

Consolidated Financial Statements and Report of
Independent Certified Public Accountants

Mblox, Inc.

December 31, 2014 and 2013

Mblox, Inc.

December 31, 2014 and 2013

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
mBlox, Inc.

We have audited the accompanying consolidated financial statements of mBlox, Inc. (a Delaware corporation) and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of mBlox, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Atlanta, Georgia
June 29, 2015

Mblox, Inc.

December 31, 2014 and 2013

Consolidated Balance Sheets

<i>In thousands, except share price</i>	December 31,	
	2014	2013
Assets		
Current assets		
Cash and cash equivalents	\$ 9,494	\$ 8,575
Accounts receivable, net of allowance and reserves of \$1,732 and \$2,163 as of December 31, 2014 and 2013, respectively	27,998	26,923
Prepaid expenses and other current assets	4,332	4,255
Total current assets	41,824	39,753
Non-current assets		
Property and equipment, net	2,915	3,409
Intangible assets, net	11,375	-
Goodwill	19,201	7,048
Deferred tax assets	8,257	8,285
Other non-current assets	4,745	2,995
Total non-current assets	46,493	21,737
Total assets	\$ 88,317	\$ 61,490
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 4,410	\$ 3,556
Compensation and benefits	2,686	2,398
Premium rate short message service costs	1,197	3,604
Standard rate message operator costs	27,864	22,004
Warrant liabilities	1,450	1,407
Other accrued liabilities	7,439	211
Total current liabilities	45,046	33,180
Non-current liabilities		
Debt, long term	43,200	17,000
Other Liabilities	2,769	1,211
Non-current liabilities	45,969	18,211
Total liabilities	\$ 91,015	\$ 51,391
Commitments and contingencies (Note 8)		
Stockholders' equity		
Convertible preferred stock, \$0.001 par value; 408,539 shares authorized as of December 31, 2014 and 2013, and 217,415 issued and outstanding as of December 31, 2014 and 2013 (aggregate liquidation preference of \$71,611)	\$ 217	\$ 217
Convertible preferred stock, \$0.00001 par value; 69,327 shares authorized, 65,823 issued and outstanding at December 31, 2014 and 2013 (aggregate liquidation preference of \$18,376)	1	1
Class 1 Common stock, \$0.001 par value; 694,000 shares authorized as of December 31, 2014 and 2013, 180,226 and 176,715 issued and outstanding as of December 31, 2014 and 2013, respectively	180	177
Class 2 Common stock, \$0.00001 par value; 75,000 shares authorized, and 5,954 issued and outstanding at December 31, 2014 and 2013	-	-
Additional paid-in capital	112,737	112,096
Accumulated other comprehensive loss	(7,960)	(6,095)
Accumulated deficit	(107,873)	(96,297)
Total stockholders' equity	\$ (2,698)	\$ 10,099
Total liabilities and stockholders' equity	\$ 88,317	\$ 61,490

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

December 31, 2014 and 2013

Consolidated Statements of Operations

<i>In thousands</i>	Years ended December 31,	
	2014	2013
Net revenues	\$ 147,250	\$ 140,111
Costs and operating expenses		
Cost of revenue - service delivery	104,443	94,610
Cost of revenue - operations	10,953	9,474
Research and development	6,551	5,941
Sales and marketing	13,775	14,368
General and administrative	13,434	11,158
Depreciation and amortization	5,267	9,132
Restructuring expenses	-	1,883
Total costs and operating expenses	154,423	146,566
Loss from operations	\$ (7,173)	\$ (6,455)
Interest income	3	5
Interest expense	(4,441)	(1,945)
Change in fair value of warrant liabilities	(43)	430
Foreign exchange (losses) gains, net	(279)	1,598
Other expense	(6)	(22)
Loss before income taxes	(11,939)	(6,389)
Income tax benefit	(363)	(9,999)
Net (loss) income	\$ (11,576)	\$ 3,610

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

December 31, 2014 and 2013

Consolidated Statements of Comprehensive (Loss) Income

<i>In thousands</i>	Years ended December 31,	
	2014	2013
Net (loss) income	\$ (11,576)	\$ 3,610
Other comprehensive loss:		
Foreign currency translation	(1,865)	(1,059)
Total other comprehensive loss	(1,865)	(1,059)
Comprehensive (loss) income	\$ (13,441)	\$ 2,551

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

Mblox, Inc.

December 31, 2014 and 2013

Consolidated Statements of Changes in Stockholders' Equity

<i>In thousands</i>	Voting Convertible Preferred Stock		Non-voting Convertible Preferred Stock		Class 1 Common Stock		Class 2 Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income		Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount		Loss	Deficit	
Balance as of December 31, 2012	217,415	217	65,823	1	176,300	176	5,954	-	111,338	(5,036)	(99,907)	6,789
Issuance of common stock upon exercise of options	-	-	-	-	288	1	-	-	4	-	-	5
Stock-based compensation expense	-	-	-	-	-	-	-	-	487	-	-	487
Stock-based compensation expense for stock option modifications	-	-	-	-	-	-	-	-	245	-	-	245
Issuance of common stock for MashMobile contingent consideration	-	-	-	-	127	-	-	-	22	-	-	22
Foreign currency translation	-	-	-	-	-	-	-	-	-	(1,059)	-	(1,059)
Net income	-	-	-	-	-	-	-	-	-	-	3,610	3,610
Balance as of December 31, 2013	217,415	\$ 217	65,823	\$ 1	176,715	\$ 177	5,954	\$ -	\$ 112,096	\$ (6,095)	\$ (96,297)	\$ 10,099
Issuance of common stock upon exercise of options	-	-	-	-	2,923	3	-	-	78	-	-	81
Stock-based compensation expense, net of \$54 tax benefit	-	-	-	-	-	-	-	-	510	-	-	510
Issuance of common stock for MashMobile contingent consideration	-	-	-	-	588	-	-	-	53	-	-	53
Foreign currency translation	-	-	-	-	-	-	-	-	-	(1,865)	-	(1,865)
Net loss	-	-	-	-	-	-	-	-	-	-	(11,576)	(11,576)
Balance as of December 31, 2014	217,415	\$ 217	65,823	\$ 1	180,226	\$ 180	5,954	\$ -	\$ 112,737	\$ (7,960)	\$ (107,873)	\$ (2,698)

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

Consolidated Statements of Cash Flows

<i>In thousands</i>	Years ended December 31,	
	2014	2013
Operating activities		
Net (loss) income	\$ (11,576)	\$ 3,610
Adjustments to reconcile net (loss) income to net cash used by operating activities:		
Depreciation and amortization	5,267	9,132
Stock-based compensation expense	456	733
Amortization of debt discount	576	384
Change in fair value of warrants	43	(430)
Provision for doubtful accounts	328	569
Deferred tax benefit	(88)	(9,905)
Changes in operating assets and liabilities:		
Accounts receivable	(2,224)	14,225
Prepaid expenses and other assets	(2,949)	(2,206)
Accounts payable	(88)	1,243
Compensation and benefits	159	40
Premium rate short message service payments	(2,246)	(28,458)
Standard rate message operator costs	5,554	355
Other liabilities	(297)	(3,016)
Net cash used by operating activities	(7,085)	(13,724)
Investing activities		
Purchase of property and equipment	(1,110)	(784)
Capitalized software costs	(960)	(1,367)
Acquisitions, net of cash acquired	(15,838)	-
Net cash used in investing activities	(17,908)	(2,151)
Financing activities		
Proceeds from debt obligations	40,200	17,000
Payments for debt obligations	(14,000)	(14,450)
Proceeds from exercise of employee common stock options	81	5
Excess tax benefit of stock options exercised	54	-
Net cash provided by financing activities	26,335	2,555
Effect of foreign currency changes on cash and cash equivalents	(423)	(139)
Net increase (decrease) in cash and cash equivalents	919	(13,459)
Cash and cash equivalents, beginning of year	8,575	22,034
Cash and cash equivalents, end of year	\$ 9,494	\$ 8,575
Supplemental cash flow information		
Cash paid for interest, net	\$ 3,862	\$ 2,314
Cash paid (received) for income taxes, net	\$ 410	\$ (76)

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

Notes to consolidated financial statements

Note 1 – Organization

Mblox, Inc. was incorporated under the laws of the State of Delaware in 1999. Mblox, Inc., together with its wholly owned subsidiaries (collectively, the “Company” or “Mblox”) is a mobile network service provider that accelerates mobile commerce by enabling rich mobile interaction and communication between brands and consumers. The Company manages the transmission, mobile billing, and financial settlement of Short Message Service (“SMS”) mobile messaging, or text messaging as it is commonly referred. The Company’s customers are primarily in Europe and North America.

In June 2014, the Company acquired the UK based company NextGen Mobile Ltd. (“Cardboardfish”) which provides SMS text messaging services from businesses to consumers primarily in Europe. In June 2014, the Company acquired Zoove Corp. that operates the StarStar services, an exclusive registry of vanity mobile phone numbers that lets brands connect with people via wireless operators in the U.S. Please refer to Note 4 for further discussion of these transactions.

In March 2013, the Company sold the customer contracts and related commitments for the Premium SMS (“PSMS”) product line in the U.S., U.K., Australia and Ireland, representing nearly all of the Company’s PSMS product line. As part of the transaction, the acquiring companies took over support of PSMS products and were assigned customer contracts. In return, the Company received a royalty calculated as a percentage of the gross profit generated by the customer contracts over the 18-months after the agreement was executed which ended in September 2014.

Note 2 – Significant accounting policies

Principles of consolidation and basis of presentation

The consolidated financial statements include the accounts of the Company, including its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated. References to “2014” and “2013” refer to the year ended on December 31.

Use of estimates

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

Revenue recognition

The Company recognizes revenue when all of the following conditions are satisfied: (i) there is persuasive evidence of an arrangement; (ii) the service has been rendered or delivery has occurred; (iii) the fee to be paid by the customer is fixed or determinable; and (iv) collection of the fee is reasonably assured.

The Company derives revenue from sending SMS messages between applications and mobile phones or other SMS-enabled devices and enabling the billing mechanism for these transactions for content providers and enterprises. SMS messages are sent between an enterprise and a mobile user’s SMS-enabled device. The Company charges fees for message volume as well as account setup and monthly fees.

PSMS messages are sent from a content provider to a mobile user's SMS-enabled device containing content requested by the mobile user. PSMS messaging allows the content providers to reach subscribers and monetize their content. For example, content providers are able to deliver games, traffic alerts, and banking, sports and news updates. Mobile operators facilitate the transport and billing of the PSMS messages to the mobile user. Mobile operators remit payment to the Company upon settlement of the PSMS transactions. The Company then remits an outpayment to the content provider for the amounts received from the mobile operators, net of the Company's fee for the PSMS transaction.

For PSMS messages, the Company acts as an agent between mobile operators and content providers and records revenue for the payments received from mobile operators, net of payments the Company makes to content providers. PSMS revenue is recognized when service is rendered and billed in arrears.

Both SMS and PSMS revenue include customer set up and customer support fees that are recognized ratably over the expected life of the arrangement for the customer, which is estimated as one year. In addition, the Company may obtain shortcodes (unique identifier for a mobile service) from the shortcode registry on behalf of a customer that is then invoiced to the customer and recognized over the period of registry, typically several months.

SMS message revenue is recognized upon sending the messages to the mobile user. Customers are typically billed monthly for SMS messages in the month following the message delivery. Some customers are required to pre-pay for SMS messages. In the event the customer prepays for SMS messages, the revenue is deferred until the messages have been sent. In the event that the content provider makes a prepayment for any services, the revenue is deferred until the services have been performed.

The Company derives revenue from StarStar by leasing mobile dial codes primarily to companies for connecting their brands to consumers for those companies' marketing purposes in the U.S. The Company recognized revenue from StarStar ratably over the leasing term, either monthly or annually, consistent with a subscription-based model. The Company charges customers up-front fees to set up the mobile dial codes and these fees are recognized over the period of contract, typically 12 months.

The Company records reductions to revenue for estimated refunds. Refunds are mainly a result of price adjustment credits in response to individual competitive opportunities. Allowance for refunds are estimated based on historical refunds, current trends, and the Company's expectations regarding future experience. The Company monitors and analyzes the accuracy of refund estimates by reviewing actual refunds and adjusts them for future expectations to determine the adequacy of the Company's current and future allowance needs. The Company's allowance levels have been sufficient to cover actual refunds and have not required material changes in subsequent periods. While the Company currently has no expectations for significant changes to these allowance, if actual future refunds differ from past experience, adjustments may be required.

The Company's revenue does not include taxes such as sales, use, value added tax, excise, or other taxes that were collected from customers on behalf of a governmental authority.

Cost of revenue - service delivery and Cost of revenue - operations

Cost of revenue - service delivery primarily consists of fees paid to mobile operators to transmit messages or content traffic across their networks, which are referred to as traffic cost. Other costs in this category applicable to both SMS and PSMS messages include setup fees paid to mobile operators to establish an account; shortcode fee costs paid by the Company to procure or renew a shortcode on behalf of customers; end-user support costs incurred while providing customer service to subscribers who are billed on behalf of the content

providers; network-related costs incurred by the Company to operate and maintain its message processing, transmission, and billing platform, and revenue share payments to mobile operators related to the StarStar services. The liabilities for SMS and StarStar costs are included in standard rate message operator costs and liabilities for PSMS are included in premium rate short message service costs on the consolidated balance sheets.

Cost of revenue - operations primarily consists of expenses incurred related to delivering product to customers, which include customer service and support, billing, provisioning, service implementation, and network management, or applications support.

Cash and cash equivalents

Cash and cash equivalents include cash balances and highly liquid investments with a maturity of three months or less at the date of acquisition. The Company maintains cash balances in excess of the Federal Deposit Insurance Corporation insured amount in cash equivalents in high-credit-quality financial institutions. The Company had \$5.7 million of cash and cash equivalents in banks outside of the U.S. as of December 31, 2014.

Concentration of credit risk

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash, cash equivalents, and accounts receivable. The Company generally does not require its customers to provide collateral or other security to support accounts receivable. To reduce credit risk, management performs ongoing credit evaluations of its customers' financial condition and continually analyzes the collectability of its receivables based on a combination of factors. The Company had no customers to whom accounts receivable or sales were in excess of 10% of accounts receivables or total annual revenue, respectively, as of December 31, 2014 and 2013.

Accounts receivable

Accounts receivables are reported at outstanding principal net of an allowance for doubtful accounts and a reserve for customer concessions and billing adjustments. The allowance for doubtful accounts is generally determined based on aged accounts and an account-by-account review based on estimates developed using standard quantitative measures, which include historical write offs, current economic conditions and relevant customer specific information. The Company also makes a specific allowance if there is strong evidence indicating that the amounts due are unlikely to be collectible. Accounts are written off when the account is deemed uncollectible. The reserve for customer concessions and billing adjustments is generally based on historical trends by product. The reserve is utilized via credit notes. The Company normally does not charge interest on accounts receivable.

Accounts receivable balances include approximately \$1.4 and \$2.3 million related to the Company's PSMS business as of December 31, 2014 and 2013, respectively.

Property and equipment

Property and equipment consists mainly of computer software, computer equipment, furniture and fixtures, leasehold improvements, and work in progress, and are recorded at historical cost net of accumulated depreciation and amortization. The Company depreciates computer software, computer equipment, and furniture and fixtures using the straight-line method over the estimated useful lives of the asset, generally three to five years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the assets. Work in process is not amortized until placed into service.

Gains and losses on disposal of property and equipment are determined by comparing proceeds with the carrying value of the respective asset, and are included in income from operations. All maintenance and repairs are expensed as incurred.

The Company capitalizes costs related to software developed for new internal use software and significant enhancements of existing internal use software once technological feasibility has been reached and all research and development for the components of the product have been completed. Capitalized internal use software development costs consist primarily of internal salaries and consulting fees for developing software platforms for delivery of messaging services. The Company capitalizes costs related to the development of its software platforms until such time that the software is placed in service. Such software is primarily related to the Company's messaging platform, including underlying support systems. Such costs are amortized on a straight-line basis over the estimated useful life of the related product, not to exceed five years, commencing with the date the product becomes available for general release to the Company's customers. The achievement of technological feasibility and the estimate of a products' economic life require management's judgment. Any changes in key assumptions, market conditions or other circumstances could result in an impairment of the capitalized asset and a charge to the Company's operating results.

Intangible assets

Intangible assets are reported at cost less accumulated amortization and accumulated impairment loss, if any. Amortization is expensed on a straight-line basis over the estimated economic lives of the assets acquired. The estimated economic life of acquired assets is initially determined at date of acquisition and reviewed at each annual reporting date, with the effect of any changes in estimate being accounted for on a prospective basis. Acquired in-process technology represents the estimated fair value assigned to research and development acquired in a purchase business combination that has not been completed at the date of acquisition.

Goodwill

Goodwill is generated when the consideration paid for an acquisition exceeds the fair value of net assets acquired. Goodwill is not amortized but reviewed for impairment on an annual basis, or whenever events or circumstances indicate that the carrying amount of goodwill may not be recoverable. The Company performs the annual impairment testing of goodwill as of October 1 each year. The Company determined that no goodwill impairment charge was necessary for 2014 and 2013.

Operating leases

Leases are classified as operating leases where a significant portion of the risks and rewards of ownership are retained by the lessor. Payments made under operating leases are charged to the consolidated statement of operations on a straight-line basis over the term of the lease.

Income taxes

The provision for income taxes is recorded using the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are recognized based on the estimated future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax basis.

Deferred tax assets and liabilities are measured using enacted tax rates for the year in which those temporary differences are expected to be recovered or settled. In assessing net deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. When the

Company does not believe realization of a deferred tax asset is more likely than not, the Company records a valuation allowance. The valuation allowance is evaluated at the end of each year, considering positive and negative evidence about whether the deferred tax assets will be realized.

The Company is subject to income taxes in the U.S. and certain foreign jurisdictions. Significant judgment is required in evaluating the Company's uncertain tax positions in determining its provision for income taxes. Accounting for income tax uncertainties requires a two-step approach to recognize and measure uncertain tax positions.

The first step is to evaluate the 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.

The Company adjusts the valuation allowance in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions as well as related interest and penalties.

Stock-based compensation

The Company measures and recognizes compensation expense related to stock-based transactions, including employee and director equity awards, in the financial statements based on estimated fair value on the grant date. The Company uses the Black-Scholes option pricing model to calculate the grant date fair value of share options and deferred share awards, using various assumptions discussed in Note 13 – Equity Awards. The Company recognizes compensation expense on a straight-line basis over the requisite service period of the award, which is generally the option vesting term of four years. The compensation expense is net of forfeitures that are estimated using historical trends.

Foreign currency translation

The Company translates the assets and liabilities of its non-U.S. dollar functional currency subsidiaries into U.S. dollars using exchange rates in effect at the end of each period. Revenue and expenses for these subsidiaries are translated using rates that approximate those in effect during the period. Gains and losses resulting from translation are recorded as a component of accumulated other comprehensive loss on the consolidated balance sheet. Gains and losses from foreign currency transactions resulting from the settlement of such transactions are recorded in the consolidated statement of operations.

Fair value measurements of financial instruments

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact business and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance.

The Company's valuation techniques are based on maximizing observable inputs and minimizing the use of unobservable inputs when measuring fair value. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect the Company's market assumptions. The inputs are then classified into the following hierarchy:

- Level 1 Inputs—quoted prices in active markets for identical assets and liabilities;
- Level 2 Inputs—observable market-based inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities in active markets, quoted prices for similar or identical assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data;
- Level 3 Inputs—unobservable inputs and typically reflect management's best estimate of assumptions that market participants would use in pricing the asset or liability.

The Company's financial assets and liabilities consist principally of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, which are stated at cost that approximates fair value due to their expected short maturities.

Most of the Company's long term debt bears interest at variable rates which approximate the interest rates at which the Company believes it could refinance the debt. Accordingly, the carrying amount of long-term debt approximates its fair value. The fair value of the Company's long term debt was measured within Level 2 of the fair value hierarchy as the interest rate on the long term debt approximates what the Company believes it could get for similar financing terms at the end 2014 and 2013.

The Company records liabilities for contingent considerations and warrants in conjunction with certain debt and equity financings that are re-measured using Level 3 inputs each year. The Company also records liabilities for contingent considerations resulting from a business combinations at its fair value on the acquisition date, and for each subsequent reporting period revalues these obligations and records increases or decreases in their fair value as an adjustment to operating earnings in the consolidated statements of operations. The Company used Level 3 inputs to assess the fair value of the liabilities using assumptions that include a significant amount of judgment and any changes in the assumptions could have a material impact on the amount of expense recorded in any given period for changes in the value of the liabilities.

Comprehensive income (loss)

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive loss, which consists of the effect of foreign currency translation.

Research and development

The Company expenses research and development costs as they are incurred.

Advertising

Costs associated with advertising are expensed as incurred. Advertising expenses were approximately \$1.8 and \$1.3 million for the years ended December 31, 2014 and 2013, respectively.

Recent accounting pronouncements

In December 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-18: Accounting for Identifiable Intangible Assets in a Business Combination – a consensus of the Private Company Council (Accounting Standard Codification ("ASC") 805, Business Combinations).

An entity within the scope of this update that elects the accounting alternative to recognize or otherwise consider the fair value of intangible assets as a result of any in-scope transactions should no longer recognize separately from goodwill (1) customer-related intangible assets unless they are capable of being sold or licensed independently from the other assets of the business and (2) noncompetition agreements. An entity that elects the accounting alternative in this update must adopt the private company alternative to amortize goodwill as described in ASU 2014-02, Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill. However, an entity that elects the accounting alternative in ASU 2014-02 is not required to adopt the amendments in this update. The decision to adopt the accounting alternative in this update must be made upon the occurrence of the first transaction within the scope of this accounting alternative in fiscal years beginning after December 15, 2015, and the effective date of adoption depends on the timing of that first in-scope transaction. The Company has decided not to elect the accounting alternative in ASU 2014-18.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (“ASC 606”). This ASU supersedes the revenue recognition requirements in ASC 605, Revenue Recognition, and most industry-specific guidance. The standard requires that entities recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. This ASU is effective for fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years. The standard permits the use of either the retrospective or cumulative effect transition method. At this time, the Company has not selected a transition method. The Company is currently assessing the impact of the adoption of ASU 2014-09 on its financial position, results of operations, and cash flows.

In January 2014, the FASB issued ASU No. 2014-02, Accounting Standards Update 2014-02 Intangibles - Goodwill and Other (Topic 350), Accounting for Goodwill a consensus of the Private Company Council. The amendments in this update allow an accounting alternative for the subsequent measurement of goodwill. An entity within the scope of the amendments that elects the accounting alternative in this update should amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate. An entity that elects the accounting alternative is further required to make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level. The accounting alternative, if elected, should be applied prospectively to goodwill existing as of the beginning of the adoption period and new goodwill recognized in annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. Early application is permitted. The Company has decided not to elect the accounting alternative in ASU 2014-2.

Note 3 – Property and equipment

Property and equipment consisted of the following as of December 31, (in thousands):

	2014	2013
Computer software	\$ 18,160	\$ 20,592
Computer equipment	10,726	10,846
Furniture and fixtures	2,594	2,005
Leasehold improvements	313	152
Work in progress	842	1,872
Total property and equipment	32,635	35,467
Less accumulated depreciation	(29,720)	(32,058)
Property and equipment, net	\$ 2,915	\$ 3,409

Depreciation expense for the years' ended December 31, 2014 and 2013 was approximately \$3.2 million and \$5.8 million, respectively.

The Company had developed a billing system (“old billing system”) through mid-2014 for \$1.4 million. In June 2014, the Company acquired the Cardboardfish platform for the SMS business which replaced the old billing system. The old billing system was written off and the amortized costs was included in depreciation expense.

In 2013, the Company reevaluated the useful life of this push messaging platform acquired from Mashmobile in 2010 such that it shortened the remaining useful life from 5 years to 1 year, resulting in a fully amortized asset at December 31, 2013 after the amortized costs of \$1.9 million which was included in depreciation expense. The reevaluation was the result of uncertainty surrounding the future use of these assets in generating revenues.

Note 4 – Business combinations**Cardboardfish**

On June 3, 2014, the Company acquired all of the stock of Cardboardfish, a private company based in the United Kingdom which provides SMS text messaging services from businesses to consumers primarily in Europe. The Company acquired Cardboardfish to expand its traffic in Europe and plans to utilize the Cardboardfish messaging platform to increase route efficiency and provide self-service tools to the Company's legacy customers. After the acquisition date, Cardboardfish contributed revenue of \$7.0 million and income from operations (excluding intangible amortization and transaction costs) of \$0.4 million from June 3, 2014 through December 31, 2014. The Company incurred transaction costs of \$1.5 million associated with the acquisition included in general and administrative expense for the year ended December 31, 2014. Factors contributing to the purchase price that resulted in the goodwill (which is not tax deductible) include the acquisition of personnel for sales and technology with the skills to market existing products of the Company and expected synergies of combining technology platforms.

The purchase price was as follows using exchange rate in the month of acquisition (in thousands):

Cash	\$ 19,132
Contingent consideration – earnout	<u>4,257</u>
Total consideration	\$ 23,389

The following table summarizes the purchase price allocation based on the fair values using exchange rate in the month of acquisition (in thousands):

Cash	\$	4,248	
Accounts receivables		404	
Other current assets		88	
Fixed assets		386	
Payables		(1,536)	
Deferred revenue		(1,006)	
Deferred tax liabilities		<u>(2,549)</u>	
Net assets assumed		35	
Intangibles – mobile operator		1,158	Useful life of 4.0 years
Intangibles – developed technology		6,232	Useful life of 4.0 years
Intangibles – in-process technology		4,410	Useful life of 4.0 years
Intangibles – customer contracts		429	Useful life of 4.0 years
Intangibles – tradename		289	Useful life of 1.0 year
Goodwill		<u>10,836</u>	
Total consideration	\$	23,389	

The acquisition of Cardboardfish included a contingent consideration arrangement of £2.5 million to be paid by the Company based on integrating the Company's legacy SMS customers into Cardboardfish's platform. The amounts are payable at certain milestone dates that are expected to be paid during 2015. The fair value for contingent consideration was determined based on Level 3 inputs utilizing unobservable inputs for which there is little, if any, market activity based on probability of achieving defined milestones. The fair value of the contingent consideration is based on the Company's expectation that the platform will be delivered and 100% of contingent consideration will be paid out in 2015.

Fair Value Measurements at Reporting Dates Using Significant Unobservable Inputs (Level 3)

Balance at December 31, 2013	\$	--
Acquisition of Cardboardfish		4,257
Change in foreign exchange rates		(374)
Balance at December 31, 2014	\$	<u>3,883</u>

Zoove

On June 20, 2014, the Company acquired all of the stock of Zoove that operates the StarStar services, an exclusive registry of vanity mobile phone numbers that lets brands connect with people via wireless operators in the U.S. The Company acquired Zoove to complement the Company's existing SMS business and help drive up U.S. traffic for SMS as an exclusive product that would help differentiate the Company. After the acquisition date, Zoove contributed revenue of \$2.9 million and operating losses (excluding intangible amortization and transaction costs) of \$1.8 million from June 20 through December 31, 2014. The Company incurred transaction and integration costs of \$1.1 million associated with the acquisition included in general and administrative expense for the year ended December 31, 2014. Factors contributing to the purchase price that resulted in the goodwill (which is not tax deductible) include the acquisition of personnel for technology with

the skills to market existing products of the Company and adding another channel to drive growth in the Company's SMS business in the United States.

The purchase price was as follows (in thousands):

Cash	\$	1,322
Common stock – 5,457,790 shares		<u>491</u>
Total consideration	\$	1,813

The following table summarizes the purchase price allocation based on the fair values (in thousands):

Cash	\$	368	
Accounts receivables		335	
Other current assets		379	
Fixed assets		157	
Payables		(2,182)	
Deferred revenue		(968)	
Deferred tax liabilities		<u>(544)</u>	
Net liabilities assumed		(2,455)	
Intangibles – carrier agreements		640	Useful life of 4.0 years
Intangibles – developed technology		390	Useful life of 4.0 years
Intangibles – customer contracts		970	Useful life of 4.0 years
Goodwill		<u>2,268</u>	
Total consideration	\$	1,813	

The stock consideration in the purchase price of Zoove is being held in escrow until 18 months after closing in relation to Zoove's recorded liabilities at time of purchase. Any unrecorded liabilities identified before escrow release date will be deducted. As of December 31, 2014, no claims against the escrow have been made by the Company. In December 2014, the value of Mblox common stock was updated increasing the fair value of shares held in escrow by \$0.1 million recognized in general & administrative expense.

Fair Value Measurements at Reporting Dates Using Significant Unobservable Inputs (Level 3)

Balance at December 31, 2013	\$	--
Acquisition of Zoove		491
Change in fair value		109
Balance at December 31, 2014	\$	<u><u>600</u></u>

Mashmobile

On October 6, 2010, Mblox Inc. acquired all of the stock of Mashmobile Sweden AB, a private company based in Sweden. The sellers of Mashmobile were eligible for contingent consideration up to an additional 13,905,066 shares of Mblox, Inc. common stock and could be earned over a three-year period ending December 31, 2013, through a certain level of activations. In addition, if the Company had completed an initial public offering or was acquired prior to December 31, 2013, all shares would have been earned. During 2013, the sellers of Mashmobile earned 587,419 of such shares based on download activity. The earned shares for 2013 were issued in May 2014. The fair value for the contingent consideration was \$0.1 million as of December 31, 2013

determined based on Level 3 inputs utilizing unobservable inputs for which there is little, if any, market activity. The inputs are based on the levels of qualifying activations, discount rate, and probability of achieving defined milestones. For the year ended December 31, 2013, fair values adjustment from the reduction of the Company's contingent consideration liability resulted in gains recorded in general and administrative expense of \$0.6 million.

Fair Value Measurements at Reporting Dates Using Significant Unobservable Inputs (Level 3)

Balance at December 31, 2012	\$ (645)
Realized gain in general & administrative expenses	570
Settlement to MashMobile shareholders	22
Balance at December 31, 2013	<u>(53)</u>
Settlement to MashMobile shareholders	53
Balance at December 31, 2014	<u><u>\$ --</u></u>

Note 5 – Goodwill and other intangible assets

The following table summarizes the Company's carried goodwill as follows (in thousands):

Balance at 12/31/2012	\$ 7,048
No activity in 2012	<u>-</u>
Balance at 12/31/2013	7,048
Acquisition – Cardboardfish	10,836
Acquisition – Zoove	2,268
Foreign exchange impact	<u>(951)</u>
Balance at 12/31/2014	\$ 19,201

The Company's definite-lived intangible assets amortized in 2014 consisted of those assets acquired in the acquisitions of Cardboardfish and Zoove. The Company's definite-lived intangible assets amortized in 2013 consisted of those assets acquired in the acquisition of Mashmobile which was fully amortized by end of 2013. Amortization expense was \$2.1 and \$3.4 million in 2014 and 2013, respectively. In 2013, the Company re-evaluated the useful life of this push messaging platform acquired from Mashmobile in 2010 such that it shortened the remaining useful life resulting in \$1.7 million of accelerated amortization expense. The re-evaluation was the result of uncertainty surrounding the future use of these assets in generating revenues. Intangible assets consisted of the following (in thousands):

As of December 31, 2014				
	Useful life at Acquisition Date	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	4.0 years	\$ 6,101	\$ (906)	\$ 5,195
In-process technology	4.0 years	4,042	(606)	3,436
Carrier agreements	4.0 years	640	(84)	556
Mobile operator status	4.0 years	1,061	(159)	902
Customer contracts	4.0 years	1,363	(187)	1,176
Tradenames	1.0 years	269	(159)	110
		<u>\$ 13,476</u>	<u>\$ (2,101)</u>	<u>\$ 11,375</u>

	As of December 31, 2013			
	Useful life at Acquisition Date	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	4.25 years	\$ 3,690	\$ (3,690)	\$ --
In-process technology	2.25 years	1,800	(1,800)	--
Customer contracts	2.75 years	56	(56)	--
		<u>\$ 5,546</u>	<u>\$ (5,546)</u>	<u>\$ --</u>

The Company's definite-lived intangible assets amortization expense for the next five years (in thousands):

2015	\$ 3,399
2016	3,289
2017	3,289
2018	1,398
Total	<u>\$ 11,375</u>

Note 6 - Income taxes

For financial reporting purposes, income (loss) before income taxes included the following components for the years ended December 31 (in thousands):

	2014	2013
Domestic	\$ (4,797)	\$ 4,591
Foreign	<u>(7,142)</u>	<u>(10,980)</u>
	<u>\$ (11,939)</u>	<u>\$ (6,389)</u>

Income tax benefit consisted of the following for the years ended December 31 (in thousands):

	2014	2013
Current:		
Federal	\$ 44	\$ 70
State	(5)	17
Foreign	(314)	(181)
Total current	<u>\$ (275)</u>	<u>\$ (94)</u>
Deferred:		
Federal	\$ 235	\$ (9,905)
State	60	--
Foreign	(383)	--
Total deferred	<u>(88)</u>	<u>(9,905)</u>
Total	<u>\$ (363)</u>	<u>\$ (9,999)</u>

A reconciliation of the income tax benefit to the amount computed by applying the statutory federal income tax rate to the loss before income taxes consisted of the following for the years ended December 31 (in thousands):

	2014	2013
Income tax benefit at federal statutory rate of 35%	\$ (4,178)	\$ (2,236)
State income tax expense (benefit), net of federal benefit	10	(67)
Taxes on foreign losses, which differ from the U.S. statutory rate	848	3,703
Change in valuation allowance	5,024	(11,355)
Other permanent items	2,675	(44)
Uncertain tax position decrease	(714)	--
Deferred Adjustments	(4,028)	--
Income tax benefit	<u>\$ (363)</u>	<u>\$ (9,999)</u>

Tax benefits in 2013 were primarily related to the release of the valuation allowance on deferred tax assets in the U.S.

Significant components of the Company's deferred taxes were as follows for the years ended December 31 (in thousands):

	2014	2013
Deferred tax assets:		
Federal and state net operating losses	\$ 11,552	\$ 12,481
Foreign net operating losses	10,741	11,833
Depreciation	5,408	--
Credits	709	168
Temporary difference for non-deductible expenses	587	595
Capitalized research and development	339	19
	<u>29,336</u>	<u>25,096</u>
Valuation allowance	<u>(16,845)</u>	<u>(13,109)</u>
Total deferred tax assets	<u>12,491</u>	<u>11,987</u>
Deferred tax liabilities:		
Unrealized foreign exchange losses	(1,754)	(1,590)
Non-goodwill intangibles	(2,507)	(383)
Depreciation and amortization	--	(119)
Total deferred tax liabilities	<u>(4,261)</u>	<u>(2,092)</u>
Net deferred tax assets	<u>\$ 8,230</u>	<u>\$ 9,895</u>
Deferred taxes included on balance sheets in:		
Prepaid expenses and other current assets	\$ 547	\$ 1,610
Other non-current assets	8,257	8,285
Non-current other liabilities	(1,610)	--
Unrecognized tax benefits in Non-current other liabilities	1,036	--

The net change in the valuation allowance for fiscal 2014 was an increase of \$3.7 million. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Due to historical taxable losses outside of the U.S. and uncertainties as to future profitability, the Company recorded a valuation allowance on certain state and foreign deferred tax asset balances as of December 31, 2014.

As of December 31, 2014, the Company had net operating loss carryforwards for federal, state, and foreign income tax purposes of approximately \$30.1 million beginning to expire in 2021, \$17.7 million beginning to expire in 2015, and \$51.8 million which begin to expire in 2025, respectively. As of December 31, 2014, the Company had research and development credits for the U.S. and for the state of California of approximately \$0.2 and \$0.5 million, that will expire beginning in 2029 and carry indefinitely, respectively.

The Company believes it has had multiple ownership changes as defined by Section 382 of the Internal Revenue Code (IRC), due to stock transactions in previous years that may significantly limit the future realization of its net operating loss carry forwards. Based on estimates prepared to date, the Company believes Section 382 could result in the forfeiture of a portion of net operating loss carry forwards for federal income tax purposes and, accordingly, net operating losses or NOLs above have been reduced for these items.

The Company had gross unrecognized tax benefits of approximately \$1.2 and \$1.9 million that would impact the effective tax rate if recognized as of December 31, 2014 and 2013, respectively. A reconciliation of the beginning and ending amounts of unrecognized income tax benefits is as follows for the years ended December 31 (in thousands):

	2014	2013
Balance at beginning of year	\$ 1,874	\$ 1,890
Additions based on tax positions taken during a prior period	79	57
Additions based on tax positions taken during the current period	--	68
Decrease based on tax positions taken during a prior year	(3)	--
Decreases related to lapsing of statute of limitations	(725)	(141)
Balance at end of year	<u>\$ 1,225</u>	<u>\$ 1,874</u>

While it is often difficult to predict the final outcome of any particular uncertain tax position, management does not believe that it is reasonably possible that the estimates of unrecognized tax benefits will change significantly in the next twelve months.

The Company recognizes interest accrued and penalties related to unrecognized tax benefits in its income tax provision. For the years ended December 31, 2014 and 2013, the Company recorded interest of \$0.1 and \$0.2 million, in income tax expense, respectively.

The Company files corporate income tax returns in the U.S. federal jurisdiction, as well as various states and international jurisdictions, including Australia, France, Germany, Singapore, Spain, and the U.K. For U.S. federal, U.S. state and foreign tax returns, the Company is generally no longer subject to tax examinations for years prior to fiscal 2011, 2010 and 2010, respectively. The federal and state taxing authorities may choose to audit tax returns for tax years beyond the statute of limitation period due to significant tax attribute carry forwards from prior years, making adjustments only to carry forward attributes.

Note 7 – Borrowings

The Company's debt obligations for revolving line of credits and loans payable consisted of the following for the years ended December 31 (in thousands):

	2014	2013
Balance at beginning of year	\$ 17,000	\$ 14,450
Advances	40,200	17,000
Repayments	(14,000)	(14,450)
Balance at end of year	\$ 43,200	\$ 17,000

The Company will begin repaying the subordinate loan debt in April 2016 funded from cash reserves and cash generated from operations. The revolving line of credit expires in 2016 and the Company intends to extend the term of this loan an additional two years.

The Company incurred \$1.6 million in debt issuance costs in 2014 related to the amending the 2013 Secured revolving line of credit and the issuance of the 2014 Subordinated Loan.

2012 Secured revolving line of credit

The Company had a revolving line of credit agreement with a maximum credit line of \$17.0 million, inclusive of a \$10.0 million equivalent line available to its U.K. subsidiary. Advances were subject to a borrowing base calculated using accounts receivable. In May 2012, the Company amended the line of credit requiring certain quarterly principal payments and decreasing the maximum credit line at maturity to \$16.3 million including a commitment fee of \$0.1 million paid in June 2012. The line was collateralized by all of the Company's assets. The revolving credit agreement required the Company to maintain liquidity above certain asset-based thresholds, meet certain financial ratios and monthly reporting requirements. Additionally, the loan included a default provision in which the bank may call the debt in the event of a material adverse change within the Company. The Company received a waiver from the bank for non-compliance with the EBITDA covenant in December 2012. In February 2013, this credit facility was replaced by the 2013 Secured line of credit and 2013 Subordinated Loan as discussed later in this note. The 2012 Secured revolving line of credit was fully paid off in February 2013 for \$14.5 million.

2013 Secured revolving line of credit

In February 2013, the Company entered into a new revolving line of credit agreement with another bank with a maximum credit line of \$8.0 million. In June 2014, the Company amended the line of credit to increase the maximum to \$15.0 million. The revolving line of credit was amended in April 2015 and June 2015 which increased the maximum to \$16.0 million. Advances are subject to a borrowing base calculated using the bank's eligibility definitions, of which no more than \$2.0 million may be due from debtors from the U.K. subsidiaries' non-U.K. customers. Repayment of the principal amount is due upon maturity of the revolving line of credit in June 2016. Interest is paid on a monthly basis on the loan and accrues at a rate of 4.75% as of December 2014 (1.50% plus the bank's prime rate). During 2013, the Company issued a letter of credit of \$0.3 million relating to collateral deposits for office lease agreements that is still open. There were no amounts outstanding against the letter of credits as of December 31, 2014 and 2013. The revolving credit agreement required the Company to maintain liquidity above certain asset-based thresholds, monthly reporting requirements and financial income targets. The Company was in compliance with all of the bank's covenants as of December

31, 2014 and 2013. The Company had outstanding advances of \$14.7 and \$3.0 million as of December 31, 2014 and 2013, respectively.

In connection with this line of credit agreement, the Company paid loan and legal fees of \$0.3 million that is amortized in interest expense over the term of credit facility. Additionally, the Company issued warrants for 257,235 shares of Series F Preferred Stock at an exercise price of \$0.311 per share. The warrants have a term of ten years and survive the termination of the credit facility.

2013 Subordinated Loan

In February 2013, the Company entered into the 2013 Subordinated Loan agreement totaling \$14.0 million. The Company had outstanding debt of \$14.0 million as of December 31, 2013. In June 2014, this loan was replaced by a new subordinated loan, see below for 2014 Subordinated Loan information. As part of paying off the the 2013 Subordinated Loan, the Company paid a closing fee of \$0.6 million and a prepayment penalty of \$0.4 million in June 2014. Interest was paid on a monthly basis at an annual rate of 10.75% for the 2013 Subordinated Loan. The 2013 Subordinated Loan agreement required the Company to maintain standard rate message revenue (excluding PSMS) on a trailing twelve month basis of at least \$80.0 million. The 2013 Subordinated Loan agreement's covenants required certain monthly financial reporting. The Company was in compliance with all of the covenants as of December 31, 2013.

In connection with the 2013 Subordinated Loan agreement, the Company issued warrants for a total of 3,826,366 shares of Series F Preferred Stock at an exercise price of \$0.311 per share. The warrants have a term of ten years from the February 2013 and survive the termination of the loan agreement.

The Company could potentially make an additional payment based on the exit value calculated upon the initial public offering or liquidity event (sale of at least more than 50% of the Company's stock). The fee survives the termination of the 2013 Subordinate Loan agreement and expires in February 2023.

Exit Value		Fee (000's)
Less than \$150 million	\$	--
Equal to or greater than \$150 million but less than \$250 million		750
Equal to or greater than \$250 million but less than \$350 million		1,500
Equal to or greater than \$350 million		2,500

2014 Subordinated Loan

In June 2014, the Company entered into the 2014 Subordinated Loan agreement totaling \$25.0 million, which is junior to the debt outstanding under the revolving credit facility. The proceeds of the loan were used to pay off the 2013 Subordinated Loan and to finance the purchase of Cardboardfish. The Company will make interest only payments for the first 18 months and then 30 principal payments through June 2018. Interest is paid on a monthly basis at an annual rate of monthly London Interbank Offered Rate plus 11.00% with a minimum of 11.5% and maximum of 13.0%. The 2014 Subordinated Loan agreement requires the Company to maintain liquidity above certain asset-based thresholds, monthly reporting requirements and financial income targets. The Company was in compliance with all of the covenants as of December 31, 2014. The Company had outstanding debt of \$25.0 million as of December 31, 2014.

In connection with the 2014 Subordinated Loan agreement, the Company agreed to pay a deferred closing fee of \$0.6 million due upon the earlier of the final payment, full payment of the loan or acceleration of the date of the loan due to default and was fully recorded as deferred costs in 2014.

In June 2015, the agreement was amended to delay principal payments until April 2016 and the Company will then make 27 equal principal payments through June 2018. As part of the June 2015 amendment to the debt agreement, the deferred closing fee was increased by \$0.2 million due upon the earlier of the final payment, full payment of the loan or acceleration of the date of the loan due to default.

The Company could potentially make an additional payment based on the exit value calculated upon the initial public offering or liquidity event (sale of at least more than 50% of the Company's stock). The fee survives the termination of the agreement and expires in June 2024. The fees in table below will increase by \$100,000 per month on the 1st of each month after March 31, 2016 with no cap.

Exit Value	Fee (000's)
Less than \$100 million	\$ 500
Equal to or greater than \$100 million but less than \$125 million	1,000
Equal to or greater than \$125 million but less than \$150 million	1,500
Equal to or greater than \$150 million but less than \$250 million	2,500
Equal to or greater than \$250 million but less than \$350 million	5,000
Equal to or greater than \$350 million	1.43% of Consideration

Bridge Loan

In June 2015, the Company entered into the Bridge Loan agreement totaling \$3.0 million of which \$1.0 million is contingent upon diligence review to be completed by July 31, 2015. The Bridge Loan is junior to the debt outstanding under the revolving credit facility. Interest is paid on a monthly basis at a fixed annual rate of 12.0%. The Company shall pay to the bridge loan debt holders an amount equal to 200% times the principal amount of this debt, which becomes due in July 2016.

Shareholder Debt

In July 2014, the Company entered into a subordinated loan agreement totaling \$3.5 million with some of the Company's shareholders, which is junior to the debt outstanding under the 2014 Subordinated Loan. The Company will make interest only payments over the 48-month loan agreement with the principal due in July 2018. Interest is paid on a monthly basis at an annual rate of 11.00% for the entire 48-month term of the subordinated loan agreement. The Company had outstanding debt under this agreement of \$3.5 million as of December 31, 2014.

Upon an initial public offering or liquidity event (sale of at least more than 50% of the Company's stock) at any time prior to repayment of the shareholder loan in full, the Company shall pay to the debt holders an amount equal to 300% times the then-unpaid principal amount of this debt.

The Company could potentially make an additional payment based on the exit value calculated upon the initial public offering or liquidity event (sale of at least more than 50% of the Company's stock). The fee survives any termination of the agreement and expires in February 2023.

Exit Value	Fee (000's)
Less than \$100 million	\$ --
Equal to or greater than \$100 million but less than \$150 million	87
Equal to or greater than \$150 million but less than \$250 million	204
Equal to or greater than \$250 million but less than \$350 million	292
Equal to or greater than \$350 million	408

Note 8 - Commitments and contingencies

The Company leases office space, data center facilities and equipment under non-cancelable operating leases with various expiration dates through 2019. The facility leases generally contain renewal options and provisions adjusting the lease payments, either based upon changes in the consumer price index or in fixed increments. Rent expense is recorded on a straight-line basis over the respective terms of the lease and was \$2.1 million and \$2.0 million in 2014 and 2013, respectively. Future minimum lease payments under non-cancelable operating leases as of December 31, 2014, were as follows (in thousands):

2015	\$	3,375
2016		2,140
2017		816
2018		764
2019		267
Total	\$	7,362

Note 9 - Litigation and other legal matters

While the outcome of some of the following matters is currently not determinable, the Company believes it has meritorious defenses and intends to defend itself vigorously. Except as otherwise noted, all of the following claims against the Company, whether meritorious or not, could result in costly litigation, require amounts of management time, and result in the diversion of operational resources. If an unfavorable outcome occurs, it could have a material adverse impact on the Company's consolidated financial position and results of operations for the period in which the unfavorable outcome occurs or becomes probable and reasonably estimable.

Litigation

Paluzzi v. Mblox - In December 2007, a complaint alleging unauthorized premium content charges was filed in Chicago, Cook County Circuit Court. The Court granted preliminary approval to a class-action settlement agreement on September 10, 2009 and on January 10, 2010, the Court granted final approval and the case was dismissed with prejudice. In addition, pursuant to the terms of the Paluzzi national class-action settlement discussed above, each of the related cases brought against the Company prior to the Paluzzi class certification and which were stayed pending the Paluzzi proceedings were dismissed with prejudice. Pursuant to the terms of its contracts, the Company must indemnify certain mobile carriers for legal fees incurred in Paluzzi and related cases. During the year ended December 31, 2009, the Company accrued \$2.5 million for fees, costs and expenses incurred by mobile carriers joined in Paluzzi and the related cases, net of amounts receivable from the Company's customers whose traffic was alleged to have given rise to the action. As of December 31, 2014, the Company had \$0.5 million recorded for payables to the mobile carriers and was included in other accrued liabilities on the consolidated balance sheet.

Cellfish v. Mblox – In October 2011, the Company’s customer Cellfish Media, LLC (“Cellfish”) filed a complaint alleging breach of contract in Santa Clara Superior Court. Cellfish alleged that the Company breached its Master Services Agreement with Cellfish by failing to timely remit sums that the Company acknowledged were otherwise due and owing to Cellfish. In its November 2011 answer to the complaint, the Company claimed that it legitimately withheld such sum as payment for a total of \$1.5 million for numerous unpaid invoices. The Company also filed a counter-claim against Cellfish for money damages, attorney fees and declaratory relief. The invoices related to third- party costs incurred by the Company in relation to the Paluzzi matter (described above) and the related cases, in which Cellfish and other Mblox customers were alleged to have engaged in a scheme to charge mobile phone users for unauthorized premium message content that was never requested by the user. Following its complaint, Cellfish sought a writ of attachment, which the court denied on December 13, 2011. The parties settled this matter in July 2013 in exchange for payment by the Company of \$0.5 million.

Dotted Line v. Mblox - In September 2012, the Company’s customer Dotted Line Media Inc. (“Dotted Line”) filed for arbitration, alleging breach of contract on the part of the Company by failing to timely remit sums due to Dotted Line. The Company contended (i) it is holding these amounts in accordance with the agreement, (ii) such amounts were being withheld due to the fact that AT&T wireless found unauthorized transactions by Dotted Line and had initiated an audit of all PSMS-related transactions on the Company’s platform going back to January 1, 2010, (iii) it would release the funds to Dotted Line upon carrier sign-off, as it is possible that such funds could be “clawed-back” by AT&T (and other carriers) if the audit revealed further unauthorized billing by Dotted Line. Arbitration was held on April 8, 2013 and on May 7, 2013 the arbitrator ruled that the Company must release to Dotted Line the amount withheld of approximately \$3.3 million, which was appropriately included in premium rate short message service costs as of December 31, 2012. In addition, the Company paid interest to Dotted Line of \$0.1 million upon final settlement with Dotted Line in 2013.

Club Texting, et. al. v. Mblox, et al. – In April 2012, the Company and numerous other aggregators and wireless carriers were served with civil complaints filed in the U.S. District Court for the Southern District of New York – the cases have since been consolidated. The case seeks class action status. The plaintiffs claim that the defendants have violated the Sherman Act through a conspiracy to “favor” short codes (and their associated administrative costs) over long codes. The business models of the plaintiffs are based on the use of long codes. The Company joined other defendants in a motion to dismiss and filed its own motion to compel arbitration, as the Company had an agreement with one of the plaintiffs that contained such a provision. Verizon Wireless has issued an indemnification notice to the Company in connection with this litigation, but claims it is only a “placeholder” notice with no specifics beyond that. Following a hearing in September 2013, the judge issued an order to compel arbitration, forcing the plaintiffs to arbitrate with each defendant separately. The plaintiffs have proceeded with arbitration against the carriers but not the aggregator defendants. The Company understands that the arbitration proceedings are still continuing. The Company cannot currently estimate the probability of a specific outcome. The Company regularly evaluates current information available to determine if an accrual is required.

Messaging Gateway Solutions LLC v. Mblox Incorporated - On July 7, 2014, Messaging Gateway Solutions (“MGS”) served the Company with a civil complaint filed in the U.S. District Court for the District of Delaware. The complaint sought damages against the Company on the basis that it allegedly infringed two patents of MGS. MGS also filed separate complaints for patent infringement against a number of other messaging aggregators. The Company's analysis is that it does not infringe the MGS patents and will take aggressive steps to defend itself, either on its own account or, if appropriate, as a member of a joint defense group with the other defendants of the MGS lawsuits.

In October 2014, MGS withdrew one of the two patents at issue in the case and as a result, such patent is no longer the subject of the litigation.

As to the other patent, the Company and the other defendants moved for judgment on the pleadings against the remaining patent on the basis that it was covered patent-ineligible subject matter in view of recent Supreme Court precedent (the “Motion”). The Motion was argued on February 24, 2015 but was subsequently denied by the court on April 15, 2015. The Company is currently planning to appeal. Pending the ruling on the Motion, the Court had stayed the discovery and all other proceedings in the matter in a Scheduling Order of November 3, 2014. The Judge is now seeking a Scheduling conference to progress the discovery and the proceedings. Notwithstanding the outcome of any appeal on the Motion, the Company’s position remains that the MGS patent has not been infringed and intends to aggressively defend the proceedings should the litigation proceed. Due to the early stage in this case, the Company cannot currently estimate the probability of a specific outcome. The Company regularly evaluates current information available to determine if an accrual is required.

Sprint Indemnity Claim - On October 16, 2014, Sprint demanded indemnification from the Company for costs and/or damages arising from ongoing investigations from government entities including the Federal Trade Commission (“FTC”), Federal Communication Commission (“FCC”), states Attorneys General and the Consumer Financial Protection Bureau (“CFPB”) into alleged cramming of PSMS charges onto Sprint customer bills. The Company challenged Sprint’s indemnification claim on several grounds, including liability, scope of purported obligation, and timeliness of the notice, but communicated a willingness to assist Sprint in responding to the government investigations. On December 17, 2014, the CFPB filed suit against Sprint in the Southern District of New York for the alleged cramming. On May 12, 2015, without any notice, participation, or authorization from the Company, Sprint settled with the FTC, the FCC, the CFPB and all 50 states for \$68 million. On May 13, 2015, Sprint sent the Company a demand stating that the Company is responsible for at least \$3 million, plus attorney’s fees and costs, which include but are not limited to the administration costs associated with the settlement, calculated at 3.5% (the Company’s proportional share) of the totals to date. On the expiration date of May 20, 2015, the Company replied to Sprint, challenging the indemnification claim as previously communicated and the lack of data regarding the settlement provided to the Company to assess settlement and any potential liability associated with the Company. On June 12, 2015, Sprint replied proposing a meeting between the parties. Such meeting has not yet been scheduled. The Company cannot currently estimate the probability of a specific outcome. The Company regularly evaluates current information available to determine if an accrual is required.

T-Mobile Indemnity Claim - On July 1, 2014, T-Mobile was sued by the FTC for alleged PSMS cramming and T-Mobile demanded indemnification against the Company on October 1, 2014. The Company confirmed receipt of T-Mobile’s demand, but denied indemnification was required under the Master Services Agreement between T-Mobile and the Company based on the facts known to the Company. On December 17, 2014, without any notice, participation, or authorization from the Company, T-Mobile settled with the FTC, the FCC and all 50 states for \$90 million. On April 16, 2015, T-Mobile contacted the Company to confirm that a renewed indemnification demand would be sent to the Company in the next two weeks. No demand has yet been received. The Company cannot currently estimate the probability of a specific outcome. The Company regularly evaluates current information available to determine if an accrual is required.

Verizon Indemnification Notice - In 2013, Verizon sent the Company an indemnification notice concerning unauthorized PSMS charges in 2013, but to date governmental entities have not pursued cramming-related

claims against Verizon. On May 12, 2015, without any notice, participation, or authorization from the Company, Verizon settled with the FTC, the FCC, the CFPB and all 50 states for \$98 million. Verizon has not contacted the Company since the initial notice. The Company cannot currently estimate the probability of a specific outcome. The Company regularly evaluates current information available to determine if an accrual is required.

Indemnification claims

In addition, in certain contracts, the Company has agreed to indemnify mobile operators (the “Indemnified Parties”) for expenses or liability resulting from claimed charges of third parties asserted against the Indemnified Parties. From time to time, the Company receives requests for indemnity and may choose to assume the defense of such litigation asserted against the Indemnified Parties.

Other matters

From time to time, the Company is engaged in other legal proceedings incidental to its normal business activity. Management regularly evaluates the materiality and probability of loss related to these matters. The Company settled certain matters during 2014 and 2013 that did not individually or in the aggregate have a material impact on the Company’s financial condition and results of operations.

Note 10 - Employee benefit plan

The Company has a 401(k) plan to provide defined contribution retirement benefits for all U.S. employees. Participants may contribute a portion of their compensation to the Plan, subject to the limitations under the Internal Revenue Code. The Company’s match contribution to the Plan is at the discretion of the Board of Directors. The Company accrued contributions to the 401(k) plan of \$0.2 and \$0.1 million for the years 2014 and 2013, respectively.

The Company has a defined contribution plans to provide retirement benefits for employees in countries outside of the U.S. Participants may contribute a portion of their compensation to the plan and the Company provides a matching contribution up to certain limits in each country of the participant’s gross salary. The Company contributed \$0.6 million for both 2014 and 2013 to defined contribution plans for employees outside of the U.S.

Note 11 - Restructuring

In September 2012, the Company implemented a sharpened strategy to focus on business-to-consumer messaging and cease development of new mobile payments products. The new mobile payment product and technology initiatives were terminated including development of a new payments-oriented operating platform. The existing PSMS product and customers were sunset and no new customers were accepted. A total of 39 employees were terminated. In connection with this restructuring, the Company recorded a \$12.4 million restructuring charge in 2012. During the first quarter of 2013, the Company implemented a revised organization structure in connection with the exiting of the PSMS business resulting in the termination of an additional 60 employees and recorded severance costs of \$2.6 million.

The restructuring activities consisted of the following for the years ended December 31 (in thousands):

	2013
Balance at beginning of year	\$ 690
Expense for new restructuring activities	2,562
Expense for changes in prior years estimate	(679)
Payments, net of foreign exchange impact	<u>(2,573)</u>
Balance at end of year	<u>\$ --</u>

Note 12 - Stockholders' equity

The Company had the following shares outstanding and shares reserved for issuance as of December 31, 2014 (in thousands):

	Authorized	Outstanding
<u>Common Stock</u>		
Class 1	694,000	180,226
Class 2	75,000	5,954
<u>Preferred Stock - Voting</u>		
Series A-1	5,405	2,667
Series A-2	94,998	26,192
Series B	2,472	2,472
Series C-1	64,361	31,040
Series D-1	81,139	58,548
Series E-1	51,790	39,732
Series F	<u>108,374</u>	<u>56,764</u>
	408,539	217,415
<u>Preferred Stock – Non-voting</u>		
Series A-11	1,369	1,369
Series A-22	24,804	24,804
Series C-11	10,668	10,668
Series D-11	11,295	11,295
Series E-11	5,817	5,817
Series FF	<u>15,374</u>	<u>11,870</u>
	69,327	65,823
<u>Reserved for Issuance</u>		
Preferred stock warrants		14,167
Common stock options outstanding		47,587
Common stock options available for future grants under stock option plans		15,194

Preferred stock

In 2012, the Company and its shareholders approved a program whereby certain shareholders exchanged all their shares of preferred and common stock for new series of non-voting preferred and common stock. Participating holders exchanged 1,369,326, 24,803,530, 10,668,236, 11,295,448, 5,817,134 and 11,869,961 shares of Series A-1, A-2, C-1, D-1, E-1 and F preferred stock, respectively for the same number of share of Series A-11, A-22, C-11, D-11, E-11 and FF preferred stock. Participating holders also exchanged 5,954,133

shares of Common Stock Class 1 for the same number of shares of Common Stock Class 2. It was determined there was no change in value because the only difference was voting rights.

Series A-2, A-22, C-1, C-11, D-1, D-11, E-1, E-11, F and FF have similar rights, preferences and privileges, and are collectively referred to as senior preferred stock. Series A-1, A-11 and B also have similar rights, preferences and privileges, and are collectively referred to as junior preferred stock. Series A-1, A-2, B, C-1, D-1, E-1 and F are referred to as voting preferred stock. Series A-11, A-22, C-11, D-11, E-11 and FF are referred to as non-voting preferred stock. The significant terms of the Series A-1, A-11, A-2, A-22, B, C-1, C-11, D-1, D-11, E-1, E-11, F and FF preferred stock are as follows:

- a. Holders of Series A-1, A-11, A-2, A-22, B, C-1, C-11, D-1, D-11, E-1, E-11, F and FF preferred stock are entitled to noncumulative dividends of \$0.009 for Series A-2 and A-22 preferred stock, \$0.017 for Series C-1 and C-11 preferred stock, \$0.028 for Series D-1 and D-11 preferred stock, \$0.039 for Series E-1 and E-11 preferred stock, and \$0.025 for Series F and FF preferred stock, if and when declared by the Company's Board of Directors. Series A-1, A-11 and B do not have a stated dividend rate. In addition, if any dividend is paid on any junior stock, the holders of senior preferred stock are entitled to receive an equal amount per share (on an as-if-converted-to-common-stock basis) to the amount paid or set aside for each share of junior stock. No dividends have been declared through December 31, 2014.
- b. In the event of a liquidation, dissolution, or winding-up of the Company, either voluntarily or involuntary, stockholders are entitled to distribution preferences as follows: Series F and FF receives distributions at \$0.311 per share, Series E-1 and E-11 receives distributions of \$0.483 per share, Series A-2 and A-22 receives distributions at \$0.173 per share, Series C-1 and C-11 receives distributions at \$0.210 per share, Series D-1 and D-11 receives distributions at \$0.353 per share, Series A-1 and A-11 receives distributions at \$1.000 per share, and Series B receives distributions of \$0.160 per share.

Before any distribution or payment shall be made to the holders of Series A-1, A-11, A-2, A-22, C-1, C-11, D-1 or D-11 preferred stock and any junior preferred stock, the holders of Series F, FF, E-1 and E-11 preferred stock shall be entitled to be paid out of the assets of the Company legally available for distribution, plus all declared and unpaid dividends. If the assets of the Company, or consideration received, are insufficient to make payment in full to all of the holders of Series F, FF, E-1 and E-11 preferred stock, then such assets (or such consideration received in such transaction) shall be distributed among the holders of Series F, FF, E-1 and E-11 preferred stock ratably in proportion to the amounts that they would have otherwise received.

Upon distribution to Series F, FF, E-1 and E-11, Series A-2, A-22, C-1, C-11, D-1 and D-11 have priority in distributions. Upon distribution to Series A-2, A-22, C-1, C-11, D-1 and D-11, Series A-1 and A-11 has priority in distributions. Upon distribution to Series A-1 and A-11, Series B is next in distribution priority. The remainder of the assets shall be distributed ratably to holders of common stock and Series A-2, A-22, C-1, C-11, D-1, D-11, E-1, E-11, F and FF preferred stock on an as-if-converted-to-common-stock basis; however, the holders of Series C-1, C-11, D-1, D-11, E-1, E-11, F and FF will have maximum distributions equal to \$19.6 million, \$6.7 million, \$62.0 million, \$12.0 million, \$57.6 million, \$8.4 million, \$53.0 million, and \$11.1 million respectively.

- c. Each share of Series A-2, B, C-1, D-1, E-1, and F preferred stock is convertible into one share of class 1 common stock of the Company at the option of the holder. Each share of Series A-22, C-11, D-11, E-11, and FF preferred stock is convertible into one share of class 2 common stock of the Company at the option of the holder. The conversion rate is subject to adjustment in the event of, among other things,

stock splits and stock dividends. Each Series A-1 and A-11 share converts to one share of class 1 and 2 common stock, respectively in the event the majority of the holders of Series A-2, B, C-1, D-1, E-1, and F preferred stock, voting as a single class, elect to convert to common stock.

The conversion rate is subject to adjustment in the event of, amongst other things, stock splits and stock dividends. All shares of preferred stock will automatically convert to common stock immediately upon the closing of a public offering resulting in gross proceeds to the Company of at least \$25.0 million.

- d. A majority of the holders of Series A-2, C-1, D-1, E-1, and F preferred stock, voting together as a single class, is required for approval of significant transactions, such as changes to equity structure, payment of dividends or other distributions, change in the size of the Board of Directors, and acquisition or dissolution of the Company. A majority of holders of Series B preferred stock, voting as a class, is required for approval of any change in corporate or equity structure that would affect their shares. Series A-1 preferred stock is non-voting.
- e. There are no redemption rights for the preferred stock holders.

Warrants

In 2013, the Company had 4,596,299 outstanding equity classified common stock warrants that expired unexercised related to the Company's purchase of its U.K. subsidiary that were issued in 2003. The Company did not have any outstanding equity classified common stock warrants outstanding as of December 31, 2014 and 2013.

The Company's Board of Directors chose to extend the expiration date of certain preferred share warrants that were to expire in September 2014 to June 2015. All the warrants with the "June 2015" expiration date in the following table were originally set to expire in September 2014. The Company had the following outstanding warrants for the issuance of preferred stock as of December 31 (in thousands, except for share price):

Type	Expiration date	Exercise price per share	Number of shares 2014	Number of shares 2013	Fair value 2014	Fair value 2013
Series F	June. 2015	\$ 0.311	4,243	4,243	\$ 36	\$ 3
Series F	Sept. 2015	\$ 0.010	2,337	2,337	708	678
Series F	Feb. 2023	\$ 0.311	4,084	4,084	250	304
Series FF	June 2015	\$ 0.311	2,053	2,053	17	1
Series FF	Sept. 2015	\$ 0.010	<u>1,450</u>	<u>1,450</u>	<u>439</u>	<u>421</u>
			<u>14,167</u>	<u>14,167</u>	<u>\$ 1,450</u>	<u>\$ 1,407</u>

Fair Value Measurements at Reporting Dates Using Significant Unobservable Inputs (Level 3)

	2014	2013
Balance at beginning of year	\$ 1,407	\$ 1,601
Additional warrants	--	236
Change in fair value of warrant liabilities	<u>43</u>	<u>(430)</u>
Balance at end of year	<u>\$ 1,450</u>	<u>\$ 1,407</u>

The estimated fair value of the warrant liabilities recorded was calculated using an option pricing model with the following assumptions and fair values:

	2014	2013
Fair value of stock	\$0.396	\$0.120 - \$0.380
Exercise price	\$0.01 - \$0.311	\$0.01 - \$0.311
Risk-free interest rate	0.04% - 2.03%	0.12% - 3.04%
Contractual term	0.4 – 8.2 years	.07 – 9.2 years
Dividend	--	--
Volatility	9%	10% - 65%

Note 13 - Equity awards

The Company has outstanding stock options to purchase shares of its common stock pursuant to the terms of its 2003 Equity Incentive Plan (“2003 Plan”) and 2013 Equity Incentive Plan (“2013 Plan”). A total of 62,781,136 shares were reserved for issuance under the plans as of December 31, 2014. The 2003 Plan was closed to additional grants in September 2013. The Company grants options to purchase shares of its common stock pursuant to the terms of its 2013 Plan, which was adopted by the Board of Directors on August 28, 2013. Under the 2013 Plan, the exercise price of an option cannot be less than the fair market value of one share of common stock on the date of grant for incentive stock options or 85% of the fair market value of one share of common stock for non-statutory stock options (not less than 110% of the fair market value for stockholders owning greater than 10% of all classes of stock) as determined by the Board of Directors. Options generally expire after 10 years (5 years for stockholders owning greater than 10% of all classes of stock) and vest over a 48-month period.

The fair value of each grant of stock options was determined by the Company and its Board of Directors using the Black-Scholes option pricing model and assumptions discussed below.

Expected term. The expected term represents the period that the Company’s stock-based awards are expected to be outstanding. For option grants that are considered to be “plain vanilla,” the Company used the simplified method to determine the expected term. The simplified method is calculated as the average of the time-to-vesting and the contractual life of the options.

Expected volatility. The expected volatility was based on the historical stock volatilities of several of the Company’s publicly listed peers over a period equal to the expected terms of the options as the Company did not have a sufficient trading history to use the volatility of its own common stock.

Risk-free interest rate. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for zero coupon U.S. Treasury notes with maturities approximately equal to the option’s expected term.

Expected dividend. The Company has never paid dividends and does not expect to pay dividends in the foreseeable future.

Forfeiture rate. The Company estimates its forfeiture rate based on an analysis of its actual forfeitures and will continue to evaluate the adequacy of the forfeiture rate based on actual forfeiture experience, analysis of employee turnover behavior, and other factors. If the actual number of future forfeitures differs from that estimated by the Company, the Company may be required to record adjustments to stock-based compensation

expense in future periods. The Company's estimated forfeiture rate was 16.07% and 20.08% for 2014 and 2013, respectively.

The Company did not grant any equity awards during 2014. The weighted-average fair value of an option granted in 2013, using the Black-Scholes option pricing model, was \$0.03. The assumptions used to value stock options granted are as follows for the years ended December 31:

	2013
Risk-free interest rate	1.05% - 1.78%
Expected life (in years)	6.1
Expected dividend	--
Volatility	56%

Outstanding stock option awards

The information about stock options outstanding as of December 31, 2014:

Exercise price per share	Options Outstanding			Options exercisable	
	Number Outstanding (000s)	Remaining Contractual Life (in years)	Weighted average exercise price	Number Exercisable (000s)	Weighted average exercise price
\$0.07 – 0.07	46,598	7.3	\$0.07	20,866	\$0.07
0.10 – 0.17	264	3.8	0.14	240	0.14
0.21 – 0.26	150	2.8	0.26	146	0.26
0.41 – 0.41	276	2.7	0.41	276	0.41
0.42 – 0.44	299	3.1	0.42	299	0.42
\$0.07 – 0.44	<u>47,587</u>	7.2	\$0.08	<u>21,827</u>	\$0.08

Stock option activity under all plans were as follows (share amounts in thousands):

	Number of options outstanding	Weighted average exercise price	Intrinsic value of exercised options
Outstanding, December 31, 2012	33,617	\$ 0.182	
Granted	55,279	0.070	
Forfeited or expired	(30,909)	0.189	
Exercised	<u>(288)</u>	0.015	\$ 45
Outstanding, December 31, 2013	57,698	\$ 0.072	
Granted	--	--	
Forfeited or expired	(7,187)	0.068	
Exercised	<u>(2,923)</u>	0.028	\$ 177
Outstanding, December 31, 2014	<u>47,587</u>	\$ 0.075	
As of December 31, 2014:			
Options expected to vest	43,720		
Options exercisable	21,827		

The non-vested stock option activity under all plans were as follows (share amounts in thousands):

	Number of options outstanding	Weighted average exercise price
Outstanding, December 31, 2012	15,767	\$ 0.179
Granted	55,279	0.070
Forfeited or expired	(16,935)	0.166
Vested	<u>(10,995)</u>	0.071
Outstanding, December 31, 2013	43,117	\$ 0.070
Granted	--	--
Forfeited or expired	(4,039)	0.070
Vested	<u>(13,318)</u>	0.070
Outstanding, December 31, 2014	<u><u>25,760</u></u>	\$ 0.070

In August 2013, the Company modified certain stock options that were “under water” and changed the exercise price to \$0.07 resulting in an additional \$0.2 million of stock-based compensation expense during the year impacting approximately 140 employees.

The Company recognized a \$54,000 tax benefit for employee stock options exercised in 2014.

The stock-based compensation recognized by functional costs for years ended December 31 (in thousands):

	2014	2013
Cost of revenue operations	\$ 27	\$ 83
Research and development	63	158
Sales and marketing	105	155
General and administrative	<u>261</u>	<u>337</u>
Total	<u><u>\$ 456</u></u>	<u><u>\$ 733</u></u>

As of December 31, 2014, the total compensation cost related to non-vested awards not yet recognized was \$1.1 million over a weighted-average remaining recognition period of 2.5 years.

Note 14 - Related-party transactions

The Company had a revolving line of credit with a bank that was terminated in February 2013. One of the members of the banks’ Board of Directors was also a member of the Company’s Board of Directors while the revolving line of credit was outstanding.

Note 15 - Subsequent events

The Company has evaluated subsequent events as discussed below for recognition or disclosure through June 29, 2015, the date on which the accompanying consolidated financial statements being presented were available to be issued.

In May 2015, the Company acquired all of the customer contracts of the SMS business of 4INFO, Inc. pursuant to an asset purchase agreement for cash consideration of \$950,000 upon close of the transaction. The payments are subject to reduction based on termination for convenience by specific customers within the first 60 days after close. The activity under the customer contracts will be included in the Company’s results

of operations from the date of acquisition. The Company will not assume any employees or liabilities as part of the acquisition.

The Company's debt agreements for the 2013 Secured Line of Credit and 2013 Subordinate Loan agreements were amended after December 31, 2014 but prior to issuance of this report. Additionally, the Company entered into a Bridge Loan of \$3.0 million in June 2015. Please refer to Note 7 – Borrowings for discussion of the amendments.