	(44)
Loss on extinguishment of debt	—	—	(442)	—
Interest and other income / (expense)	31	(602)	(3,817)	(1,612)
Loss from operations before income taxes	(4,157)	(4,181)	(16,050)	(10,676)
Income tax provision	(19)	(33)	(34)	(66)
Net loss	\$ (4,176)	\$ (4,214)	\$ (16,084)	\$ (10,742)
Other comprehensive income / (loss):				
Foreign currency translation adjustment	\$ (63)	\$ 49	\$ 375	\$ 46
Comprehensive loss	\$ (4,239)	\$ (4,165)	\$ (15,710)	\$ (10,696)
Basic and diluted net loss per common share	\$ (0.13)	\$ (0.24)	\$ (0.63)	\$ (0.62)
Weighted average common shares outstanding, basic and diluted	31,329	17,797	25,544	17,383



for services							310			310
Shares of restricted stock issued for services	86,020						60			60
Shares issued as settlement of debt	9,750						24			24
Vesting of restricted stock for services							(77)			(77)
Balance at December 31, 2013	<u>31,368,217</u>	<u>\$ 7</u>	<u>100,000</u>	<u>\$ 100</u>	<u>754,600</u>	<u>\$ (71)</u>	<u>\$ 173,806</u>	<u>\$ 109</u>	<u>\$ (157,688)</u>	<u>\$16,263</u>

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Mandalay Digital Group, Inc. and Subsidiaries

**Consolidated Statements of Cash Flows (unaudited)**

(In thousands)

	9 Months Ended December 31 2013	9 Months Ended December 31 2012
<b>Cash flows from operating activities</b>		
Net (loss) / income	\$ (16,084)	\$ (10,742)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,584	237
Amortization of debt discount	726	1,070
Interest accrued	36	335
PIK Interest	68	0
Finance Costs	1,350	0
Fair value of financing costs related to conversion options	1,479	0
Stock and stock option compensation	1,354	487
Warrants issued for services	406	0
Stock issued for services	2,173	3,150
Stock issued as settlement of debt with a supplier	24	542
Settlement of debt with a supplier	182	0
Revaluation of contingent liability	(603)	44
Increase in fair value of derivative liabilities	811	21
Loss on disposal of leasehold improvements	8	0
(Increase) / decrease in assets, net of effect of disposal of subsidiary:		
Accounts receivable	(1,506)	(322)
Deposits	439	0
Prepaid expenses and other current assets	346	(34)
Increase / (decrease) in liabilities, net of effect of disposal of subsidiary:		
Accounts payable	(443)	(435)
Accrued license fees	3,011	(155)
Accrued compensation	229	(75)
Other liabilities and other items	(2,501)	15
Net cash used in operating activities	<u>(6,911)</u>	<u>(5,862)</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(61)	0
Cash used in acquisition of subsidiary	(1,287)	(3,416)
Cash acquired with acquisition of subsidiary	513	59
Net cash used in investing activities	<u>(835)</u>	<u>(3,357)</u>
<b>Cash flows from financing activities</b>		
Repayment of debt obligations	(3,657)	—
Issuance of shares for cash	14,924	2,000
Net cash provided by financing activities	<u>11,267</u>	<u>2,000</u>
Effect of exchange rate changes on cash and cash equivalents	(14)	61
<b>Net change in cash and cash equivalents</b>	3,507	(7,158)
<b>Cash and cash equivalents, beginning of period</b>	<u>1,149</u>	<u>8,799</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 4,656</u>	<u>\$ 1,641</u>
<b>Supplemental disclosure of cash flow information:</b>		
Taxes paid	<u>\$ 19</u>	<u>\$ 28</u>
<b>Noncash investing and financing activities:</b>		
Contingency earn out on acquisition of subsidiary, net of discount	<u>\$ 238</u>	<u>\$ 758</u>
Common stock of the Company issued for pending acquisition of an asset	<u>\$ —</u>	<u>\$ 533</u>
Common stock of the Company issued for acquisition of subsidiary	<u>\$ 4,449</u>	<u>\$ 787</u>
Exercise of warrants to purchase common stock of the Company	<u>\$ 0</u>	<u>\$ 473</u>

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Mandalay Digital Group, Inc. and Subsidiaries

### **Notes to Unaudited Consolidated Financial Statements**

**(all numbers in thousands except share and per share amounts)**

#### **1. Organization**

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

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

AMV marketed branded services through a unique Customer Relationship Management platform that drove revenue through mobile internet, print and TV advertising. AMV was headquartered in Marlow, outside of London in the United Kingdom.

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

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

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

On December 28, 2011, the Company issued 10,000 shares of the Company’s common stock as part of the consideration for in exchange for the assets of Digital Turbine Group, LLC, the developer of Digital Turbine (“DT”), a technology platform that allows media companies, mobile carriers, and their OEM handset partners to take advantage of multiple mobile operating systems across multiple networks, and offers solutions that allow them to maintain their own branding and personalized, one-to-one relationships with each end-user. DT’s cross-platform user interface and multimedia management system for carriers and OEMs can be integrated with different operating systems to provide a more organized and unified experience for end-users of mobile content across search, discovery, billing, and delivery. Other aspects of the platform, such as a smart content discovery toolbar, allows carriers and OEMs to control the data presented to their users while giving the end-user a more efficient way of finding and purchasing the desired content.

On July 27, 2012, the Company set up a wholly-owned Israeli acquisition/holding company, Digital Turbine (EMEA) Ltd. (“DT EMEA”) (formerly M.D.G. Logia Holdings Ltd).



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On August 15, 2012, the Company amended its charter with the state of Delaware to increase its total number of shares of common stock of the Company to 200,000,000 and preferred shares of the Company to 2,000,000.

On September 13, 2012, the Company completed an acquisition of 100% of the issued and outstanding share capital of three operating subsidiaries of Logia Group Ltd (“Sellers”) (Logia Content Development and Management Ltd. (“Logia Content”), Volas Entertainment Ltd. (“Volas”) and Mail Bit Logia (2008) Ltd. (“Mail Bit”), (collectively, the “Targets”). In addition, the Company, by assignment to the acquisition entity, Digital Turbine (EMEA) Ltd. (“DT EMEA”), (formerly M.D.G. Logia Holdings Ltd), acquired the assets of LogiaDeck Ltd (an affiliate of the Seller, “LogiaDeck”), comprised of the “LogiaDeck” software, which the Company has rebranded “Ignite”, and certain operator and other contracts related to the business of the Logia companies that were originally entered into by the Sellers. Pursuant to the Logia purchase agreement, Mandalay Digital Group, Inc. purchased 23% of the outstanding shares of the Targets and DT EMEA purchased 77% of such shares. On November 7, 2012, Mandalay Digital Group, Inc. contributed all of its shares of the Targets to DT EMEA pursuant to a Contribution Agreement among Mandalay Digital Group, Inc., Digital Turbine Group, Inc. and DT EMEA. The acquired business of the Targets and Ignite are collectively referred to as “Logia” in this quarterly report.

Logia is a mobile content development and management solutions provider of innovative mobile monetization solutions. It provides solutions for top-tier mobile operators and content providers, including device application management solutions, white label app and media stores, app-based value added services, and mobile social music and TV offerings.

On March 28, 2013 and April 9, 2013, the Company filed a Certificate of Amendment and Certificate of Correction of Certificate of Amendment of its Certificate of Incorporation (the “Certificate of Incorporation”), with the Secretary of State of the State of Delaware, to effect a 1-for-5 reverse stock split of our common stock (the “Reverse Stock Split”). The Certificate of Amendment, as corrected, became effective as of April 12, 2013.

As a result of the Reverse Stock Split, every five (5) shares of our pre-Reverse Stock Split common stock were combined and reclassified into one (1) share of our common stock. Our post-Reverse Stock Split common stock began trading on April 15, 2013 with a new CUSIP number of 562562-207. The Reverse Stock Split did not change the authorized number of shares or the par value of our common stock.

On April 12, 2013, the Company, through its indirect wholly owned subsidiary organized under the laws of Australia, Digital Turbine Australia Pty Ltd (“DT Australia”), acquired all of the issued and outstanding stock of Mirror Image International Holdings Pty Ltd (“MIAH”). MIAH owns direct or indirect subsidiaries Mirror Image Access (Australia) Pty Ltd (MIA), MIA Technology Australia Pty Ltd (MIATA) and MIA Technology IP Pty Ltd (together with MIAH, the “MIA Group”). The acquired business of the MIA Group is referred to as “MIA” in this quarterly report.

MIA is a leading mobile solutions provider based in Australia. MIA has extensive content licenses with major brands, as well as a proprietary content management and billing integration system (“Sphere”). MIA enables experiences on connected devices by enabling the delivery of content and applications to multiple devices, across any network, in any format. The Sphere platform enables carriers, media companies and brands to work together.

## **2. Liquidity**

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Company’s consolidated financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

In the Form 10-K filing of our fiscal year ended March 31, 2013, our report of independent registered public accounting firm included an unqualified audit opinion with an emphasis of matter paragraph related to the going concern.

Our primary sources of liquidity have historically been issuance of common and preferred stock and borrowings under credit facilities. In fiscal years 2012 and 2013, the Company raised \$9.7 and \$2.6 million, respectively, through issuance of convertible debt and equity financings. In addition, the Company converted an additional \$3 million through restructuring of existing debt to convertible debt, which was subsequently converted to shares in August 2013.

In the nine months ended December 31, 2013, the Company has raised \$14.9 million, net of costs, through the sale of its common stock. We anticipate that our primary sources of liquidity will be cash generated by our operating activities, and that the cash generated will be sufficient to meet our working capital needs.

## **3. Acquisitions/Purchase Price Accounting**

### **Logia**

On August 14, 2012, the Company, entered into a Share Purchase Agreement (the “Purchase Agreement”) to acquire subsidiaries and certain assets of Logia Group, Ltd. (“Logia”), a leading mobile content development and management solutions provider of innovative mobile monetization solutions. On September 13, 2012, the Company completed the transactions contemplated by the Purchase Agreement. As a part of the transaction, the Company, through DT EMEA, acquired all of the capital stock of three operating subsidiaries of Logia (Logia Content Development and Management Ltd. (“Logia Content”), Volas Entertainment Ltd. (“Volas”) and Mail Bit Logia (2008) Ltd. (Mail Bit), (collectively, the “Targets”). In addition, the Company, by assignment to an acquisition entity,



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acquired from LogiaDeck Ltd. (formerly S.M.B.P. IGLOO Ltd.) (an affiliate of the Seller, “LogiaDeck”) the assets comprising the “LogiaDeck” software, which the Company has rebranded “Ignite”, and certain operator and other contracts related to the business of the Targets that were entered into by Logia.

Our Company is a comprehensive mobile content and service provider, and its many technology platforms including Digital Turbine (DT) allow media companies, mobile carriers, and their OEM handset partners to take advantage of multiple mobile operating systems across multiple networks, while maintaining individual branding and personalized, one-to-one relationships with each end-user. The purpose of the Logia acquisition was an effort to not only build on the Company’s current distribution network, but to enhance its mobile content infrastructure with the Ignite solution. The Ignite solution is a complete application management platform for Android devices.

The Company set up an Israeli acquisition/holding company, DT EMEA to acquire the Targets and the LogiaDeck assets, which was capitalized through a combination of intercompany debt and the issuance of equity.

The purchase consideration for the transaction was comprised of cash and common stock of the Company and two tranches of “earn out” payments of cash and stock, as follows:

- (1) At closing \$3,750 in cash (subject to working capital adjustments) and a number of shares of Company common stock having a value of \$750, based on a 30-day volume weighted average price (VWAP) look back from the issuance date or 187,500 shares (the “Closing Shares”) was paid and issued, as applicable, to Logia and LogiaDeck (fair value on the date of grant was \$788);
- (2) Two tranches, each comprised of a cash payment of \$250 and a number of shares of Company common stock valued at \$250 (based on a 30 day VWAP look back from the issuance date) (the “Earn Out Shares”), will be paid and issued, as applicable, to Logia upon satisfaction of various milestones, and subject to the terms and conditions, as set forth in the Purchase Agreement, totaling up to a number of shares of common stock having a value of \$500 (valued as described) and \$500 of cash if all milestones are achieved.

The Closing Shares and Earnout Shares are subject to a Registration Rights Agreement that provides for piggy back rights for 3 years and inclusion on the Company’s Form S-3 filed August 30, 2013, and subsequently made effective on October 31, 2013.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition.

	<u>Unaudited</u>
Cash	\$ 59
Accounts receivable	567
Prepaid expenses and other assets	86
Customer relationships	3,454
Developed technology	818
Trade names / Trademarks	143
Non-compete agreements	54
Goodwill	1,067
Current liabilities	(1,222)
Long-term debt	(35)
Purchase price	<u>\$ 4,991</u>

In addition to the value assigned to the acquired workforce, the Company recorded the excess of the purchase price over the estimated fair value of the assets acquired as an increase in goodwill. This goodwill arises because the purchase price reflects the strategic fit and resulting synergies that the acquired business brings to the Company’s existing operations.

## **MIA**

On April 12, 2013, Mandalay Digital Group, Inc. (the “Company”), through its indirect wholly owned subsidiary Digital Turbine Australia Pty Ltd (“DT Australia”), acquired all of the issued and outstanding stock of Mirror Image International Holdings Pty Ltd (“MIAH”). MIAH owns direct or indirect subsidiaries Mirror Image Access (Australia) Pty Ltd (MIA), MIA Technology Australia Pty Ltd (MIATA) and MIA Technology IP Pty Ltd (together the MIAH, the “MIA Group”). From this point forward the Company refers to the MIA Group as “MIA”.

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Our Company is a comprehensive mobile content and service provider, and its many technology platforms including Digital Turbine (DT) allow media companies, mobile carriers, and their OEM handset partners to take advantage of multiple mobile operating systems across multiple networks, while maintaining individual branding and personalized, one-to-one relationships with each end-user. The purpose of the MIA acquisition was an effort to, not only build on the Company's current distribution network, but to enhance its mobile content infrastructure with the IP acquired in the purchase. The Company expects to be able to realize synergies from its ability to export Sphere, MIA's content management system, to customers outside of Australia as well as be able to import DT's products and services to MIA's current customer base. The company will be integrating its Digital Turbine IQ product with Sphere to provide an end-to-end solution for carriers looking to sell mobile content. In addition, the Company plans to market MIA's third party API product, "DT Pay", to markets outside of Australia leveraging DT's existing customers. DT Pay is an application programming interface (API) that integrates between mobile carriers billing infrastructure and content publishers to facilitate mobile commerce. DT Pay allows the publishers and the carriers to monetize those applications by allowing the content to be billed directly to the consumer via their carrier bill.

The Company set up an Australian acquisition/holding company, DT Australia to acquire the Targets and the IP, which was capitalized through a combination of intercompany debt and the issuance of equity.

The purchase consideration for the transaction was comprised of cash and common stock of the Company, as follows:

- (1) At closing AUD 1,220, translated to \$1,286 for US GAAP reporting purposes;
- (2) Convertible Note payable of AUD 2,280, translated to \$2,404;
- (3) Shares of common stock of the Company (the "Closing Shares") equivalent to AUD 3,500, translated to \$3,691 and under the agreement, converted to shares at \$3.65 per share, or 1,011,164 shares of the common stock of the Company. The closing price of the stock on that day was \$4.40 per share, for a total value of \$4,449.

The Closing Shares are subject to a Registration Rights Agreement that provides for piggy back rights for 3 years and inclusion on the Company's Form S-3 filed August 30, 2013, and subsequently made effective on October 31, 2013.

The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed at the date of acquisition.

	<b>Unaudited</b>
Cash	\$ 514
Accounts receivable	2,809
Prepaid expenses and other assets	896
Property, Plant and Equipment	300
Customer relationships	652
Developed technology	5,820
Library	300
Trade names / Trademarks	54
Goodwill	1,182
Accounts payable	(1,151)
Accrued liabilities	(2,891)
Accrued compensation	(345)
Purchase price	<u>\$ 8,140</u>

In addition to the value assigned to the acquired workforce, the Company recorded the excess of the purchase price over the estimated fair value of the assets acquired as an increase in goodwill. This goodwill arises because the purchase price reflects the strategic fit and resulting synergies that the acquired business brings to the Company's existing operations. The initial allocation of excess purchase price is the result of a preliminary analysis performed, and is subject to revision upon finalization.

The Company believes with the acquisition of MIA it will be able to enhance existing products and create new industry-leading products, and also benefit from synergy savings through operational consolidation.

Goodwill has been recorded in our Australia acquisition/holding company, DT Australia. The Company is in the process of evaluating goodwill that is deductible for tax purposes.

The initial accounting of the MIA acquisition is incomplete and subject to changes, which may result in significant changes to provisional amounts. The Company has recorded provisional amounts based upon management's best estimate of the value as a result of preliminary analysis. Therefore, actual amounts recorded upon the finalization of the valuation of certain intangible assets may differ materially from the information presented in this Quarterly report on Form 10-Q.

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The amortization period for the intangible assets is as follows:

	<b>Remaining Useful Life</b>
Customer relationships	14 years
Developed technology	5 years
Trade names / Trademarks	5 years
Library	5 years
Goodwill	Indefinite

The operating results of MIA are included in the accompanying consolidated statements of operations from the acquisition date. The Targets' combined operating results from the acquisition date to December 31, 2013 are as follows:

	<b>Unaudited</b>
Revenue	\$ 14,890
Cost of goods sold	10,601
Gross profit	4,289
Operating expenses	3,656
Income from operations	633
Non-operating (income) / expense, net	(17)
Provision for income tax	194
Net income	\$ 456

The pro forma financial information of the Company's consolidated operations if the acquisition of MIA had occurred as of April 1, 2012 is presented below.

	<b>Unaudited Nine Months Ended December 31,</b>	
	2013	2012
Revenues	\$15,374	\$ 14,470
Cost of goods sold	10,921	7,870
Gross profit	4,453	6,600
Operating expenses	3,833	15,865
Income/(loss) from operations	620	(9,265)
Non-operating (income) / expense, net	(5)	1,626
Income/(loss) before provision for income taxes	625	(10,891)
Provision for income tax (income) / expense, net	(53)	105
Net income/(loss)	\$ 678	\$(10,996)
Basic and diluted earnings per share	\$ 0.03	\$ (0.63)

#### **4. Summary of Significant Accounting Policies**

##### **Basis of Presentation**

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

##### **Principles of Consolidation**

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

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### **Revenue Recognition**

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

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

The Company distributes products through mobile telecommunications service providers ("carriers"). The carrier markets the product, images or games to end users, but the Company may also participate in the marketing efforts with the carrier and is at times required to do so. License fees for perpetual and subscription licenses are usually billed upon download of the product, image or game by the end user. In the case of subscription licenses, many subscriber agreements provide for automatic renewal until the subscriber opts-out, while others provide for opt-in renewal. In either case, subsequent billings for subscription licenses are generally billed monthly. The Company applies the provisions of FASB ASC 985-605, *Software Revenue Recognition*, to all transactions.

Revenues are recognized from the Company's products, images and games when persuasive evidence of an arrangement exists, the product, image or game has been delivered, the fee is fixed or determinable, and the collection of the resulting receivable is probable. For both perpetual and subscription licenses, management considers a license agreement to be evidence of an arrangement with a carrier or aggregator and a "clickwrap" agreement to be evidence of an arrangement with an end user. For these licenses, the Company defines delivery as the download of the product, image or game by the end user.

The Company estimates revenues from carriers in the current period when reasonable estimates of these amounts can be made. Most carriers only provide detailed sales transaction data. Estimated revenue is treated as unbilled receivables until the detailed reporting is received and the revenues can be billed. Some carriers provide reliable interim preliminary reporting and others report sales data within a reasonable time frame following the end of each month, both of which allow the Company to make reasonable estimates of revenues and therefore to recognize revenues during the reporting period when the end user licenses the product, image or game. Determination of the appropriate amount of revenue recognized involves judgments and estimates that the Company believes are reasonable, but it is possible that actual results may differ from the Company's estimates. The Company's estimates for revenues include consideration of factors such as preliminary sales data, carrier-specific historical sales trends, volume of activity on company monitored sites, seasonality, time elapsed from launch of services or product lines, the age of games and the expected impact of newly launched games, successful introduction of newer and more advanced handsets, promotions during the period and economic trends. When the Company receives the final carrier reports, to the extent not received within a reasonable time frame following the end of each month, the Company records any differences between estimated revenues and actual revenues in the reporting period when the Company determines the actual amounts. Revenues earned from certain carriers may not be reasonably estimated. If the Company is unable to reasonably estimate the amount of revenues to be recognized in the current period, the Company recognizes revenues upon the receipt of a carrier revenue report and when the Company's portion of licensed revenues are fixed or determinable and collection is probable. To monitor the reliability of the Company's estimates, management, where possible, reviews the revenues by country, by carrier and by product line on a regular basis to identify unusual trends such as differential adoption rates by carriers or the introduction of new handsets. If the Company deems a carrier not to be creditworthy, the Company defers all revenues from the arrangement until the Company receives payment and all other revenue recognition criteria have been met.

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

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

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### **Net Loss per Common Share**

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

	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012	Nine Months Ended December 31, 2013	Nine Months Ended December 31, 2012
Potentially dilutive shares	1,498,065	5,091,600	2,014,101	5,318,200

### **Comprehensive Loss**

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

### **Cash and Cash Equivalents**

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

### **Accounts Receivable**

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

### **Deposits**

As of December 31, 2013, the Company has deposits of \$124 comprised of facility and equipment lease deposits, as compared to \$563 as of March 31, 2013.

### **Content Provider Licenses**

#### *Content Provider License Fees*

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

#### *Content Acquired*

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

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### **Software Development Costs**

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

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

### **Product Development Costs**

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

### **Advertising Expenses**

The Company expenses the costs of advertising, including direct response advertising, the first time the advertising takes place. Advertising expense was \$54 and \$143 in the three months ended periods ended December 31, 2013 and 2012, respectively and \$136 and \$143 in the nine months ended December 31, 2013 and 2012, respectively.

### **Presentation**

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

### **Fair Value of Financial Instruments**

As of December 31, 2013 and March 31, 2013 the carrying value of cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued license fees, accrued compensation and other current liabilities approximates fair value due to the short-term nature of such instruments.

### **Foreign Currency Translation**

The Company uses the United States dollar for financial reporting purposes. Assets and liabilities of foreign operations are translated using current rates of exchange prevailing at the balance sheet date. Equity accounts have been translated at their historical exchange rates when the capital transaction occurred. Statement of Operations amounts are translated at average rates in effect for the reporting period. The foreign currency translation adjustment gains of \$375 and \$46 in the nine month periods ended December 31, 2013 and 2012, respectively, have been reported as a component of comprehensive loss in the consolidated statements of stockholders' equity and comprehensive loss.

### **Concentrations of Credit Risk**

Financial instruments which potentially subject us to concentration of credit risk consist principally of cash and cash equivalents, and accounts receivable. We have placed cash and cash equivalents high credit-quality institutions. Most of our sales are made directly to large national Mobile Phone Operators in the countries that we operate. We have a significant level of business and resulting accounts receivable balance with one operator and therefore have a high concentration of credit risk with that operator. We perform ongoing credit evaluations of our customers and maintain an allowance for potential credit losses. As of December 31, 2013, two major customers represented approximately 51.6% and 14.9% of our gross accounts receivable outstanding, and 0% and 0% of gross accounts receivable outstanding as of March 31, 2013, respectively. These two customers, as well as one additional customer, accounted for 40.6%, 23.2%, and 10.8% of our gross revenues during the nine month period ended December 31, 2013.



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### **Property and Equipment**

Property and equipment is stated at cost. Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the related assets. Estimated useful lives are the lesser of 8 to 10 years or the term of the lease for leasehold improvements and 3 or 5 years for other assets.

### **Goodwill and Indefinite Life Intangible Assets**

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

During the nine month period ended December 31, 2013, the Company determined that there was no impairment of goodwill. In the year ended March 31, 2013 the Company determined that there was an impairment of goodwill amounting to \$1,119.

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

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

During the nine month period ended December 31, 2013, the Company determined that there was no impairment of intangible assets. In the year ended March 31, 2013, the Company determined that there was no impairment of intangible assets.

### **Income Taxes**

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

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

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### **Stock-based Compensation**

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

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

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

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

### **Preferred Stock**

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

### **Use of Estimates**

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

### **Recently Adopted Accounting Pronouncements**

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

Also, in December of 2011, the FASB issued Accounting Standards Update No. 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income* in Accounting Standards Update No. 2011-05 (ASU 2011-12). In February 2013, the FASB issued Accounting Standards Update 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which adds additional disclosure requirements for items reclassified out of accumulated other comprehensive income. This ASU will be effective for the first interim reporting period in 2013. The Company has adopted this guidance.

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In July 2012, the Financial Accounting Standards Board (“FASB”) issued amendments to the goodwill and indefinite-lived intangible assets impairment guidance which provides an option for companies to not calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on qualitative assessment, that it is not more likely than not, the indefinite-lived intangible asset is impaired. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 (early adoption is permitted). The Company has adopted this guidance.

In January 2012, we adopted 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (ASU 2011-05) which requires presentation of the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements and eliminates the option to present components of other comprehensive income as part of the statement of changes in shareholders’ equity. The standard does not change the items that must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income.

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

### 5. Fair Value Measurements

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

- Level 1 inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

In September 2012, the Company recorded a contingent liability in connection with the acquisition of Logia. The liability was determined by using a valuation model that measured the probability of the liability to occur and the present value of the consideration at the time it would be paid. At March 31, 2013, the contingent liability was re-measured to be \$841. At December 31, 2013, the contingent liability was re-measured to be \$238.

Contingent liabilities (in thousands)	Total	Level 1	Level 2	Level 3
December 31, 2013	\$238	\$ —	\$ —	\$ 238
March 31, 2013	\$841	\$ —	\$ —	\$ 841

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

### 6. Accounts Receivable

	December 31, 2013	March 31, 2013
Billed	\$ 4,728	\$ 434
Unbilled	1,712	1,691
Less: allowance for doubtful accounts	(130)	(130)
Net accounts receivable	<u>\$ 6,310</u>	<u>\$ 1,995</u>

The Company had no significant write-offs or recoveries during the nine months ended December 31, 2013 and 2012, respectively.

### 7. Property and Equipment

	December 31, 2013	March 31, 2013
Equipment	\$ 941	\$ 1,412
Furniture & fixtures	424	499
Leasehold improvements	15	—
	1,379	1,911
Accumulated depreciation	(920)	(1,763)
Net Property and Equipment	<u>\$ 459</u>	<u>\$ 148</u>

Depreciation expense was \$33 and \$27 in the three months ended December 31, 2013 and 2012 and \$96 and \$83 in the nine months ended December 31, 2013 and 2012, respectively.

### 8. Description of Stock Plans

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

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

- **Individual Grant Limits.** No participant may be granted in aggregate, in any calendar year, Awards covering more than 500,000 shares.
- **No annual “Evergreen” Provision.** The Plan provides for a fixed allocation of shares, thereby requiring stockholder approval of any additional allocation of shares.
- **No Discount Stock Options.** The Plan prohibits the grant of a stock option with an exercise price of less than the fair market value of the closing price of our common stock on the date the stock option is granted.

#### *Summary Description of the Plan*

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

On September 10, 2012, the Company increased the Plan shares for issuance from 4,000,000 to 20,000,000.

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Stock options may be either “incentive stock options” (“ISOs”), as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”), or non-qualified stock options (“NQSOs”). The Plan reserves 20,000,000 shares for issuance, of which 17,007,013 remain available for issuance as of December 31, 2013. The 20,000,000 shares reserved for issuance will serve as the underlying value for all equity awards under the Plan.

The following table summarizes options granted under the Company’s 2011 Equity Incentive Plan for the periods or as of the dates indicated:

### *Options*

(in thousands)	Number of Shares	Weighted Average Exercise Price
Outstanding at March 31, 2013	60	\$ 4.65
Granted	873	\$ 4.31
Canceled	—	\$ —
Forfeited	—	\$ —
Exercised	—	\$ —
Outstanding, June 30, 2013	933	\$ 4.32
Granted	121	\$ 3.86
Canceled	—	\$ —
Rescinded	(49)	\$ 4.42
Forfeited	—	\$ —
Exercised	—	\$ —
Outstanding, September 30, 2013	1,005	\$ 4.27
Granted	1,625	\$ 2.66
Canceled	—	\$ —
Forfeited	(30)	\$ 4.50
Exercised	—	\$ —
Outstanding, December 31, 2013	2,600	\$ 3.26
Vested and expected to vest at December 31, 2013	1,847	\$ 3.33
Exercisable, December 31, 2013	125	\$ 3.74

Exercise Price	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)
\$2.50 – \$2.75	1,160	\$ 2.60	9.83	30	\$ 2.75	9.76
\$2.76 – \$2.85	465	\$ 2.83	9.76	3	\$ 2.83	9.76
\$3.85	116	\$ 3.85	9.58	16	\$ 3.85	9.58
\$4.00	237	\$ 4.00	9.40	40	4.00	9.40
\$4.05	107	\$ 4.05	9.40	21	\$ 4.05	9.40
\$4.50	455	\$ 4.50	9.45	—	\$ 4.50	—
\$4.65	60	\$ 4.65	9.24	15	\$ 4.65	9.24
	<u>2,600</u>	\$ 3.26		<u>125</u>	\$ 3.74	

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### *Stock Plans*

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

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

A summary of the status of the Company's 2007 Employee, Director and Consultant Stock Plan equity compensation plan, nonvested options as of March 31, 2013 and 2012 pursuant to the Plan, and changes during the years ended March 31, 2013 and 2012 is presented below:

### *Option Plans*

(in thousands)	Number of Shares	Weighted Average Exercise Price
Outstanding at March 31, 2013	960	\$ 9.00
Granted	—	\$ —
Canceled	—	\$ —
Forfeited	—	\$ —
Exercised	—	\$ —
Outstanding at December 31, 2013	960	\$ 9.00

### *Option Plans and Stock Plans*

The Company's 2007 Employee, Director and Consultant Stock Plan equity compensation plan did not contain any nonvested options as of December 31, 2013 and March 31, 2013.

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

	Nine Months Ended December, 2013	Nine Months Ended December, 2012
Product development	\$ —	\$ —
Sales and marketing	—	—
General and administrative	1,906	630
	<u>\$ 1,906</u>	<u>\$ 630</u>

## **9. Goodwill**

### **Goodwill**

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

Balance at March 31, 2013	<u>\$ 3,588</u>
Acquisition	1,252
Balance at June 30, 2013	<u>\$ 4,840</u>
Adjustment to Acquisition	(70)
Balance at September 30, 2013, and December 31, 2013	<u>\$ 4,770</u>

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Fair value is defined under ASC 820, Fair Value Measurements and Disclosures as, “The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”. The Company considered the income and market approaches to derive an opinion of value. Under the income approach, the Company utilized the discounted cash flow method, and under the market approach, consideration was given to the guideline public company method, the merger and acquisition method, and the market capitalization method. The initial accounting of the Goodwill of MIA is incomplete and subject to changes, which may result in significant changes to provisional amounts. The Company has recorded provisional amounts based upon management’s best estimate of the value as a result of preliminary analysis.

We complete our annual impairment tests in the fourth quarter of each year unless events or circumstances indicate that an asset may be impaired. The Company recorded an impairment charge of \$1,119 for the year ended March 31, 2013. There were no indications of impairment present during the period ended December 31, 2013.

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**10. Intangible Assets**

The components of intangible assets as at December 31, 2013 and March 31, 2013 were as follows:

	As of December 31, 2013		
	Cost	Accumulated Amortization	Net
Software	\$ 8,252	\$ (2,393)	\$ 5,859
Trade name / Trademark	352	(37)	\$ 315
Customer list	5,327	(1,700)	\$ 3,627
License agreements	797	(503)	\$ 294
	<u>\$14,728</u>	<u>\$ (4,633)</u>	<u>\$10,095</u>

We complete our annual impairment tests in the fourth quarter of each fiscal year unless events or circumstances indicate that an asset may be impaired. There were no indications of impairment present during the period ended December 31, 2013. However, the Company recorded an increase in intangible assets of \$6,826 for the acquisition of MIA in the 9 months ended December 31, 2013. The Company did not record an impairment charge for the year ended March 31, 2013.

	As of March 31, 2013		
	Cost	Accumulated Amortization	Net
Software	\$2,429	\$ (1,269)	\$1,160
Trade name / Trademark	297	(16)	\$ 281
Customer list	4,675	(1,407)	\$3,268
License agreements	498	(450)	\$ 48
	<u>\$7,899</u>	<u>\$ (3,142)</u>	<u>\$4,757</u>

The Company has included amortization of acquired intangible assets directly attributable to revenue-generating activities in cost of revenues. During the nine month period ended December 31, 2013 and 2012, the Company recorded amortization expense in the amount of \$1,488 and \$311, respectively, in cost of revenues.

Based on the amortizable intangible assets as of December 31, 2013, we estimate future amortization expense to be as follows:

Year Ending December 31,	Amortization Expense (in thousands)
2014	\$ 1,906
2015	1,822
2016	1,818
2017	1,752
2018	749
Future	1,894
	<u>\$ 9,941</u>

The initial accounting of the Intangibles of MIA are incomplete and subject to changes, which may result in significant changes to provisional amounts. The Company has recorded provisional amounts based upon management's best estimate of the value as a result of preliminary analysis.

Below is a summary of Goodwill and Intangible assets:

	Intangible Assets	Goodwill
Balance as of March 31, 2013	\$ 4,757	\$ 3,588
Acquisition	6,826	1,252
Amortization of intangibles	(461)	0
Balance as of June 30, 2013	11,122	4,840
Adjustment to Acquisition	0	(70)
Amortization of intangibles	(513)	0
Balance as of September 30, 2013	<u>10,609</u>	<u>4,770</u>
Adjustment to Acquisition	0	0
Amortization of intangibles	(514)	0
Balance as of December 31, 2013	<u>10,095</u>	<u>4,770</u>



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### 11. Debt

	December 31, 2013	March 31, 2013
<b>Short Term Debt</b>		
Equipment Leases	\$ 6	\$ 17
Senior secured convertible note, including PIK interest, net of discount of \$0 and \$187, respectively	0	2,714
Senior secured note, short term accrued interest	0	363
Convertible note, including accrued interest, net of discount, of \$0 and \$539, respectively	0	683
	<u>\$ 6</u>	<u>\$ 3,777</u>
<b>Long Term Debt</b>		
Secured note, including PIK interest and accrued interest	0	1,252
	<u>\$ 0</u>	<u>\$ 1,252</u>
<b>Contingent Liabilities</b>		
Contingent liability, net of discount of \$762 and \$159, respectively	\$ 238	\$ 841

#### Convertible Debt

##### ValueAct Note

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

On December 29, 2011, the Company and Taja entered into a binding term sheet for convertible note financing (“Taja Convertible Note”) and effectively a third amendment to the Second Amended Note (“Third Amended Note”). The Taja Convertible Note became effective on February 27, 2012. The Third Amended Note (1) changed the maturity date of the note from June 21, 2013 to June 21, 2015, (2) extended the payment in kind (“PIK”) election to the note through the revised term, and (3) stripped out \$3,000 of principal to create the Taja Convertible Note, leaving a principal balance of \$500 plus accrued interest of \$562 for a total of \$1,062. As consideration for amending the note, Taja also received a warrant (“Incentive Warrant”) to purchase 400,000 shares of common stock of the Company at an exercise price of \$1.25 per share, subject to adjustment. Taja also received 25% warrant coverage (“Coverage Warrant”) determined by dividing the principal amount of the Taja Convertible Note by the conversion price multiplied by 25%. The Incentive Warrant and the Coverage Warrant were issued with a five year term and vest one year from issue date.

On March 1, 2012, the Company and Taja entered into a second binding term sheet (“Amended Taja Convertible Note”) to amend certain provisions of the December 29, 2011 binding term sheet, (1) the maturity date was revised to March 1, 2014, (2) the conversion price was amended to \$3.50 per share, (3) conversion of the note must not cause the holder to exceed 4.9% ownership, except that on the maturity date the entire remaining amount of principle and interest shall automatically convert into shares of

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common stock of the Company, (4) the Amended Taja Convertible Note becomes accelerated and immediately due and payable upon the consummation by the Company of one or more equity sales from and after March 1, 2012 resulting in aggregate net proceeds of at least \$10,000, (5) the conversion date was to occur the earlier of (x) the date that the long-form documents are executed and delivered to all parties, and (y) March 19, 2012, (6) the 400,000 Incentive Warrants issued as consideration for the Third Amended Note were amended to vest and be exercisable one year from March 1, 2012, (7) the exercise date of the Coverage Warrants was amended to one year following the conversion date, and (8) the term sheet was binding on the parties and their respective successors and assigns regardless of whether the parties execute long form agreements, as opposed to the previous term sheet that contemplated going to long form agreements.

On March 19, 2012, the Company issued 520,000 shares of its common stock to Taja for the conversion of \$1,820 of the Amended Taja Convertible Note. The Company expensed to interest expense the debt discount on a pro rata basis of the amount converted to the original debt amount to reflect the conversion of the \$1,820.

On August 14, 2013, the Company and Taja entered into a third binding term sheet ("Second Amended Taja Convertible and Non-Convertible Notes") that in exchange for 80,000 shares ("Inducement Shares") and 120,000 warrants to purchase shares of the Company's common stock ("Inducement Warrants") and the one year extension of both the Incentive Warrants and Coverage Warrants, amended the convertible note to (1) convert \$1,000 of the outstanding principal into 285,714 shares (2) move the remaining principal balance and unpaid interest of \$235 to the non-convertible note, and (3) modify the non-convertible note to be convertible at \$4.00 per share at the investors option. The inducement warrants have an exercise price equal to the same price paid per share for shares of the company's common stock in the next round of equity financing, or if no equity financing occurred by September 9, 2013, the closing price of the company's common stock on such date. The inducement warrants have a five year term from date of issuance and may only be exercised after one year. Upon conversion of \$1,000 of the convertible note and movement of the remaining balance to the non-convertible note, the Company expensed the unamortized portion of the remaining debt discount of \$72.

On September 4, 2013, the Company paid the remaining principal and interest to Taja of \$1,542.

### **Senior Secured Convertible Notes**

On June 21, 2010, for purposes of capitalizing the Company, the Company sold and issued \$2,500 of Senior Secured Convertible Notes due June 21, 2013 (the "New Senior Secured Notes") to certain of the Company's significant stockholders.

On July 8, 2013, the Noteholders entered into an amendment to the Senior Secured Notes, dated as of July 7, 2013 that extended the July 9, 2013 Maturity Date of the notes until September 9, 2013.

On August 1, 2013, the note was converted and 4,497,664 shares of the Company's common stock were issued to the noteholders.

### **DT Australia Note**

On April 12, 2013, the Company, through its indirect, wholly-owned subsidiary, Digital Turbine Australia Pty Ltd ("DT Australia"), acquired all of the issued and outstanding stock of Mirror Image International Holdings Pty Ltd and subsidiaries thereof (the "MIA Transaction"). Pursuant to the terms of the MIA Transaction, a portion of the purchase price was comprised of a promissory note issued by DT Australia, payable to a nominee of the sellers, Zingo (Aust) Pty Ltd, in the principal amount of AUD\$2,280 (the "DT Australia Note").

The DT Australia Note has a 90 day term and bears interest at a rate of 6% per annum. The accrued and unpaid principal and interest due on the DT Australia note is convertible at any time in part or in full at the election of the holder into shares of common stock of the Company at a conversion price of \$3.65 per share, subject to adjustment. The Company guaranteed the DT Australia Note and the senior secured noteholders expressly subordinated the MIA assets to the DT Australia Noteholders.

The conversion feature in the DT Australia Note is not considered a derivative instrument since the DT Australia Note has a set conversion price and all of the requirements for equity classification were met. The Company determined the value of the beneficial conversion feature to be AUD\$1,009. The discount for the DT Australia Note was amortized over the 90 day term of the DT Australia Note.

On July 11, 2013, the parties to the DT Australia Note entered into an Amendment No. 1 to the DT Australia Note (the "Amendment") the material terms of which are as follows: (1) the Company repaid AUD\$280 of principal and AUD\$34 of interest under the DT Australia Note; (2) the parties amended the maturity date for the payment of the remaining AUD\$2,000 of principal from 90 to 150 days from the date of entry into the DT Australia Note; (3) the Company issued 59,964 shares of the Company's common stock (the "New Common Stock") to the noteholders or their appointees as consideration for the extension of the maturity date; (4) the Company

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agreed to file a resale registration statement on Form S-1 or S-3 with the Securities and Exchange Commission covering the New Common Stock prior to August 31, 2013, otherwise the Company agrees to repurchase the New Common Stock at a price equal to the closing price of the New Common Stock on the date of issuance thereof; and (5) the Company agreed in the event that, prior to the maturity date, the Company enters into an equity financing pursuant to which shares of the Company's common stock are issued at a price less than the MIA Transaction issue price, then the Company will issue to the noteholders additional shares of Company's common stock in order to compensate for any differential in value (for shares issued in the MIA Transaction as well as pursuant to the Amendment), subject to a share cap in order to ensure compliance with the Nasdaq shareholder approval regulations

Other than as amended by the Amendment and the acknowledgement, all other terms under the stock purchase agreement and other documents comprising the MIA Transaction remain in full force and effect, without modification.

The Company accounted for the amendment as a loan extinguishment and the potential differential in value of the New Common Stock and MIA transaction shares as a derivative liability that was fair valued on July 11, 2013 and again on August 21, 2013, resulting in a gain on the derivative liability prior to the issuance of common stock in differential value.

On August 21, 2013, the Company closed an equity financing at a price of \$2.48 per share. This caused the Company to issue the noteholders an additional 504,880 shares of the Company's common stock for the differential in value for shares issued in the MIA Transaction as well as the New Common Stock.

On September 4, 2013, the Company paid the remaining amount of principal and interest of AUD \$2,018.

### **Contingent Liabilities**

In addition to the Closing Share Purchase Agreement (the "Purchase Agreement") to acquire subsidiaries and certain assets of Logia Group, Ltd. ("Sellers"), the Sellers are entitled to receive certain contingent purchase consideration upon achieving certain milestones. Should all milestones be achieved, the total consideration would be \$1,000 payable in cash and shares of stock of the Company. The Company has recorded the fair value of the contingent liability in Long Term Debt, net of a discount of \$762.

### **12. Related Party Transactions**

The Company may engage in various business relationships with shareholders and officers and their related entities. There are no significant relationships as of December 31, 2013.

### **13. Capital Stock Transactions**

#### ***Preferred Stock***

There are 2,000,000 shares of Series A Convertible Preferred Stock ("Series A") authorized and 100,000 shares, issued and outstanding. The Series A has a par value of \$0.0001 per share. The Series A holders are entitled to: (1) vote on an equal per share basis as common stock, (2) dividends paid to the common stock holders on an as if-converted basis and (3) a liquidation preference equal to the greater of \$10 per share of Series A (subject to adjustment) or such amount that would have been paid to the common stock holders on an as if-converted basis.

#### ***Common Stock and Warrants***

In April 2013, the Company sold 142,857 shares of common stock of the Company to an investor for \$3.50 cents per share. In connection with this sale of common stock, the Company issued warrants to purchase 35,714 shares of common stock of the Company at an exercise price of \$3.50 cents per share with a term of 5 years. The fair value of the warrants on the day of issue was determined to be \$123.

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In April 2013, the Company sold 285,714 shares of common stock of the Company to directors of the Company for \$3.50 cents per share. In connection with this sale of common stock, the Company issued warrants to purchase 71,428 shares of common stock of the Company at an exercise price of \$3.50 cents per share with a term of 5 years. The fair value of the warrants on the day of issue was determined to be \$309.

In April 2013, the Company issued 1,011,164 shares of common stock of the Company as consideration for an acquisition. The shares were valued at the closing market price on that date of \$4.40 per share. The overall value was determined to be \$4,449 and was recorded through the purchase price allocation of the acquisition in the period ended September 30, 2013.

In April 2013, the Company issued 50,000 shares of common stock of the Company to a note holder of the Company for financing costs. The shares were valued at the closing market price on that date of \$4.55 per share. The overall value was determined to be \$228 and was recorded as financing costs in the period ended September 30, 2013.

In May 2013, the Company sold 342,857 shares of common stock of the Company to investors for \$3.50 cents per share. In connection with this sale of common stock, the Company issued warrants to purchase 85,714 shares of common stock of the Company at an exercise price of \$3.50 cents per share with a term of 5 years. The fair value of the warrants on the day of issue was determined to be \$351.

In May 2013, the Company issued 120,000 shares of restricted stock of the Company to directors of the Company. The shares were valued at the closing market price on that date of \$4.00 per share. The overall value was determined to be \$480, of which \$51 was recorded through the period ended September 30, 2013.

In May 2013, the Company issued 48,000 shares of restricted stock of the Company to a vendor. The shares were issued based on a service agreement that began May 2013. The overall value was determined to be \$218 of which \$36 was recorded through the period ended September 30, 2013.

In May 2013, the Company issued 50,000 warrants to purchase shares of restricted stock of the Company to a service provider. The warrants were issued based on a service agreement that began May 2013. The overall value was determined to be \$126 of which \$126 was recorded through the period ended September 30, 2013.

In July 2013, the Company issued 59,964 shares of common stock of the Company to a noteholder as consideration to extend the term of the debt.

In August 2013, the Company issued 7,632 shares of common stock of the Company as part of the cashless exercise of a warrant issued to a service provider in April 2011 to purchase 15,000 shares of common stock of the Company.

In August 2013, the Company issued 4,838,710 shares of common stock of the Company as part of an equity finance offering.

In August 2013, the Company issued 80,000 shares of common stock of the Company and 120,000 warrants to purchase shares of common stock of the Company to a noteholder as inducement to modify a debt.

In August 2013, the Company converted \$1,000 of a convertible debt and issued 285,714 shares of common stock of the Company to a noteholder.

In September 2013, the Company issued 529,515 shares of common stock of the Company as part of a secondary equity finance offering.

In September 2013, the Company converted \$3,373 of a convertible debt and issued 4,497,664 shares of common stock of the Company to a noteholder.

In September 2013, the Company issued 504,880 shares of common stock of the Company as consideration for an acquisition.

In December 2013, the Company issued 86,020 shares of common stock of the Company to directors of the Company.

In December 2013, the Company issued 9,750 shares of common stock of the Company to a vendor. The shares were issued as settlement for services.

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### **Restricted Stock Agreements**

During the period December 1, 2011 through December 31, 2013, the Company entered into restrictive stock agreements (“RSAs”) with certain employees and consultants. The RSAs have performance conditions, market conditions, time conditions or a combination. Once the stock vests, the individual is restricted from selling the shares of stock for a certain defined period from three months to two years depending on the RSA. Certain RSA recipients are granted voting rights while other RSA recipients are not granted voting rights.

#### Performance and Market Condition RSAs

On December 28, 2011, the Company issued 3,170 restricted shares with vesting criteria based on both performance and market conditions. The vesting is as follows: (i) one third (1/3) shall vest immediately upon the completion of one or more debt or equity financings during the period ending two (2) years from the date hereof (the “Measurement Period”) in favor of the Company of gross proceeds of at least \$5 million; (ii) one third (1/3) shall vest immediately if on any date during the Measurement Period the Company’s total enterprise value (computed by multiplying the number of outstanding shares of Common Stock on a fully diluted (taking into account only those stock options that are in-the-money on such date), as-converted basis by the average daily trading price for Common Stock for the thirty (30) trading day period immediately preceding the date of determination) equals or exceeds \$100 million; and (iii) one third (1/3) shall vest immediately if on any date during the Measurement Period the Company’s total enterprise value (calculated as set forth in clause (ii) above) equals or exceeds \$200 million; provided, however, that all unvested shares of restricted common stock shall vest immediately upon the sale of all or substantially all of the assets of the Company, upon the merger or reorganization of the Company following which the equity holders of the Company immediately prior to the consummation of such merger or reorganization collectively own less than 50% of the voting power of the resulting entity, or upon the sale of equity securities of the Company representing 50% or more of the voting power of the Company or 50% or more of the economic interest in the Company in a single transaction or in a series of related transactions.

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

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

On July 3, 2013, the second vesting criteria was met when the Company’s enterprise value exceeded \$100 million.

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

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

The Company has expensed the remaining \$588 through the nine months ended December 31, 2013 related to the 3,170 RSAs issued on December 28, 2011.

#### Time and Performance Condition RSAs

On January 3, 2012, the Company issued 445 restricted shares with vesting criteria based on both time and performance conditions. At January 3, 2012, 175 restricted shares vested immediately and the remaining 270 unvested shares must meet certain performance criteria. In September 2012, 85 shares vested in connection with a significant acquisition by the Company. In December 2012, 50 shares vested in connection with the termination of employment of an employee. In April 2013, 85 shares vested in connection with a significant acquisition by the Company. The remaining 50 were approved for vesting in November 2013.

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

All restricted shares, vested and unvested, have been included in the outstanding shares as of December 31, 2013.

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For accounting purposes, the Company determined the grant date fair value to be \$3.25 per share which is the closing price of the Company's stock price on January 3, 2012. The Company expensed \$140 in the three months ended December 31, 2013 related to the 445 RSAs issued on January 3, 2012.

### Time Condition RSAs

On various dates during the nine months ended December 31, 2013 and the fiscal year ended March 31, 2013, the Company issued 254 and 127 restricted shares with vesting criteria based on time conditions, respectively. As of December 31, 2013, 0 restricted shares were vested with each share being restricted from the individual selling the stock for a period from three months up to two years from the date of vesting.

The following table summarizes the RSA activity:

(in thousands, except grant date fair value)	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at March 31, 2013	<u>2,632</u>	<u>\$ 3.27</u>
Granted	168	4.16
Canceled	—	—
Vested	<u>(1,287)</u>	<u>3.31</u>
Unvested at June 30, 2013	<u>1,513</u>	<u>\$ 3.34</u>
Granted	0	0
Canceled	—	—
Vested	<u>(37)</u>	<u>4.18</u>
Unvested at September 30, 2013	<u>1,476</u>	<u>\$ 3.32</u>
Granted	86	2.79
Canceled	—	—
Vested	<u>(109)</u>	<u>3.48</u>
Unvested at December 31, 2013	<u>1,453</u>	<u>\$ 3.27</u>

## **14. Employee Benefit Plans**

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

## **15. Income Taxes**

The income tax provision for the quarter represents foreign withholding taxes related to continuing operations paid in jurisdictions outside of the US.

As of December 31, 2013, the Company had net operating loss (NOL) carry-forwards to reduce future U.S. Federal and Israeli income taxes, expiring in various years ranging through 2031. Utilization of the NOLs may be subject to a substantial annual limitation due to ownership change limitations that may have occurred or that could occur in the future, as required by Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), as well as similar state limitations. These ownership changes may limit the amount of NOLs that can be utilized annually to offset future taxable income and tax, respectively. In general, an "ownership change" as defined by Section 382 of the Code, results from a transaction or series of transactions over a three-year period resulting in an ownership change of more than 50 percentage points of the outstanding stock by a company by certain stockholders or public groups.

Management has evaluated and concluded that there are no significant uncertain tax positions requiring recognition in the Company's financial statements as of December 31, 2013.

ASC 740 requires the consideration of a valuation allowance to reflect the likelihood of realization of deferred tax assets. Significant management judgment is required in determining any valuation allowance recorded against deferred tax assets. The Company adopted

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the provisions of ASC 740 on January 1, 2008 and there was no difference between the amounts of unrecognized tax benefits recognized in the balance sheet prior to the adoption of ASC 740 and those after the adoption of ASC 740. There were no unrecognized tax benefits not subject to valuation allowance as of December 31, 2013 and March 31, 2013. The Company recognized no interest and penalties on income taxes in its statement of operations for the periods ended December 31, 2013 and 2012.

ASC 740 provides guidance on the minimum threshold that an uncertain income tax position is required to meet before it can be recognized in the financial statements and applies to all tax positions taken by a company. ASC 740 contains a two-step approach to recognizing and measuring uncertain income tax positions. The first step is to evaluate the income tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. If it is not more likely than not that the benefit will be sustained on its technical merits, no benefit will be recorded. Uncertain income tax positions that relate only to timing of when an item is included on a tax return are considered to have met the recognition threshold. We recognize accrued interest and penalties related to uncertain income tax positions in income tax expense on our consolidated statement of income. On a quarterly basis, we evaluate uncertain income tax positions and establish or release reserves as appropriate under GAAP.

The Company's income is subject to taxation in both the U.S. and foreign jurisdictions. Significant judgment is required in evaluating the Company's tax positions and determining its provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. The Company establishes reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves for tax contingencies are established when the Company believes that certain positions might be challenged despite the Company's belief that its tax return positions are fully supportable. The Company adjusts these reserves in light of changing facts and circumstances, such as the outcome of a tax audit or lapse of a statute of limitations. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate.

### **16. Segment and Geographic information**

The Company operates in one reportable segment in which it is a developer and publisher of branded entertainment content for mobile phones. Revenues are attributed to geographic areas based on the country in which the carrier's principal operations are located. The Company attributes its long-lived assets, which primarily consist of property and equipment, to a country primarily based on the physical location of the assets. Goodwill and intangibles are not included in this allocation. The following information sets forth geographic information on our sales for the periods ended December 30, 2013 and 2012, and net property and equipment for the periods ended December 30, 2013 and March 31, 2013:

	North America	Europe, Middle East, Africa	Asia Pacific	Consolidated
Nine Months ended December 31, 2013				
Net sales to unaffiliated customers	57	4,003	15,061	\$ 19,121
Nine Months ended December 31, 2012				
Net sales to unaffiliated customers	54	4,183	15	\$ 4,252
Property and equipment, net at December 31, 2013	104	48	307	\$ 459
Property and equipment, net at March 31, 2013	77	71	0	\$ 148

### **17. Commitments and Contingencies**

#### **Operating Lease Obligations**

The Company leases office facilities under non-cancelable operating leases expiring in various years through 2016. The future minimum payments under initial terms of leases at December 31, 2013 are \$719. This amount does not reflect future fluctuations for real estate taxes and building operating expenses. Rental expense amounted to \$413 and \$155, respectively, for the nine months ended December 31, 2013 and 2012.

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### **Other Obligations**

As of December 31, 2013, the Company was obligated for payments under various distribution agreements, equipment lease agreements, employment contracts and consulting agreements with initial terms of one year or greater at December 31, 2013. Future payments for these obligations as of December 31, 2013 are as follows:

Year Ending December 31,	
2014	\$1,314
2015	930
Total payments	<u>\$2,244</u>

### **Litigation**

Mandalay Digital's wholly owned subsidiary, Twistbox Entertainment, Inc. ("Twistbox") and Sirocco Mobile Ltd ("Sirocco") are parties to a wireless game development agreement dated February 27, 2009, whereby Sirocco were engaged to complete certain services and deliver products to Twistbox for mobile distribution. On or about September 6, 2012, Sirocco filed a complaint in California Superior Court, County of Los Angeles seeking relief for breach of written contract. On or about November 6, 2012, Sirocco proposed a reduction of its claim, which expired on November 12, 2012. On December 26, 2013, the Company received a request for settlement. Principals of both parties continue to communicate to find a mutually acceptable resolution.

On May 30, 2013, a class action suit in the amount of NIS 19.2 million or \$5.3 million was filed in the Tel-Aviv Jaffa District Court against Coral Tell Ltd. an Israeli company which owns and operates a website offering advertisements and who is currently being sued in a class action lawsuit regarding phone call overages served a third party notice against Logia and two additional companies for our alleged involvement in facilitating the overages. We have no contractual relationship with this company. We believe the lawsuit is without merits and a finding of liability on our part remote. After conferring with advisors and counsel, management believes that the ultimate liability, if any, in the aggregate will not be material to the financial position or results or operations of the Company for any future period; and no liability has been accrued.

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

### **18. Subsequent Events**

On February 13, 2014, the Company sold its wholly owned subsidiary, Twistbox Entertainment, Inc. The Company has determined that the transaction is not material to the financial statements.

Management evaluated subsequent events after the balance sheet date of December 31, 2013 through the date these unaudited financial statements were issued and concluded that no other material subsequent events have occurred that would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements.



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

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and the provisions of Section 27A of the Securities Act of 1993, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The following discussion should be read in conjunction with, and is qualified in its entirety by, the Financial Statements and the Notes thereto included in this Quarterly Report. This discussion contains certain forward-looking statements that involve substantial risks and uncertainties. When used in this Quarterly Report on Form 10-Q, the words "anticipate," "believe," "estimate," "expect," "will," "seeks", "should", "could", "would", "may" and similar expressions, as they relate to our management or us, are intended to identify such forward-looking statements. Our actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements as a result of a variety of factors including those set forth under "Risk Factors" in our Annual Report on Form 10-K, as amended, for the year ended March 31, 2013. Historical operating results are not necessarily indicative of the trends in operating results for any future period.

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

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

Mandalay Digital Group, Inc., through its wholly owned subsidiary, Digital Turbine, provides mobile solutions for wireless carriers globally to enable them to better monetize mobile content. The company's products include mobile application management through DT Ignite, user experience and discovery through DT IQ, application stores and content through DT Marketplace, and content management and mobile payments through DT Pay. With global headquarters in Los Angeles, and offices throughout the U.S., Asia Pacific and EMEA, Mandalay Digital's solutions are available world-wide.

#### ***Historical Operations of Mandalay Digital Group, Inc.***

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

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

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

From January 26, 2005 to February 12, 2008, the Company was a public shell company with no operations and, was controlled by its significant stockholder, Trinad Capital Master Fund, L.P.

### **SUMMARY OF THE TWISTBOX MERGER**

The Company entered into an Agreement and Plan of Merger on December 31, 2007, as subsequently amended by the Amendment to Agreement and Plan of Merger dated February 12, 2008 (the "Merger Agreement"), with Twistbox Acquisition, Inc., a

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Delaware corporation and a wholly-owned subsidiary of the Company (“Merger Sub”), Twistbox Entertainment, Inc. (“Twistbox”), and Adi McAbian and Spark Capital, L.P., as representatives of the stockholders of Twistbox, pursuant to which Merger Sub would merge with and into Twistbox, with Twistbox as the surviving corporation (the “Merger”). The Merger was completed on February 12, 2008.

Pursuant to the Merger Agreement, upon the completion of the Merger, each outstanding share of Twistbox common stock, \$0.001 par value per share, on a fully-converted basis, with the conversion on a one-for-one basis of all issued and outstanding shares of the Series A Convertible Preferred Stock of Twistbox and the Series B Convertible Preferred Stock of Twistbox, \$0.01 par value per share (the “Twistbox Preferred Stock”), converted automatically into and became exchangeable for Company common stock in accordance with certain exchange ratios set forth in the Merger Agreement. In addition, by virtue of the Merger, each outstanding Twistbox option to purchase Twistbox common stock issued pursuant to the Twistbox 2006 Stock Incentive Plan (the “Plan”) was assumed by the Company, subject to the same terms and conditions as were applicable under such Plan immediately prior to the Merger, except that (a) the number of shares of Company common stock issuable upon exercise of each Twistbox option was determined by multiplying the number of shares of Twistbox common stock that were subject to such Twistbox option immediately prior to the Merger by 0.72967 (the “Option Conversion Ratio”), rounded down to the nearest whole number; and (b) the per share exercise price for the shares of Mandalay Digital common stock issuable upon exercise of each Twistbox option was determined by dividing the per share exercise price of Twistbox common stock subject to such Twistbox option, as in effect prior to the Merger, by the Option Conversion Ratio, subject to any adjustments required by the Internal Revenue Code. As part of the Merger, the Company also assumed all unvested Twistbox options. The Merger consideration consisted of an aggregate of up to 2,465,000 shares of Company common stock, which included the conversion of all shares of Twistbox capital stock and the reservation of 428,940 shares of Company common stock required for assumption of the vested Twistbox options. The Company reserved an additional 63,754 shares of Company common stock required for the assumption of the unvested Twistbox options. All warrants to purchase shares of Twistbox common stock outstanding at the time of the Merger were terminated on or before the effective time of the Merger.

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

As part of the Merger, the Company agreed to guarantee up to \$8,250,000 of Twistbox’s outstanding debt to ValueAct SmallCap Master Fund L.P. (“ValueAct” or “VAC”), with certain amendments. On July 30, 2007, Twistbox had entered into a Securities Purchase Agreement by and among Twistbox, the Subsidiary Guarantors (as defined therein) and ValueAct, pursuant to which ValueAct purchased a note in the amount of \$16,500,000 (the “ValueAct Note” or the “VAC Note”) and a warrant which entitled ValueAct to purchase from Twistbox up to a total of 480,349 shares of Twistbox’s common stock (the “Warrant”). Twistbox and ValueAct also entered into a Guaranty and Security Agreement by and among Twistbox, each of the subsidiaries of Twistbox, the Investors, as defined therein, and ValueAct, as collateral agent, pursuant to which the parties agreed that the ValueAct Note would be secured by substantially all of the assets of Twistbox and its subsidiaries (the “VAC Note Security Agreement”). In connection with the Merger, the Warrant was terminated and we issued two warrants in place thereof to ValueAct to purchase shares of our common stock. One of such warrants entitled ValueAct to purchase up to a total of 218,524 shares of our common stock at an exercise price of \$37.75 per share. The other warrant entitled ValueAct to purchase up to a total of 218,524 shares of our common stock at an initial exercise price of \$25.00 per share, which, if not exercised in full by February 12, 2009, would have been permanently increased to an exercise price of \$37.75 per share. Both warrants were scheduled to expire on July 30, 2011. The warrants were subsequently modified on October 23, 2008 and cancelled on June 21, 2010, as set forth below. We also entered into a Guaranty (the “ValueAct Note Guaranty”) with ValueAct whereby the Company agreed to guarantee Twistbox’s payment to ValueAct of up to \$8,250,000 of principal under the ValueAct Note in accordance with the terms, conditions and limitations contained in the ValueAct Note, which was subsequently amended as set forth below. The financial covenants of the ValueAct Note were also amended, pursuant to which Twistbox was required to maintain a cash balance of not less than \$2,500,000 at all times and the Company is required to maintain a cash balance of not less than \$4,000,000 at all times. The ValueAct Note was subsequently amended and restated as set forth below.

## **SUMMARY OF THE AMV ACQUISITION**

On October 23, 2008, the Company consummated the acquisition of 100% of the issued and outstanding share capital of AMV Holding Limited, a United Kingdom private limited company (“AMV”) and 80% of the issued and outstanding share capital of Fierce Media Limited, United Kingdom private limited company (collectively the “Shares”). The acquisition of AMV is referred to herein as the “AMV Acquisition”.

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On June 21, 2010, we sold all of the operating subsidiaries of AMV to an entity controlled by ValueAct and certain of AMV's founders in exchange for the release of \$23,000,000 of secured indebtedness, comprising of a release of all amounts due and payable under the AMV Note and all amounts due and payable under the VAC Note except for \$3,500,000 in principal (the "Restructure").

On December 16, 2011, the Amended ValueAct Note was purchased in its entirety by Taja LLC ("Taja") and was amended to remove certain negative covenants from the Note (the "Amended Taja Note"). On December 29, 2011, the Company and Taja entered into a binding term sheet for convertible note financing ("Taja Convertible Note") and, effectively, a third amendment to the Second Amended Note ("Third Amended Note"). The Third Amended Note (1) changed the maturity date of the Note from June 21, 2013 to June 21, 2015, (2) extended the payment in kind ("PIK the Company and ValueAct entered into a Second Allonge to Warrant to Purchase 218,524 shares of common stock (the "Second Allonge"), which amended that certain warrant to purchase 218,524 shares of the Company's common stock, issued to ValueAct on February 12, 2008, as amended (the "ValueAct Warrant"). Pursuant to the Second Allonge, the exercise price of the ValueAct Warrant decreased from \$4.00 per share to the lesser of \$6.25 per share, or the exercise price per share for any warrant to purchase shares of the Company's common stock issued by the Company to certain other parties.

On March 1, 2012, the Company and Taja entered into a second binding term sheet ("Amended Taja Convertible Note") to amend certain provisions of the December 29, 2011 binding term sheet. Pursuant to the Amended Taja Convertible Note, (1) the maturity date was revised to March 1, 2014, (2) the conversion price was amended to \$3.50 share, (3) conversion of the note must not cause the holder to exceed 4.9% ownership, except that on the maturity date the entire remaining amount of principle and interest shall automatically convert into shares of common stock of the Company, (4) the Amended Taja Convertible Note becomes accelerated and immediately due and payable upon the consummation by the Company of one or more equity sales from and after March 1, 2012 resulting in aggregate net proceeds of at least \$10,000,000, (5) the conversion date is to occur the earlier of (x) the date that the long-form documents are executed and delivered to all parties, and (y) March 19, 2012, (6) the 400,000 Incentive Warrants issued as consideration for the Third Amended Note were amended to vest and be exercisable one year from March 1, 2012, and (7) the exercise date of the Coverage Warrants was amended to one year following the conversion date.

On March 19, 2012, the Company issued 520,000 shares of its common stock to Taja for the conversion of \$1,820,000 of the Amended Taja Convertible Note.

On August 14, 2013, the Company and Taja entered into a third binding term sheet ("Second Amended Taja Convertible and Non-Convertible Notes") the terms of which provided that in exchange for 80,000 shares ("Inducement Shares") and 120,000 warrants to purchase shares of the Company's common stock exercisable at \$2.48 per share ("Inducement Warrants") and a one-year extension of the term of both the Incentive Warrants and Coverage Warrants, the parties would amend the Amended Taja Convertible Note to (1) convert \$1,000,000 of the outstanding principal under such note into 285,714 shares of the Company's common stock (2) move the remaining principal balance and unpaid interest of \$235,977 under the Taja Convertible Note to the non-convertible note, and (3) modify the non-convertible note to be convertible at \$4.00 per share at Taja's option. The Inducement Warrants have an exercise price equal to the same price paid per share for shares of the company's common stock in the next round of equity financing, or if no equity financing occurred by September 9, 2013, the closing price of the company's common stock on such date. The Inducement Warrants have a five year term from date of issuance and may only be exercised after one year.

On September 4, 2013, the Company paid the balance of the principal and interest under the Taja Non-Convertible Note to Taja for \$1,542,475.

## **SENIOR SECURED NOTE FINANCING**

On June 21, 2010, for purposes of capitalizing the Company, the Company sold and issued \$2,500,000 of Senior Secured Convertible Notes due June 21, 2013 (the "New Senior Secured Notes" or the "Senior Debt") to certain significant stockholders. The New Senior Secured Notes had a three year term and an interest at a rate of 10% per annum payable in arrears semi-annually and a

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“payment-in-kind” election right with respect to interest payments during the first 18 months of the term whereby interest due was added to the note. The accrued and unpaid principal and interest due on the New Senior Secured Notes are convertible at any time at the election of the holder into shares of Company common stock at a conversion price of US \$0.75 per share, subject to adjustment. The New Senior Secured Notes were secured by a first lien on substantially all of the assets of the Company and its subsidiaries. The Amended ValueAct Note was subordinated to the New Senior Secured Notes.

Each purchaser of a New Senior Secured Note also received a warrant (“Warrant”) to purchase shares of common stock of the Company at an exercise price of \$1.25 per share, subject to adjustment. For each \$1.00 of New Senior Secured Notes purchased, the purchaser received a Warrant to purchase .67 shares of common stock of the Company. Each Warrant has a five year term. On June 20, 2013, the holders of the New Senior Secured Notes agreed to amend the New Senior Secured Notes to extend the June 21, 2013 Maturity Date of the notes. The Maturity Date was extended on an interim basis. Then, on July 8, 2013, the Noteholders entered into an amendment to the Senior Secured Notes, dated as of July 7, 2013 that extended the July 9, 2013 Maturity Date of the notes until September 9, 2013.

On August 21, 2013 the Company issued 4,497,664 shares of its common stock to the Senior Secured noteholders as payment in full of the New Senior Secured Notes.

### **SUMMARY OF THE DIGITAL TURBINE ACQUISITION**

On December 28, 2011 the Company entered into a Share Purchase Agreement to acquire of the assets of Digital Turbine LLC into its newly formed wholly-owned subsidiary, Digital Turbine, Inc. The Company purchased the assets sold by the Seller with 10,000 shares of common stock of the Company, with a fair value of \$30,500 on the date of grant.

## SUMMARY OF LOGIA ACQUISITION

On August 14, 2012 the Company entered into a Share Purchase Agreement to acquire subsidiaries and assets of Logia Group, Ltd. (“Seller”), Logia is a leading mobile content development and management solutions provider of innovative mobile solutions to top-tier mobile operators and content providers. The Logia acquisition was completed on September 13, 2012. As a part of the transaction, the Company, through an Israeli acquisition company that it formed named Digital Turbine (EMEA) Ltd (“DT EMEA”) (formerly “MDG Logia Holdings LTD”) acquired all of the capital stock of Logia Content Development and Management Ltd., Volas Entertainment Ltd. and Mail Bit Logia (2008) Ltd., each of which was formerly an operating subsidiary of Seller, and is now an operating subsidiary of DT EMEA. In addition, the Company acquired, by assignment to DT EMEA, the assets comprising the “LogiaDeck” software, which has been rebranded “Ignite”, and certain operator and other contracts related to the business being sold by Seller, from S.M.B.P. IGLOO Ltd., an affiliate of Seller.

The Company purchased the stock and assets sold by Seller and its affiliate with cash and common stock of the Company and two tranches of “earn out” payments of cash and stock, comprised of (1) \$3,750,000 in cash at closing (subject to working capital adjustments) and Company common stock having a value of \$750,000, based on a 30-day volume-weighted average price (VWAP) look back from the issuance date (the “Closing Shares”), or 187,500 shares of common stock, with a fair value of \$788,000 on the date of grant, and (2) two tranches, each comprised of a cash payment of \$250,000 and a number of shares of Company common stock valued at \$250,000 (based on a 30 day VWAP look back from the issuance date) (the “Earn Out Shares”), which will be paid and issued, as applicable, to Seller upon satisfaction of various milestones, and subject to the terms and conditions, as set forth in the Purchase Agreement, totaling up to a number of shares of common stock having a value of \$500,000 and \$500,000 of cash if all milestones are achieved. All of the stock of the Company issued is subject to a Registration Rights Agreement that provides for piggy back rights for 3 years and inclusion on the Company’s currently existing registration statement. The acquired business of the Targets and Ignite are collectively referred to as “Logia” in this Quarterly Report on Form 10-Q.

## SUMMARY OF MIA ACQUISITION

On April 12, 2013, the Company, through its indirect wholly owned subsidiary organized under the laws of Australia, Digital Turbine Australia Pty Ltd (“DT Australia”), acquired all of the issued and outstanding stock of Mirror Image International Holdings Pty Ltd (“MIAH”). MIAH owns direct or indirect subsidiaries Mirror Image Access (Australia) Pty Ltd (MIA), MIA Technology Australia Pty Ltd (MIATA) and MIA Technology IP Pty Ltd (together the MIAH, the “MIA Group”). The acquired business of the MIA Group is referred to as “MIA” in this Quarterly Report. The Company set up an Australian acquisition/holding company, DT Australia, to acquire MIA through a combination of intercompany debt and the issuance of equity, comprised of: (1) AUD 1,220,000, translated to \$1,286,490 of cash for US GAAP reporting purposes, (2) a Convertible Note payable of AUD 2,280,000, translated to \$2,404,260, (3) shares of common stock of the Company (the “Closing Shares”) equivalent to AUD 3,500,000, translated to \$3,690,750 and converted under the agreement, to shares at \$3.65 per share, which equates to 1,011,164 shares of the common stock. The closing price of the stock on that day was \$4.40 per share, for a total value of \$4,449,122 for the common equity.

MIA is a leading mobile solutions provider based in Australia. MIA has extensive content licenses with major brands, as well as a proprietary content management and billing integration system (“Sphere”). MIA enables experiences on connected devices by enabling the delivery of content and applications to multiple devices, across any network, in any format. The Sphere platform enables carriers, media companies and brands to work together.

The Company believes with that the acquisition of MIA it will be able to enhance existing products and create new industry-leading products, and also benefit from synergy savings through operational consolidation.

### *Company Overview*

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

Twistbox is a global, mobile data services company primarily focused on enabling and optimizing the development, distribution and billing of content and applications across mobile networks. Twistbox has leveraged its intellectual property and carrier-class technology to secure direct distribution and/or enabling agreements with leading mobile operators throughout Europe, including, among others, Vodafone, Telefonica, Orange, and SFR.

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

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Since the acquisition of the IQ product, the Company has developed new products which include “Digital Turbine Marketplace”, “DT Pay”, “Digital Turbine Ignite”, and “Digital Turbine Content.”

Digital Turbine Marketplace is an application storefront that manages the retailing of mobile content including features such as merchandising, product placements, reporting, pricing, promotions, and distribution of digital goods. Digital Turbine Marketplace is deployed with many operators around the world including with operators in Australia, Israel, Philippines, and Italy.

Due to the acquisition of MIA on April 12, 2013, mentioned below, Digital Turbine Content has become the primary revenue generating product from Digital Turbine today. It includes the distribution and licensing of content across multiple content categories including music, applications, wallpapers, eBooks, and games. Digital Turbine Content manages content sales and distribution across multiple geographies including Australia, Israel, Turkey, Indonesia, Philippines, Italy, India and Germany.

We also acquired DT Pay in connection with the MIA acquisition. DT Pay is an Application Programming Interface (API) that integrates between mobile operators billing infrastructure and content publishers to facilitate mobile commerce. Increasingly, mobile content publishers are wanting to go directly to consumers to sell their content versus selling through traditional distributors such as Google Play or Apple’s Store. DT Pay allows publishers and carriers to monetize those applications by allowing the content to be billed directly to the consumer via their carrier billing. Currently DT Pay is launched in both Australia and Italy.

In September 2012, the Company completed the Logia transaction. Logia is a mobile content development and management solutions provider of innovative mobile solutions to top-tier operators and content providers. It provides solutions for top-tier mobile operators and content providers, including device application management solutions, white label app and media stores, in-app payment solutions, app-based value added services, and mobile social music and TV offerings. Logia operates in more than 20 countries, and provides services to more than 50 leading mobile carriers. It has relationships with over 500 app developers and content vendors and well as agreements with unique mobile platforms and service providers. Our strategy is to combine Logia mobile solutions, carrier relationships and global distribution capabilities with the Digital Turbine user experience to provide a ‘best-in-class’, end-to-end solution for the Company’s carrier partners to fully monetize their mobile content catalogs as well as third-party offerings.

## RESULTS OF OPERATIONS

(in thousands)

	Three Months Ended December 31 2013	Three Months Ended December 31 2012	% of Change	Nine Months Ended December 31 2013	Nine Months Ended December 31 2012	% of Change
Revenues	\$ 7,033	\$ 2,049	243%	\$ 19,121	\$ 4,252	350%
Cost of revenues	4,979	927	437%	12,716	1,975	544%
Gross profit	2,054	1,122	83%	6,405	2,277	181%
SG&A	6,242	4,701	33%	18,638	11,341	64%
Operating loss	(4,188)	(3,579)	17%	(12,233)	(9,064)	35%
Interest expense, net	(4)	(536)	-99%	(3,282)	(1,490)	120%
Foreign exchange transaction gain / (loss)	9	(18)	-147%	62	(52)	-219%
Change in fair value of derivative liabilities gain / (loss)	—	—	0%	(811)	(22)	3588%
Loss on disposal of fixed assets	(1)	—	0%	(14)	—	0%
Loss on extinguishment of debt	—	—	0%	(442)	—	0%
Gain / (loss) on settlement of debt	27	(4)	-779%	(67)	(4)	-1784%
Gain / (loss) on change on valuation of long term contingent liability	—	(44)	-100%	603	(44)	-1470%
Loss before income taxes	(4,157)	(4,181)	-1%	(16,050)	(10,676)	50%
Income tax provision	(19)	(33)	-42%	(34)	(66)	-48%
Net loss	\$ (4,176)	\$ (4,214)	-1%	\$ (16,084)	\$ (10,742)	50%
Basic and Diluted net (loss) per common share:	(0.13)	(0.24)	-44%	(0.63)	(0.62)	2%
Basic and Diluted weighted average shares outstanding	31,329	17,797	76%	25,544	17,383	47%

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*Comparison of the Three and Nine Months Ended December 31, 2013 and 2012*

*Revenues*

	Three Months Ended December 31,		% of Change	Nine Months Ended December 31,		% of Change
	2013	2012		2013	2012	
	(In thousands)			(In thousands)		
Revenues by type:						
Content Music	\$ 1,688	\$ —	0%	\$ 3,741	\$ —	0%
Content Tones & Pics	1,441	—	0%	4,312	—	0%
Content Other	672	465	44%	1,917	1,958	-2%
Services	455	1,584	-71%	1,691	2,294	-26%
Billing	2,777	—	0%	7,460	—	0%
Total	<u>\$ 7,033</u>	<u>\$ 2,049</u>	243%	<u>\$19,121</u>	<u>\$4,252</u>	350%

Due to the strategic acquisition of Logia and MIA, the Company has identified revenue streams that best represent the various revenue activities. Content Music is both streaming and downloadable music. In the three months ending December 31, 2013, \$5,801 is attributable to the MIA acquisition, consisting of Content Music, and the majority of Content Tones & Pics, as well as Billing. Billing includes third party billing, API, and DTPay products. In addition to content, both the MIA and Logia acquisitions have contributed revenues for Services. Content Other captures items not specifically identified in the aforementioned revenue types.

*Cost of Revenues*

	Three Months Ended December 31,		% of Change	Nine Months Ended December 31,		% of Change
	2013	2012		2013	2012	
	(In thousands)			(In thousands)		
Cost of revenues:						
License fees	\$ 4,466	\$ 190	2250%	\$11,288	\$ 957	1073%
Other direct cost of revenues	513	737	-30%	1488	1,018	46%
Total cost of revenues	<u>\$ 4,979</u>	<u>\$ 927</u>	437%	<u>\$12,716</u>	<u>\$1,975</u>	544%
Revenues	<u>\$ 7,033</u>	<u>\$ 2,049</u>	243%	<u>\$19,121</u>	<u>\$4,252</u>	350%
Gross margin	29.2%	54.8%		33.5%	53.6%	

License fees represent costs payable to content providers for use of their intellectual property in the products sold. This has increased consistent with the increase in revenues, as a result of the acquisitions of Logia and MIA. Other direct cost of revenues, which consists solely of non-cash amortization of intangible assets, has increased as a result of the acquisitions of Logia and MIA. The fluctuation in gross margin is related to the shift in revenue type as noted above.

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### *Operating Expenses*

	Three Months Ended		% of Change	Nine Months Ended		% of Change
	December 31,			December 31,		
	2013	2012		2013	2012	
	(In thousands)			(In thousands)		
Product development expenses	\$ 2,120	\$ 577	267%	\$ 6,299	\$ 1,308	382%
Sales and marketing expenses	555	329	69%	1,569	647	142%
General and administrative expenses	3,567	3,795	-6%	10,770	9,386	15%

Product development expenses have historically included the costs to build, edit and optimize content formats for consumption on a mobile phone. Expenses in this area are primarily a function of personnel. There is a one-time charge to production expense in the nine months ending December 31, 2013 of \$533 related to stock issued and previously classified as a deposit for an acquisition of content.

Sales and marketing expenses represent the costs of sales and marketing personnel, and advertising and marketing campaigns. Selling costs have increased in conjunction with our increase in revenues and as a result of our acquisitions, and costs associated with bringing Digital Turbine products to market.

General and administrative expenses represent management, finance and support personnel costs in both the parent and subsidiary companies, which include professional and consulting costs, in addition to other costs such as rent, non-cash stock based compensation and depreciation expense. The increase period-to-period is mostly due to an increase in stock based compensation to employees and consultants.

### *Other Income and Expenses*

	Three Months Ended		% of Change	Nine Months Ended		% of Change
	December 31,			December 31,		
	2013	2012		2013	2012	
	(In thousands)			(In thousands)		
Interest and other (expense)	\$ (4)	\$ (536)	-99%	\$ (3,282)	\$ (1,490)	120%
Foreign exchange transaction gain / (loss)	\$ 9	\$ (18)	-147%	\$ 62	\$ (52)	-219%
Loss on change in fair value of accrued derivative liabilities	\$ —	—	0%	(811)	\$ (22)	3588%
Loss on disposal of fixed assets	\$ (1)	—	0%	\$ (14)	—	0%
Loss on extinguishment of debt	\$ —	—	0%	\$ (442)	—	0%
Gain / (loss) on settlement of debt	\$ 27	(4)	-779%	\$ 67	(4)	-1784%
Gain / (loss) on change on valuation of long term contingent liability	\$ —	(44)	-100%	\$ 603	(44)	-1470%

Interest and other expense includes interest income on invested funds and interest expense as incurred by the Company. Other costs include foreign exchange transaction gains and losses. In the three and nine months ended December 31, 2013 the Company settled debts with three suppliers, resulting in a gain of \$27 and \$67, respectively. The nine months ended December 31, 2013, contains interest expense related to the Senior Secured Note, interest and debt discount expense related to the Taja Note, and the DT Australia Sellers Note, as well as inducement expense for the modification of the Taja Note.

### *Financial Condition*

#### *Assets*

Our current assets totaled \$11.4 million and \$4.0 million at December 31, 2013 and March 31, 2013, respectively. Total assets were \$27.2 million and \$12.5 million at December 31, 2013 and March 31, 2013, respectively. The increase in current assets is primarily due to the assets purchased in the MIA acquisition and the funds raised through equity financing in the nine months ending December 31, 2013.



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***Liabilities and Working Capital***

At December 31, 2013, our total liabilities were \$10.9 million, compared to \$11.7 million at March 31, 2013. The change in liabilities was mainly due to the extinguishment of debt offset by the liabilities purchased in the MIA acquisition, and the gain on valuation of the long-term contingent liability of \$603. The Company had positive working capital of \$0.68 million at December 31, 2013, as compared to negative working capital of \$5.7 million at March 31, 2013, which is a net change of \$6.3 million. This is comprised of an increase in cash, accounts receivable and prepaid expense of \$7.87 million offset by a decrease in deposits and increase in liabilities of \$439 and \$1,095, respectively. The increases in assets and liabilities are due mainly to the acquisition of the MIA balance sheet.

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### *Liquidity and Capital Resources*

	Nine Months Ended December 31,		% of Change
	2013	2012	
<b>Consolidated Statement of Cash Flows Data:</b>			
Capital expenditures	\$ 62	—	0.0%
Cash flows used in operating activities	6,911	5,862	17.9%
Repayment of debt obligations	3,657	—	0.0%
Cash acquired with acquisition of subsidiary	513	59	769.5%
Cash used in acquisition of subsidiary	1,287	3,416	-62.3%
Issuance of shares for cash	14,924	2,000	646.2%
Gain / (loss) on exchange rate changes on cash and cash equivalents	(14)	61	-123.0%

The Company has incurred losses and negative annual operating cash flows since inception. The operating loss increased from \$9.1 million in the nine months ended December 31, 2012 to \$12.2 million for the nine months ended December 31, 2013, or by \$3.1 million. This is due mainly to increased operating costs to support the increased level of sales in the comparable periods, and includes expense for non-cash items such as stock compensation, depreciation and amortization of intangible assets.

The consolidated financial statements included in this Quarterly report on Form 10-Q include the accounts of the Company. The primary sources of liquidity have historically been issuance of common and preferred stock and borrowings under credit facilities. In the nine months ended December 31, 2013, the Company has raised \$14.9 million through the sale of common stock of the Company. We expect our current cash resources will be sufficient to fund our planned operations for at least the next twelve months.

As of December 31, 2013, the Company had approximately \$4.7 million of cash.

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

#### ***Operating Activities***

In the nine months ended December 31, 2013, cash increased \$3.5 million. Net cash used represents the \$1.2 million of cash used in the acquisition of MIA, and payment of the MIA Sellers Note of \$2.1 million and the Taja Non-convertible Note of \$1.5 million, offset by the increase in cash due to the sale of common stock of the Company.

#### ***Off-Balance Sheet Arrangements***

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

#### ***Stock Sales, Warrants and Liquidity***

In December 2013, the Company issued 86,020 shares of common stock of the Company to directors of the Company.

In December 2013, the Company issued 9,750 shares of common stock of the Company to a vendor. The shares were issued as settlement for services.

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### *Options*

In December 2013, the Company issued options to purchase 1,565,200 shares of common stock of the Company to employees of the Company.

In December 2013, the Company issued options to purchase 60,000 shares of common stock of the Company to a consultant to the Company for services.

### *Revenues*

The discussion herein regarding our future operations pertains to the results and operations of Digital Turbine, Logia, MIA and Twistbox. Logia, MIA and Twistbox have historically generated and expect to continue to generate the vast majority of their revenues from mobile phone carriers that market, distribute and/or bill for their content. These carriers generally charge a one-time purchase fee or a monthly subscription fee on their subscribers' phone bills when the subscribers download content to their mobile phones. The carriers perform the billing and collection functions and generally remit to Logia, MIA and Twistbox a contractual percentage of their collected fee for each transaction. Logia, MIA and Twistbox recognize as revenues the percentage of the fees due from the carrier. End users may also initiate the purchase of Twistbox's content through other delivery mechanisms, with carriers or third parties being responsible for billing, collecting and remitting to Twistbox a portion of their fees. MIA also generates revenues from its third party billing API that facilitates the billing of content via the carrier billing for content sold outside of the carriers portal. Logia's, MIA's and Twistbox's revenues are international.

We believe that the improving quality and greater availability of smartphones is encouraging consumer awareness and demand for high-quality content on their mobile devices. At the same time, carriers and branded content owners are focusing on a small group of enablers that have the ability to provide high-quality mobile content services consistently and cost-effectively with the ability to enable mobile billing across a wide variety of handsets and countries. Additionally, publishers and content owners are seeking enablers that have the ability to distribute content globally through relationships with most or all of the major carriers. We believe that the Company through its subsidiary operating companies has created the requisite development, distribution and billing technology and has achieved the scale to operate at a level that provides it with competitive advantages. We also believe that leveraging existing carrier and publisher relationships contained within Logia, MIA and Twistbox is an advantage that allows us to grow our revenues. Our revenue growth rate will depend significantly on continued growth in the mobile content market, our ability to leverage our distribution and content relationships, the entry of Digital Turbine's IQ product and Logia's Ignite product into the market, as well as our ability to continue to expand billing for content in new regional markets. Our ability to attain profitability will be affected to the extent to which we must incur additional expenses to expand our sales, marketing, development, and general and administrative capabilities to grow our business. The largest component of our expenses is personnel and acquisition costs. Personnel costs consist of salaries, benefits and incentive compensation, including bonuses and stock-based compensation, for our employees. Acquisition costs include the costs of acquiring MIA as was the case in our first quarter. The Company has plans to continue to acquire complimentary operations that create synergy and aid in bringing new products to market. Our operating expenses should continue to grow in absolute dollars, assuming our revenues continue to grow.

Because many new mobile handset models are released in the fourth calendar quarter to coincide with the holiday shopping season, and because many end users download our content soon after they purchase new handsets, we may experience seasonal sales increases based on this key holiday selling period. However, due to the time between handset purchases and content purchases, much of this holiday impact may occur in the March quarter end. For a variety of reasons, we may experience seasonal sales decreases during the summer, particularly in Europe, which is predominantly reflected in our second fiscal quarter. In addition to these possible seasonal patterns, our revenues may be impacted by declines in users visiting carrier portals, new or changed carrier deals, and by changes in the manner that our major carrier partners marketing our content on their deck. Initial spikes in revenues as a result of successful launches or campaigns may create further aberrations in our revenue patterns.

### *Cost of Revenues*

MIA's and Logia's cost of revenues are mainly personnel and technological expenses used in the servicing and maintenance of their products. Twistbox's cost of revenues historically consists of royalties that we pay to content owners from which we license brands and other intellectual property. Other direct costs such as platform and third party delivery charges are included in cost of revenues. Our cost of revenues also includes noncash expenses—amortization of certain acquired intangible assets, and any impairment of guarantees. We generally do not pay advance royalties to licensors. Where we acquire rights in perpetuity or for a specific time period without revenue share or additional fees, we record the payments made to content owners as prepaid royalties on our balance sheet when payment is made to the licensor. We recognize royalties in cost of revenues based upon the revenues derived from the relevant product sold multiplied by the applicable royalty rate. If applicable, we will record an impairment of prepaid

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royalties or accrue for future guaranteed royalties that are in excess of anticipated recoupment. At each balance sheet date, we perform a detailed review of prepaid royalties and guarantees that considers multiple factors, including forecasted demand, anticipated share for specific content providers, development and launch plans, and current and anticipated sales levels. We expense the costs for development of our content prior to technological feasibility as we incur them throughout the development process, and we include these costs in product development expenses.

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### ***Gross Margin***

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

### ***Operating Expenses.***

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

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

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

***Amortization of Intangible Assets.*** We will record amortization of acquired intangible assets that are directly related to revenue-generating activities as part of our cost of revenues and amortization of the remaining acquired intangible assets, such as customer lists and platform, as part of our operating expenses. We will record intangible assets on our balance sheet based upon their fair value at the time they are acquired. We will determine the fair value of the intangible assets using a contribution approach. We will amortize the amortizable intangible assets using the straight-line method over their estimated useful lives of three to fourteen years.

### ***Estimates and Assumptions***

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

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### ***Income Taxes***

We provide for deferred income taxes using the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and the tax effect of net operating loss carry-forwards.

### ***Recent Accounting Pronouncements***

#### ***Adopted Accounting Pronouncements***

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

Also, in December of 2011, the FASB issued Accounting Standards Update No. 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 (ASU 2011-12). In February 2013, the FASB issued Accounting Standards Update 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which adds additional disclosure requirements for items reclassified out of accumulated other comprehensive income. This ASU is effective for the first interim reporting period in 2013. The Company has adopted this guidance.

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

In January 2012, we adopted 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (ASU 2011-05) which requires presentation of the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements and eliminates the option to present components of other comprehensive income as part of the statement of changes in shareholders' equity. The standard does not change the items that must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income.

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

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

Not applicable.

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

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

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

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Our principal executive officer and principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q, have concluded that, based on such evaluation, our disclosure controls and procedures were ineffective as of December 31, 2013 because of the material weaknesses described below.

### ***Management's Report on Internal Control Over Financial Reporting***

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

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

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

During management's review of our internal control over financial reporting, we determined the following process contains material weaknesses as of December 31, 2013:

### **Financial Close and Reporting Process**

Prior to the recent addition of our Chief Financial Officer, there had been a lack of secondary review of key accounting and financial reporting functions resulting in a risk in that material accounting errors may not be detected timely.

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

Our management has identified and is taking the steps necessary to address the material weaknesses existing as of December 31, 2013 described above, as follows:

1. Implementing comprehensive ERP software across the business to consolidate financial reporting and to standardize internal and accounting controls;
2. Establishing procedures, under direction of the Principal Financial Officer, for the review and analysis of complex, non-routine transactions; and
3. Creating policies and practices to standardize the corporate reporting process as well as managing non-routine transactions.

The remediation efforts are expected to be completed during the fiscal year ending March 31, 2014,

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

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***Changes in Internal Controls over Financial Reporting***

Other than the recent addition of our Chief Financial Officer, there were no changes in our internal controls over financial reporting or in other factors identified in connection with the evaluation required by Exchange Act Rules 13a-15(d) or 15d-15(d) that occurred during the fiscal period ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.



**PART II—OTHER INFORMATION**

**Item 1. Legal Proceedings.**

None.

Part I, Item 1, Note 17—Litigation, in the Notes to Unaudited Consolidated Financial Statements, is incorporated herein by reference.

**Item 1A. Risk Factors.**

Other than with respect to the risk factors set forth below, there have not been any material changes from the risk factors previously disclosed in the “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended March 31, 2013.

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

In December 2013, the Company issued 86,020 shares of common stock of the Company to directors of the Company for services.

In December 2013, the Company issued 9,750 shares of common stock of the Company to a vendor. The shares were issued as settlement for services.

For each of the above, we relied on Section 4(2) of the Securities Act, as providing an exemption from registering the sale of these shares of common stock under the Securities Act because, among other reasons, the offerees/issuees were accredited investors who were not subject to any general solicitation.

**Item 3. Defaults.**

Not applicable.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None

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### **Item 6. Exhibits.**

<b>Exhibit No.</b>	<b>Description</b>
10.1	Employment Agreement dated as of November 22, 2013 by and between the Company and Jeffrey Klausner (incorporated by reference to Exhibit 10.1 of the Company's 8-K filed on November 29, 2013).*
10.2	Employment Agreement dated as of November 24, 2013 by and between the Company and William Stone (incorporated by reference to Exhibit 10.2 of the Company's 8-K filed on November 29, 2013).*
31.1	Certification of Peter Adderton, Principal Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Jeffrey Klausner, Principal Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Peter Adderton, Principal Executive Officer, pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Jeffrey Klausner, Principal Financial Officer, pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\* Management or compensatory plan or arrangement.

**SIGNATURES**

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

Mandalay Digital Group, Inc.

By: /s/ Peter Adderton

Peter Adderton  
Chief Executive Officer

Dated: February 14, 2014

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

I, Peter Adderton, certify that:

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

Date: February 14, 2014

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

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

I, Jeffrey Klausner, certify that:

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

Date: February 14, 2014

By: /s/ Jeffrey Klausner  
Jeffrey Klausner  
Chief Financial Officer  
Principal Financial Officer

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

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

The Quarterly Report on Form 10-Q for the period ending December 31, 2013 of the Company (the "Form 10-Q") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 14, 2014

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

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

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

The Quarterly Report on Form 10-Q for the period ending December 31, 2013 of the Company (the "Form 10-Q") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 14, 2014

By: /s/ Jeffrey Klausner  
Jeffrey Klausner  
Chief Financial Officer  
Principal Financial Officer