

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

**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended **March 31, 2014**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transaction period from to

Commission file number: **00-52697**

**XPLORE TECHNOLOGIES CORP.**  
(Exact Name of Registrant as Specified in Its Charter)

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

**26-0563295**  
(IRS Employer Identification No.)

**14000 Summit Drive, Suite 900, Austin, Texas**  
(Address of Principal Executive Offices)

**78728**  
(Zip Code)

**(512) 336-7797**  
(Registrant's Telephone Number, Including Area Code)

**Securities registered pursuant to Section 12(b) of the Act: None**

**Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$0.001 par value per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company   
(Do not check if a smaller reporting company)

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

As of September 30, 2013, the aggregate market value of the common equity held by non-affiliates of the registrant was \$22,975,542 based on the closing sale price of \$4.19, as reported on the NASDAQ Capital Market.

As of May 30, 2014, the registrant had 8,432,378 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE: None.**

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## Forward-Looking Statements

From time to time, we may provide information, whether orally or in writing, including certain statements in this Annual Report on Form 10-K, which are deemed to be “forward-looking” within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Litigation Reform Act”). These forward-looking statements and other information are based on our beliefs as well as assumptions made by us using information currently available.

The words “believe,” “plan,” “expect,” “intend,” “anticipate,” “estimate,” “may,” “will,” “should” and similar expressions are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended or using other similar expressions. We do not intend to update these forward-looking statements, except as required by law.

In accordance with the provisions of the Litigation Reform Act, we are making investors aware that such forward-looking statements, because they relate to future events, are by their very nature subject to many important factors that could cause actual results to differ materially from those contemplated by the forward-looking statements contained in this Annual Report on Form 10-K, any exhibits to this Annual Report on Form 10-K and other public statements we make. Such factors are discussed in the “Risk Factors” section of this Annual Report on Form 10-K. Unless otherwise indicated or the context requires otherwise, the words “we,” “us,” “our,” the “Company” and “Xplore” refer to Xplore Technologies Corp. and its wholly-owned subsidiaries.

## PART I

### Item 1. Business

#### Overview

We are engaged in the development, integration and marketing of rugged mobile personal computer systems, or PCs. Our rugged tablet PCs are designed to withstand hazardous conditions, such as extreme temperatures, driving rain, repeated vibrations, dirt, dust and concussive shocks. The intrinsically safe, ruggedized and reliable nature of our products facilitates the extension of traditional computing systems to a broader range of field personnel, including energy pipeline inspectors, public safety responders, warehouse workers and pharmaceutical scientists. Our tablets are fitted with a range of performance-matched accessories, including multiple docking solutions, wireless connectivity alternatives, global positioning system modules, biometric and smartcard options, as well as traditional peripherals, such as keyboards and cases. Additionally, our tablets are waterproof for up to 30 minutes in water up to a depth of three feet, are impervious to drops from as high as seven feet, are readable in direct sunlight, can be mounted on vehicles and include LTE and Wi-Fi connectivity options for real-time data access. Our end user customers include major telecommunications companies, leading heavy equipment manufacturers, oil and gas production companies, the military and first responders.

Historically, we have competed and derived our revenue through the sale of our iX104 tablets in a subset of the rugged PC market, given the larger size and ultra-rugged attributes of our iX104 product family, which weighs approximately 5.4 pounds. While we are dependent upon the continued market acceptance of our iX104 systems, to broaden the market for our products and increase our opportunities for revenue growth, we have been developing multiple fully-rugged tablets that are lighter weight and less expensive than our iX104 family of products. We believe that these new products will allow us to compete in significantly larger segments of the rugged PC market. On July 10, 2013, we announced the first of our new products with the launch of RangerX Pro, our first fully-rugged Android tablet, which weighs approximately 2.2 pounds. On June 24, 2014, we announced the second of these new products with the launch of Bobcat, a fully-rugged tablet that has a Windows operating system and weighs approximately 2.4 pounds. We believe the lighter and less expensive RangerX Pro and Bobcat tablets are ideal for field service applications and significantly more mobile market opportunities, as compared to our iX104.

Looking forward, our strategy is to build increased marketplace awareness of our iX104, RangerX Pro and Bobcat product families, in an effort that we believe will enable us to increase our revenue and to expand our market share.

We believe we are positioned for future revenue growth in the markets in which we compete. At a time when we believe awareness and demand for tablet computers is increasing significantly, we have introduced a family of computers that, based upon third-party certifications, surpasses the performance standards and specifications that have been the accepted measuring sticks for rugged tablet computers in today’s marketplace.

Our key initiatives for future revenue growth include the following:

- New product development—based on input from customer and key industry participants;
- The expansion of sales activities in non-U.S. markets, particularly in Europe;
- Continued penetration into the Fortune 500/Global 2000 markets;
- Establishment of key relationships with new distributors; and
- Expanded focus on military/government markets.

The timing of large orders, and the related shipping dates of the ordered products, creates variability in our reported revenues. While we may experience some variability in our quarterly operating results as a consequence of the impact of large orders, we believe that we will continue to grow our year-over-year revenues. Our revenue for the fiscal year ended March 31, 2014 was approximately 17% higher than the prior fiscal year.

We are a Delaware corporation and our common stock trades on The NASDAQ Capital Market under the symbol “XPLR.”

## **Recent Developments**

We launched our fifth generation iX104C line of rugged tablet PCs in May 2011 and received favorable responses from our end-user customers, as evidenced by our annual total revenue growth of approximately 17% and approximately 11% for our fiscal years 2014 and 2013, respectively. For the year ended March 31, 2014, we reported revenue of approximately \$35.6 million. Since the launch of our iX104C5, we have announced the receipt of significant orders from a major U.S. telecommunications provider, the U.S. military, one of the largest oil and natural gas producers in North America and a medical device company. These orders contributed significantly to the increase in our annual revenue.

On December 11, 2013, we announced the receipt of the first major purchase order for our RangerX Pro rugged Android tablet, in the amount of approximately \$4 million, from a major U.S. telecommunications provider. We completed and shipped the order in December 2013.

We announced the availability of the new next generation of the iX104, which we refer to as the C6, in April 2014 and, as previously mentioned above, we announced the availability of the Bobcat on June 24, 2014.

## **Products**

### ***iX104 Product Family***

We have spent more than a decade on research, development and product improvements with each generation of our iX104, achieving what we believe are a number of industry “firsts,” such as being the first manufacturer to incorporate dual-mode inputs with active pen and finger touch capabilities. Our signature iX104 computers have consistently been recognized for their ruggedness, versatility and best-in-class technologies. We believe that we pioneered, and continue to offer, the best outdoor-readable display and WLAN wireless solutions. Our specially designed Dual Mode Sunlight Readable screen is viewable in challenging lighting conditions, including direct sunlight and dimly-lit environments, from virtually any angle.

Our iX104 product line consists of the following models, each developed for use in specific environments and applications:

- **iX104 DMSR—Dual-Mode Sunlight-Readable Tablet**
- **iX104 DMSR LTE—Dual-Mode Sunlight-Readable Tablet with LTE**
- **iX104 DM—Dual-Mode Tablet**
- **iX104 DML—Dual-Mode Lite Tablet**
- **iX104 DMSR-M—Dual-Mode Sunlight-Readable Tan Military Tablet**

- **iX104 DMSR-M2—Dual-Mode Sunlight-Readable Military Tablet**
- **iX104 DMCR—Dual-Mode Clean Room Tablet**

We believe that our recent versions of the iX104 continued to introduce “industry firsts” and differentiating features. The iX104C5 product family includes a tool-less removable dual solid state drive (SSD) module, tool-less access to the SIM and MicroSD ports, and an ingress protection rating of IP 67 for submersion in water. The iX104C5 product family also features the Intel® Core™ i7 processor and runs on both Windows 7 and 8 operating systems.

Our line of iX104 tablet PCs is designed to operate in challenging work environments, including extreme temperatures, constant vibrations, rain, blowing dirt and dusty conditions. Our systems can be fitted with a wide range of performance matched accessories, including multiple docking station solutions, wireless connectivity alternatives, Global Positioning System (GPS) modules, biometric and smartcard modules, as well as traditional peripherals like keyboards, mice and cases.

### ***RangerX Pro***

Our RangerX Pro provides the largest storage capacity in the light-weight rugged market and is certified rugged, holding both IP65 and MIL-STD 810G ratings. RangerX Pro has a battery life of up to ten hours, designed to maximize time in the field and boost productivity, allowing for a full working shift on one charge. In addition, the tablet’s vibrant outdoor viewable, multi-touch display allows for seamless transition from indoors to outdoors. The RangerX Pro has a multi-touch screen that has been engineered to enable glove touch capability, helping improve safety and usability in the field. The RangerX Pro also uses the Android 4.2.2 Jelly Bean operating system, which enables users access to thousands of enterprise applications and other downloads through the Google Play store, provides performance increases, powerful search results and notifications, and has an overall smooth user interface. The operating system enriches the device experience and also allows users to sync their preferences and downloads on multiple devices. In addition, the Google Play Private Channel allows enterprise users to distribute internally crafted apps to employees.

The RangerX Pro also offers unique functionality that allows telecommunications providers to consolidate the equipment used by their field service engineers into a single device, thus eliminating the need for troublesome and costly external dongles currently used by these providers to test HD video signals and Internet connectivity during home and business installations. Field workers in construction, manufacturing, healthcare, oil and gas production, and other industries are able to use the RangerX Pro without removing their gloves. The glove touch capability is also ideal for forklift operators working in and out of freezers or containers where a glove is needed for safety and efficiency. By increasing the sensitivity of the RangerX Pro’s capacitive screen and utilizing finely-tuned touch screen software, the tablet can accurately and reliably detect electrical impulses on the skin even if obstructed by a glove.

Our families of tablets offer the following features:

*Rugged*— We have designed and built our products from the inside out, developing over 30 proprietary design elements that provide a heightened and proven level of durability. Some of our products meet some of the strictest specifications in the world, such as those established by the U.S. military, including Military Standard Testing for Environmental Extremes. By being designed to meet these specifications, our products can withstand damage from being dropped onto concrete from a height of up to seven feet, from being submerged for up to 30 minutes in up to three feet of water, and from being exposed to extreme temperatures as low as -60° Fahrenheit and as high as 160° Fahrenheit. In addition, our products are designed to continue to function when subjected to vibration, sand storms and other challenging outdoor work environments.

*Screen Technology* — We strive to be a leader in developing screen technology with award winning displays. We have designed our Dual Mode Sunlight Readable screen to be viewable in challenging lighting conditions, including direct sunlight and dimly-lit environments, at virtually any angle, and to enable glove touch capability. Our screens also offer Dual Mode inputs—simultaneous use of a digital pen and/or finger to control the unit. The Dual Mode supports more precise inputs through the pen with more directional finger touch inputs—all in a single unit with automatic switching capabilities.

*Processing Power* — We have the ability to provide processing power alternatives for our products on a timely and cost-effective basis. Our systems use Intel processors and associated chipsets, as well as other performance enhancement technologies that we believe are essential in many field applications (such as mapping and remote connectivity). In addition, we provide Lithium ION batteries that support usage times up to 8.5 hours for the iX104 and 10 hours for RangerX Pro. The iX104 also includes a “warm” swap feature, allowing users to switch batteries in the field without having to power down the system.

*Remote Connectivity*— Our tablet PCs have a range of wireless communications options (wLAN, wWAN, Bluetooth, Integrated AT&T or 4G LTE and PAN) as well as two meter and sub-meter GPS options.

*Accessories*— We offer a broad range of add-on modules and accessories that we believe better enable our customers to adapt our tablet PCs to their intended use. In particular, we believe our functional, durable and reliable docking solutions are tailored to our customers' needs. We have supplied service, desktop, vehicle, forklift, armored vehicle and mobile cart docking systems to our customers.

*Heightened Safety Standards*— Our iX104 wireless-enabled tablet PC systems have been tested and certified both in North America and in the European Union for use in hazardous conditions and we expect RangerX Pro will be certified in 2014.

Our tablet PCs are designed to be used as a mobile computing system. These systems are comprised of a hardware platform that is fully integrated with one or more software applications. Through its wide feature set, we believe our iX104 family of products allows for the customization of a platform that best suits a given application. Our computers combine processing power, viewability, ruggedness and connectivity, and are designed to operate in extreme environments.

## **Strategy**

Our strategy is to become the leading developer and marketer of rugged mobile wireless computer systems. We currently compete in the rugged tablet PC market.

### *Expand into New Rugged Product Markets*

We continue to consider other market opportunities that are broader in scope and opportunity than what has been addressed by our iX104 product family. We believe, based upon an annual white paper published by the Mobile and Wireless Practice of Venture Development Corporation, or VDC, that an increasing number of companies are requiring their employees to transact business in the field and/or other non-traditional office environments. The research paper published by VDC projects worldwide sales in the rugged mobile computing market to grow to over \$5.4 billion by the end of 2016, and for the market for large form factor rugged devices to grow to \$2.7 billion by the end of 2016.

We believe that our families of rugged tablet PCs are uniquely positioned to capitalize on the convergence of three current market trends:

- The continuously expanding use of wireless data;
- the increased awareness and rapid adoption of the tablet computing form factor, spurred by the success of Apple's iPad and Samsung's Galaxy; and
- the transition toward rugged computing solutions in the face of high failure rates for non-rugged devices that have been deployed in non-traditional working environments.

We believe that many companies are coming to the realization that the total cost of computer ownership is improved through the use of rugged computing solutions.

### *Leverage Existing Markets*

We seek to continue to analyze the needs of the vertical markets that we are currently addressing, so that we can continue to increase our sales in those markets. We intend to continue to focus on customer specific applications by leveraging our core products and technology, as well as our key strategic alliances.

Our strategy includes the following key elements:

*Identifying and targeting vertical markets, major account and OEM opportunities*— To achieve broad market penetration by our products, we intend to continue to focus on specific vertical market applications, major accounts and OEM relationships, such as Dell, Inc., Psion and Peak Technologies.

*Investment and nurturing of key relationships*— We intend to continue to outsource our manufacturing function, so that we can continue to focus our resources on our technology and product development, customer application and project deployment activities, through our collaborations on engineering and manufacturing matters with our contract manufacturers. In addition, we plan to continue nurturing a number of key reseller relationships.

*Flexible product design and customer-centric approach*— We believe that the design of our products provides us with the flexibility to respond to customer-specific requirements. We involve our customers in our product development and enhancement efforts. This approach is intended to result in improved communication throughout the entire sales cycle, and is designed to position our products as the optimal mobile computing platform for our customers.

*Delivery of high quality, reliable systems*— We measure and seek to improve product quality through rigorous quality assurance programs implemented through our strategic alliances, in concert with performing our custom-designed test programs. Additionally, we utilize feedback provided by our customers.

*Marketing and distribution relationships*— Within each targeted vertical market, we intend to focus on entering into co-marketing relationships with key application providers and systems integrators. This strategy is designed to allow us to use multiple sales channels within a region, while maintaining key strategic alliances.

## **Sales**

Our direct customers primarily consist of distribution companies, such as large computer companies, specialized system integrators, software vendors, distributors and value-added resellers, and to a lesser extent the end-users. For fiscal year 2014, approximately 94% of our total revenues were attributable to sales through our distribution channels and approximately 6% of our total revenues were attributable to sales directly to end-users. We currently have relationships with more than 150 distributors. Our distributors generally have large sales organizations that, in turn, sell our products to entities that are the ultimate end-users. Our distributors include large computer companies such as Dell, Inc., specialized system integrators such as Moxx Mobility, Psion Teklogix Inc. and Peak Technologies, and software vendors such as Environmental Systems Research Institute. In any given year, a single distributor may account for a significant portion of our revenue. In fiscal year 2014, we had three resellers located in the United States, Minnetronix Inc., VT Miltope and Software House International, who accounted for approximately 18%, 12% and 11% of our total revenue, respectively.

As of March 31, 2014, we had a sales team of twelve individuals that have geographic responsibilities for direct and indirect sales opportunities. Our sales team works closely with our distributors in defined regions. Our distributors are currently selling our products into the public safety, utility, telecommunications, field service, warehousing logistics, transportation, oil and gas production, manufacturing, route delivery, military and homeland security markets.

For fiscal 2014, our total revenue increased by approximately 17% over fiscal 2013. Our North American revenue was approximately 81% of total revenue in fiscal year 2014, as compared to approximately 80% of total revenue in fiscal year 2013. The significance of the North American revenue was primarily attributable to large volume orders from our large medical, military and telecommunications end-users located in the United States.

## **Marketing**

We have various marketing programs aimed at increasing awareness of our products. Key elements of our marketing programs include:

- Participation in targeted industry trade shows and conferences;
- Editorial coverage and advertisements placed in targeted vertical markets, technology and business mediums, including specific industry publications;
- Product marketing refinement by obtaining customer feedback through data collected by our customer support team, as well as through surveys;
- Use of our web-site for communications and lead generation, as well as customer and channel support capabilities;
- Inclusion of customers, industry experts and others in the product development and testing cycles; and

- Development of proven case studies or application papers for specific vertical market applications.

We also market our products through a number of different industry participants, including independent software vendors with application software for specific industries, systems integrators that bring elements such as wireless communications systems to a project, agents that specialize in rugged mobile computing devices and other consultants. We believe that the combination of our systems with the application software and support services provides a tailored solution designed to meet specific customer needs.

The market pricing for rugged computers is higher than that for commercial grade computers used in traditional office settings. We believe that the higher pricing reflects our theory that the total cost of ownership of a rugged computer over a three to five year period can be significantly lower than the cost of a non-rugged computer in certain environments. In fact, several of our customers have disclosed in our customer-based market research studies that they experienced higher direct costs using non-rugged devices (*e.g.* more frequent damage, information retrieval costs, replacement costs), as well as higher indirect costs, such as prolonged downtime.

We recognize that, as a smaller company, our key to success depends on our ability to provide better products than our larger competitors, and to be more responsive to our customers' needs. Some of our product innovations, such as the AllVue screen and the Dual Mode functionality, were the result of customer feedback. When embarking on the development of a new product or an upgrade of an existing one, we devote resources to engaging customers in the design process. We believe that this process, combined with our flexibility to make quick decisions with the support of our contract manufacturers, has enabled us to deliver products with market leading technology ahead of our competitors.

#### *Market Segments*

We target a number of different sectors in which we believe the deployment of rugged mobile computers can greatly improve operating efficiencies and reduce related costs.

*Telecommunications, Utilities & Energy.* Generally, telecom, utility and energy related companies continuously have to respond to customers' requests for service and infrastructure maintenance expeditiously and efficiently to remain competitive. We believe that the reliable and real-time movement of information to and from the field is vital to the success of any field automation system. Two global top ten telecommunications providers and Arkansas Utility are end-users of our products in this sector. Hydro One in Canada and Essent in Europe are end-users of our products in the utilities and energy sector.

*Military.* As the military continues to transition to commercial and industrial grade rugged mobile computing systems, we expect this sector will represent a significant opportunity for our products. In particular, we believe the U.S. Department of Defense is generally moving away from full military specifications adherence, except for system-critical operations, and instead is increasing emphasis on purchasing commercial, off-the-shelf (COTS) equipment. The military market sector includes ground and C4I (Command, Control, Communications, Computers and Intelligence) systems. Our end-users in this sector include the U.S. Air Force and the Royal Dutch Air Force.

*Field Service.* According to VDC, the second largest market segment for large form factor rugged mobile devices is the field service industry. This market segment includes mobile technicians from the telecommunications, cable and appliance sectors, who typically must have real time access to mission critical data, including work tickets, schematics, manuals, customer service records, inventory levels and order status. We believe that companies in this market sector recognize that linking field service personnel through the entire enterprise system can improve customer response, billing, inventory management and throughput metrics, thereby increasing operational efficiencies. Our end-users in this market segment include Dycor, Boeing and HydroChem.

*Public Safety.* Given the focus in the U.S. on homeland security matters and the continued commitment by Federal, state and municipal governments on law enforcement, fire and emergency medical services, members of the public safety sector are searching for efficiencies that will better enable them to do their jobs. Rugged mobile computing devices assist these groups in a variety of ways. For example, having a reliable and durable tablet PC provides law enforcement agencies with immediate and reliable access in the field to national and local criminal databases. In this market segment, our products have been sold to over 300 public safety organizations in the U.S., including the Rochester, Santa Monica, Detroit and Cleveland Police Departments, and multiple international organizations, including Air Berlin.

*Logistics.* We believe that globalization, increased competition and heightened consumer expectations are contributing factors to the adoption of mobile computing technologies by many leading warehousing, distribution and retail entities. These operations typically require real time price modifications, product introductions and transitions, and timely inventory management. We believe that this sector will continue to automate order fulfillment, inventory control and management systems as part of an overall effort to integrate enterprise resource planning and supply chain management information systems. Our end-users in this sector include Daimler AG.



## Research and Development

We have assembled an experienced engineering and product development team. Through the collaboration of our employees and the engineering teams of our Taiwan-based contract manufacturers, we believe we are able to bring significant resources to the research, development and design of our products.

We seek to design and manage product life cycles through a controlled and structured process. We involve customers and industry experts from our target markets in the definition and refinement of our product development. Product development emphasis is placed on meeting industry standards and product specifications, ease of integration, ease of use, cost reduction, design-for manufacturability, quality and reliability.

We continue to invest in research and development to enhance and expand our rugged mobile computing systems. We are considering additional form factors, operating systems and screen technologies for integration into our rugged platforms as we seek to expand into additional markets. During the fiscal years ended March 31, 2014 and 2013, we expended \$4,850,000 and \$2,194,000, respectively, on research and development activities, none of which was borne by our customers.

## Competition

Competition in our industry is intense and is characterized by rapidly changing technologies, evolving industry standards, frequent new product introductions and rapid changes in customer requirements. To be competitive, we must continue to develop and introduce, on a timely and cost-effective basis, new products and product features that keep pace with technological developments and emerging industry standards and address the increasingly sophisticated needs of our customers. We believe that the principal competitive factors affecting the market for our products are the product's performance, features and reliability, price, customer service, reputation in the industry and brand loyalty. We believe that our strongest competitive advantages are our products' durability and reputation in the industry. In order to compete, we will be required to continue to respond promptly and effectively to the challenges of technological changes and our competitors' innovations.

Our primary competitors in the mobile rugged computer market include the following:

*Panasonic.* Panasonic is the largest provider of mobile rugged computers and offers a series of traditional and convertible notebooks. Panasonic promotes a rugged computer, known as the Toughbook, which is well known in the industry.

*Getac.* Getac is a provider of mobile rugged computers, including tablets and traditional and convertible notebooks.

*Motion.* Motion is a provider of non-rugged and semi-rugged tablet computers.

*Mobile Demand.* Mobile Demand is a provider of rugged tablet computers.

*DRS Technologies.* DRS is a provider of rugged mounted computer systems, primarily to the U.S. Military.

We also face competition from manufacturers of non-rugged mobile computers, such as Samsung, Inc., Dell, Inc., Hewlett-Packard Company, Apple Computer, Inc., Sony and Toshiba, to the extent customers decide to purchase less expensive traditional computers for use in environments that we believe are better suited for mobile rugged computers.

Panasonic and Getac have more product offerings and greater financial, technical, and research and development resources and marketing capabilities than we do.

## **Manufacturing**

We have a scalable manufacturing infrastructure to support our growing business. Our primary contract manufacturers, Wistron Corporation (Wistron) and Ubiqconn Technology, Inc. (Ubiqconn), are located in Taiwan. Wistron is recognized as a leading provider of computers and electronic components to some of the world's largest technology companies, including Dell, Inc. and Hewlett-Packard Company. Wistron is the supplier of our iX104 family of products. Ubiqconn was spun off from the First International Computer (FIC) Group in 2011 and is a wholly-owned subsidiary of FIC. FIC has been a dominant force in the technology research, product development and manufacturing services since 1980. Ubiqconn is comprised of FIC's Industrial Computer Business Unit and FIC's original research and development team, which has accumulated over twenty years of experience in developing IT products for worldwide first tier companies. We expect our relationships with our contract manufacturers will support our expected sales growth and product demand for the foreseeable future.

We outsource the majority of our manufacturing services for our ruggedized mobile PC tablets to our contract manufacturers, including board production, parts procurement, assembly, some quality assurance testing, warranty repair and service. We have a design and manufacturing agreements with our contract manufacturers and they collaborate with us on product specifications and provide us with the flexibility to make changes to our products as market conditions change.

Under the terms of our agreements with our contract manufacturers, they provide us with design, manufacturing and support services related to our ruggedized mobile PC tablets. The purchase price of our products produced is determined based on the specific configuration of the tablet PC being produced, and is subject to cost reduction plans and volume based discounts. At least quarterly, we meet with each of the contract manufacturers to develop cost reduction plans. The plans take into account alternative suppliers along with components, design, process changes and other cost savings procedures. Each month we provide the contract manufacturers with a six month rolling forecast of the products we anticipate ordering. Generally, each of the contract manufacturers have approximately 90 days after its acceptance of our purchase order to ship the product. If products ordered during any quarter exceed the volume projected in the forecast, each of the contract manufacturers has agreed to use its reasonable best efforts to deliver the excess products within 45 days after its acceptance of the applicable purchase order.

Our contract manufacturers provide several warranties to us, including that they have all necessary rights required to sell the products, that each product will be free from any material defect, that the products will be free from any liens, encumbrances or defects in title and that the products will comply with all specifications. The current terms of our agreements with the contract manufacturers are for one year and automatically renew for additional one year terms, unless either party provides written notice of its intent to terminate the agreement at least 90 days prior to the expiration of any renewal term. In addition, the agreements contain provisions that allow for termination for any reason by either party upon 120 days' notice.

We purchase materials, supplies and product subassemblies for our ruggedized mobile personal computer tablets from a number of vendors. Some key components included in our line of products are currently available only from single or limited sources. In the past, we have experienced significant price increases and limited availability of certain components that are not available from multiple sources. We are dependent upon Microsoft Corporation for various software products, including products included in our ruggedized mobile PC tablets.

Like other participants in the computer manufacturing industry, we ordinarily acquire materials and components through a combination of blanket and scheduled purchase orders to support our requirements for periods averaging 90 to 150 days. At times, we have been constrained by parts availability in meeting our product orders. From time to time, we have obtained scarce components for somewhat higher prices on the open market, which may have a negative impact on our gross margins on our products, but does not disrupt production. On occasion, we have also acquired component inventory from our suppliers in anticipation of supply constraints.

## **Intellectual Property**

Our performance and ability to compete are dependent to a significant degree on our proprietary technology. We rely primarily upon a combination of patent, copyright and trade secret laws and license agreements to establish and protect proprietary rights in our products and technology. We currently have seven U.S. patents. In addition, we have one U.S. patent application, one Chinese patent application, one European Union patent application and one Taiwanese patent application, all related to proprietary elements of our iX104C5 family of products, and one U.S. patent application, one Taiwanese patent application and one International PCT patent application related to our wireless dock. Even with patent protection, it may be possible for a third party to copy or otherwise obtain and use our products or technology without our authorization, or to develop similar technology independently. In addition, effective patent, copyright and trade secret protection may be unavailable or limited in certain foreign countries.

We do not believe that our products infringe on the proprietary rights of any third parties. There can be no assurance, however, that third parties will not claim such infringement by us or our licensees with respect to current or future products. In the past, we have had third parties assert exclusive patent, copyright, trademark or other intellectual property rights to technologies or marks that are important to our business. Any such claims, with or without merit, could be time consuming, result in costly litigation, cause product shipment delays or require us to enter into royalty or licensing agreements with the claimant, any of which could delay the development and commercialization of our products or increase the costs of our products.

We work closely with our contract manufacturers to stay abreast of the latest developments in rugged mobile computer technology. We obtain patent licenses for some technologies, some of which require significant royalty payments, when we believe those licenses are necessary or advantageous to our business. We have entered into non-exclusive licensing arrangements with Microsoft and other software suppliers for various operating systems and application software that we sell with our rugged tablet PCs.

#### **Government Regulation**

Our business is subject to regulation by various federal and state governmental agencies. Such regulation includes the radio frequency emission regulatory activities of the U.S. Federal Communications Commission, the anti-trust regulatory activities of the U.S. Federal Trade Commission and Department of Justice, the consumer protection laws of the Federal Trade Commission, the import/export regulatory activities of the U.S. Department of Commerce, the product safety regulatory activities of the U.S. Consumer Products Safety Commission and environmental regulation by a variety of regulatory authorities in each of the areas in which we conduct business.

#### **Employees**

As of March 31, 2014, we had 49 full-time employees, of which 30 were employed in the operations, engineering, research and development and customer support areas, five were involved in corporate, finance and administrative areas and 14 were employed in sales and marketing. Our employees are not represented by a union or other collective bargaining unit and we have never experienced a work stoppage. We believe that our employee relations are good.

#### **Trademarks and Service Marks**

Our trademarks or trade names used in this Annual Report on Form 10-K include: “iX™” and “RangerX™.” Each trademark, trade name or service mark of any other company appearing in this Annual Report on Form 10-K belongs to its holder.

#### **Item 1A. Risk Factors**

There are many risks that affect our business and results of operations, some of which are beyond our control. If any of the following risks actually occur, our business, financial condition or operating results could be materially harmed. This could cause the trading price of our common stock to decline, and you may lose all or part of your investment. Additional risks that we do not yet know of or that we currently think are immaterial may also affect our business and results of operations.

#### **Risks Relating to our Business**

*We have a history of net losses and may never become profitable.*

Except for fiscal year 2013, we have incurred net losses in each fiscal year since our inception. For our fiscal year ended March 31, 2014, we had a net loss of approximately \$1,758,000 and, as of March 31, 2014, our accumulated deficit was approximately \$139.8 million, primarily due to our past losses. Our losses have resulted primarily from expenses incurred in research and development of our technology and products and from selling and marketing our products. We may continue to incur additional operating losses as we continue our research and development efforts, introduce new products and expand our sales and marketing activities. We cannot assure you that our revenue will increase or that we will be profitable in any future period.

*Our revenues have been highly dependent on one product family, the iX104. Thus, any significant reduction of sales of this product family would materially harm our operating results.*

Because our revenues have been derived substantially from sales of our iX104 systems, we are highly dependent upon the continued market acceptance of the iX104 product family. We cannot assure you that the iX104 product family will continue to achieve its current level of acceptance in the marketplace. Any significant reduction of sales of the iX104 product family would materially harm our operating results.

*The lack of acceptance of our new products would materially harm our operating results.*

We have expended significant resources in developing new products, most recently the RangerX Pro. We cannot assure you that we will achieve any significant market acceptance of our new products. If we are unsuccessful in marketing these products, the lack of acceptance of our new products could materially harm our operating results.

*In fiscal year 2014, we derived more than 10% of our revenue from three different customers. If we are unable to replace revenues generated from one or more of our major resellers or end-user customers with revenues from others in future periods, our revenues may decline and our growth would be limited.*

Historically, in any given year a single customer, either reseller or end-user customer, could account for more than 10% of our revenue. In fiscal year 2014, three resellers, Minnetronix, Inc., VT Miltope and Software House International, accounted for approximately 18%, 12% and 11% of our total revenue, respectively. Prosys Information Systems, Inc. and VT Miltope, accounted for approximately 28% and 15% of our total revenue, respectively, for fiscal year 2013. If we are unable to replace revenues generated from one or more of our major resellers or end-user customers with revenues from others, our revenues may decline and our growth could be limited.

*We experience lengthy sales cycles for our products and the delay of an expected large order could result in a significant unexpected revenue shortfall.*

The purchase of our rugged computer systems is often an enterprise-wide decision for prospective end-user customers, which requires us to engage in sales efforts over an extended period of time and provide a significant level of education to prospective end-user customers regarding the uses and benefits of such systems. As a result, our products generally have a lengthy sales cycle, ranging from several months to several years. Consequently, if forecasted sales from a specific end-user customer are not realized, we may not be able to generate revenue from alternative sources in time to compensate for the shortfall. The loss or delay of an expected large order could result in a significant unexpected revenue shortfall. Moreover, to the extent we enter into and perform significant contracts earlier than expected, operating results for subsequent periods may fall below expectations.

*Our quarterly operating results are likely to fluctuate as a result of many factors and our quarterly operating results may not be indicative of results in any given year or future quarter.*

Our quarterly revenue, expenses, operating results, and gross profit margins may vary significantly from quarter to quarter. Such fluctuation may result from our inability to replace revenue generated from large orders from one of our major resellers or end-user customers with revenue from other resellers and end-users, the lengthy sales cycle related to our products and delays in the delivery of products and components. Our quarterly revenue could also be materially affected in any period by a decline in the economic prospects of our customers or the economy in general, which could alter current or prospective customers' spending priorities or budget cycles or extend our sales cycle for the period. Due to such factors, our quarterly operating results are likely to fluctuate and such results may not be indicative of our results in any given year or future quarter. As a result, our operating results may fall below the expectations of securities analysts and investors in some quarters, which could result in a decrease in the market price of our common stock. You should not rely on quarter-to-quarter comparisons of our results of operations as an indicator of our future results.

*We are currently dependent on contract manufacturers to manufacture our products and products under development and our reliance on contract manufacturers subjects us to significant operational risks, many of which would impair our ability to deliver products to our customers should they occur.*

We currently rely primarily on contract manufacturers for the manufacture of our products. Our reliance involves a number of risks, including:

- reduced management and control of component purchases;

- reduced control over delivery schedule and quality assurance;
- reduced control over manufacturing yields;
- lack of adequate capacity during periods of excess demand;
- limited warranties on products supplied to us;
- potential increases in prices;
- interruption of supplies from assemblers as a result of fire, natural calamity, strike or other significant events; and
- misappropriation of our intellectual property.

Our business is therefore dependent upon our contract manufacturers for their manufacturing capabilities. During the fiscal years ended March 31, 2014 and 2013, we purchased inventory and engineering services of approximately \$23.5 million and \$15.4 million, respectively, from our contract manufacturers. Our agreements with the contract manufacturers contain provisions that allows for termination for any reason. We cannot assure you that our contract manufacturers will continue to work with us, that they will be able to meet our manufacturing needs in a satisfactory and timely manner, that the contract manufacturers have the required capacity to satisfy our manufacturing needs or that we can obtain additional or alternative manufacturers when and if needed.

The availability of our contract manufacturers and the amount and timing of resources to be devoted by them to our activities is not within our control, and we cannot assure you that we will not encounter manufacturing problems that would materially harm our business. The loss of one of our contract manufacturers, a significant price increase, an interruption of supply or the inability to obtain additional or an alternative manufacturer when and if needed would impair our ability to deliver our products to our customers.

*We face competition from companies that have greater resources than we do and we may not be able to effectively compete against these companies.*

We operate in a highly competitive industry. Our primary competitors in the mobile rugged computer market include Panasonic, Getac, Inc., Motion Inc., DRS Technologies and Mobile Demand in the tablet PC market and Panasonic in the notebook market. We also face competition from manufacturers of nonrugged mobile computers, such as Samsung, Inc., Dell, Inc., Hewlett-Packard Company, Apple Computer, Inc., Sony and Toshiba, to the extent customers decide to purchase less expensive traditional computers for use in environments that we believe are better suited for mobile rugged computers. The principal competitive factors in our industry include:

- product performance, features and reliability;
- price;
- name recognition; and
- product availability and lead times.

Most of our competitors have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical, sales, marketing and other resources than we do. In addition, because of the higher volume of components that many of our competitors purchase from their suppliers, they are able to keep their costs of supply relatively low and, as a result, may be able to recognize higher margins on their product sales than we do. Many of our competitors may also have existing relationships with our contract manufacturers, the resellers who we use to sell our products, or with our potential customers. This competition may result in reduced prices, reduced margins and longer sales cycles for our products. The introduction of lower-priced personal computers, combined with the brand strength, extensive distribution channels and financial resources of the larger vendors, could cause us to lose market share and could reduce our margins on those personal computers we sell. If any of our larger competitors were to commit greater technical, sales, marketing and other resources to our markets, our ability to compete would be adversely affected. If we are unable to successfully compete with our competitors our sales would suffer and as a result our financial condition will be adversely affected.

*If we are unable to successfully protect our intellectual property, our competitive position will be harmed.*

Our ability to compete is heavily affected by our ability to protect our intellectual property. We rely on a combination of patents, copyright and trademark laws, trade secret, confidentiality procedures and contractual provisions to protect our proprietary rights. We also enter, and plan to continue to enter, into confidentiality or license agreements with our employees, consultants and other parties with whom we contract, and control access to and distribution of our software, documentation and other proprietary information. The steps we take to protect our technology may be inadequate. Existing trade secret, trademark and copyright laws offer only limited protection. Unauthorized parties may attempt to copy aspects of our products or obtain and use information that we regard as proprietary. Policing unauthorized use of our products is difficult, time consuming and costly, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. We cannot assure you that our means of protecting our proprietary rights will be adequate or that our competitors will not independently develop similar technology, the effect of either of which would harm our competitive position in the market.

*Others could claim that we infringe on their intellectual property rights, which may result in costly and time consuming litigation and could delay or otherwise impair the development and commercialization of our products.*

In recent years, there has been a significant increase in litigation in the United States involving patents and other intellectual property rights. We do not believe that our products infringe on the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim such infringement by us or our licensees with respect to current or future products. Claims for alleged infringement and any resulting lawsuit, if successful, could subject us to significant liability for damages and invalidation of our intellectual property rights. Any such claims, with or without merit, could be time consuming, expensive to defend, cause product shipment delays or require us to enter into royalty or licensing agreements, any of which could delay the development and commercialization of our products or reduce our margins. If we are unable to obtain a required license, our ability to sell or use certain products may be impaired. In addition, if we fail to obtain a license, or if the terms of the license are burdensome to us, our operations could be materially harmed.

*We are subject to risks by doing business outside of the United States that could impair our ability to grow our revenues.*

In the fiscal years ended March 31, 2014 and March 31, 2013, approximately 24% and 33%, respectively, of our revenue was comprised of sales made outside of the United States. In addition, our contract manufacturers are located outside the United States, in Taiwan. Our operations may be materially and adversely affected by many risks related to doing business outside of the United States, including:

- increases in duty rates, exchange or price controls;
- governmental currency controls;
- import restrictions;
- political, social and economic changes and disruptions;
- in certain jurisdictions, reduced protection for our intellectual property rights;
- difficulty in enforcing contracts or legal rights under foreign legal systems; and
- product availability and lead times.

The occurrence of any one these risks could impair our ability to grow our revenues.

*If we are unable to retain key personnel we may not be able to execute our business strategy.*

Our operations are dependent on the abilities, experience and efforts of a number of key personnel, including Philip S. Sassower, our chairman and chief executive officer, Mark Holleran, our president and chief operating officer, Michael J. Rapisand, our chief financial officer and corporate secretary, and Bryan J. Bell, our vice president of engineering. Should any of these persons or other key employees be unable or unwilling to continue in our employ, our ability to execute our business strategy may be adversely affected. In addition, our success is highly dependent on our continuing ability to identify, hire, train, motivate and retain highly qualified management, technical and sales and marketing personnel. Competition for such personnel is intense. We may be unable to attract and retain the personnel necessary for the development of our business. Because we have experienced operating losses, which resulted in a reduction in our workforce in the past, we may have a more difficult time in attracting and retaining the employees we need. Other than an employment agreement with our president and chief operating officer, our relationships with our key employees are “at will.” Also, we do not have “key person” life insurance policies covering any of our employees. The inability to attract or retain qualified personnel in the future or delays in hiring skilled personnel could harm our relations with our customers and our ability to respond to technological change, which could prevent us from executing our business strategy.

*If we are unable to acquire key components or are unable to acquire them on favorable terms, our business will suffer.*

Some key components included in our line of products are currently available only from single or limited sources. In addition, some of the suppliers of these components are also supplying certain of our competitors. We cannot be certain that our suppliers will be able to meet our demand for components in a timely and cost-effective manner. We carry little inventory of our products or our product components and, as a result, rely on our suppliers to deliver our products and necessary components to us or our contract manufacturers in a timely manner based upon forecasts we provide. If any of our suppliers become unreliable in providing components, we may not be able to develop an alternative source of supply in a timely manner, which could hurt our ability to deliver our products to our customers. In addition, if we are unable to buy these components on a timely and a cost-efficient basis, we may not be able to deliver products to our customers, or the margins we receive for our products may suffer, which would negatively impact our future financial performance and, in turn, seriously harm our business.

At various times, some of the key components for our products have been in short supply. Delays in receiving components would harm our ability to deliver our products on a timely basis. In addition, because we expect to rely on purchase orders rather than long-term contracts with our suppliers, we cannot predict with certainty our ability to procure components in the longer term. If we receive a smaller allocation of components than is necessary to manufacture our products in quantities sufficient to meet our customers’ demand, those customers could choose to purchase competing products.

*If we fail to predict our manufacturing requirements accurately, we could incur additional costs or experience manufacturing delays, which could reduce our gross margins or cause us to lose sales.*

We provide, and will continue to provide, forecasts of our demand to our contract manufacturers prior to the scheduled delivery of products to our customers. If we overestimate our requirements, our contract manufacturers may have excess component inventory, which could increase our costs. If we underestimate our requirements, our contract manufacturers may have an inadequate component inventory, which could interrupt the manufacturing of our products and result in delays in shipments and revenue. In addition, lead times for materials and components that we order vary significantly and depend on factors such as the specific supplier, contract terms and demand for each component at a given time. We may also experience shortages of components from time to time, which also could delay the manufacturing of our products or increase the costs of our products.

*Our inability to obtain any third-party license required to develop new products and product enhancements could seriously harm our business, financial condition and results of operations.*

From time to time, we are required to license technology from third parties to develop new products or product enhancements. Third-party licenses may not be available to us on commercially reasonable terms, or at all. Our inability to obtain any third-party license necessary to develop new products or product enhancements could require us to obtain substitute technology of lower quality or performance standards, or at greater cost, which could seriously harm our business, financial condition and results of operations.

*We must respond quickly and effectively to new technological developments, and the failure to do so could have a material and adverse effect on our results of operations.*

Our failure to maintain our technological capabilities or to respond effectively to technological changes could adversely affect our business, results of operations or financial condition. Our future success also depends on our ability to enhance existing hardware and systems and to respond to changing technological developments. If we are unable to successfully develop and bring to market new hardware and systems in a timely manner, our competitors’ technologies or services may render our products or services noncompetitive or obsolete.

*Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.*

In the ordinary course of our business, we store sensitive data, including intellectual property, our proprietary business information and that of our customers and suppliers, and personally identifiable information of our customers and employees, in our data centers and on our networks. The secure maintenance of this information is critical to our operations. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, disrupt our operations, damage our reputation, and cause a loss of confidence in our products and services, which could adversely affect our business, revenues and competitive position.

#### **Risks Relating to Ownership of our Common Stock**

*As of May 31, 2014, two of our stockholders, Philip S. Sassower and Phoenix Venture Fund LLC, and other entities controlled by Mr. Sassower, beneficially own approximately 27.4% of our common stock, and thus have significant influence over matters requiring stockholder approval.*

One of our stockholders, Phoenix Venture Fund LLC, or Phoenix, which is co-managed by Philip S. Sassower, our chairman and chief executive officer, and Andrea Goren, one of our directors, beneficially owns approximately 21.1% of our common stock. In addition, Mr. Sassower, personally and through other entities controlled by him other than Phoenix, beneficially owns, in the aggregate, approximately 6.4% of our common stock. Thus, Phoenix and Mr. Sassower, together, beneficially own in the aggregate, approximately 27.4% of our common stock. Accordingly, Phoenix and Mr. Sassower have the ability to exercise significant influence over matters generally requiring stockholder approval, including the election of directors and the approval of significant corporate transactions, which could have the effect of delaying or preventing a third party from acquiring control over us.

*The anti-takeover effect of certain of our charter provisions could adversely affect holders of our common stock.*

Our authorized capital consists of preferred stock issuable in one or more series. Our board of directors has the authority to issue preferred stock and determine the price, designation, rights, preferences, privileges, restrictions and conditions, including voting and dividend rights, of those shares without any further vote or action by stockholders. The rights of the holders of common stock will be subject to, and may be adversely affected by, the rights of holders of any preferred stock that may be issued in the future. The issuance of additional preferred stock, while providing desirable flexibility in connection with possible financings and acquisitions and other corporate purposes, could make it more difficult for a third party to acquire a majority of the voting power of our outstanding voting securities, which could deprive holders of our common stock of a premium that they might otherwise realize in connection with the acquisition of us by a third party.

*Volatility in the price for our common stock could adversely affect the long-term price of our common stock.*

The trading price of our common stock has been highly volatile and may continue to fluctuate substantially. We believe that a variety of factors have caused and could in the future cause the stock price of our common stock to fluctuate significantly, including:

- announcements of developments related to our business;
- quarterly fluctuations in our actual or anticipated operating results;
- announcements of technological innovations;
- new products or product enhancements introduced by us or by our competitors;
- developments in patents and other intellectual property rights and related litigation;
- developments in our relationships with our third party manufacturers and/or strategic partners;
- developments in our relationships with our customers and/or suppliers; and



- general conditions in the global economy.

In addition, in recent years the stock market in general, and the market for shares of smaller capitalization technology companies in particular, has experienced substantial price and volume fluctuations, which have often been unrelated or disproportionate to the operating performance of the affected companies. Any fluctuations in the future could adversely affect the market price of our common stock and the market price of our common stock may decline.

*We do not expect to pay dividends on our common stock.*

We have never paid cash dividends on our common stock. Our current policy is to retain any future earnings to finance the future development and expansion of our business. Any future determination about the payment of dividends will be made at the discretion of our board of directors and will depend upon our earnings, capital requirements, operating and financial conditions and on such other factors the board of directors deems relevant. Under the terms of our financing agreement with our senior lender, we are prohibited from paying cash dividends to holders of our common stock.

#### **Item 1B. Unresolved Staff Comments**

None.

#### **Item 2. Properties**

We maintain our corporate functions, along with sales support, marketing, finance, engineering and operating groups, at a leased facility totaling approximately 21,700 square feet at 14000 Summit Drive, Suite 900, Austin, Texas. The lease expires on August 31, 2019, and has a current annual base rent, before reimbursable operating expenses, of approximately \$228,000. We believe that our present facilities are suitable for our existing and planned operations.

#### **Item 3. Legal Proceedings**

At March 31, 2014, we were not involved in any legal actions, arising in the ordinary course of business or otherwise. From time to time, we may be involved in various claims and legal actions arising in the ordinary course of business. We believe that the ultimate outcome of these matters would not have a material adverse impact on our financial condition or the results of operations.

#### **Item 4. Mine Safety Disclosures**

**Not applicable.**

### **PART II**

#### **Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

##### **Market Information**

Our common stock is listed on The NASDAQ Capital Market exchange under the symbol "XPLR." Prior to October 26, 2012, our common stock was quoted on the OTC market Group Inc.'s OTCQB Link quotation platform under the symbol "XLRT." As of May 30, 2014, there were 196 registered holders of record of our common stock, and the closing price of our common stock on The NASDAQ Capital Market exchange was \$6.02.

On September 13, 2012, we consummated a 1-for-400 reverse stock split and received the requisite stockholder consent to convert each series of our outstanding preferred stock into common stock upon the closing of our public offering of 2,000,000 shares of common stock completed on October 31, 2012. The information in the table below does not reflect the reverse stock split for the period prior to September 13, 2012.

The following table sets forth the high and low sales price of our common stock, on The NASDAQ Capital Market and the OTCQB Link, for each quarter period during the fiscal years ended March 31, 2014 and 2013, in U.S. dollars.

POST-REVERSE STOCK SPLIT PERIOD	US \$	
	High	Low
<b>Fiscal Year Ended March 31, 2014:</b>		
First Quarter	4.13	3.05
Second Quarter	4.69	3.36
Third Quarter	6.88	3.87
Fourth Quarter	7.40	5.50
<b>Fiscal Year Ended March 31, 2013:</b>		
Second Quarter (from September 13, 2012)	7.50	5.00
Third Quarter	8.00	3.30
Fourth Quarter	5.50	3.23

PRE-REVERSE STOCK SPLIT PERIOD	US \$	
	High	Low
<b>Fiscal Year Ended March 31, 2013:</b>		
First Quarter	0.06	0.03
Second Quarter (through September 12, 2012)	0.04	0.01

#### Dividend Policy

We have not declared or paid any dividends on our common stock during our last five fiscal years. The payment of dividends on our common stock in the future will depend on our earnings, capital requirements, operating and financial condition and such other factors as our board of directors may consider appropriate. Under the terms of our financing agreement with our senior lender, we are prohibited from paying cash dividends without the senior lender's prior written consent. We currently expect to use all available funds to finance the future development and expansion of our business and do not anticipate paying dividends on our common stock in the foreseeable future.

#### Recent Sales of Unregistered Securities

None.

#### Item 6. Selected Financial Data.

Not applicable.

#### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

You should read the following discussion and analysis in conjunction with our consolidated financial statements and notes included in this Annual Report on Form 10-K. This discussion contains, in addition to historical information, forward-looking statements that involve risks and uncertainty. Our actual results could differ materially from those anticipated in the forward-looking statements, including those discussed in "Risk Factors" and elsewhere in this Annual Report on Form 10-K.

#### General

We are engaged in the development, integration and marketing of rugged mobile personal computer systems, or PCs. Our rugged tablet PCs are designed to withstand hazardous conditions such as extreme temperatures, driving rain, repeated vibrations, dirt, dust and concussive shocks. The intrinsically safe, ruggedized and reliable nature of our products enable the extension of traditional computing systems to a range of field personnel, including energy pipeline inspectors, public safety responders, warehouse workers and pharmaceutical scientists. Our tablets are fitted with a range of performance-matched accessories, including multiple docking solutions, wireless connectivity alternatives, global positioning system modules, biometric and smartcard options, as well as traditional peripherals, such as keyboards and cases. Additionally, our tablets are waterproof for up to 30 minutes in water up to a depth of three feet, impervious to drops from as high as seven feet, are readable in direct sunlight, can be mounted on vehicles and include LTE and Wi-Fi connectivity options for real-time data access. Our end user customers include major telecommunications companies, leading heavy equipment manufacturers, oil and gas companies, the military and first responders.

Our revenue has been derived primarily through the sale of our iX104 systems in the ultra-rugged, tablet PC market. We launched our fifth generation iX104C line of rugged tablet PCs in May 2011 and received favorable responses from our end user customers based on annual revenue growth of approximately 17% and approximately 11% for fiscal years 2014 and 2013, respectively. Since the iX104C5 launch, we have announced the receipt of significant orders for our iX104C5 from a major U.S. telecommunications provider, the U.S. military, one of the largest oil and natural gas producers in North America and a medical device company. These orders contributed significantly to the increase in our annual revenue.

Historically, we have competed in a subset of the market for large rugged PCs, given the ultra-rugged attributes of the iX104C5 product, which weighs approximately 5.4 pounds. To broaden the market for our products and increase our revenue growth opportunities, we are developing multiple new fully-rugged tablets that are lighter and less expensive than the iX104C5, which will allow us to compete in significantly larger segments of the rugged PC market, as well as developing our next generation of the iX104 product family referred to as the C6. On July 10, 2013, we announced the first of these tablets with the launch of RangerX Pro, our first fully-rugged Android tablet, which weighs approximately 2.2 pounds. We believe the lighter RangerX Pro tablet is ideal for field service applications and more mobile market opportunities, as compared to the iX104. The RangerX Pro uniquely offers functionality that allows telecommunications providers to consolidate the equipment used by their field service engineers into a single device, the RangerX Pro, eliminating the need for troublesome and costly external dongles currently used by these providers to test HD video signals and Internet connectivity during home and business installations. On December 11, 2013, we announced the receipt of the first major purchase order for our RangerX Pro rugged Android tablet, in the amount of approximately \$4 million, from a major U.S. telecommunications provider. We completed and shipped the order in December 2013. We announced the availability of the new next generation of the iX104, referred to as the C6, in April 2014 and announced the availability of the Bobcat, a fully-rugged tablet that has a Windows operating system and weighs approximately 2.4 pounds, on June 24, 2014. We believe RangerX Pro and Bobcat will significantly broaden our addressable markets.

The timing of the aforementioned large orders, and the related shipping dates of the ordered products, creates variability in our reported revenues. While we may experience some variability in our quarterly operating results as a consequence of the impact of large orders, we believe we will continue to grow our year-over-year revenues. Our revenue for the fiscal year ended March 31, 2014 was approximately 17% higher than the prior fiscal year.

Looking forward, our strategy is to build increased marketplace awareness of our iX104, RangerX Pro and Bobcat families, in an effort that we believe will enable us to increase our revenue and to expand our market share.

### **Critical Accounting Policies**

Our consolidated financial statements and accompanying notes included in this Annual Report on Form 10-K are prepared in accordance with U.S. generally accepted accounting principles. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. These estimates and assumptions are affected by management's application of accounting policies. Estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimates are reasonably likely to occur from period to period, and would materially impact our financial condition, changes in financial condition or results of operations. Our significant accounting policies are discussed in Note 2 of the Notes to our Annual Consolidated Financial Statements included in this Annual Report on Form 10-K. On an ongoing basis, we evaluate our estimates, including those related to our revenue recognition, allowance for doubtful accounts, inventory valuation, warranty reserves, tooling amortization, financial instruments, stock based compensation and income taxes. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Our critical accounting policies are as follows:

*Revenue Recognition.* Our revenue is derived from the sale of rugged mobile technology, which includes rugged mobile tablet PC computers and related accessories. Our customers are predominantly resellers. However, we also sell directly to end-users. We recognize revenue, net of an allowance for estimated returns, when title and risks of ownership are transferred to the customer, all significant contractual obligations have been satisfied, the sales price is fixed or determinable and the ability to collect is reasonably assured. Our revenue recognition criteria have generally been met when the product has been shipped. Shipments are based on firm purchase orders from our customers with stated terms. The shipping terms are F.O.B. shipping point. We do not have installation, training or other commitments subsequent to shipment that are other than incidental. Our prices are determined based on negotiations with our customers and are not subject to adjustment. Generally, we do not hold inventory at our resellers and we do not expect resellers to hold inventories of our products other than in limited circumstances in which such inventory is monitored by us. As a result, we expect returns to be minimal. We have not had material adjustments, as our returns have been minimal. Revenue from separately priced extended warranty contracts is deferred and recognized in income on a straight-line basis over the related contract period.

*Allowance for Doubtful Accounts.* We regularly review and monitor collections of our accounts receivables and make estimated provisions, generally monthly, based on our experience, aging attributes, results of collection efforts and current market conditions. If our estimate for allowance for doubtful accounts is too low, additional charges will be incurred in future periods, which additional charges could have a material adverse effect on our financial position and results of operations. Historically, our estimates have not required significant adjustment due to actual experience.

*Warranty Reserves.* We make provisions for warranties at the time of sale, which are based on our experience and monitored regularly. The revenue related to warranty is recognized when our obligations are generally covered by a warranty coverage agreement provided by a third party. A portion of our warranty obligations related to revenue recognized are primarily covered by warranty coverage agreements provided by our contract manufacturers; however, we also provide the coverage on the portion of our obligations which is not covered by these agreements, for which we establish related reserves at the time of sale. We are moving to more of a self insured model due to changes in our warranty offerings and warranty claim experience. If our estimates for warranties and returns are too low, additional charges will be incurred in future periods and these additional charges could have a material adverse effect on our financial position and results of operations. Historically, our estimates have not required significant adjustment due to actual experience.

*Inventory Valuation.* We adjust our inventory values so that the carrying value does not exceed net realizable value. The valuation of inventory at the lower of average cost or net realizable value requires us to use estimates regarding the amount of current inventory that will be sold and the prices at which it will be sold, and our assessment of expected orders from our customers. Additionally, the estimates reflect changes in our products or changes in demand because of various factors, including the market for our products, obsolescence, production discontinuation, technology changes and competition. While the estimates are subject to revisions and actual results could differ materially, our estimates have not required significant adjustment due to actual experience.

*Tooling Amortization.* We amortize tooling costs over a two year period or estimated life, whichever is shorter. Those costs are recorded as a cost of revenue, subject to an assessment that future revenue will be sufficient to fully recover the cost of the tooling. This assessment requires an assessment of the market for our products and our future revenue expectations. On a quarterly basis, this assessment is reviewed and the cost of tooling is written down to its net realizable value if its recoverability is not reasonably expected based on estimates of future revenue. There have been no instances in which we determined that useful life was significantly less than two years. Accordingly, we have not recorded material adjustments.

*Income Taxes.* We have a significant valuation allowance that we intend to maintain until it is more likely than not that our deferred tax assets will be realized. Our income tax expense recorded in the future will be reduced to the extent of decreases in our valuation allowances. Changes in the tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. We are not aware of any such changes that would have a material effect on our results of operations, cash flows or financial position.

*Financial Instruments.* The warrant we issued in connection with the issuance of stock or for services has been valued separately using the Black-Scholes methodology. The determination of the values attributed to the warrant required the use of estimates and judgments particularly related to the assumptions used in the Black-Scholes calculation. In addition, options and warrants to acquire common stock issued to employees, directors and consultants have been valued using a Black-Scholes calculation and their valuations are impacted by the assumptions used in this calculation.

*Stock-Based Compensation Expense.* We apply the fair value method of accounting for all of our employee stock-based compensation. We use the Black-Scholes option pricing model to determine the fair value of stock option awards at the date of the issuance of the award. The value is expensed over the vesting period, which is generally three years. See Note 8 to our Annual Consolidated Financial Statements included in this Annual Report on Form 10-K for required disclosures.

Our estimates of stock-based compensation expense require a number of complex and subjective assumptions, including our stock price volatility, employee exercise patterns, future forfeitures, dividend yield, related tax effects and the selection of an appropriate fair value model. In addition, we have estimated volatility on shares issued in the year ended March 31, 2014 based on an average volatility of a set of companies considered comparable to us. We use historical data to estimate pre-vesting forfeitures, and we record stock-based compensation expense only for those awards that are expected to vest. The dividend yield assumption is based on our history and future expectations of dividend payouts.

The assumptions used in calculating the fair value of stock-based compensation expense and related tax effects represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, or if we decide to use a different valuation model, our stock-based compensation expense could be materially different in the future from what we have recorded in the current period, which could materially affect our results of operations.

## Recent Accounting Pronouncements

We have implemented all new accounting pronouncements that are in effect and that may impact our consolidated financial statements. We do not believe that there are any new accounting pronouncements that have been issued that might have a material impact on our consolidated financial position or results of operations.

## Results of Operations

*Revenue.* We derive revenue from sales of our rugged wireless tablet PC systems, which encompass a family of active pen and touch tablet PC computers, embedded wireless, desktop, vehicle, fork-lift or truck docking stations and a range of supporting performance-matched accessories, peripherals and support services. Our revenue also includes service revenue derived from out-of-warranty repairs and from separately priced extended warranty contracts which is deferred and recognized in income on a straight-line basis over the related contract period.

*Cost of Revenue.* Cost of revenue consists of the costs associated with manufacturing, assembling and testing our products, related overhead costs, maintenance, compensation, freight and other costs related to manufacturing support, including depreciation of tooling assets and logistics. We use contract manufacturers to manufacture our products and supporting components, which represents a significant majority of our cost of revenue. In addition, the costs associated with providing warranty repairs, as well as the costs associated with generating service revenue, are included in cost of revenue.

*Gross Profit.* Gross profit has been, and will continue to be, affected by a variety of factors, including competition, product mix and average selling prices of products, maintenance, new product introductions and enhancements, the cost of components and manufacturing labor, fluctuations in manufacturing volumes, component shortages, the mix of distribution channels through which our products are sold, and warranty costs.

*Sales, Marketing and Support.* Sales, marketing and support expenses include salaries, commissions, agent fees and costs associated with co-operative marketing programs, as well as other personnel-related costs, travel expenses, advertising programs, trade shows and other promotional activities associated with the marketing and selling of our products. We also believe part of our future success will be dependent upon establishing and maintaining successful relationships with a variety of resellers.

*Product Research, Development and Engineering.* Product research, development and engineering expenses consist of salaries and related expenses for development and engineering personnel, and non-recurring engineering costs, including prototype costs, related to the design, development, testing and enhancement of our product families. We expense our research and development costs as they are incurred. There may be components of our research and development efforts that require significant expenditures, the timing of which can cause quarterly fluctuation in our expenses.

*General Administration.* General administration expenses consist of salaries and related expenses for finance, accounting, procurement and information technology personnel, investor relations, professional fees, including legal fees for litigation defense and litigation settlement payments, corporate expenses, and costs associated with being a U.S. public company, including regulatory compliance costs.

*Interest.* Interest expense includes interest on borrowings or transaction processing fees related to our credit facility.

*Other Income and Expense.* Other income and expense includes gains and/or losses on dispositions of assets and other miscellaneous income and expense.

*Inflation.* During the fiscal years ended March 31, 2014 and 2013, we believe inflation and changing prices have not had a material impact on our revenue or on net income (loss) from continuing operations.

***Fiscal Year Ended March 31, 2014 vs. Fiscal Year Ended March 31, 2013***

***Revenue.*** Total revenue for the fiscal year ended March 31, 2014 was \$35,585,000, compared to \$30,486,000 for the fiscal year ended March 31, 2013, representing an increase of \$5,099,000, or approximately 17%. Sales of our new RangerX Pro Android tablet launched in the current year accounted for approximately 14% of the growth in revenue. When the RangerX Pro sales are excluded, there was an increase in revenue of approximately 3% for the year ended March 31, 2014, compared to the prior year. This increase was attributable to an increase in iX104 unit sales of approximately 13%, offset by a decrease in our iX104 average sales price of approximately 10% due to changes in the product mix sold.

We operate in one segment, the sale of rugged mobile wireless tablet PC computing systems. Approximately 76% of our revenue in the year ended March 31, 2014 was derived from sales in the United States. The United States and Canada accounted for approximately 67% and 13%, respectively, of our revenue during the year ended March 31, 2013. At March 31, 2014, we had one reseller customer, Minnetronix, Inc., who had a receivable balance accounting for approximately 44% of our total outstanding accounts receivables. We collected the receivable balance with this reseller subsequent to our fiscal year end.

In any year, a single customer may account for a significant portion of our sales. For the fiscal year ended March 31, 2014, we had three customers located in the United States who accounted for approximately 18% and 12% and 11% of our total revenue, respectively. For the fiscal year ended March 31, 2013, we had two customers located in the United States who accounted for approximately 28% and 15% of our total revenue, respectively.

***Cost of Revenue.*** Total cost of revenue for the year ended March 31, 2014 was \$22,864,000, compared to \$20,078,000 for the year ended March 31, 2013, representing an increase of \$2,786,000, or approximately 14%. The increase was primarily due to the aforementioned increase in unit sales.

We rely on two suppliers for the majority of our finished goods. The inventory purchases and cost of engineering services from our suppliers during the years ended March 31, 2014 and 2013 were \$23,509,000 and \$15,363,000, respectively. At March 31, 2014 and 2013, we owed these suppliers \$2,607,000 and \$2,457,000, respectively, which we recorded in accounts payable and accrued liabilities.

***Gross Profit.*** Total gross profit increased by \$2,313,000, to \$12,721,000 (35.7% of revenue) for the year ended March 31, 2014 from \$10,408,000 (34.1% of revenue) for the year ended March 31, 2013. The increase in gross profit for the year ended March 31, 2014, as compared to the prior year, was attributable to the increase in revenue. The increase in the gross profit percentage was due to a more favorable sales product mix.

***Sales, Marketing and Support Expenses.*** Sales, marketing and support expenses for the year ended March 31, 2014 were \$6,067,000, compared to \$4,172,000 for the year ended March 31, 2013. The increase of \$1,895,000, or approximately 45%, is consistent with our previously announced plans to generate more awareness of our products through expanded sales and marketing initiatives. The increase predominately consisted of an increase in headcount related costs of \$621,000, primarily associated with new sales and marketing personnel, including the newly created position of Vice President of Americas Sales, an increase in marketing expenses of \$569,000, principally related to lead generation and awareness activities, an increase in demonstration units of \$406,000 attributable to market introductions of our new products, and an increase in travel related expenses of \$301,000 associated with increased sales activity.

***Product Research, Development and Engineering Expenses.*** Product research, development and engineering expenses for the year ended March 31, 2014 were \$4,850,000, as compared to \$2,194,000 for the year ended March 31, 2013, an increase of \$2,656,000, or approximately 121%. The increase is consistent with our previously announced plans to develop new products to broaden our addressable markets. During fiscal 2014, we were developing three major new products, the first of which was our lighter weight rugged Android tablet, the RangerX Pro, which was launched on July 10, 2013. The next generation of the iX104, referred to as the C6, was launched in April 2014 and our lighter weight rugged Windows based tablet was launched in June 2014. We did not have any major development projects in the prior fiscal year. The increase in these expenses was primarily due to the increase in the number of major projects, which accounted for an increase in product development expenses of \$2,326,000, as well as an increase in headcount related expenses of \$333,000 for new engineering personnel to support the development efforts.

***General Administration Expenses.*** General administration expenses for the year ended March 31, 2014 were \$4,223,000, compared to \$3,593,000 for the year ended March 31, 2013, an increase of \$630,000, or approximately 18%. The increase was primarily due to an increase in non-cash stock-based compensation of \$393,000 principally associated with the fiscal 2014 option grants described below, an increase in incentive compensation of \$277,000 for employees meeting their performance objectives, and an increase in headcount related expenses of \$219,000 for staffing upgrades and the hiring of a new vice president of operations, which was offset by a decrease in professional fees of \$269,000, primarily legal expenses attributable to the settlement of all outstanding litigation matters in early fiscal 2014.

For our fiscal years 2014 and 2013, the fair value of employee stock-based compensation expense was \$1,165,000 and \$691,000, respectively, reflecting an increase of \$474,000 for fiscal year 2014. The increase in expense was attributable to option grants made during fiscal 2014. In June 2013, our board of directors approved the grant of options to purchase a total of 797,000 shares of our common stock at an exercise price of \$5.00 per share to members of our board of directors and certain of our executive officers. These options vest in three equal annual installments beginning on October 31, 2013, and have a term of seven and a half years from the date of grant. In addition, our board of directors also approved the grant of options to purchase a total of 275,000 shares of our common stock at an exercise price of \$3.44 to certain non-officer employees. In November 2013, the board of directors approved the grant of options to purchase a total of 185,000 shares of our common stock at an exercise price of \$4.66 to three new employees, including options to purchase 175,000 shares granted to two officers. The options with exercise prices of \$3.44 and \$4.66 vest in three equal annual installments, beginning on the first anniversary of the date of grant, and have a term of five years from the date of grant. In February 2014, our board of directors approved the grant of options to purchase a total of 20,000 shares of our common stock at an exercise price of \$5.99 to two new employees. In March 2014, our board of directors approved a grant of options to purchase 100,000 shares of our common stock at an exercise price of \$6.23 to a new officer. The options granted in February and March of 2014 vest in three equal annual installments, beginning on the first anniversary of the date of grant, and have a term of five years from the date of grant. We recorded stock-based compensation expense in the employee related functional classification.

Depreciation and amortization expenses for fiscal years 2014 and 2013 were \$714,000 and \$457,000, respectively, reflecting an increase of \$257,000 for fiscal 2014. The increase in depreciation expense consisted primarily of the increase of depreciation expense for our new RangerX Pro, C6 and Bobcat Tablet PC demonstration units of \$157,000, along with an increase in tooling amortization associated with the RangerX Pro and C5 of approximately \$90,000. Depreciation and amortization expense is recorded in the related functional classification.

*Interest Expense.* Interest expense for the year ended March 31, 2014 was \$3,000, compared to \$67,000 for the year ended March 31, 2013, a decrease of \$64,000. This decrease was principally attributable to the elimination of discount fees of 0.52% we were charged on eligible receivables under our credit facility prior to June 29, 2012, when the agreement governing our credit facility was amended to eliminate the discount fees.

*Other Income/Expense.* Other income for the year ended March 31, 2014 was \$652,000, resulting from a litigation settlement payment to us referenced below, compared to other expense of \$41,000 for the year ended March 31, 2013.

On May 3, 2013, we entered into a Full and Final Mutual Release and a Minutes of Settlement, which we refer to collectively as the Settlement Agreement, with Deloitte LLP, formerly Deloitte & Touché LLP, or Deloitte. Under the terms of the Settlement Agreement, Deloitte made a payment to us in the amount of CAD\$700,000 (Canadian dollars) in full and final satisfaction of all claims made by us, and we agreed to destroy certain confidential information in our possession, as well as the possession of our expert witness in the proceeding.

*Income Taxes.* The income tax benefit of \$12,000 for the year ended March 31, 2014 is a result of a true-up of the accrual of income tax expense of \$35,000 for our fiscal year 2013 to reflect the actual amount of such taxes reflected in the return filed for that fiscal year.

*Net Income (Loss).* The net loss for the year ended March 31, 2014 was \$1,758,000 (\$0.21 per common share) compared to a net income of \$306,000 (\$0.08 per common share) for the year ended March 31, 2013, an unfavorable variance of \$2,064,000. Our net loss for the year was a result of an increase in operating expenses of \$5,181,000, partially offset by increases in gross profit of \$2,313,000, a positive variance in other income (expenses) of \$757,000, and a positive variance in income tax benefit (expense) of \$47,000.

*Net Loss Attributable to Common Stockholders.* Net loss attributable to common stockholders for the year ended March 31, 2014 was \$1,758,000, compared to \$1,986,000 for the year ended March 31, 2013, a decrease of \$228,000. The prior year number includes dividends attributable to our then outstanding preferred stock, which was not applicable in the current year. In connection with the closing of our public offering on October 31, 2012, each series of our outstanding preferred stock was automatically converted into common stock. The outstanding shares of preferred stock accrued cumulative dividends that were paid in shares of stock quarterly on the first day of June, September, December and March, with the exception of the last dividends, which were paid upon conversion on October 31, 2012. The dividends attributable to these shares for the year ended March 31, 2013 were \$2,292,000. The dividend rate for the Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock was 7.5% per annum, and were in shares of common stock determined by dividing the aggregate amount of the dividend then payable by (ii) the volume weighted average trading price of the common stock over the 10 trading days ending on the third trading day immediately preceding the dividend payment date, less a discount of 25% of the volume weighted average trading price of the common stock. The dividend rate for the Series D Preferred Stock was 10% per annum, payable in additional shares of Series D Preferred Stock valued at \$1.00 per share. The values for dividends paid and dividends accrued and unpaid were determined based on the market prices of our common stock as of the dates of share issuances or accrual multiplied by the equivalent common shares.

A summary of paid dividends for the year ended March 31, 2013, are as follows (in thousands of U.S. dollars):

Series A Preferred Stock	\$	1,365
Series B Preferred Stock		168
Series C Preferred Stock		545
Series D Preferred Stock		698

#### Liquidity and Capital Resources

Until fairly recently, the rate of growth in the market for our tablet products and our success in gaining market share has been less than we anticipated. Prior to fiscal 2013, we incurred net losses in each full fiscal year since our inception. From inception, we have financed our operations and met our capital expenditure requirements primarily from the gross proceeds of private and public sales of debt and equity securities totaling approximately \$112.8 million. As of March 31, 2014, our working capital was \$14,882,000 and our cash and cash equivalents were \$5,400,000.

An additional source of capital available to us is our credit facility with a specialty finance company.

On December 10, 2009, we entered into an Accounts Receivable Purchasing Agreement, the ARPA, with DSCH Capital Partners, LLC d/b/a Far West Capital, or FWC. Pursuant to the ARPA, FWC may purchase, in its sole discretion, our eligible accounts receivable on a revolving basis, up to a maximum of \$8,500,000. Under the terms of the ARPA, FWC purchases eligible receivables from our subsidiary with full recourse for the face amount of such eligible receivables. FWC retains 15% of the purchase price of the purchased receivables as a reserve amount. We are required to pay FWC a monthly cost of funds fee equal to the net funds employed by FWC (i.e., the daily balance of the purchase price of all purchased receivables less the reserve amount, plus any unpaid fees and expenses due to FWC under the ARPA) multiplied by the annual prime lending rate reported in The Wall Street Journal plus 10.00%, which fees accrue daily. In June 2012, in connection with the reduction of our cost of funds rate and the elimination of the discount fees payable to FWC in connection with its purchase of eligible receivables, we agreed to a net worth financial covenant requiring, as of the last day of each fiscal quarter, our subsidiary to have a net worth (defined as assets minus liabilities) of not less than \$4,000,000. In the event we are unable to maintain the minimum net worth requirement, the monthly cost of funds fee required to be paid to FWC will be increased to equal the net funds employed by FWC multiplied by the lesser of (a) the maximum rate allowed under applicable law and (b) the annual prime lending rate reported in The Wall Street Journal plus 16.0%.

The ARPA also provides that FWC has the right to require our subsidiary to repurchase any purchased accounts receivable: (a) if there is a dispute as to the validity of such receivable by the account debtor, (b) if certain covenants, warranties or representations made by our subsidiary with respect to such receivables are breached, (c) upon and during the continuance of an event of default under the ARPA or upon the termination of the ARPA, or (d) if such receivable remains unpaid 90 days after the invoice date. The ARPA had an initial term of one year with automatic renewals for successive one-year periods. Notwithstanding that, FWC may terminate the ARPA at any time upon 150 days prior written notice or without prior notice upon and during the continuance of an event of default.

The ARPA contains standard representations, warranties, covenants, indemnities and releases for agreements governing financing arrangements of this type. We have guaranteed the obligations of our subsidiary under the ARPA pursuant to a corporate guaranty and suretyship. In addition, our obligations under the ARPA are secured by a first priority security interest on all our assets.

As of June 19, 2014, there were no borrowings outstanding under the ARPA.

We believe that our current cash and cash flow from operations, together with our borrowing capacity under the ARPA, will be sufficient to fund our anticipated operations, working capital and capital spending needs for the next 12 months.



## Cash Flow Results

The table set forth below provides a summary statement of cash flows for the periods indicated:

	Year Ended March 31,	
	2014	2013
	(in thousands of US dollars)	
Net cash provided by (used in) operating activities	\$ (4,169)	\$ 2,991
Net cash used in investing activities	(900)	(791)
Net cash provided by financing activities	189	7,881
Cash and cash equivalents at year end	5,400	10,280

Net cash used in operating activities in fiscal year 2014 was \$4,169,000, compared to \$2,991,000 cash provided by operating activities in fiscal year 2013, an unfavorable variance of \$7,160,000. The unfavorable variance in net cash used in operating activities was due to an unfavorable increase in cash used to increase accounts receivables balances in fiscal 2014, as compared to the prior year, of \$4,500,000, due in part to the increase in revenue as well as from the timing of accounts receivable billings and collections in 2014. The aging of our receivables remained consistent with the prior year, with no deterioration. The unfavorable variance in net cash used in operating activities was also due to an unfavorable increase in cash used for inventory of \$3,537,000 attributable to the increase in inventory caused by delays in expected orders, principally in the Federal government market, and an unfavorable variance in net income (loss), net of items not affecting cash, of \$1,305,000, primarily attributable to increases in our research and development and sales and marketing expenses. These unfavorable variances were partially offset by a favorable decrease in the use of cash arising from the timing and payment of accounts payable and accrued liabilities, as well as growth in deferred revenue, of \$2,018,000, and a favorable reduction in prepaid expenses and other current assets of \$164,000.

Net cash used in investment activities consists of investments in tooling costs related to new products developed or under development as well as investments in demonstration units used in the marketing of our products. For the year ended March 31, 2014, the cash used in investing activities principally consisted of tooling costs of \$525,000 and investments in demonstration and internal units of \$368,000. For the year ended March 31, 2013, the cash used in investing activities consisted of tooling costs of \$520,000, investments in demonstration and internal units of \$243,000 and costs for a new phone system and other assets of \$28,000.

Net cash provided by financing activities for the years ended March 31, 2014 and 2013 was \$189,000 and \$7,881,000, respectively. Net cash provided by financing activities for the year ended March 31, 2014 consisted primarily of net proceeds from the exercise of employee stock options of \$148,000 and the issuance of common stock by our employee stock purchase plan of \$41,000. Net cash provided by financing activities for the year ended March 31, 2013 primarily consisted of net proceeds from the public offering of our common stock of \$7,856,000 and the issuance of common stock by our employee stock purchase plan of \$26,000.

### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

### Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

### Item 8. Financial Statements and Supplementary Data.

The financial statements and other financial information required by this Item are listed in Item 15 of Part IV and are contained on pages F-1 through F-18 of this annual report and incorporated in this Item 8 by reference.

### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

## **Item 9A. Controls and Procedures.**

### *(a) Evaluation of disclosure controls and procedures.*

As of the end of the period covered by this Annual Report on Form 10-K, we conducted under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, an evaluation of the effectiveness of our “disclosure controls and procedures” (as that term is defined under the Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act). Based on that evaluation, our chief executive officer and chief financial officer concluded as of the period covered by this report that our disclosure controls and procedures were effective in recording, processing, summarizing and reporting information required to be disclosed within the time periods specified in the Securities and Exchange Commission’s rules and forms, and to ensure that information required to be disclosed in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding the required disclosure.

### *(b) Management’s report on internal control over financial reporting.*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Our management assessed the effectiveness of our internal control over financial reporting as of March 31, 2014 based on the framework established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that assessment, management concluded that, as of March 31, 2014, our internal control over financial reporting was effective based on the criteria established in *Internal Control—Integrated Framework*.

This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting since rules of the SEC permit us to provide only management’s report on this Annual Report on Form 10-K.

### *(c) Changes in internal control over financial reporting.*

There have been no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended March 31, 2014 that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

### *(d) Limitations on Effectiveness of Controls.*

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system are met. Furthermore, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our organization have been detected.

## **Item 9B. Other Information.**

None.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance.

#### Directors and Executive Officers

The following table sets forth certain information concerning our directors and executive officers as of May 31, 2014:

Name	Age	Positions with our Company
Philip S. Sassower	74	Chairman of the Board of Directors and Chief Executive Officer
Mark Holleran	56	President and Chief Operating Officer
Michael J. Rapisand	54	Chief Financial Officer and Corporate Secretary
Bryan J. Bell	53	Vice President of Engineering
Michael W. Zimmerman	54	Vice President of Global Operations
Randy W. Denny	54	Vice President of Sales, Americas
John B. Costello	44	Vice President of Marketing
Kent Misemer	65	Director
Andrea Goren	46	Director
Ben Irwin	54	Director
Thomas F. Leonardis	70	Director
Brian E. Usher-Jones	68	Director

**Philip S. Sassower** has served as our Chief Executive Officer since February 2006 and has served as a member of our board of directors since December 2004. Mr. Sassower is the Chief Executive Officer of SG Phoenix LLC, a private equity firm, and has served in that capacity since May 2003. Mr. Sassower has also been Chief Executive Officer of Phoenix Enterprises LLC, a private equity firm, and has served in that capacity since 1996. From January 10, 2008 to January 7, 2010, Mr. Sassower served as a director of The Fairchild Corporation, a motorcycle accessories and aerospace parts and services company, and from May 13, 2008 to January 7, 2010, Mr. Sassower served as Chairman of the Board and Acting Chief Executive Officer of The Fairchild Corporation. On March 18, 2009, The Fairchild Corporation and 61 subsidiaries filed a petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court, District of Delaware. On August 5, 2010, Mr. Sassower became Chairman of the Board and Chief Executive Officer of Communication Intelligence Corporation (OTCQB: CICI), an electronic signature solutions and biometric signature verification company. Mr. Sassower is co-manager of the managing member of Phoenix Venture Fund LLC, our principal stockholder, which we refer to in this report as Phoenix. Mr. Sassower's qualifications to serve on our board of directors include more than 40 years of business and investment experience and his extensive experience working with management teams and boards of directors, and in acquiring, investing in and building companies and implementing new business strategies.

**Mark Holleran** has served as our President and Chief Operating Officer since February 2006. Mr. Holleran served as our Vice President of Sales from April 2003 to February 2006.

**Michael J. Rapisand** has served as our Chief Financial Officer and Corporate Secretary since August 2004.

**Bryan J. Bell** became our Vice President of Engineering in May 2008. Prior to joining us, Mr. Bell was Vice President of Operations at Sirific Wireless, a developer of solutions for 3.5G multi-mode, multi-band mobile cellular and broadband data for notebook computers, beginning in February 2003.

**Michael W. Zimmerman** became our Vice President of Global Operations in October 2013. Prior to joining us, Mr. Zimmerman was Vice President of Operations at Getac, Inc., a manufacturer of ruggedized notebooks tablets and handheld devices, from April 2009 to May 2013. Prior to joining Getac, Mr. Zimmerman was a self-employed management consultant, primarily providing executive level services to domestic and international customers in operations and services of personal computers, beginning in 2007. Mr. Zimmerman was Senior Vice President Customer Care and Quality Assurance at Gateway Computers, Inc., from May 2001 to December 2006, where he managed the worldwide operations and services across all business units.

**Randy W. Denny** became our Vice President of Sales, Americas in November 2013. Prior to joining us, Mr. Denny was Vice President of Sales and Marketing for Pearson Packaging Systems, a supplier of case and carton packaging systems, from August 2010 to August 2013. Prior to joining Pearson Packaging Systems, Mr. Denny was Director of Commercial Sales for Getac, Inc., a manufacturer of ruggedized notebooks tablets and handheld devices, from February 2010 to August 2010. Prior to joining Getac, Mr. Denny was President of RWD Investments, LLC, a personally funded investment company, beginning in 2008. Prior to founding his own investment company, Mr. Denny was Vice President of Commercial Sales at General Dynamics Itronix, a leading manufacturer of rugged notebooks, tablets, and handheld computers, from February 1996 to August 2008.

**John B. Costello** became our Vice President of Marketing in March 2014. Prior to joining us, Mr. Costello was Chief Executive Officer of Simpson Digital, a company managing the digital assets of various celebrities, from June 2011 to March 2013. Prior to joining Simpson Digital, Mr. Costello was Senior Vice President, Digital of Guthy-Renker, a direct marketing company, from September 2009 to June 2011. Prior to joining Guthy-Renker, Mr. Costello was General Manager, Direct Business Unit and Vice President of Marketing for Acer Inc., formerly Gateway, Inc., a manufacturer of personal computers, beginning in 2006.

**Andrea Goren** has served as a member of our board of directors since December 2004. Mr. Goren is a Managing Director of SG Phoenix LLC, a private equity firm, and has served in that capacity since May 2003. In December 2010, Mr. Goren was appointed as Chief Financial Officer of Communication Intelligence Corporation (OTCQB: CICI). Mr. Goren has also served as a director of Communication Intelligence Corporation since August 5, 2010. From January 2008 to January 2010, Mr. Goren served as a director of The Fairchild Corporation. Mr. Goren is co-manager of the managing member of Phoenix, our principal stockholder. Mr. Goren's qualifications to serve on our board of directors include his experience and knowledge acquired in more than 14 years of private equity investing and his extensive experience working with management teams and boards of directors.

**F. Ben Irwin** has served as a member of our board of directors since May 2009. Mr. Irwin has been President and Owner of Rejen Inc, a manufacturer and dealer of printing supplies, since September 2005. Prior to joining Rejen, Mr. Irwin served as Senior Vice President of Engineering of Itronix Corp., which became General Dynamics Itronix, a designer and manufacturer of rugged laptop and handheld computing products, from July 2000 to February 2005. Mr. Irwin's qualifications to serve on our board of directors include his industry experience and knowledge acquired while he was with Itronix Corp.

**Thomas F. Leonardis** has served as a member of our board of directors since June 2005. Mr. Leonardis has been Chief Executive Officer and Chairman of the Board of Ember Industries, Inc., a contract electronics manufacturer, since November 2001. Mr. Leonardis served as a director of DataMetrics Corporation, a designer and manufacturer of rugged electronic products, from November 2001 to March 2008. Mr. Leonardis' qualifications to serve on our board of directors include his industry experience and knowledge acquired during the nine years he has served at Ember Industries, Inc. and while serving as a director of DataMetrics Corporation.

**Kent Misemer** has served as a member of our board of directors since November 2011. Mr. Misemer has been self-employed as a consultant and investor since 2009. From 2003 through 2009, Mr. Misemer was the Chief Executive Officer and President of Liberty Propane, LLC, a portfolio company of Sterling Capital Partners, an independent retail propane company, which was sold in December 2009. Previously, Mr. Misemer was the President and Chief Executive Officer of Propane Continental. In addition to being a co-founder of Liberty Propane, Mr. Misemer was also involved in the creation of Propane Continental and Tri-Power Fuels, Inc. Mr. Misemer formerly served as a director and member of the audit committee of Cornerstone Records Management, LLC, a private data storage and offsite data management company, until October 2013, when the company was sold. Mr. Misemer formerly served as a director of Pro-Tech Industries, Inc. (OTCQB: PTCK), a regional leader in design/build services for the Fire Life Safety, alarm/detection, electrical and voice/data communications infrastructure segments through January 2012. Mr. Misemer's qualifications to serve on our board of directors include his over 30 years of executive management experience in the propane industry supply chain, as well as other industries.

**Brian E. Usher-Jones** has served as a member of our board of directors since 1996. Since 1992, Mr. Usher-Jones has been self-employed as a merchant banker. Mr. Usher-Jones has been a director of Shoal Point Energy, Ltd., an oil and gas exploration company, since March 2014. Mr. Usher-Jones resigned as a director of Newlook Industries Corp., a technology investment company, and Wireless Age Communications Inc., a solutions provider for waste and energy efficient products, in February 2013. Mr. Usher-Jones served as our Treasurer and Interim Chief Financial Officer from August 1996 to November 1997 and again from August 2001 to December 2001. Mr. Usher-Jones' qualifications to serve on our board of directors include his certification as a Chartered Accountant, his service as our Treasurer and Interim Chief Financial Officer and his significant executive-level and financial management experience at private and public companies.

There are no family relationships between any of our directors or executive officers. None of our officers or directors has any arrangement or understanding with any other person pursuant to which such officer or director was selected to serve as officer or director.

## Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors, executive officers and persons who beneficially own more than ten percent (10%) of a registered class of our equity securities to file reports of ownership and changes in ownership of our common stock and other equity securities with the SEC on a timely basis. Based solely upon a review of Forms 3, 4 and 5 and amendments to these forms furnished to us, we believe all parties subject to the reporting requirements of Section 16(a) of the Exchange Act filed on a timely basis all such required reports during and with respect to our 2014 fiscal year.

### Code of Ethics

We have adopted a code of ethics that applies to the members of our board of directors, our officers, including our principal executive officer and principal financial officer, and all of our other employees. A copy of our code of ethics is available, without charge, upon written request directed to our Chief Financial Officer, Xplore Technologies Corp., 14000 Summit Drive, Suite 900, Austin, Texas 78728.

### Audit Committee

The members of our audit committee are Brian E. Usher-Jones, Kent Misemer and Thomas Leonardis. Our board of directors has determined that Brian E. Usher-Jones meets the criteria of an “audit committee financial expert” as that term is defined in the rules and regulations promulgated under the Securities Exchange Act of 1934. Mr. Usher-Jones is an independent director as defined under the The NASDAQ Stock Market Rules. Mr. Usher-Jones’ background and experience includes being a chartered accountant and Chief Financial Officer of Nesbitt Thomson and Company, LTD.

## Item 11. Executive Compensation

### Executive Compensation

#### Summary Compensation Table

The following table sets forth the compensation for our fiscal years ended March 31, 2014 and 2013 earned by or awarded to, as applicable, our principal executive officer, principal financial officer and our other most highly compensated executive officers as of March 31, 2014. In this Annual Report on Form 10-K we refer to such officers as our “named executive officers.”

Name and Principal Position	Year	Salary US(\$)	Bonus US(\$)	Stock Awards US(\$)	Option Awards US\$(1)	Total US(\$)
Philip S. Sassower—	2014	10,000(2)	100,000(3)	—	147,223	257,223
Chief Executive Officer	2013	10,000(2)	—	—	—	10,000
Mark Holleran—	2014	266,667	346,768(4)	—	339,164	952,599
President and Chief Operating Officer	2013	250,000	287,438(4)	—	—	537,438
Michael J. Rapisand—	2014	200,000	120,000(5)	—	135,666	455,666
Chief Financial Officer and Corporate Secretary	2013	180,000	72,000(5)	—	—	252,000
Bryan J. Bell—	2014	186,666	60,000(6)	—	111,440	358,106
Vice President of Engineering	2013	180,000	40,000(6)	—	—	220,000

- (1) Option award amounts included in this table reflect the compensation cost for the fiscal year ended, related to all options granted to the named executive officer, calculated in accordance with FASB ASC Topic 718 and using a Black-Scholes valuation model.
- (2) Mr. Sassower does not receive a salary in connection with his services as our Chief Executive Officer. Mr. Sassower also serves as the Chairman of our Board of Directors, and receives cash fees and option awards for his service on our board of directors. Mr. Sassower was paid \$10,000 in cash fees for each of fiscal year 2014 and 2013 in connection with being a member of our board of directors.
- (3) A discretionary bonus of \$100,000 was paid to SG Phoenix LLC for the fiscal year ended March 31, 2014 for services rendered by Mr. Sassower as our Chief Executive Officer in connection with achieving certain revenue, cash flow, profitability, and investor relation communication objectives.

- (4) Under the terms of Mr. Holleran's employment agreement, he had the opportunity to earn a cash performance bonus of up to 100% of his base salary of \$266,667 in fiscal year 2014 and \$250,000 in fiscal year 2013 based on the achievement of various objectives. Mr. Holleran earned \$286,667 and \$150,000 of the performance bonus under his employment agreement in fiscal years 2014 and 2013, respectively, in connection with achieving certain revenue, cash flow, profitability, staffing, product development, financial controls and communication objectives in each year. In recognition of Mr. Holleran's exceptional performance in fiscal 2014, our board of directors awarded him a bonus \$70,000 in excess of his maximum cash incentive bonus for that year. Mr. Holleran also earned bonuses of \$60,101 and \$137,438 in fiscal years 2014 and 2013, respectively, based on his efforts in managing our sales team.
- (5) Under the terms of Mr. Rapisand's Management by Objective (MBO) bonus plan, in fiscal years 2014 and 2013, he had the opportunity to earn a cash bonus of up to 40% of his base salary (\$80,000 in fiscal year 2014 and \$72,000 in fiscal year 2013) based on his achievement of revenue, cash flow and profitability objectives. Mr. Rapisand earned \$120,000 and \$72,000 of the performance bonus in fiscal years 2014 and 2013, respectively, as certain revenue, cash flow, profitability, financial controls and communication objectives were achieved in each year. In recognition of Mr. Rapisand's exceptional performance in fiscal 2014, our board of directors awarded him a bonus \$40,000 in excess of his maximum cash incentive bonus for that year.
- (6) Under the terms of Mr. Bell's Management by Objective (MBO) bonus plan, in fiscal years 2014 and 2013, he had the opportunity to earn a cash bonus of up to \$40,000 on his achievement of revenue, cash flow and profitability objectives. Mr. Bell earned \$60,000 and \$40,000 of the performance bonus in fiscal years 2014 and 2013, respectively, as certain revenue, cash flow, profitability and product development objectives were achieved in each year. In recognition of Mr. Bell's exceptional performance in fiscal 2014, our board of directors awarded him a bonus \$20,000 in excess of his maximum cash incentive bonus for that year.

#### *Elements of Our Compensation Program*

The compensation of our executives other than our Chief Executive Officer is designed to attract, as needed, individuals with the skills necessary for us to achieve our objectives, retain individuals who perform at or above our expectations and reward individuals fairly over time. Our executives' compensation has three primary components: base salary; an annual cash incentive bonus; and equity-based compensation. In addition, we provide our executives with benefits that are generally available to our other salaried employees. Our Chief Executive Officer does not receive compensation for his services as an executive officer.

As a small company, we recognize that we must pay salaries that help us to attract and retain talented executives who will help us grow, while staying within budgetary constraints. We reward outstanding performance with cash bonuses that in large part are based on financial measures, such as revenue, cash flow, profitability and earnings before interest, taxes, depreciation or amortization, or EBITDA, targets, and the achievement of strategic goals and corporate milestones. In addition, we reward our executives with equity-based compensation, as we believe equity compensation provides an incentive to our executive officers to build value for us over the long-term and aligns the interests of our executive officers with those of our stockholders. Generally, we use stock options as our equity-based compensation because we believe that options generate value to the recipient only if the price of our common stock increases during the term of the option. Other than in the event of a change of control, the stock options granted to our executives generally vest solely based on the passage of time. We believe these elements support our underlying philosophy of attracting and retaining talented executives, while remaining within our budgetary constraints, and also creating cash incentives that reward company-wide and individual performance and aligning the interests of our executive officers with those of our stockholders by providing our executive officers equity-based incentives to ensure motivation over the long-term.

The individual elements of our compensation program are as follows:

*Base Compensation.* It is our policy that the base salaries paid to our executive officers should reflect the individual responsibility and experience of the executive officer and the contribution that is expected from the executive officer. Base salaries are reviewed by the compensation committee on an annual basis to satisfy these criteria.

*Cash Incentive Bonuses.* Our executive officers are eligible for annual incentive bonuses if they meet key financial and operational objectives. The payment of cash incentive bonuses to executive officers is within the discretion of our compensation committee and is based on our compensation committee's assessment of our performance and the performance of each executive officer measured in large part against financial objectives, strategic goals and corporate milestones. These financial, strategic and corporate objectives include revenue, cash flow, profitability and EBITDA targets, staffing, product development, financial control and communication objectives and corporate milestones, such as the completion of financings. Our compensation committee may in its discretion award a cash incentive bonus to an executive officer for partial achievement of such executive officer's objectives. The total amount of the cash incentive bonus available to an executive officer is either based upon a percentage of such executive officer's base salary or a fixed dollar amount. Bonuses are reviewed by the compensation committee on an annual basis. Furthermore, in recognition of an executive officer's exceptional performance, our board of directors may award a bonus in excess of that executive officer's maximum cash incentive bonus.

Each of our named executive officers (other than our Chief Executive Officer) participates in his own individual Management by Objectives plan, which we refer to as a MBO plan, as discussed in footnotes 4, 5 and 6 in the summary compensation table for fiscal years 2014 and 2013 above. The MBO plan of our President and Chief Operating Officer is set forth in his employment agreement discussed below.

*Equity-Based Compensation.* We use stock options to reward long-term performance and to ensure that our executive officers have a continuing stake in our long-term success. Authority to make stock option grants to our executive officers rests with our board of directors. In determining the size of stock option grants, our board of directors considers our actual performance against our strategic plan, individual performance, the extent to which shares subject to previously granted options are vested and the recommendations of our Chief Executive Officer, other members of senior management and our compensation committee.

We do not have any program, plan or obligation that requires us to grant equity compensation on specified dates. We grant stock options at regularly scheduled meetings of our board of directors or at special meetings. All stock options granted have an exercise price equal to or greater than the closing price of our common stock on the date that the grant action occurs.

With respect to establishing compensation for our executive officers, we do not have any formal policies for determining how specific forms of compensation are structured or implemented to reflect the individual performances and/or individual contributions to the specific items of our performance. In addition, we have no policies regarding the adjustment or recovery of awards or payments if the relevant performance measures upon which such award or payment was based are restated or otherwise adjusted in a manner that would reduce the size of an award or payment.

With respect to newly hired employees, our practice is to make stock grants at the first meeting of our board of directors following such employee's hire date. We do not have any program, plan or practice to time stock options grants with the public release of material information. We do not time, nor do we plan to time, the release of material information for the purposes of affecting the value of executive compensation.

On June 12, 2012, our board of directors approved the payment of \$10,000 in cash fees, paid quarterly in the amount of \$2,500, to each director for services rendered during the year ended March 31, 2014. On November 4, 2013, our board of directors approved the payment of an additional annual fee to each member of our board of directors' audit committee and compensation committee, in the amount of \$4,000 for each committee on which such member serves, to be paid quarterly in the amount of \$1,000, effective October 1, 2013. Our general administration expense includes an expense of \$72,000 for such fees for the year ended March 31, 2014.

On June 12, 2012, our board of directors approved \$150,000 in cash fees, paid monthly in the amount of \$12,500, to SG Phoenix LLC for services rendered during the year ended March 31, 2013. On February 6, 2013, our board of directors approved an increase from \$150,000 to \$200,000 in the annual fees, effective February 1, 2013, for additional services to be rendered by SG Phoenix. Our board of directors also approved a one-time cash payment of \$50,000 to SG Phoenix for past services rendered. Our general administration expense includes an expense of \$200,000 for fees paid to SG Phoenix for the year ended March 31, 2014.

#### *Employment Agreements*

##### *Mark Holleran*

On June 30, 2006, we entered into an employment agreement with Mark Holleran, our President and Chief Operating Officer. The agreement was for a period of two years, and is automatically renewable for additional one year periods unless either party gives written notice that it or he does not wish to extend the term, in which case the agreement terminates on June 30 of the next year. The agreement automatically renewed in June 2013 for an additional year. In consideration for his services, during the term of his employment agreement Mr. Holleran is entitled to receive a base salary of \$275,000 per year, subject to any increase as may be approved by our board of directors. Effective August 1, 2013, our board of directors approved an increase in Mr. Holleran's salary to \$275,000 per year. Mr. Holleran is also entitled to receive a performance bonus of up to 100% of his base salary based on his achievement of objectives in the following categories: revenue, cash flow, profitability, EBITDA, product development, hiring new employees, retention of staff, financial controls and communication, including additional financing. In addition, we may award, in our sole discretion, Mr. Holleran additional discretionary bonuses in recognition of his performance.

Mr. Holleran is also eligible to participate in a transaction bonus pool in the event of the sale of our business during the term of Mr. Holleran's employment agreement. The amount of the transaction bonus pool will be based upon the total consideration received by our stockholders from the sale of our business, less our transaction expenses. Mr. Holleran will be entitled to receive 50% of the total amount of the transaction bonus pool.

As part of the employment agreement, we agreed that if we terminate Mr. Holleran's employment without cause during the term of his employment agreement, Mr. Holleran would receive his base salary for one year, commencing on the termination date, reduced by the amount earned by Mr. Holleran from other employment during that period, plus an additional amount equal to the average of the performance bonuses paid to Mr. Holleran during the prior two calendar years. The employment agreement also contains customary non-compete, non-solicitation, non-disparagement and confidentiality provisions.

#### *Severance and Change in Control Benefits*

Mark Holleran, our President and Chief Operating Officer, has a provision in his employment agreement that gives him severance benefits described above if his employment is terminated without cause.

We have established a transaction bonus pool for our executive officers and other members of our senior management team upon the sale of our business, which was originally outlined in Mr. Holleran's employment agreement. The amount of the transaction bonus pool is based upon the total consideration received by our stockholders from the sale of our business, after our transaction expenses. Under the terms of his employment agreement, Mr. Holleran is entitled to receive 50% of the total amount of the transaction bonus pool if our business is sold during the term of his employment. In addition, we have agreed that, if our business is sold during the term of their employment, our Chief Financial Officer, Michael J. Rapisand, will receive 30% of the transaction bonus pool, our Vice President of Engineering, Bryan J. Bell, will receive 5% of the pool and the remaining 15% of the pool will be distributed among the remainder of our senior management team, as determined by our board of directors.

We have chosen to provide these benefits to our executives because we believe we must remain competitive in the marketplace. These severance and acceleration provisions and estimates of these change of control and severance benefits are described in the section entitled "Estimated Payments and Benefits Upon Termination or Change in Control" below.

#### *Pension Benefits*

We do not sponsor any qualified or non-qualified defined benefit plans. We do maintain a 401(k) plan for our employees, including our executive officers; however, we do not match contributions made by our employees, including contributions made by our executive officers.

#### *Nonqualified Deferred Compensation*

We do not maintain any non-qualified defined contribution or deferred compensation plans. Our board of directors may elect to provide our executive officers and employees with non-qualified defined contribution or deferred compensation benefits if it determines that doing so is in our best interests.

#### *Other Benefits*

Our executive officers are eligible to participate in all of our employee benefit plans, such as medical, dental, vision, group life and disability insurance and our 401(k) plan, in each case on the same basis as our other employees.



*Impact of Regulatory Requirements*

*Deductibility of Executive Compensation.* Our executive officers' MBO plans, our Amended and Restated Share Option Plan, which we also refer to herein as our Amended Plan, and our transaction bonus pool do not currently provide compensation that qualifies as "performance-based compensation" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended. Accordingly, compensation in excess of \$1 million paid to a named executive officer during any one year period that is attributable to one of those arrangements would not currently be deductible by us for U.S. federal income tax purposes. We may, in the future, reevaluate those plans and redesign them so that compensation attributable to one or both of those plans would qualify as "performance-based compensation" within the meaning of Section 162(m) and would be deductible for U.S. federal income tax consequences. Our 2009 Stock Incentive Plan provides for stock options and other awards that qualify as "performance-based compensation," as well as certain awards, such as restricted share awards, that do not so qualify.

*Accounting for Stock-Based Compensation.* We account for stock-based payments in accordance with the requirements of Accounting Standards Codification ("ASC") 718.

*Stock Ownership Requirements*

We do not currently have any requirements or guidelines relating to the level of ownership of our common stock by our directors or executive officers.

**Outstanding Equity Awards at 2014 Fiscal Year-End**

The following table sets forth the equity awards outstanding at March 31, 2014 for each of the named executive officers.

Name	Number of Securities Underlying Unexercised Options (#)	Equity Incentive Plan Awards		Option Exercise Price (\$)	Option Expiration Date
		Number of Securities Underlying Unearned Options (#)			
Philip S. Sassower—	300	—	\$	40.00	04/29/2014
Chief Executive Officer	375	—	\$	60.00	06/09/2014
	375	—	\$	60.00	06/09/2014
	375	—	\$	44.00	03/31/2015
	3,250	—	\$	24.00	03/28/2016
	28,666	57,334(1)	\$	5.00	12/30/2020
Mark Holleran—	32,500	—	\$	24.00	03/28/2016
President and Chief Operating Officer	93,333	186,667(2)	\$	5.00	12/30/2020
Michael J. Rapisand—	12,500	—	\$	24.00	03/28/2016
Chief Financial Officer and Corporate Secretary	37,333	74,667(3)	\$	5.00	12/30/2020
Bryan J. Bell—	10,000	—	\$	24.00	03/28/2016
Vice President of Engineering	30,667	61,333(4)	\$	5.00	12/30/2020

(1) 28,667 options vest on October 31, 2014 and 28,667 options vest on October 31, 2015.

(2) 93,333 options vest on October 31, 2014 and 93,334 options vest on October 31, 2015.

(3) 37,333 options vest on October 31, 2014 and 37,334 options vest on October 31, 2015.

(4) 30,666 options vest on October 31, 2014 and 30,667 options vest on October 31, 2015.

*Estimated Payments and Benefits Upon Termination or Change in Control*

*Holleran Employment Agreement*

The following table describes the potential payments and benefits payable to Mr. Holleran, our President and Chief Operating Officer, upon termination of his employment by us without cause, as if his employment had terminated as of March 31, 2014, the last business day of our last fiscal year. If Mr. Holleran's employment is terminated by us as a result of his death or disability or for cause or voluntary by Mr. Holleran, he is entitled to receive any earned or accrued, but unpaid, base compensation and bonus and all accrued but unused vacation days through the termination date.

<b>Payments and Benefits</b>	<b>Termination by Company Without Cause(1)</b>
Compensation:	
Base salary(2)	\$ 266,667(4)
Performance bonus(3)	\$ 317,103(5)
Benefits and Perquisites:	\$ 15,900(6)

- (1) For purposes of Mr. Holleran's employment agreement, "cause" includes, among other things, (i) his willful failure to perform his duties under his employment agreement, (ii) any intentional act of fraud, embezzlement or theft involving more than a nominal amount of our assets or property, (iii) any material damage to our assets, business or reputation resulting from his intentional or grossly negligent conduct, (iv) his intentional wrongful disclosure of material confidential information, (v) his intentional engagement in competitive activity which would constitute a breach of his employment agreement and/or his duty of loyalty, (vi) his intentional breach of any material employment policy, or (vii) his ineligibility for any reason to work lawfully in the United States for a period of four consecutive months.
- (2) Assumes that there is no earned but unpaid base salary at the time of termination.
- (3) Assumes that there is no earned but unpaid bonus at the time of termination.
- (4) If Mr. Holleran is terminated without cause, Mr. Holleran is entitled to receive his base salary in effect immediately prior to his termination of employment for a period of 12-months commencing on the termination date, subject to reduction by any amounts he earns during the 12-month period.
- (5) Under the terms of Mr. Holleran's employment agreement, if Mr. Holleran is terminated without cause, he is entitled to receive as severance an amount equal to the average of his performance bonuses paid to him during the two calendar years preceding his termination. Mr. Holleran received performance bonuses of \$346,768 in fiscal 2014 and \$287,438 in fiscal 2013.
- (6) Represents payments of \$1,330 a month to pay the cost of Mr. Holleran's continued participation in our group health plans under COBRA during the 12-month severance period.

*Change in Control Benefits*

Under the terms of our Amended Plan, upon a change in control transaction all outstanding options will immediately vest and become exercisable. A "change of control" means the occurrence of (i) a person, including the person's affiliates and any other person acting jointly or in concert with that person, becoming the beneficial owner of, or exercising control over, more than 50.1% of the total voting power of our common stock; or (ii) our corporation consolidating with, or merging with or into, another person or selling, transferring, leasing or otherwise disposing of all or substantially all of our assets to any person, or any person consolidating with, or merging with or into, our corporation, in any such event pursuant to a transaction in which our outstanding shares of common stock are converted into or exchanged for cash, securities or other property, except for any such transaction in which the holders of our then outstanding common stock receive voting securities, or securities exchangeable at the option of the holder into voting securities, of the surviving person that constitute a majority of the voting securities of such person.

Under our 2009 Stock Incentive Plan, in the event of certain business combinations, including the sale or lease of all or substantially all of our assets, or a merger or consolidation involving us in which the beneficial owners of our capital stock prior to such business combination own 50% or less of the outstanding shares of the common stock of the surviving entity after the business combination or a similar transaction, each of which we refer to as a “corporate transaction,” and subject to any vesting acceleration provisions in an award agreement, outstanding awards will be treated in the manner provided in the agreement relating to the corporate transaction (including as the same may be amended). The corporate transaction agreement will not be required to treat all awards or individual types of awards similarly in the corporate transaction; provided, however, that the corporate transaction agreement will provide for one of the following with respect to all outstanding awards (as applicable):

- the continuation of the outstanding award by us, if we are a surviving company;
- the assumption of the outstanding award by the surviving company or its parent or subsidiary;
- the substitution by the surviving company or its parent or subsidiary of its own award for the outstanding award;
- full exercisability or vesting and accelerated expiration of the outstanding award, followed by the cancellation of such award;
- the cancellation of an outstanding option or stock appreciation right and a payment to the optionee equal to the excess of (x) the fair market value of the shares subject to such option or stock appreciation right (whether or not such option or stock appreciation right is then exercisable or such shares are then vested) as of the closing date of such corporate transaction over (y) its aggregate exercise price; or
- the cancellation of an outstanding restricted stock unit and a payment to the participant equal to the fair market value of the shares subject to such restricted stock unit (whether or not such restricted stock unit is then vested) as of the closing date of such corporate transaction.

The following table sets forth the potential payments to our named executive officers as if we had a change of control as of the March 31, 2014, the last business day of our 2014 fiscal year.

Name	Transaction Bonus Pool(1)	Market Value of Accelerated Options
Philip S. Sassower—Chief Executive Officer	—(2)	—(3)
Mark Holleran—President and Chief Operating Officer	\$ 1,204,370(4)	—(3)
Michael J. Rapisand—Chief Financial Officer	\$ 722,622(5)	—(3)
Bryan J. Bell—Vice President of Engineering	\$ 120,437(6)	—(3)

- (1) Our named executive officers (except for our Chief Executive Officer) are eligible to participate in a transaction bonus pool designed to incent and reward our executives who are employed by us upon the sale of our business. Under the transaction bonus pool, an amount equal to 5% of the per share sales consideration up to \$136 per share and 10% of the remaining per share consideration received through such a sale, in each case after deducting the transaction expenses, will be allocated to the transaction bonus pool. Our board of directors and senior management are currently in discussion relating to an amendment to the transaction bonus pool to adjust the amount of consideration that the participants are eligible to receive in connection with (i) the sale of all or substantially all of our outstanding equity securities to an unrelated third party or parties or (ii) the sale of all or substantially all of our assets, including assets of our subsidiaries, to an unrelated third party or parties (“Eligible Sale Transaction”). Pursuant to such discussions, the transaction bonus pool may be amended so that the transaction bonus pool would be equal to 5% of total net sales proceeds received by our stockholders in an Eligible Sales Transaction, plus an additional 5% of such proceeds in excess of \$69 million (the “Hurdle Rate”), with such Hurdle Rate subject to increase on a dollar-for-dollar basis by the amount of gross proceeds received by us in connection with any future issuance of our equity securities, or securities convertible into our equity securities, in any financing transaction. Our board of directors has not taken formal action as of the date hereof with respect to such amendment. The participation the transaction bonus pool is currently allocated as follows: 50% of the pool to Mark Holleran, our President and Chief Operating Officer, 30% of the pool to Michael J. Rapisand, our Chief Financial Officer, 5% of the pool to Bryan J. Bell, our Vice President of Engineering and the balance to our remaining then current senior management team, as determined by our board of directors in consultation with Mr. Holleran.

- (2) Mr. Sassower is not eligible to participate in the transaction bonus pool.
- (3) Pursuant to the terms of our Amended Plan, certain outstanding options shall immediately vest upon the occurrence of a change of control transaction. Assuming a market price of \$6.35 per share, which represents the closing price of our common stock on March 31, 2014 as reported by the NASDAQ Capital Market, giving effect to our recent reverse stock split, the exercise price of all of the options held by such executive officer would be above the market price and thus the acceleration of the options would have no value. Pursuant to our 2009 Plan, our board of directors may determine, at the time of grant or thereafter, that the vesting of options granted under that plan may accelerate upon a change in control transaction. Currently, no such options have such acceleration provisions, and we assume that our board of directors will not elect to accelerate the vesting of the options with exercise prices below \$6.35 per share in the future.
- (4) Assumes a sale in which the holders of our common stock receive sales proceeds of \$6.35 per share, which represented the closing price of our common stock on March 31, 2014 as reported by the NASDAQ Capital Market, giving effect to our recent reverse stock split, and transaction costs of 10% of the total proceeds, resulting in an aggregate transaction bonus pool of \$2,408,741. Mr. Holleran would be entitled to receive 50% of the transaction bonus pool.
- (5) Assumes a sale in which the holders of our common stock receive sales proceeds of \$6.35 per share, which represented the closing price of our common stock on March 31, 2014 as reported by the NASDAQ Capital Market, giving effect to our recent reverse stock split, and transaction costs of 10% of the total proceeds, resulting in an aggregate transaction bonus pool of \$2,408,741. Mr. Rapisand would be entitled to receive 30% of the transaction bonus pool.
- (6) Assumes a sale in which the holders of our common stock receive sales proceeds of \$6.35 per share, which represented the closing price of our common stock on March 31, 2014 as reported by the NASDAQ Capital Market, giving effect to our recent reverse stock split, and transaction costs of 10% of the total proceeds, resulting in an aggregate transaction bonus pool of \$2,408,741. Mr. Bell would be entitled to receive 5% of the transaction bonus pool.

### **Director Compensation**

In June 2006, our board of directors approved a director compensation plan pursuant to which we will pay each of our directors a fee to attend board meetings. In addition, from time to time, we grant options to purchase shares of our common stock to our directors. We also reimburse our directors for their out-of-pocket expenses incurred in connection with attending our board and board committee meetings. Compensation for our directors, including cash and equity compensation, is determined, and remains subject to adjustment, by our board of directors. On June 12, 2012, our board of directors approved the payment of \$10,000 in cash fees, paid quarterly in the amount of \$2,500, to each director for services rendered during the year ended March 31, 2014. On November 4, 2013, the Board of Directors approved the payment of an additional annual fee to each member of the Board of Director's audit committee and compensation committee, in the amount of \$4,000 for each committee on which such member serves, to be paid quarterly in the of \$1,000, effective October 1, 2013.

### **Fiscal Year 2014 Director Compensation**

The following table sets forth compensation information for our directors who are not a named executive officer for our fiscal year ended March 31, 2014.

<b>Name</b>	<b>Fees Earned or Paid in Cash (\$)</b>	<b>Stock Awards (\$)</b>	<b>Option Awards \$(1)</b>	<b>Total (\$)</b>
Brian E. Usher-Jones	14,000(2)	—	51,357	65,357
Andrea Goren	10,000	—	51,357	61,357
Thomas F. Leonardis	14,000(2)	—	51,357	65,357
Kent Misemer	14,000(2)	—	51,357	65,357
F. Ben Irwin	10,000	—	51,357	61,357

(1) In fiscal year 2014, each of our directors was granted an option to purchase 30,000 shares of common stock with an exercise price of \$5.00 per share. The options vest in three equal annual installments beginning on October 31, 2013, and have a term of seven and a half years from the grant date.

(2) Mr. Jones, Mr. Leonardis and Mr. Misemer each received \$4,000 in cash payments as compensation for their services on our audit and compensation committees.

### **Director Independence**

Our board of directors has determined that each of Brian E. Usher-Jones, F. Ben Irwin and Kent Misemer are independent directors as that term is defined under current NASDAQ Stock Market Rules.

### **2009 Stock Incentive Plan**

On July 28, 2009, we adopted the 2009 Stock Incentive Plan, which we refer to as the 2009 Stock Plan. The 2009 Stock Plan provides for equity-based awards in the form of incentive stock options and non-statutory options, restricted shares, stock appreciation rights and restricted stock units. Awards are made to selected employees, directors and consultants to promote stock ownership among award recipients, to encourage their focus on strategic long-range corporate objectives, and to attract and retain exceptionally qualified personnel. Upon the original approval and adoption of the 2009 Stock Plan by our stockholders, up to 62,750 shares of our common stock were issuable under the 2009 Stock Plan. On December 16, 2010, our stockholders approved an increase in the number of shares of our common stock available for issuance under the 2009 Stock Plan from 62,750 to 187,500. On September 24, 2013, our stockholders approved amendments to the 2009 Stock Plan to increase the maximum number of shares of our common stock issuable under the plan from 187,500 to 1,687,500 and to increase the number of shares of our common stock relating to awards under that plan that any single participant may receive in any calendar year from 20,000 to 500,000. Generally, the vesting of options and the retention of restricted shares granted under the 2009 Stock Plan are conditioned on a period or successive periods of continuous service of the award recipient. Expired options that remain unexercised and shares forfeited to or repurchased by us will become available for future grant under the 2009 Stock Plan.

As of March 31, 2014, the maximum aggregate number of shares of common stock reserved for issuance upon the exercise of all options granted under the Amended Share Option Plan and the 2009 Stock Plan may not exceed an aggregate of 1,689,759 shares. This amount consists of 1,687,500 shares under the 2009 Stock Plan and 2,259 shares under the Amended Share Option Plan, the number of shares issuable under remaining outstanding options under the Amended Share Option Plan on that date. The options granted under the plans, except as described below, generally vest over a three-year period in equal annual installments and expire five years after the issuance date.

In June 2013, our board of directors approved a grant of options to purchase a total of 797,000 shares of our common stock to the members of our board of directors and certain officers, with an exercise price of \$5.00. The options vest in three equal annual installments beginning on October 31, 2013 and have a term of seven and a half years from the grant date. In addition, our board of directors also approved grants of options to purchase a total of 275,000 shares of our common stock to certain non-officer employees, with an exercise price of \$3.44. Those options vest in three equal annual installments, beginning on the first anniversary of the date of grant, and have a term of five years from the date of grant.

In November 2013, our board of directors approved a grant of options to purchase a total of 185,000 shares of our common stock to three new employees, of which options to purchase 175,000 shares were granted to two of our new officers, with an exercise price of \$4.66. The options vest in three equal annual installments, beginning on the first anniversary of the date of grant, and have a term of five years from the date of the grant.

In February 2014, our board of directors approved a grant of options to purchase a total of 20,000 shares of our common stock to two new employees, with an exercise price of \$5.99. The options vest in three equal annual installments, beginning on the first anniversary of the date of grant, and have a term of five years from the date of the grant.

In March 2014, our board of directors approved a grant of options to purchase a total of 100,000 shares of our common stock to a new employee and officer, with an exercise price of \$6.23. The options vest in three equal annual installments, beginning on the first anniversary of the date of grant, and have a term of five years from the date of the grant.

As of March 31, 2014, options to purchase 1,364,303 shares of our common stock had been awarded and are outstanding pursuant to grants under the 2009 Stock Plan.

## **Amended Plan**

We also maintain our Amended Plan, the purpose of which was to attract, retain and motivate eligible persons whose contributions are important to our success and to advance our interests by providing such persons with the opportunity, through stock options, to acquire a proprietary interest in our company. The Amended Plan was superseded by the 2009 Stock Plan, but will continue in place until the expiration of all outstanding options issued under the Amended Plan.

Pursuant to the Amended Plan, our board of directors was authorized, from time to time in its discretion, to issue to our directors, officers, employees and consultants options to acquire our common stock at such prices as might be fixed by our board of directors at that time; provided, however, that the option exercise price was in no circumstances be lower than the market price of our common stock at the date the option was granted. Options granted under the Amended Plan are generally non-assignable, are exercisable for a term not exceeding ten years and generally vest over a three year period in three annual installments, as determined by our board of directors.

Subject to certain specific listed exceptions and to any express resolution passed by our board of directors with respect to an option granted under the Amended Plan, an option and all rights to purchase common stock shall expire and terminate immediately upon the person who holds such option ceasing to serve as our director, officer, employee or consultant.

In July 2009, our board of directors adopted the 2009 Stock Plan. Accordingly, no additional options will be issued under the Amended Plan. The number of shares issuable under the Amended Plan is limited to 40,754 shares, which represents the total number of shares covered by options outstanding on the date the 2009 Stock Plan was adopted. As of the March 31, 2014, 2,259 shares were covered by options outstanding under the Amended Plan.

## **Employee Stock Purchase Plan**

On November 5, 2008, we adopted the 2009 Employee Stock Purchase Plan, which we refer to as the ESPP. The ESPP establishes a series of offering periods during which most of our employees have an opportunity to purchase our common stock through payroll deductions. To be eligible, an employee must have completed one year of employment and regularly work over 20 hours per week and over 5 months per year. Prior to each offering period, a participant elects to have between 1% and 20% of his or her base compensation set aside for the purchase of the shares upon purchase dates, which occur at the end of each calendar quarter. The purchase price is 95% of the fair market value per share of our common stock on the start date of the offering period.

The offering period for our fiscal year 2014 began on April 1, 2013 and terminated on March 31, 2014, and had a purchase price of \$3.686 per share.

Upon the adoption of the ESPP, up to 12,500 shares were reserved for purchase under the ESPP. On September 24, 2013, our stockholders approved an increase in the number of shares of our common stock available for issuance under the ESPP from 12,500 to 32,500. As of March 31, 2014, 19,450 shares of our common stock had been purchased under the ESPP. The ESPP may have additional offering periods until the shares reserved for the ESPP have been exhausted or the ESPP is terminated. It is intended that shares purchased under the ESPP qualify for special tax treatment under Section 423 of the Internal Revenue Code.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

**Equity Compensation Plan Information**

The following table sets out information with respect to compensation plans under which equity securities of our company were authorized for issuance as of March 31, 2014.

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,366,562	\$ 6.55	289,929
Equity compensation plans not approved by security holders	N/A	N/A	—
<b>Total</b>	1,366,562	\$ 6.55	289,929

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information regarding the beneficial ownership of our capital stock as of May 30, 2014 by (i) each person known by us to be the beneficial owner of more than 10% of our common stock, (ii) each of our directors, (iii) each of our “named executive officers” and (iv) our directors and executive officers as a group.

Name of Beneficial Owner (1)	Common Stock Beneficially Owned	
	Number of Shares (2)	Percentage of Class (3)
Philip S. Sassower	2,327,828(4)	27.4%
Mark Holleran	139,012(5)	*
Michael J. Rapisand	74,089(6)	*
Bryan J. Bell	46,693(7)	*
Brian E. Usher-Jones	34,410(8)	*
Andrea Goren	1,855,542(9)	21.9%
Thomas F. Leonardis	17,310(10)	*
Kent Misemer	41,444(11)	*
F. Ben Irwin	15,634(12)	*
Phoenix Venture Fund LLC 110 East 59th Street New York, NY 10022	1,781,037(13)	21.1%
All directors and executive officers as a group (12 persons)	2,728,901(14)	31.1%

\* Represents less than 1% of class or combined classes.

- (1) Except as otherwise indicated above, the address of each stockholder identified is c/o Xplore Technologies Corp., 14000 Summit Drive, Suite 900, Austin, Texas 78728. Except as indicated in the other footnotes to this table, each person named in this table has sole voting and investment power with respect to all shares of stock beneficially owned by that person.
- (2) Shares issuable pursuant to options and warrants that are exercisable, or convertible securities that are convertible, within 60 days of May 30, 2014 are deemed outstanding for the purposes of computing the percentage of shares owned by the beneficial owner, but are not deemed outstanding for purposes of computing the percentage of shares owned by any other person.

- (3) Based upon 8,432,378 shares of our common stock outstanding as of the May 30, 2014.
- (4) Includes 33,343 shares of common stock that Mr. Sassower has the right to acquire upon exercise of outstanding options within 60 days of May 30, 2014, 290,318 shares of common stock owned of record, 181,106 shares of common stock owned of record by Phoenix Enterprises Family Fund, LLC, an entity controlled by Mr. Sassower, 24,524 owned of record by SG Phoenix LLC, an entity in which Mr. Sassower and Mr. Goren share voting and dispositive power, and 17,500 shares of common stock that SG Phoenix LLC has the right to acquire upon exercise of outstanding warrants within 60 days of May 30, 2014. Also includes 1,781,037 shares of common stock beneficially owned by Phoenix, for which Mr. Sassower and Mr. Goren are the co-managers of the managing member. Mr. Sassower disclaims any beneficial ownership of the shares held by Phoenix, except to the extent of his pecuniary interest, if any, in such shares.
- (5) Includes 125,833 shares of common stock that Mr. Holleran has the right to acquire upon exercise of outstanding options within 60 days of May 30, 2014.
- (6) Includes 49,833 shares of common stock that Mr. Rapisand has the right to acquire upon exercise of outstanding options within 60 days of May 30, 2014.
- (7) Includes 40,667 shares of common stock that Mr. Bell has the right to acquire upon exercise of outstanding options within 60 days of May 30, 2014.
- (8) Includes 14,548 shares of common stock that Mr. Usher-Jones has the right to acquire upon exercise of outstanding options within 60 days of May 30, 2014.
- (9) Includes 16,112 shares of common stock owned of record by Andax, LLC, for which Mr. Goren is the manager, 14,676 shares of common stock that Mr. Goren has the right to acquire upon exercise of outstanding options within 60 days of May 30, 2014, 24,524 shares of common stock owned of record by SG Phoenix LLC, an entity in which Mr. Sassower and Mr. Goren share voting and dispositive power, and 17,500 shares of common stock that SG Phoenix LLC has the right to acquire upon exercise of outstanding warrants within 60 days of May 30, 2014. Also includes 1,781,037 shares of common stock beneficially owned by Phoenix, for which Mr. Sassower and Mr. Goren are the co-managers of the managing member. Mr. Goren disclaims any beneficial ownership of the shares held by Phoenix, except to the extent of his pecuniary interest, if any, in such shares.
- (10) Includes 14,676 shares of common stock that Mr. Leonardis has the right to acquire upon exercise of outstanding options within 60 days of May 30, 2014.
- (11) Includes 29,959 shares of common stock owned of record by The Kent A. Misemer Revocable Trust (12/24/92), for which Mr. Misemer is a trustee and 10,832 shares of common stock the Mr. Misemer has the right to acquire upon exercise of outstanding options with 60 day of May 30, 2014.
- (12) Includes 14,001 shares of common stock that Mr. Irwin has the right to acquire upon exercise of outstanding options within 60 days of May 30, 2014.
- (13) Voting and dispositive power over these shares is held equally by Philip Sassower and Andrea Goren. Messrs. Sassower and Goren disclaim any beneficial ownership of the shares held by Phoenix, except to the extent of their respective pecuniary interest, if any, in such shares.
- (14) Includes 318,409 shares of common stock our directors and executive officers have the right to acquire upon exercise of outstanding options within 60 days of May 30, 2014, 17,500 shares of common stock our directors and executive officers have the right to acquire upon exercise of outstanding warrants within 60 days of May 30, 2014. Also includes 1,781,037 shares of common stock beneficially owned by Phoenix, in which Mr. Sassower and Mr. Goren are the co-managers of the managing member. Mr. Sassower and Mr. Goren each disclaim any beneficial ownership of the shares held by Phoenix, except to the extent of their respective pecuniary interest, if any, in such shares.



### Item 13. Certain Relationships and Related Transactions, and Director Independence

#### Certain Relationships and Related Transactions

During the fiscal year ended March 31, 2014, we purchased approximately \$76,000 in components for our tablet PCs from Ember Industries, Inc., a contract manufacturer. Thomas F. Leonardis, a member of our board of directors, is the Chairman and Chief Executive Officer of Ember Industries. We purchased the components from Ember Industries pursuant to standard purchase orders at Ember Industries' standard prices. The disinterested members of our board of directors reviewed, approved and ratified our purchase of component parts from Ember Industries on the described terms.

On June 12, 2012, our board of directors approved \$150,000 of fees, to be paid monthly in the amount of \$12,500, to SG Phoenix LLC, an affiliate, for services to be rendered during the year ended March 31, 2013. On February 6, 2013, our board of directors approved an increase in those annual fees from \$150,000 to \$200,000, effective February 1, 2013, for additional services to be rendered by SG Phoenix. Our board of directors also approved a discretionary bonus payment of \$100,000 to SG Phoenix LLC for the fiscal year ended March 31, 2014 for services rendered by Philip S. Sassower as our Chief Executive Officer.

#### Item 14. Principal Accounting Fees and Services.

##### *Principal Accountant Fees*

Fee Category	Fiscal Year 2014	% of Total	Fiscal Year 2013	% of Total
Audit Fees(1)	\$ 112,289	98%	\$ 186,284	98%
Audit-Related Fees(2)	—	—	—	—
Tax Fees(3)	\$ 2,000	2%	\$ 3,000	2%
All Other Fees	—	—	—	—
Total Fees	\$ 114,289	100%	\$ 189,284	100%

- (1) Audit Fees consist of amounts for professional services performed for the audit of our annual financial statements and review of quarterly financial statements, and services that are normally provided in connection with statutory and regulatory filings or engagements. PMB Helin Donovan are our current auditors and performed the audits of our annual consolidated financial statements for both of the years ended March 31, 2014 and 2013 for fees of \$112,289 and \$109,187, respectively, including \$73,995 in the year ended March 31, 2013 for attestation services, including a comfort letter, related to the registration statement on the Form S-1 we filed in connection with the public offering of our common stock in that year.
- (2) We paid no fees to PMB Helin Donovan for assurance and related services reasonably related to the performance of the audit or review of our quarterly consolidated financial statements, other than Audit Fees, during the two years ended March 31, 2014.
- (3) Includes fees incurred for income tax compliance.

##### *Pre-Approval Policy*

Consistent with SEC and PCAOB requirements regarding auditor independence, our audit committee has responsibility for appointing, setting compensation and overseeing the work of the independent registered public accounting firm. In recognition of this responsibility, our audit committee has established a policy to pre-approve all audit and permissible non-audit services provided by the independent registered public accounting firm. During the year, if it becomes necessary to engage the independent registered public accounting firm for services, our audit committee requires specific pre-approval before engaging the independent registered public accounting firm. In accordance with that policy, our audit committee may delegate to one of its members the approval of such services. In such cases, the items approved will be reported to the audit committee at its next scheduled meeting following such pre-approval. All of the audit and tax fees we paid to PMB Helin Donovan for fiscal years 2014 and 2013 were approved by our audit committee.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules.**

(a) The following documents are filed as part of this report:

**(1) Financial Statements**

**Index to Consolidated Financial Statements**

**Annual Financial Statements**

Report of Independent Registered Public Accountants	F-2
Consolidated Balance Sheets as of March 31, 2014 and 2013	F-3
Consolidated Statements of Income and Operations for the years ended March 31, 2014 and 2013	F-4
Consolidated Statement of Stockholders' Equity for the years ended March 31, 2014 and 2013	F-5
Consolidated Statements of Cash Flows for the years ended March 31, 2014 and 2013	F-6
Notes to the Consolidated Financial Statements	F-7

**(2) Financial Statement Schedules:**

None

**(3) Management Contract or Compensatory Plan:**

See Index to Exhibits. Each of the following Exhibits described on the Index to Exhibits is a management contract or compensatory plan: Exhibits 10.17 through 10.20.

(b) Exhibits:

See Index to Exhibits.

(d) Schedules:

See financial statements and the accompanying notes.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 25th day of June 2014.

XPLORE TECHNOLOGIES CORP.

By: /s/ MICHAEL J. RAPISAND  
Name: Michael J. Rapisand  
Title: *Chief Financial Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>/s/ PHILIP S. SASSOWER</u> Philip S. Sassower	Chief Executive Officer (Principal Executive Officer) and Director	June 25, 2014
<u>/s/ MICHAEL J. RAPISAND</u> Michael J. Rapisand	Chief Financial Officer (Principal Financial and Accounting Officer)	June 25, 2014
<u>/s/ BRIAN E. USHER-JONES</u> Brian E. Usher-Jones	Director	June 25, 2014
<u>/s/ ANDREA GOREN</u> Andrea Goren	Director	June 25, 2014
<u>/s/ THOMAS F. LEONARDIS</u> Thomas F. Leonardis	Director	June 25, 2014
<u>/s/ KENT MISEMER</u> Kent Misemer	Director	June 25, 2014
<u>/s/ F. BEN IRWIN</u> F. Ben Irwin	Director	June 25, 2014

**INDEX TO FINANCIAL STATEMENTS**  
**CONSOLIDATED FINANCIAL STATEMENTS OF**  
**XPLORE TECHNOLOGIES CORP.**

**Annual Financial Statements**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS**

To the Board of Directors and  
Stockholders of Xplore Technologies Corp.:

We have audited the accompanying consolidated balance sheets of Xplore Technologies Corp. and its subsidiary (collectively the "Company") as of March 31, 2014 and 2013 as well as the related consolidated statements of income and operations, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Xplore Technologies Corp. and its subsidiary as of March 31, 2014 and 2013, including the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ PMB Helin Donovan, LLP

Austin, TX  
June 25, 2014

**XPLORE TECHNOLOGIES CORP.**

**Consolidated Balance Sheets**

(in thousands)

	<b>March 31, 2014</b>	<b>March 31, 2013</b>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,400	\$ 10,280
Accounts receivable, net	6,182	5,046
Inventory, net	7,240	3,836
Prepaid expenses and other current assets	441	352
Total current assets	19,263	19,514
Fixed assets, net	883	697
	<u>\$ 20,146</u>	<u>\$ 20,211</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 4,381	\$ 4,459
Total current liabilities	4,381	4,459
Deferred revenue and non-current warranty liabilities	636	230
Total liabilities	5,017	4,689
Commitments and contingencies	—	—
STOCKHOLDERS' EQUITY:		
Preferred Stock, par value \$0.001 per share; authorized 5,000, and none, respectively; shares issued none and none, respectively	—	—
Common Stock, par value \$0.001 per share; authorized 15,000; shares issued 8,430 and 8,389, respectively	8	8
Additional paid-in capital	154,969	153,604
Accumulated deficit	(139,848)	(138,090)
	15,129	15,522
	<u>\$ 20,146</u>	<u>\$ 20,211</u>

See accompanying notes to consolidated financial statements.

**XPLORE TECHNOLOGIES CORP.**

**Consolidated Statements of Income and Operations**

(in thousands, except shares and per share amounts)

	Year Ended March 31,	
	2014	2013
Revenue	\$ 35,585	\$ 30,486
Cost of revenue	22,864	20,078
Gross profit	<u>12,721</u>	<u>10,408</u>
Expenses:		
Sales, marketing and support	6,067	4,172
Product research, development and engineering	4,850	2,194
General administration	4,223	3,593
	<u>15,140</u>	<u>9,959</u>
Income (loss) from operations	<u>(2,419)</u>	<u>449</u>
Other income/(expense):		
Interest expense	(3)	(67)
Other income/(expense)	652	(41)
	<u>649</u>	<u>(108)</u>
Income (loss) before income taxes	(1,770)	341
Income tax benefit/expense	12	(35)
Net income (loss)	<u>\$ (1,758)</u>	<u>\$ 306</u>
Dividends attributable to Preferred Stock	—	(2,292)
Net loss attributable to common stockholders	<u>\$ (1,758)</u>	<u>\$ (1,986)</u>
Income (loss) per common share	<u>\$ (0.21)</u>	<u>\$ 0.08</u>
Dividends attributable to Preferred Stock	<u>(0.00)</u>	<u>(0.59)</u>
Loss per share attributable to common stockholders, basic and fully diluted	<u>\$ (0.21)</u>	<u>\$ (0.51)</u>
Weighted average number of common shares outstanding, basic and fully diluted	<u>8,399,205</u>	<u>3,856,351</u>

See accompanying notes to consolidated financial statements.

**XPLORE TECHNOLOGIES CORP.**

**Consolidated Statements of Stockholders' Equity**

(in thousands, except share amounts)

	Preferred Series A		Preferred Series B		Preferred Series C		Preferred Series D		Common Shares		Additional Paid-in Capital	Accumulated Deficit	Total
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount			
Balances, March 31, 2012	62,873,781	\$ 63	7,732,040	\$ 8	17,074,000	\$ 17	14,333,798	\$ 14	588,295	\$ 1	\$ 141,957	\$ (135,620)	\$ 6,440
Shares issued for services	—	—	—	—	—	—	204,000	—	—	—	204	—	204
Shares issued for ESPP	—	—	—	—	—	—	—	—	1,062	—	26	—	26
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	691	—	691
Capital raise – net of fees	—	—	—	—	—	—	—	—	2,000,000	2	7,854	—	7,856
Payment of partial shares arising from reverse split	—	—	—	—	—	—	—	—	(111)	—	(1)	—	(1)
Preferred Series A dividends	—	—	—	—	—	—	—	—	180,622	—	1,365	(1,365)	—
Preferred Series B dividends	—	—	—	—	—	—	—	—	22,199	—	168	(168)	—
Preferred Series C dividends	—	—	—	—	—	—	—	—	72,112	—	545	(545)	—
Preferred Series D dividends	—	—	—	—	—	—	991,236	1	—	—	697	(698)	—
Conversion of Series A Preferred Stock into Common Stock	(62,873,781)	(63)	—	—	—	—	—	—	2,055,448	2	61	—	—
Conversion of Series B Preferred Stock into Common Stock	—	—	(7,732,040)	(8)	—	—	—	—	252,769	—	8	—	—
Conversion of Series C Preferred Stock into Common Stock	—	—	—	—	(17,074,000)	(17)	—	—	820,837	1	16	—	—
Conversion of Series D Preferred Stock into Common Stock	—	—	—	—	—	—	(15,529,034)	(15)	2,396,130	2	13	—	—
Net income	—	—	—	—	—	—	—	—	—	—	—	306	306
Balances, March 31, 2013	—	—	—	—	—	—	—	—	8,389,363	\$ 8	\$ 153,604	\$ (138,090)	\$ 15,522
Warrant issued for services	—	—	—	—	—	—	—	—	—	—	11	—	11
Shares issued for ESPP	—	—	—	—	—	—	—	—	11,176	—	41	—	41
Shares issued for exercise of stock options	—	—	—	—	—	—	—	—	29,000	—	148	—	148
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	1,165	—	1,165
Net loss	—	—	—	—	—	—	—	—	—	—	—	(1,758)	(1,758)
Balances, March 31, 2014	—	—	—	—	—	—	—	—	8,429,539	\$ 8	\$ 154,969	\$ (139,848)	\$ 15,129

See accompanying notes to consolidated financial statements.





**XPLORE TECHNOLOGIES CORP.**

**Consolidated Statements of Cash Flows**

(in thousands)

	<u>Years Ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash provided by (used in) operations:		
Net income (loss)	\$ (1,758)	\$ 306
Items not affecting cash:		
Depreciation and amortization	714	457
Provision for doubtful accounts	(7)	(24)
Stock-based compensation expense	1,165	691
Equity instruments issued in exchange for services	11	—
Changes in operating assets and liabilities:		
Accounts receivable	(1,129)	3,371
Inventory	(3,404)	133
Prepaid expenses and other current assets	(89)	(253)
Accounts payable and accrued liabilities, including deferred revenue	328	(1,690)
Net cash provided by (used in) operating activities	<u>(4,169)</u>	<u>2,991</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to fixed assets	(900)	(791)
Net cash used in investing activities	<u>(900)</u>	<u>(791)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from short-term borrowings	—	9,455
Repayment of short-term indebtedness	—	(9,455)
Payment of partial shares arising from reverse split	—	(1)
Net proceeds on issuance of Common Stock	189	7,882
Net cash provided by financing activities	<u>189</u>	<u>7,881</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(4,880)	10,081
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	10,280	199
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 5,400</u>	<u>\$ 10,280</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS:</b>		
Payments for interest	\$ 3	\$ 67
Payments for income taxes, net of refunds	\$ 23	\$ —
Preferred Stock dividends issued in the form of stock	\$ —	\$ 2,776

See accompanying notes to consolidated financial statements.

## XPLORE TECHNOLOGIES CORP.

### Notes to the Consolidated Financial Statements

(in thousands, except share and per share amounts)

#### 1. DESCRIPTION OF BUSINESS

Xplore Technologies Corp. (the "Company"), incorporated under the laws of the State of Delaware, is engaged in the development, integration and marketing of rugged mobile personal computer ("PC") systems. The Company's rugged tablet PCs are designed to withstand hazardous conditions such as extreme temperatures, driving rain, repeated vibrations, dirt, dust and concussive shocks. The intrinsically safe, ruggedized and reliable nature of the Company's products enable the extension of traditional computing systems to a range of field personnel, including oil field pipeline inspectors, public safety personnel, warehouse workers and pharmaceutical scientists. The Company's tablets are fitted with a range of performance-matched accessories, including multiple docking station solutions, wireless connectivity alternatives, global positioning system modules, biometric and smartcard modules, as well as traditional peripherals, such as keyboards and cases. Additionally, the Company's tablets are waterproof for up to 30 minutes in a depth of up to three feet, impervious to drops from as high as seven feet, readable in direct sunlight, can be mounted on vehicles and include LTE and Wi-Fi connectivity options for real-time data access. The Company's customers include major telecommunications companies, leading heavy equipment manufacturers, oil and gas companies, the military and first responders.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements were prepared using accounting principles generally accepted in the United States of America and reflect the following significant accounting policies:

*a) Basis of consolidation and presentation*

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Xplore Technologies Corporation of America.

Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. These estimates and assumptions are affected by management's application of accounting policies. Estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimates are reasonably likely to occur from period to period, and would materially impact the Company's financial condition, changes in financial condition or results of operations. On an ongoing basis, the Company evaluates the estimates, including those related to its revenue recognition, allowance for doubtful accounts, inventory valuation, warranty reserves, tooling amortization, financial instruments, stock-based compensation and income taxes. The estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from management's estimates and assumptions.

*b) Cash and cash equivalents and liquidity*

Cash and cash equivalents comprise cash and highly liquid investments with original maturities of less than ninety days.

The Company had cash and cash equivalents of approximately \$5.4 million at March 31, 2014, working capital of approximately \$14.9 million and total equity of approximately \$15.1 million. The Company's management believes that it has adequate cash and cash equivalents on hand and cash flow from operations to finance its operations for at least 12 months.

The Company also has available a line of credit (Note 5).

*c) Allowance for doubtful accounts*

The Company recognizes an allowance for losses on accounts receivable in an amount equal to the estimated probable losses net of recoveries. The allowance is based on an analysis of historical bad debt experience, current receivables aging, and expected future write-offs, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. The expense associated with the allowance for doubtful accounts is recognized as general administration expense. The Company has not had material adjustments due to actual experience.

d) *Inventory*

Inventory is recorded at the lower of average cost or net realizable value. The valuation of inventory requires the use of estimates regarding the amount of current inventory that will be sold and the prices at which it will be sold based on an assessment of expected orders for these products from the Company's customers. Additionally, the estimates reflect changes in the Company's products or changes in demand because of various factors including the market for the Company's products, obsolescence, product discontinuation, technology changes and competition.

e) *Fixed assets*

Fixed assets are recorded at cost. The straight line depreciation method is used to depreciate the recorded value of fixed assets over their estimated useful lives.

<b>Fixed Asset</b>	<b>Estimated Useful Lives</b>
Tooling and fixtures	2 years
Office equipment	5 years
Machine equipment	2 years
Leasehold improvements	lesser of 5 years or remaining lease term
Computer equipment	2 years
Computer software	2 years
Demonstration units	6 months

The Company performs reviews for the impairment of fixed assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable.

f) *Revenue recognition*

The Company's revenue is derived from the sale of rugged, mobile technology which includes rugged mobile tablet computers and related accessories. The Company's customers are predominantly resellers. However, the Company also sells directly to end-users. Revenue is recognized, net of an allowance for estimated returns, when title and risks of ownership are transferred to the customer, all significant contractual obligations have been satisfied, the sales price is fixed or determinable and the ability to collect is reasonably assured. The Company's revenue recognition criteria have generally been met when the product has been shipped. Shipments are based on firm purchase orders from customers with stated terms. The shipping terms are F.O.B. shipping point. The Company does not have installation, training or other commitments subsequent to shipment that are other than incidental. Prices are determined based on negotiations with the Company's customers and are not subject to adjustment. Generally, the Company does not hold inventory at its resellers and does not expect resellers to hold inventories of the Company's products other than in limited circumstances where such inventory is monitored by the Company. As a result, the Company expects returns to be minimal. The allowance for returns is calculated and regularly reviewed based on historical experience. The Company has not had material adjustments as returns have been minimal. The majority of the Company's warranty obligations related to recognized revenue are generally covered by warranty coverage arrangements provided by a third party. To the extent warranty coverage is not provided by a third party, the Company records a reserve for the future warranty obligation at the time of sale. Revenue from separately priced extended warranty contracts is deferred and recognized in income on a straight-line basis over the related contract period. At March 31, 2014 and 2013, the Company had deferred revenue of \$524 and \$53, respectively, from separately priced extended warranty contracts, of which \$464 and \$24, respectively, is reflected as a non-current liability on the accompanying consolidated balance sheets.

g) *Cost of revenue*

The Company's cost of revenue consists of the costs associated with manufacturing, assembling and testing its products, related overhead costs, maintenance, compensation, freight and other costs related to manufacturing support, including the depreciation of tooling assets. The Company uses contract manufacturers to manufacture its products and supporting components, and the significant majority of the Company's cost of revenue is attributable to component costs and payments to these contract manufacturers.

Cost of revenue also includes warranty costs. The Company records warranty liabilities at the time of sale for the estimated costs that may be incurred under its warranty. The specific warranty terms and conditions generally included are technical support, repair parts, and labor for a period that is generally three years. The Company re-evaluates its estimates to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary and any change, based on current information, is recorded as a change in estimate. The estimates have not required significant adjustment due to actual experience.

The changes to the warranty liabilities are as follows:

	<b>Years Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Beginning balance	\$ 381	\$ 166
Aggregate changes for accrual related to guarantees issued	137	310
Aggregate changes to preexisting accruals	(118)	(3)
Aggregate reductions for payments made	(115)	(92)
Ending balance	<u>\$ 285</u>	<u>\$ 381</u>
Warranty recorded as a current liability	\$ 113	\$ 175
Warranty recorded as a non-current liability	\$ 172	\$ 206

*h) Income taxes*

The Company accounts for income taxes in accordance with the asset and liability method. The determination of future tax assets and liabilities is based on the difference between financial statement and income tax bases of assets and liabilities, using enacted tax rates in effect for the period in which the differences are expected to occur. Future tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is more likely than not that they will be realized.

The Company periodically assesses uncertain tax positions that the Company has taken or expects to take on a tax return (including a decision whether to file or not to file a return in a particular jurisdiction). The Company evaluated its tax positions and determined that there were no uncertain tax positions for the years ended March 31, 2014 and 2013.

*i) Stock-based compensation*

The Company applies the fair value method of accounting for all of its employee stock-based compensation. The Company uses the Black-Scholes option pricing model to determine the fair value of stock option awards at the date of the issuance of the award. The value is expensed over the vesting period which is generally three years. See Note 8 to these consolidated financial statements for required disclosures.

*j) Financial instruments and credit risk*

Financial instruments that potentially subject the Company to credit risk include cash and cash equivalents and accounts receivable from customers. Accounts receivables are generally unsecured. With respect to accounts receivables, the Company performs ongoing credit evaluations of customers and generally does not require collateral.

While the Company's cash and cash equivalents are on deposit with high quality FDIC insured financial institutions, at times such deposits exceed the insured limits. The Company had cash balances in excess of federally insured limits of approximately \$5,150 at March 31, 2014. The Company has not experienced any losses in such accounts.

Receivables are concentrated with a small number of customers. The Company maintains an allowance for doubtful accounts when deemed necessary. The allowance for doubtful accounts at March 31, 2014 and March 31, 2013 was \$1 and \$8, respectively.

The amounts reported for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are considered to approximate their fair values based on comparable market information available at the respective balance sheet dates and their short-term nature.

k) *Loss per share attributable to common stockholders*

Loss per share attributable to common stockholders has been computed based on the weighted-average number of common shares issued and outstanding during the period, and is calculated by dividing net loss and net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period. The effects of the options granted under the Company's share option plan, the exercise of outstanding options, the exercise of outstanding warrants, the conversion of the convertible Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock, and other common stock equivalents were excluded from the loss per share attributable to common stockholders calculations for the years presented as their inclusion is anti-dilutive. Accordingly, diluted loss per share attributable to common stockholders has not been presented.

The following securities were not considered in the earnings per share calculation at their common stock equivalent:

	<b>March 31, 2014</b>	<b>March 31, 2013</b>
Options	1,366,562	146,878
Warrants	137,500	323,853
	<u>1,504,062</u>	<u>470,731</u>

l) *Reclassifications*

Certain prior year amounts have been reclassified from current to non-current liabilities on the accompanying consolidated balance sheet to properly reflect the non-current portion of liabilities. These reclassifications do not impact the consolidated statement of income and operations or the consolidated statement of cash flows.

m) *Recent accounting pronouncements*

The Company has implemented all new accounting pronouncements that are in effect and that may impact its consolidated financial statements. The Company does not believe that there are any new accounting pronouncements that have been issued that might have a material impact on its consolidated financial position or results of operations.

### 3. INVENTORY

	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
Finished goods	\$ 5,979	\$ 2,437
Computer components	1,261	1,399
Total inventory	<u>\$ 7,240</u>	<u>\$ 3,836</u>

### 4. FIXED ASSETS

	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
<i>Cost</i>		
Tooling and fixtures	\$ 1,942	\$ 1,417
Office equipment and leasehold improvements	1,066	1,131
Computer equipment and demonstration units	632	526
Computer software	662	658
	<u>4,302</u>	<u>3,732</u>
<i>Accumulated depreciation</i>		
Tooling and fixtures	1,169	854
Office equipment and leasehold improvements	1,046	1,111
Computer equipment and demonstration units	548	417
Computer software	656	653
	<u>3,419</u>	<u>3,035</u>
<b>Total fixed assets, net</b>	<u>\$ 883</u>	<u>\$ 697</u>

Depreciation and amortization expense was \$714 and \$457 during the years ended March 31, 2014 and 2013, respectively.

## 5. SHORT-TERM INDEBTEDNESS

On December 10, 2009, the Company's wholly-owned subsidiary entered into an Accounts Receivable Purchasing Agreement (as amended to date, the "ARPA") with DSCH Capital Partners, LLC d/b/a Far West Capital ("FWC"). Pursuant to the ARPA, FWC may purchase, in its sole discretion, eligible accounts receivable of the Company's subsidiary on a revolving basis, up to a maximum of \$8,500. Under the terms of the ARPA, FWC purchases eligible receivables from the subsidiary with full recourse for the face amount of such eligible receivables. FWC retains 15% of the purchase price of the purchased receivables as a reserve amount. The subsidiary is required to pay FWC a monthly cost of funds fee equal to the net funds employed by FWC (i.e., the daily balance of the purchase price of all purchased receivables less the reserve amount, plus any unpaid fees and expenses due from the subsidiary to FWC under the ARPA) multiplied by the annual prime lending rate reported in The Wall Street Journal plus 10%, which fees accrue daily. In June 2012, in connection with the reduction of the cost of funds rate from 11.50% and the elimination of a 0.52% discount to the amount FWC paid in connection with its purchase of eligible receivables, the Company agreed to a financial covenant requiring that, as of the last day of each fiscal quarter, the Company's subsidiary's net worth (defined as assets minus liabilities) will not be less than \$4,000. In the event the Company is unable to maintain the minimum net worth requirement, the monthly cost of funds fee required to be paid to FWC will be increased to equal the net funds employed by FWC multiplied by the lesser of (a) the maximum rate allowed under applicable law and (b) the annual prime lending rate reported in The Wall Street Journal plus 16%, which fees accrue daily.

The ARPA also provides that FWC has the right to require the subsidiary to repurchase any purchased accounts receivable: (a) if there is a dispute as to the validity of such receivable by the account debtor, (b) if certain covenants, warranties or representations made by the subsidiary with respect to such receivables are breached, (c) upon and during the continuance of an event of default under the ARPA or upon the termination of the ARPA, or (d) if such receivable remains unpaid 90 days after the invoice date. The ARPA has an initial term of one year with automatic renewals for successive one-year periods. Notwithstanding that, FWC may terminate the ARPA at any time upon 150 days prior written notice or without prior notice upon and during the continuance of an event of default.

The ARPA contains standard representations, warranties, covenants, indemnities and releases for agreements governing financing arrangements of this type. The Company has guaranteed the obligations of its subsidiary under the ARPA pursuant to a corporate guaranty and suretyship. In addition, pursuant to the ARPA, the subsidiary's obligations under the ARPA are secured by a first priority security interest on all assets of the subsidiary. On March 31, 2014, there were no borrowings under the ARPA.

## 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31,	
	2014	2013
Accounts payable	\$ 2,889	\$ 3,081
Accrued liabilities and deferred revenue	1,284	958
Commissions payable	95	245
Warranty	113	175
Total	\$ 4,381	\$ 4,459

## 7. SHARE CAPITAL

On November 1, 2012, the Company filed its second amended and restated certificate of incorporation with the Secretary of State of the State of Delaware, which integrated the then-in-effect provisions of the Company's amended and restated certificate of incorporation and further amended those provisions by decreasing the Company's authorized shares of common and preferred stock. The second amended and restated certificate of incorporation became effective on the date of filing. As a result of the second amended and restated certificate of incorporation, the number of authorized shares of common stock of the Company was reduced from 1,350,000,000 to 15,000,000 and the number of authorized shares of preferred stock of the Company was reduced from 150,000,000 to 5,000,000.

### Year-ended March 31, 2014

On June 1, 2013, the Company entered into a business advisory services agreement with an unrelated party, which included as compensation the issuance of a warrant to purchase 20,000 shares of the Company's common stock (the "Warrant"). The Warrant vests quarterly, over a twelve-month period beginning September 1, 2013. The strike price for the first set of 5,000 shares to vest is \$5.00 per share, the strike price for the second set of 5,000 shares to vest is \$5.25 per share, the strike price for the third set of 5,000 shares to vest is \$5.50 per share and the strike price for the fourth set of 5,000 shares to vest is \$5.75 per share. Should the agreement be terminated prior to the complete vesting of the Warrant, the vesting ceases on the date on which notice of termination is given. The Warrant expires on May 31, 2016.

## Year-ended March 31, 2013

On July 26, 2012, the Company filed a Registration Statement on Form S-1 with respect to a firm commitment public offering of \$10 million in shares of its common stock, excluding the underwriters' over-allotment option.

On September 12, 2012, the Company held a special meeting of stockholders to consider and vote upon proposals to approve, among other matters, (i) an amendment to the amended and restated certificate of incorporation to effect a reverse stock split of outstanding common stock in a range of not less than 1-for-325 and not more than 1-for-425 and (ii) amendments to the amended and restated certificate of incorporation to (a) reduce the conversion price of each series of Preferred Stock and (b) make inapplicable an anti-dilution adjustment that may otherwise be triggered by the reduction of the conversion price of each other series of Preferred Stock. Each of the proposals was approved by the requisite number of the Company's stockholders entitled to vote thereon.

On September 13, 2012, the Company filed a certificate of amendment to the amended and restated certificate of incorporation with the Secretary of State of the State of Delaware to effect a 1-for-400 reverse split of common stock. The reverse split became effective at 12:01 a.m. on September 13, 2012. In addition, on September 13, 2012, the Company received a written consent from holders representing a majority of the voting power of the outstanding shares of the Company's Series A Preferred Stock agreeing to the conversion, upon the consummation of a public offering of the Company's common stock, of each share of Series A Preferred Stock then outstanding into shares of common stock, which would result in the automatic conversion of each of the Company's other outstanding series of Preferred Stock under the terms of the Company's amended and restated certificate of incorporation.

All of the historical common stock share numbers, common stock share prices and exercise prices with respect to options and warrants to purchase common stock have been adjusted within these consolidated financial statements, on a retroactive basis, to reflect the 1-for-400 reverse split of common stock.

On October 31, 2012, the Company completed the closing of the public offering of 2,000,000 shares of common stock at an offering price of \$5.00 per share and received gross proceeds of \$10,000. The Company had also granted the underwriters of the offering a 45-day option to purchase up to an additional 300,000 shares of common stock to cover over-allotments, if any, which was not exercised by the underwriters. The Company issued to the underwriters warrants to purchase up to a total of 100,000 shares of common stock at an exercise price of \$6.25 per share. The warrants expire on October 24, 2017. In connection with the closing of the public offering, each series of outstanding Preferred Stock was automatically converted into shares of the Company's common stock at the following conversion rates: 1-to-0.0327 for the Series A Preferred Stock; 1-to-0.0327 for the Series B Preferred Stock; 1-to-0.0481 for the Series C Preferred Stock and 1-to-0.1543 for the Series D Preferred Stock.

The Company incurred costs of \$2,144 associated with the public offering of the Company's common stock, the special meeting of stockholders needed to effect the reverse stock split, the amended conversion prices of the Preferred Stock and the mandatory conversion of the Preferred Stock, and the listing of the Company's common stock on the NASDAQ Capital Market. The costs consist of the underwriting discount, professional fees, primarily legal, SEC and NASDAQ fees, printing and mailing charges and costs associated with marketing the public offering, primarily travel. These costs were charged against the gross proceeds of the public offering of the Company's common stock.

On October 26, 2012, the Company's common stock began trading on The NASDAQ Capital Market under the symbol "XPLR."

In addition, during the year ended March 31, 2013, 2,706 shares of Series D Preferred Stock were converted into 169 shares of the Company's common stock prior to the automatic conversion of the Series D Preferred Stock in connection with the closing of the public offering.

### ***Preferred Stock Dividends and Liquidation Preferences***

Prior to its conversion on October 31, 2012, the Company's outstanding shares of Preferred Stock accrued cumulative dividends which were paid quarterly on the first day of June, September, December and March, with the exception of the last dividends, which were paid upon conversion on October 31, 2012. The dividend rate for the Company's Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock was 7.5% per annum of the original issue price of the Preferred Stock. The dividends for the Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock were paid in the number of shares of common stock determined by dividing (i) the aggregate amount of the dividend then payable by (ii) the volume weighted average trading price of the common stock over the 10 trading days ending on the third trading day immediately preceding the dividend payment date, less a discount of 25% of the volume weighted average trading price of the common stock.



The dividend rate for the Series D Preferred Stock was 10% per annum of the original issue price of the Series D Preferred Stock. The dividends for the Series D Preferred Stock were paid at the Company's option in cash or additional shares of Series D Preferred Stock valued at \$1.00 per share. The Company paid the dividends in shares of Series D Preferred Stock.

The values for dividends paid and dividends accrued and unpaid were determined based on the market prices of the Company's common stock as of the dates of share issuances and accrual multiplied by the respective equivalent common shares.

On October 31, 2012, all of the Company's then outstanding shares of Preferred Stock, including accrued and unpaid dividends, were converted into 5,525,015 shares of the Company's common stock in the following amounts:

	<b>Number of Shares of Common Stock Converted Into</b>
Series A Preferred Stock	2,055,448
Series B Preferred Stock	252,769
Series C Preferred Stock	820,837
Series D Preferred Stock	2,395,961

#### ***Warrants Outstanding***

There were warrants to purchase an aggregate of 137,500 shares of common stock outstanding, of which 132,500 were fully exercisable at March 31, 2014 as detailed in the table below:

<b>Number of Warrants/Number Exercisable</b>	<b>Exercise Price (1)</b>	<b>Expiration Date</b>
7,500/7,500	\$19.98	June 10, 2014
6,250/6,250	\$11.86	October 13, 2014
3,750/3,750	\$17.33	May 13, 2015
20,000/15,000	\$5.00 to \$5.75	May 31, 2016
100,000/100,000	\$6.25	October 24, 2017

(1) Exercise price may change subject to anti-dilutive terms.

## **8. STOCK-BASED COMPENSATION PLAN**

### ***a) Stock Options***

In 1995, the Board of Directors approved a Share Option Plan, which was amended and restated in December 2004, and amended thereafter, which is referred to as the Amended Share Option Plan. The Amended Share Option Plan is administered by the Board of Directors and provides that options may be granted to employees, officers, directors and consultants of the Company. The exercise price of an option is determined at the date of grant and is based on the closing price of the common stock on the stock exchange or quotation system where the common stock is listed or traded, on the day preceding the grant. Unless otherwise provided for, the options are exercisable only during the term of engagement of the employee, officer or consultant or during the period of service as a director of the Company.

On July 28, 2009, the Board of Directors adopted the 2009 Stock Incentive Plan, which is referred to as the 2009 Stock Plan. The 2009 Stock Plan provides for equity-based awards in the form of incentive stock options and non-statutory options, restricted shares, stock appreciation rights and restricted stock units. Awards are made to selected employees, directors and consultants to promote stock ownership among award recipients, encourage their focus on strategic long-range corporate objectives, and attract and retain exceptionally qualified personnel. The 2009 Stock Plan became effective as of June 10, 2009 and was approved by the Company's stockholders on January 14, 2010. The Company did not grant any additional options under the Amended Share Option Plan after the addition of the 2009 Stock Plan.

At March 31, 2014, the maximum aggregate number of shares of common stock reserved for issuance upon the exercise of all options granted under the Amended Share Option Plan and 2009 Stock Plan may not exceed an aggregate of 1,689,759 shares. This amount consists of 1,687,500 shares under the 2009 Stock Plan and 2,259 under the Amended Share Option Plan, which shares are issuable under outstanding options under the Amended Share Option Plan on the date the 2009 Stock Plan was adopted. The options under the plans generally vest over a 3-year period in equal annual amounts and expire five years after the issuance date.

In June 2013, the Board of Directors approved a grant of options to purchase a total of 797,000 shares of the Company's common stock to the members of the Board of Directors and certain officers, with an exercise price of \$5.00. The options vest in three equal annual installments beginning on October 31, 2013 and have a term of seven and a half years from the grant date. In addition, the Board of Directors also approved grants of options to purchase a total of 275,000 shares of the Company's common stock to certain non-officer employees, with an exercise price of \$3.44. Those options vest in three equal annual installments, beginning on the first anniversary of the date of grant, and have a term of five years from the date of grant. The grant date fair value of these option awards to be recognized as stock compensation expense was \$1,401.

In November 2013, the Board of Directors approved a grant of options to purchase a total of 185,000 shares of the Company's common stock to three new employees, of which options to purchase 175,000 shares were granted to two new officers of the Company, with an exercise price of \$4.66. The options vest in three equal annual installments, beginning on the first anniversary of the date of grant, and have a term of five years from the date of the grant. The grant date fair value of these option awards to be recognized as stock compensation expense was \$289.

In February and March 2014, the Board of Directors approved grants of options to purchase a total of 20,000 and 100,000, respectively, shares of the Company's common stock to three new employees, of which options to purchase 100,000 shares were granted to one new officer of the Company, with exercise prices of \$5.99 and \$6.23, respectively. The options vest in three equal annual installments, beginning on the first anniversary of the date of grant, and have a term of five years from the date of the grant. The grant date fair values of these option awards to be recognized as stock compensation expense was \$41 and \$210, respectively.

A summary of the activity in the Company's Amended Share Option Plan and 2009 Stock Plan during the years ended March 31, 2014 and 2013 is as follows:

	Year ended March 31,			
	2014		2013	
	Options	Weighted Average Exercise Price (USDS)	Options	Weighted Average Exercise Price (USDS)
Outstanding at beginning of year	146,878	\$ 24.22	140,870	\$ 28.00
Granted	1,377,000	\$ 4.75	15,250	\$ 7.29
Exercised	(29,000)	\$ 5.11	—	—
Forfeited	(128,316)	\$ 7.76	(9,242)	\$ 44.58
Outstanding and expected to vest at end of year	1,366,562	\$ 6.55	146,878	\$ 24.22

In February 2014, options to purchase 29,000 shares of common stock were exercised and the Company received \$148 of cash. The intrinsic value and tax benefit realized for options exercised in the year ended March 31, 2014, was \$37. At March 31, 2014, the total number of shares of common stock issued in connection with the exercise of options since the inception of the Amended Share Option Plan is 30,678 and the total number of shares of common stock issued in connection with the vesting of restricted stock awards under the 2009 Stock Plan is 4,268.

A summary of the options outstanding and exercisable at March 31, 2014 is as follows:

Range of Exercise Prices	Options Outstanding and Expected to Vest		Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable	Weighted Average Remaining Contractual Life
\$3.44–7.50	1,252,083	5.4	241,250	6.1
\$7.51–26.99	105,427	2.0	102,839	2.0
\$27.00–124.00	9,052	0.6	9,052	0.6
	1,366,562	5.1	353,141	4.8

At March 31, 2014, the weighted average exercise price of options exercisable is \$11.65.

The options have been valued separately using the Black-Scholes methodology. The options issued to the Board of Directors, officers and non-officer employees in fiscal 2014 have different expected terms and, accordingly, different volatility and discount rates. The calculations for issuances to the Board of Directors in June 2013, to officers in June 2013, to other grantees in fiscal 2014 and to all grantees in fiscal 2013 assumed discount rates of approximately 2.11%, 1.51%, 0.71% and 0.35%, respectively, volatility of approximately 57%, 55%, 49% and 62%, respectively, and expected terms of approximately seven years, approximately four and half years, approximately three years and approximately three years, respectively. There were assumed to be no dividends paid to holders of the Company's common stock for either year. The Company recorded stock compensation cost of \$1,165 and \$691 for the years ended March 31, 2014 and 2013, respectively. This expense was recorded in the employee related functional classification. The weighted average grant date fair value of options granted during the year ended March 31, 2014 was \$1.41 per share. Compensation expense has been determined based on the fair value at the grant date for options granted in the current fiscal year. The aggregate intrinsic values of options exercisable and options outstanding at March 31, 2014 were \$323 and \$1,949, respectively, based upon the fair value of the Company's common stock on that date of \$6.35, which was greater than the exercise prices of certain options. The future compensation expense to be recognized for unvested option grants at March 31, 2014 was \$1,237, which is to be recognized over the next three years.

*b) 2009 Employee Stock Purchase Plan*

The Company's Board of Directors approved an employee stock purchase plan that was implemented on January 1, 2009 and approved by the Company's stockholders on November 4, 2009 (the "ESPP"). The offering price per common share and number of common shares purchased for the years ended March 31, 2014 and 2013 are as follows:

	Year Ended March 31,	
	2014	2013
Offering Price per Common Share	\$ 3.69	\$ 22.23
Common Shares Purchased	14,015	669

**9. INCOME TAXES**

The tax effect of temporary differences that give rise to future income tax assets are as follows:

	Year ended March 31,	
	2014	2013
Deferred income tax assets:		
Net operating losses	\$ 30,039	\$ 30,146
Accrued liabilities	348	271
Inventory allowance	412	250
Other items	168	85
Valuation allowance	(30,967)	(30,752)
Deferred tax asset	\$ —	\$ —

The provision for income taxes varies from the expected provision at statutory rates for the following reasons:

	Year ended March 31,	
	2014	2013
Combined basic US statutory rates	35%	35%
Income taxes (recovery) based on the above rates	\$ (620)	\$ 119
Increase in income taxes resulting from:		
Permanent difference—stock compensation	395	242
Permanent difference—meals & entertainment	20	14
Other	(22)	2
Change in valuation allowance	215	(342)
Income tax expense (benefit)	\$ (12)	\$ 35

The income tax benefit of \$12 for fiscal year 2014 represents a true up of the prior year accrual to actual. The prior year had federal income taxes due to the alternative minimum tax computation's limitation of the utilization of net operating loss carry forwards and the alternative minimum tax rate of 20%.

The Company has accumulated net operating losses for income tax purposes totaling approximately \$85,826, which under certain conditions, may be carried forward and applied to reduce future year's taxable income. Such losses may be subject to limitation under IRC Section 382 if there was a change in control as defined by the Internal Revenue Service. The potential benefit associated with these losses is not reflected in these statements as management does not believe that recovery is more likely than not. The right to claim these losses will expire beginning 2018.

Tax years that remain open for examination by the Internal Revenue Service include 2010, 2011, 2012 and 2013.

## 10. FINANCIAL INSTRUMENTS AND CREDIT RISK

### *Interest rate risk*

At March 31, 2014, the ARPA with FWC has a cost of funds fee interest rate with a variable component based on the Wall Street Journal's prime rate. If the Company borrowed 100% of the facility's available line for a full year and the bank's prime lending rate increased by 1%, the Company's costs under the ARPA will increase by approximately \$85.

### *Foreign exchange risk*

All of the Company's revenues and the significant majority of the Company's expenses are in United States dollars, and foreign exchange is limited to non-U.S. dollar denominated expenditures in Canadian dollars, which are immaterial in each of the years ended March 31, 2014, and 2013.

### *Credit risk*

Information regarding the Company's accounts receivable credit risk is as follows:

As of March 31,	Accounts Receivable (in millions)	Number of Customers with Receivable Balance >10% of Total Receivables	Customer Share as a Percent of Total Receivables	Percentage Share of Total Receivables
2014	\$6.2	1	44%	44%
2013	\$5.0	1	61%	61%

The receivable representing 44% of the accounts receivable balance at March 31, 2014 was subsequently collected.

### *Supplier Risk*

The Company relies on a two suppliers for the majority of its finished goods. At March 31, 2014 and 2013, the Company owed the suppliers \$2,607 and \$2,457, respectively, which was recorded as accounts payable and accrued liabilities. The inventory purchases and engineering services from these suppliers for the years ended March 31, 2014 and 2013 were \$23,509 and \$15,363, respectively.

## 11. SEGMENTED INFORMATION

The Company operates in one segment, the sale of rugged mobile tablet PC systems. Approximately 76% of the Company's revenue for fiscal 2014 was derived from sales in the United States. For the fiscal year ended March 31, 2013, the United States accounted for 67% of the revenue and Canada had approximately 13% of the revenue.

The distribution of revenue by country is segmented as follows:

	Year ended March 31,	
	2014	2013
<i>Revenue by country:</i>		
United States	\$ 27,189	\$ 20,423
Canada	1,724	3,958
All other countries	6,672	6,105
	<u>\$ 35,585</u>	<u>\$ 30,486</u>

The Company has a variety of customers and in any given year a single customer can account for a significant portion of sales. For the year ended March 31, 2014, the Company had three customers that had sales that were greater than 10% of total revenue, and all three customers were located in the United States of America. For the year ended March 31, 2013, the Company had two customers that had sales that were greater than 10% of total revenue and both customers were located in the United States of America. The percentages of total revenue from these customers are as follows:

Fiscal Year	Total Revenue (in millions)	Number of Customers with Revenue of 10% or greater of Total Revenue	Customer Share as a Percent of Total Revenue	Percentage Share of Total Revenue
2014	\$35.6	3	41%	41%
2013	\$30.5	2	43%	43%

Substantially all of the Company's capital assets are owned by its wholly-owned subsidiary, Xplore Technologies Corporation of America, a Delaware corporation. No more than 10% of the Company's assets were located in any country, other than the United States, during each of the years ended March 31, 2014 and 2013.

## 12. COMMITMENTS AND CONTINGENT LIABILITIES

### a) Premises

The Company leases facilities in Austin, Texas. The current annual lease commitment is \$228 and the lease maturity date was August 31, 2014; however, in June 2014 the lease was renewed through August 31, 2019 and the related payments are included in the minimum annual payments table shown below. Rent expense for the years ended March 31, 2014 and 2013 was \$234 and \$262, respectively.

Minimum annual payments by fiscal year required under all of the Company's operating leases are:

2015	\$	303
2016		299
2017		305
2018		310
2019		310
2020		122
	<u>\$</u>	<u>1,649</u>

### b) Purchase commitment

At March 31, 2014, the Company had purchase obligations extending into fiscal 2015 of approximately \$13,928 related to inventory and product development items.

### c) Litigation

At March 31, 2014, the Company and its subsidiaries were not involved in any legal actions.

### 13. RELATED PARTY TRANSACTIONS

On June 12, 2012, the Board of Directors approved the payment to each member of the Board of Directors of an annual fee of \$10, to be paid quarterly in the amount of \$2.5. On November 4, 2013, the Board of Directors approved the payment of an additional annual fee to each member of the Board of Director's audit committee and compensation committee, in the amount of \$4 for each committee on which such member serves, to be paid quarterly in the amount of \$1, effective October 1, 2013. General administration expense includes expense of \$72 and \$60 for these fees for the years ended March 31, 2014 and 2013, respectively.

On June 12, 2012, the Board of Directors approved the payment to SG Phoenix LLC, an affiliate of the Company, of an annual fee of \$150, to be paid monthly in the amount of \$12.5, for services rendered during the year ended March 31, 2013. On February 6, 2013, the Board of Directors approved an increase in this annual fee from \$150 to \$200, effective February 1, 2013, for additional services to be rendered by SG Phoenix LLC. The Board of Directors also approved a one-time payment of \$50 to SG Phoenix LLC for past services rendered during fiscal year 2013. In addition, a \$100 discretionary bonus was paid to SG Phoenix LLC for services rendered by Mr. Philip S. Sassower, the Company's Chief Executive Officer, in fiscal year 2014, in connection with achieving certain revenue, cash flow, profitability, and investor relation communication objectives. General administration expense includes expense of \$300 and \$208 for these expenses for the years ended March 31, 2014 and 2013, respectively.

During the fiscal years ended March 31, 2014 and 2013, the Company purchased approximately \$76 and \$250, respectively, in components for the Company's tablet PCs from Ember Industries, Inc., a contract manufacturer. Thomas F. Leonardis, a member of the Board of Directors, is the Chairman and Chief Executive Officer of Ember Industries. The Company purchased the components from Ember Industries pursuant to standard purchase orders at Ember Industries' standard prices. The disinterested members of the Board of Directors reviewed, approved and ratified the Company's purchase of component parts from Ember Industries on the described terms.

## INDEX TO EXHIBITS

<b>Exhibit Number</b>	<b>Description</b>
3.1	Second Amended and Restated Certificate of Incorporation of Xplore Technologies Corp. (incorporated by reference to Exhibit A of the Company's Proxy Statement on Schedule 14A, filed on November 10, 2010)
3.2	By-Laws of Xplore Technologies Corp. (incorporated by reference to Exhibit 4.4 of the Company's Annual Report on Form 10-K, file July 6, 2007)
4.1	Specimen Stock Certificate for Registrant's Common Stock (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-4, filed on February 8, 2007, Registration Statement No. 333-138675)
10.1†	Turnkey Design and Manufacturing Agreement, by and between Xplore Technologies Corp. and Wistron Corporation (incorporated by reference to Exhibit 10.1 of the Company's Registration Statement on Form S-4, filed on February 8, 2007, Registration Statement No. 333-138675)
10.2*††	Supplier Agreement Terms and Conditions, by and between Xplore Technologies Corp. and Ubiquconn Technology, Inc. (including Amendment)
10.3	Amendment No. 1 to Registration Rights Agreement (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K, filed on February 25, 2011)
10.4	Accounts Receivable Purchase Agreement, dated December 10, 2009, by and between Xplore Technologies Corporation of America and DSCH Capital Partners, LLC d/b/a Far West Capital (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed on December 15, 2009)
10.5	Corporate Guaranty and Surety ship, dated December 10, 2009, by and between Xplore Technologies Corp. and DSCH Capital Partners, LLC d/b/a Far West Capital (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K, filed on December 15, 2009)
10.6	First Amendment and Purchase Order Finance Rider to Accounts Receivable Purchase Agreement, dated December 10, 2009, by and between Xplore Technologies Corporation of America and DSCH Capital Partners, LLC d/b/a Far West Capital (incorporated by reference to Exhibit 10.23 of the Company's Annual Report on Form 10-K, filed on June 9, 2010)
10.7	Second Amendment to Accounts Receivable Purchasing Agreement (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed on February 25, 2011)
10.8	Third Amendment to Accounts Receivable Purchasing Agreement (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed on January 3, 2012)
10.9	Fourth Amendment to Accounts Receivable Purchasing Agreement (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed on March 5, 2012)
10.10	Lease Agreement, dated April 10, 2003, between Summit Tech L.P. and Xplore Technologies Corp. (incorporated by reference to Exhibit 10.11 of the Company's Registration Statement on Form S-4, filed on November 14, 2006, Registration Statement No. 333-138675)
10.11	Fourth Amendment to Lease Agreement, dated April 10, 2003, between Bailard Austin II, Limited Partnership and Xplore Technologies Corp. (incorporated by reference to Exhibit 10.23 of the Company's Annual Report on Form 10-K, filed on August 14, 2009)
10.12*	Fifth Amendment to Lease Agreement, dated May 31, 2014, between G&I VII Summit Tech, LP and Xplore Technologies Corp.
10.13	Employment Agreement, dated as of June 30, 2006, by and between Xplore Technologies Corp. and Mark Holleran (incorporated by reference to Exhibit 10.10 of the Company's Registration Statement on Form S-4, filed on November 14, 2006, Registration Statement No. 333-138675)
10.14	Amended and Restated Share Option Plan (incorporated by reference to Exhibit A of the Company's Proxy Statement on Schedule 14A, filed on December 21, 2007)
10.15	Xplore Technologies Corp. 2009 Stock Incentive Plan (incorporated by reference to Exhibit 10.31 of the Company's Annual Report on Form 10-K, filed on August 14, 2009)

Exhibit Number	Description
10.16	Xplore Technologies Corp. Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q, filed on February 13, 2009)
10.17*	Xplore Technologies Corp. Employee Transaction Bonus Pool
21.1	Subsidiaries of Xplore Technologies Corp. (incorporated by reference to Exhibit 21.1 of the Company's Registration Statement on Form S-4, filed on November 14, 2006, Registration Statement No. 333-138675)
23.1*	Consent of Independent Registered Public Accounting Firm
31.1*	Certification of Philip S. Sassower, Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
31.2*	Certification of Michael J. Rapisand, Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
32.1*	Certifications of Philip S. Sassower, Chief Executive Officer, and Michael J. Rapisand, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350

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\* Filed herewith.

† Portions of this agreement have been omitted pursuant to a request for confidential treatment, which was granted by the SEC on May 14, 2007.

†† Portions of this agreement have been omitted pursuant to a request for confidential treatment, which was mailed to the SEC on June 25, 2014.





# Terms and Conditions

Sept 6, 2012

## CONFIDENTIALITY AND PROPRIETARY NOTE

**This item is the property of Xplore Technologies Corp., Austin, Texas and contains confidential and trade secret information. This item may not be transferred from the custody of Xplore, except as authorized by Xplore and then only by way of loan for limited purposes. It must not be reproduced in whole or in part and must be returned to Xplore upon request and in all events upon completion of the purpose of the loan. Neither this item nor the information it contains may be used by or disclosed to persons not having a need for such use or disclosure without prior written consent of Xplore.**

## Xplore Supplier Agreement Terms and Conditions (“Agreement”)

### Section I: Special Development Terms -

This Agreement is between Ubiqconn Technology, Inc. (“**Ubiqconn**”) and Xplore Technologies Corp. (“**Xplore**” or “**Xplore Technologies**”). The parties agree as follows:

Purpose: This Agreement sets forth the terms and conditions for the mutual development and manufacturing by Ubiqconn of two new Xplore products (the “**Products**”), known as “Tomcat” and “Bobcat.”

Non-Disclosure:

Ubiqconn and Xplore Technologies agree to abide by the terms and conditions set forth in the Mutual Confidentiality and Non-Disclosure Agreement (“**NDA**”), dated as of June 28, 2012, executed by both parties. The NDA shall apply to the subject matter of this Agreement and is hereby incorporated by reference into this Agreement.

Intellectual Property:

Ubiqconn has all right, title and interest to any intellectual property included within the Products manufactured pursuant to this Agreement that Ubiqconn presented or used as an existing design in its uPad, Carpo or other existing products (“**Ubiqconn Property**”). Xplore has all right, title and interest to any intellectual property included within its designs used in the Products (“**Xplore Property**”). Neither party is granted an unrestricted license for any product utilizing the other party’s intellectual property under this Agreement other than a mutual license granted to each party for the joint development of the Products solely for Xplore by Ubiqconn.

Limitations on Competing Products:

[REDACTED]

[REDACTED]

Pre-Existing Material:

If either party creates and/or owns any Material (as defined below) prior to the date of the execution of this Agreement or independently of its performance under this Agreement (“**Pre-existing Material**”): (a) such party (“**owning party**”) shall solely own such Pre-existing Material (subject to any right of any third party), notwithstanding disclosure or delivery to the other party of such Pre-existing Material; (b) the owning party shall have the right to obtain and hold in its own name all Intellectual Property Rights (as defined below) that may be available in (or result from) such Pre-existing Material; and (c) the other party shall have no license, sublicense, right or immunity, either directly or indirectly, or by implication, estoppels or otherwise, under such Intellectual Property Rights, except as expressly provided elsewhere in this Agreement or in a separate written agreement. “**Material**” means: (i) any work of authorship, idea, procedure, process, system, method, concept, principle, discovery, invention, art, machine, manufacture, composition of matter, material, improvement, formula, pattern, device, compilation, information, list, article, code, matter, program, technique, apparatus, algorithm, design, circuitry, hardware, firmware, software, product or data, irrespective of whether patentable or copyrighted or neither, including without limitation customer or client lists or customer or client information; and (ii) any portion, copy and extract of such Material, irrespective of its media or whether in tangible or intangible form. “**Intellectual Property Rights**” means any patent, trade secret, confidential Material, know-how, maskwork right, copyright (e.g., including any moral right), and any other intellectual property protection and intangible legal right and interest, in any country.

License for Pre-existing Material:

To the extent Ubiqconn needs to use Xplore Technologies' Pre-existing Materials to fulfill its obligations hereunder, Xplore Technologies hereby grants Ubiqconn a worldwide, non-exclusive, non-transferable, royalty-free license to such Pre-existing Materials exclusively for the purpose of developing and manufacturing the Products.

New Developments:

Except for third party's intellectual property, Ubiqconn Property, or Ubiqconn's existing intellectual property including, without limitation, Ubiqconn's design tools, methodologies, software, algorithms, or other means that may be used to design production means or the processes by which the Products are manufactured, assembled, or tested, Ubiqconn agrees that all designs, plans, reports, specifications, drawings and all other information and items of Xplore Property made or conceived by Ubiqconn or by its employees, partners or associates during the course of this Agreement alone or in conjunction with others shall be and are assigned to Xplore Technologies as its sole and exclusive property immediately upon the creation thereof. Upon Xplore Technologies' request, Ubiqconn agrees to provide reasonable assistance to Xplore Technologies, at Xplore Technologies' expense, to obtain patents for any such inventions, including the disclosure of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, and assignments, and all other instruments and papers which in accordance with any competent government authorities' or agencies' request or applicable law or regulations, that Xplore Technologies shall deem necessary to apply for and to assign or convey to Xplore Technologies, its successors and assigns or nominees, the sole and exclusive right, title and interest in such inventions, copyrights, applications and patents. Ubiqconn agrees to obtain or has obtained written assurances from its employees and contract personnel of their agreement to substantially the same terms as contained herein with regard to confidential information and such new developments.

Third Party Intellectual Property:

To the extent the Products include any third-party intellectual property, Ubiquconn and Xplore Technologies will cooperate with each other to obtain an adequate license from the relevant third-party or to find a proper solution to allow Xplore Technologies to market the Products.

## Section II: Business Terms

1. Ubiqconn agrees to provide Xplore with the development and manufacturing services related to the Products described in the statements of work (“SOWs”) attached to this Agreement as **Exhibit A**. Ubiqconn will manufacture the Products according to the mutually agreed upon specifications for the Products as specifically set forth in the SOWs.
  2. All purchase orders submitted by Xplore for the Products shall be in writing in a form reasonably acceptable to Ubiqconn, and shall contain the following: (a) identification of the Products to be purchased, (b) the quantity of Products to be purchased, (c) requested delivery dates with an order lead time equal to or greater than the order lead time set forth below, (d) destination, (e) confirmation of price, (f) shipping method and (g) requested ex factory date. All such purchase orders shall be governed exclusively by the terms and conditions of this Agreement, and any terms or provisions on Xplore's purchase order forms or the like, or Ubiqconn's acknowledgements thereof, that are inconsistent with or additional to those contained in this Agreement shall have no force or effect whatsoever.
  3. Payment Terms
    - Payment terms for purchase orders: [REDACTED] calendar days following shipment of the Products.
    - Payment term for NRE fees: Xplore will pay Ubiqconn compensation for completion of non-recurring engineering (“NRE”) services relating to the Products, as detailed in the SOWs. Payment will be made in installments upon completion of certain milestones, as further described in the SOWs. Each payment will be made by telegraphic transfer (T/T) to Ubiqconn’s designated bank account. Failure by Xplore to make timely payments hereunder may result in delays in the NRE services schedule, for which Ubiqconn will not be held responsible.
    - Ubiqconn will provide NRE and tooling services to Xplore in relation to development of the Products as detailed in the SOWs, consisting of respective specifications of the Products and any AVL (meaning a list of authorized vendors for components and parts to be used in the Products). Ubiqconn agrees that NRE (including tooling and regulatory) fees are “not to exceed” the amounts provided in the SOWs, and assume that no change has been made on the specifications or AVL in the SOWs. If there are incremental NRE expenses (including tooling and regulatory) for any reason solely and directly attributable to Ubiqconn, any such expenses will be absorbed and paid by Ubiqconn. The specifications and AVL included in the SOWs can only be modified upon written consent of both parties. If the specifications or AVL are modified, or any services outside the scope of the SOWs are requested by Xplore, Ubiqconn will provide Xplore with an updated list of NRE services reflecting any changes in completion date, compensation, and/or deliverables. Notwithstanding the above, if Xplore Technologies changes the scope of the Products from that indicated in the SOWs, the incremental expenses caused by the change in scope will be absorbed and paid by Xplore.
  4. TERM: This Agreement shall continue in force for an initial term of one (1) year from the date of the execution of this Agreement (“**Initial Term**”) and shall automatically renew for additional one (1) year terms (“**Renewal Terms**”) unless either party provides written notice to the contrary to the other party at least ninety (90) calendar days prior to the expiration of the Initial Term or any Renewal Term.
  5. Ubiqconn will use its good faith efforts to initiate a cost reduction program on its managed components (excluding parts assigned or consigned by Xplore), and on transformation costs, relating to the Products. Initial pricing, as provided in the SOWs, is based upon estimated purchases by Xplore of [REDACTED] units of each of the Products, and includes estimated and firm material prices, as well as recovery by Ubiqconn on development. Cost/price reductions on the first [REDACTED] units will be limited, but may be reviewed and addressed by the parties in good faith based upon actual lot size purchase orders, major component price changes, and other factors.
  6. For additional orders beyond the initial [REDACTED] units for each of the Products, pricing in the SOWs is based upon an acceptable tiered volume model for the Products that is subject to cost of materials and MVA (material value add), such that Ubiqconn is expected to deliver cost reductions to meet or exceed the guidelines in the following table.
-


7. Pricing for all Products is subject to the following additional terms and conditions:

- Ubiquconn will supply to Xplore the costs of key modules/key parts of the Products which are agreed by the parties quarterly.
- Upon request by Xplore, Ubiquconn will make commercially reasonable efforts to provide country of origin data at the component level supplied by the vendors.
- Prices of the Products are to be adjusted quarterly based on changes to materials, labor and tiered volume achievements.
- Upon consulting with Ubiquconn, Xplore may manage some components source and pricing.
- Ubiquconn will supply Out of Scope (such as specification changes) charges to Xplore quarterly, which charges may be paid as a separate charge or rolled into the subsequent months product costs, at Xplore's option.
- All fixtures, programs, processes, tooling, and intellectual property development related to Xplore Property becomes the property of Xplore. NRE and tooling related to Xplore Property must be described in detail by Ubiquconn.
- Xplore may request that tooling be transferred to another supplier. Xplore has the option to purchase piece parts directly from Ubiquconn's supply chain
- Ubiquconn recognizes that Xplore has introduced certain components, suppliers and subassemblies for the Products that are shared with Xplore's other products, including, but is not limited to, display assemblies, SSDs, AC adapters, Wi-Fi cards, and WAN cards.
- Any Ubiquconn's rebates or refunds resulting from Xplore material purchases which are in compliance with purchase rules set forth by such component suppliers will be considered by Ubiquconn in material price reductions offered to Xplore.
- Ubiquconn will offer Xplore prices equal to or better than any other Ubiquconn customer with similar volume.
- Xplore is entitled to Ubiquconn's prorated percentage share of any rebates and volume based backend pricing offered to Ubiquconn by component suppliers through quarterly cost reductions, provided that such rebate and volume-based backend pricing is due to the quantities of components for purchase orders that are in conformity with such supplier's rebate or back-end policy. .

8. Forecast – Limits of Liability

- Xplore will supply Ubiquconn a [redacted] month rolling forecast to be used for material and capacity planning monthly. Ubiquconn will purchase materials from purchase orders received from Xplore.
- Xplore will place purchase orders with Ubiquconn for the Products quarterly, which will include [redacted] months to a minimum of [redacted] months of the Products to be purchased by Xplore, or to cover long lead non-cancellable & non-returnable ("NCNR") or customized parts not managed separately. The purchase orders are irrevocable and non-cancellable without approval of Ubiquconn.
- If purchase orders are rescheduled, delivery of the covered Products must be within [redacted] ( [redacted] ) months of original delivery date.
- Except as specified in this Agreement, NCNR parts are identified and provided in Exhibit B, which will be updated quarterly by both parties.
- If any purchase orders are canceled during a quarter with Ubiquconn's consent, the limits of Xplore's liability are:
  1. The total value of unique raw materials (*every effort will be made to use or return raw materials*), WIP, finished goods resulting from the cancelled purchase orders.

2. NCNR components (including but not limited to PCBA, Motherboard, more-than-3-month long lead time parts or customized parts, or unique parts which are used only for the products without usage for Ubiquconn's other customers) – [REDACTED]% for total requirements as per purchase order.
3. [REDACTED]% material handling fees on components and assemblies that do not include material burdens already such as WIP and finished goods.

9. Lead-time - Ubiquconn agrees to the following:

- Production lead-time – [REDACTED] working days or less, notification released by Xplore to shipment.
- Warranty and out of warranty repair lead-time – 5 business days or less after Ubiquconn's receipt and test of the returned Product for warranty repair; 5 business days or less after Ubiquconn's receipt and test of the returned Product and Xplore's acceptance of the repair charge quotation provided by Ubiquconn for out of warranty repair.
- Failure analysis – [REDACTED] business days or less, provided that the returned Product and/or relevant documents or materials shall be reasonably satisfied to Ubiquconn to carry out such failure analysis by Ubiquconn.
- Capacity - Ubiquconn agrees to arrange its human resources/labor to provide the following flexibility to take additional orders or support reschedule based on then materials availability ("+" means order increasing; "-" means order reschedule):
  1. Increase inside 4 weeks + [REDACTED]%
  2. Inside 5-12 weeks +/- [REDACTED]%

\*The provisions on capacity increases and rescheduling is in conjunction with the limits of liability and pricing sections previously outlined.

10. Quality:

- PCBA's minimally comply with IPC 610A, Class II.
- Specific quality and test plans for custom products may also be applicable and binding on acceptability.
- Minimum general quality levels: (individual goals are to be detailed in SOP plans, see section 10 paragraph 1)
  1. [REDACTED]
  2. [REDACTED]
  3. [REDACTED]

11. Warranty and Out of Warranty Service/Repair:

- Ubiquconn warrants that the Products will free from defects in materials and workmanship for a period of up to [REDACTED] months, at Xplore option, from the date of shipment. Ubiquconn's warranty does not cover cosmetic parts, packing materials, consumable items, normal wear and tear, external damage or harm to the Products (such as, for example, unusual physical stress, power failure or unusual environmental conditions, or damage during transportation after delivery), the serial number of the Product, bar code, MFG code, or the label of the Products being destroyed, altered or otherwise rendered illegible, any defect in the components or parts provided in any manner by Xplore (such as, consigned parts, buy-sell parts, assigned parts, or Xplore-installed/attached parts), customer abuse, customer software/image and verified NTF.
- Ubiquconn, at its option, will either repair or replace any defective Products returned to Ubiquconn by Xplore.
- Replacement is on an advanced replacement basis if regional repair of a defective Product is not available.

- Warranty and out of warranty repair on the Products are to be performed by Ubiqconn in its regional facilities in North America and Europe.
  - Ubiqconn will perform ongoing out of warranty repair support for █ months after the last unit of the Products ships, with necessary repair charge and materials cost paid by Xplore.
  - Any Products that is found to be Dead on Arrival (“DOA”) during the first █ days from the receipt of the Products by Xplore’s customer (the maximum not exceeding █ days from the delivery of the Products by Ubiqconn) will be replaced by Ubiqconn at its sole expense. DOA will not apply to Products due to shipping damage, improper installation or operation, misuse, abuse, manipulation, alterations or repair attempts, disassembly, external damage, defective assigned parts by Xplore, accidents, fire, floods, and acts of God.
  - Field failure data will be monitored, trended and provided by Xplore quarterly or as needed by Ubiqconn.
  - Epidemic Failure: Ubiqconn will use its commercially reasonable efforts to resolve deficiencies, up to and including field swaps and repairs at Ubiqconn, for “Epidemic Failure,” as defined below for quarterly and annual periods.
    - **Trigger points for Epidemic Failure:**
      - Quarterly failure rates are to be greater than or equal to █% of Products deployed in a quarter with DOA rates for a particular singular defect and greater than or equal to █% of the Products deployed in a 12 month period for all manufacturer’s defects.
      - Annual field failure rates are to be no greater than or equal to █%of products deployed in a quarter with rates for a particular singular defect no greater than or equal to █% of the product deployed in a quarter for all manufacture’s defects.
  - Out of warranty repair pricing is to be in a simplified 3 tiered format to enable covering a target of █% of returns by Xplore’s customers.
12. Test:
- Ubiqconn is responsible for fixture, program development costs and spares. Ubiqconn is responsible for maintenance, debug tools, meters, scopes, DFT and support.
  - Failure analysis: Tools, processes, root-cause determination and resolution other than responsibilities detailed above are the responsibility of the Ubiqconn.
13. Controlled processes and documents:
- A manufacturing, quality and test plan (SOP) described in the SOWs will be a required document supplied by the Ubiqconn for each assembly built. The SOP will be a living document that describes in detail the current manufacturing process, equipment sets, chemistries, data collection points, tested components, test plan and other pertinent data. This plan will be considered a controlled document with changes to this plan requiring approval by both parties. This document is subject to quarterly compliance audit.
  - All Ubiqconn documents, schematics, authorized vendor lists, drawings, program data, CAD files, engineering change documents and other similar documents are subject to specific change control processes.
14. Ubiqconn will provide sufficient operating reports, as defined by Xplore and accepted by Ubiqconn, that provides data driven metrics on Quality, Cost, Continuity of Supply, Technologies/Time to Volume and Service.
15. Ubiqconn will assign sufficient business team resources ample enough to introduce new products, transition products and to support Xplore’s on-going production. A single point of contact person will be assigned to head this team and manage this business.
16. Ubiqconn will actively participate in Xplore’s Quarterly Business Review on an alternating visit cycle.
17. Ubiqconn is to incorporate and use in the manufacturing process “forced routing” on all assemblies manufactured and shipped for Xplore. This forced routing process shall be in place minimally from kit staging to shipment and require process adherence and validation at all major process points in the manufacturing process before allowing the Products to pass to the next process sequence.



18. Ubiqconn is to maintain and provide assembly data in “parent children” relationships on all Products manufactured for Xplore. This data shall minimally consist of part number, serial number, revision control number for both the parent and children “primary” assemblies and components.
19. Ubiqconn will be capable of direct shipping and configuring Products to enable direct ship to Xplore’s end customer or ship to Xplore stock at our discretion. (Min. lot sizes for direct ship are expected and are to be determined)
20. Build configurations, order data, parent children data and shipment data is to be supplied to Xplore by Ubiqconn in XML format for both input and output data.

### Section III: General Legal Provisions:

TERMINATION: In the event of any material breach of this Agreement, the non-breaching party may terminate this Agreement by giving thirty (30) calendar days prior written notice by certified mail or Express Mail with proof of delivery, to the other party; provided, however, that this Agreement shall not terminate if the other party cures the breach prior to the expiration of such thirty (30) calendar day period, or if such breach cannot be cured within such thirty (30) calendar day period, the other party has taken reasonable steps within such thirty (30) calendar day period to cure the breach and thereafter cures such breach as soon as practicable, but not to exceed 30 calendar days.

This Agreement may be terminated by either party upon 120 days written notice to the other.

#### TERMINATION FOR INSOLVENCY

This Agreement shall terminate, upon notice by either party, (i) if the other party files voluntary bankruptcy proceedings, (ii) if involuntary insolvency, receivership or bankruptcy proceedings, are instituted against the other party and are not dismissed within 120 calendar days of such institution, (iii) upon the other party's making an assignment for the benefit of creditors or, (iv) upon the other party's dissolution or ceasing to do business.

Comment explanation: We don't care if this is in or not as there is no effect of termination other than for cause, “term expiration or 120 days written notice cancellation terms all ready in agreement.

#### EFFECT OF TERMINATION

Upon termination of this Agreement:

- a) Xplore Technologies shall pay invoices for services provided by Ubiqconn according to payment terms in this Agreement. Upon termination, Ubiqconn has 15 business days to submit invoices for services not already invoiced;
- b) The parties shall facilitate the transfer of all property, inventory, tooling, products, equipment, and technical data then being held back to the original owner, be it Ubiqconn or Xplore Technologies, however no such return of materials is required if the materials or work product are developed pursuant to this Agreement. The property transfer shall be completed within 30 days from the date of the termination of this Agreement;
- c) Ubiqconn shall immediately return all original design drawings, copies of drawings, specifications, written descriptions, and other recorded technical information of Xplore Property furnished pursuant to this Agreement;
- d) Ubiqconn shall cease to use the documentation and information provided to it by Xplore Technologies pursuant to the provisions of this Agreement; and
- e) Except as required for Xplore Technologies to provide support services to End-Users and for Ubiqconn to execute any right granted under this Agreement (including intellectual property), upon termination of this Agreement for any reason, each party shall return to the other party, or destroy and certify as to such destruction, all Confidential Information, and Documentation of the other party in its possession.

#### GOVERNING LAW

This Agreement and the rights and obligations of the parties hereunder shall be governed by and construed in accordance with the laws of Singapore, without regard to its conflicts of law's provisions, and in no event shall this Agreement be governed by the United Nations Conventions on Contracts for the International Sale of Goods.

If the parties are unable to resolve all issues in dispute arising from this Agreement, the parties agree that the remaining issues in dispute shall be submitted to the exclusive jurisdiction of the Courts of Singapore.

**RELATIONSHIP OF PARTIES:** The parties are independent contractors, and this Agreement will not be construed to create any employment, partnership, joint venture, franchise, master-servant, or agency relationship between the parties. Neither party is authorized to bind the other party, act as an agent for the other party, or otherwise act in the name of or on behalf of the other party.

#### LIMITATION OF LIABILITY

SUBJECT TO THE LAST SENTENCE OF THIS PARAGRAPH, BUT NOTWITHSTANDING ANYTHING TO THE CONTRARY ELSEWHERE IN THIS AGREEMENT, TO THE MAXIMUM EXTENT PERMITTED BY LAW: (a) EACH PARTY'S LIABILITY UNDER THIS AGREEMENT SHALL BE LIMITED TO DIRECT, ACTUAL DAMAGES; AND (b) UNDER THIS AGREEMENT, IN NO EVENT SHALL EITHER PARTY HAVE ANY LIABILITY FOR ANY INDIRECT, CONSEQUENTIAL, INCIDENTAL, PUNITIVE, EXEMPLARY AND SPECIAL DAMAGES) INCLUDING, BUT NOT LIMITED TO, LOSS OF USE, BUSINESS INTERRUPTIONS AND LOSS OF PROFITS OR REVENUE, IRRESPECTIVE OF WHETHER THE PARTY THAT IS OTHERWISE LIABLE HAS ADVANCE NOTICE OF THE POSSIBILITY OF ANY SUCH DAMAGES, AND NOTWITHSTANDING FAILURE OF ESSENTIAL PURPOSE OF ANY REMEDY. NOTWITHSTANDING THE FOREGOING, THIS PARAGRAPH DOES NOT LIMIT A PARTY'S LIABILITY FOR BREACH OF THE OTHER PARTY'S CONFIDENTIAL INFORMATION OR INTELLECTUAL PROPERTY.

#### ENTIRE AGREEMENT

This Agreement and any Exhibits hereto sets forth the entire agreement and understanding of the parties relating to the subject matter herein and merges all prior discussions between them. This Agreement may not be modified or amended except in a writing signed by a duly authorized representative of each party.

#### NOTICES

Any and all notices and other communications necessary or desirable to be served in connection with this Agreement shall be in writing and shall be either sent by registered mail, return receipt requested, postage prepaid, addressed to the intended recipient at the address for such intended recipient set forth below, or sent to facsimile telecopier to the intended recipient at the facsimile telecopier for such intended recipient set forth below. The addresses and facsimile telecopy for the parties hereto are as follows: or to such other addresses or facsimile telecopier numbers as either party hereto may designate for itself from time to time in a notice served upon the other party hereto in accordance herewith. Any notice sent by facsimile telecopy as provided above shall be deemed delivered on the next business day following confirmation of successful transmission of such notice by the transmitting facsimile telecopy system. Any notice sent by mail as provided above shall be deemed delivered on the third (3rd) business day next following the postmark date which it bears.

#### FORCE MAJEURE

Except for the obligation to make payments, non-performance of either party shall be excused to the extent the performance is rendered impossible by strike, fire, flood, governmental acts or orders or restrictions, component shortages or any other reason where failure to perform is beyond the reasonable control of and is not caused by the negligence of the nonperforming party (each a "**Force Majeure Event**") provided, however, that the party so affected shall take all reasonable steps to avoid or remove such cause of non-performance and shall resume performance hereunder with dispatch whenever such causes are removed. Notwithstanding the foregoing, if a Force Majeure Event continues for more than 30 consecutive days, the other party may terminate this Agreement.

**CONFLICT**

Notwithstanding any other provision contained herein, in the event of any conflict between the terms and conditions of this Agreement and any Exhibits and/or appendices attached hereto or referenced herein, the terms and conditions of this Agreement shall control and prevail.

**SEVERABILITY**

If any provision of this Agreement is held by a court of competent jurisdiction to be contrary to law, then the remaining provisions of this Agreement will remain in full force and effect.

**WAIVER**

No delay or omission by either Party to exercise any right or power it has under this Agreement shall impair or be construed as a waiver of such right or power. A waiver by any party of any breach of any covenant or provision of this Agreement shall not be construed to be a waiver of any succeeding breach of any other covenant or provision. All waivers must be in writing and signed by the party waiving its rights.

**BENEFIT**

This Agreement shall inure to the benefit of and are binding upon the parties hereto and their respective successors and permitted assigns. Neither party hereto shall have any right to assign or delegate its rights or obligations hereunder except that a party hereto may assign or delegate its rights including any license granted herein or obligations hereunder (a) to the extent that the other party hereto shall have expressly consented to such assignment or delegation, which consent may be granted or withheld at such other party's discretion, (b) to any entity which controls, is controlled by, or is under common control with such party, and (c) to any person or entity acquiring all or substantially all of such party's assets as are associated with the business that is the subject matter of this Agreement, whether by purchase, merger, acquisition of shares, or other means.

**Approvals:**

Xplore Technologies, Inc.

Ubiqconn Technology, Inc.

/s/ Steven Linahan for Mark Holleran

/s/ Begonia Tsui

Mark Holleran  
President

Begonia Tsui  
CEO & President

Date: September 6, 2012

Date: September 6, 2012

**Exhibit A**  
**Statement of Work (“SOW”) of Tomcat and Bobcat**  
**See attached documents dated Aug 30, 2012**

[Not Included]

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**Exhibit B**  
**NCNR Components**

[Not Included]

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**Amendment to Supplier Agreement Terms and Conditions**

This Amendment to Supplier Agreement Terms and Conditions (the "Amendment") is made and entered into on June 13<sup>th</sup>, 2013 (the "Effective Date") by and between Ubiquonn Technology, Inc., (hereinafter referred to as "Ubiquonn"); and Xplore Technologies Corp., (hereinafter referred to as "Xplore"). Ubiquonn and Xplore are collectively referred to as the "Parties".

WHEREAS:

- A. On September 6<sup>th</sup>, 2012, Ubiquonn and Xplore entered into a Supplier Agreement Terms and Conditions (the "Agreement");
- B. The Parties desire that the Agreement will be amended in accordance with the paragraph of "ENTIRE AGREEMENT" under Section III: General Legal Provision of the Agreement by this Amendment;

NOW, THEREFORE, in consideration of the foregoing and of the mutual promises and covenants hereinafter set forth, the Parties hereto do mutually agree as follows:

- 1. All capitalized terms not otherwise defined herein shall have the meanings ascribed to in the Agreement.
- 2. Amendment of Non-Disclosure. The paragraph of "Non-Disclosure" under Section I : Special Development Terms of the Agreement shall be deleted in its entirety and replaced with the following:

Ubiquonn and Xplore Technologies agree to abide by the terms and conditions set forth in the Mutual Confidentiality and Non-Disclosure Agreement ("NDA"), dated as of June 28, 2012, executed by both parties. Except for any usage authorized by the terms of the NDA or this Agreement, Ubiquonn will not disclose Xplore's Confidential Information including Products information, specifications, key parts list, industrial design/photo, or samples to any third party without prior approval by Xplore. The NDA shall apply to the subject matter of this Agreement and is hereby incorporated by reference into this Agreement.

- 3. Amendment of Competing. The paragraph of "Limitations on Competing Products" under Section I : Special Development Terms of the Agreement shall be deleted in its entirety and replaced with the following:





4. Amendment of Payment of Purchase Orders. The paragraph of “Payment terms for purchase orders” of sub-section 3, “Payment Terms” under Section II: Business Terms of the Agreement shall be deleted in its entirety and replaced with the following:

Payment terms for purchase orders: [REDACTED] calendar days following shipment of the Products. Products include EVT, DVT, and PVT systems.

5. Amendment of NRE Fees. The paragraph of “Payment terms for NRE fees” of sub-section 3, “Payment Terms” under Section II: Business Terms of the Agreement shall be deleted in its entirety and replaced with the following:

Payment term for NRE fees: Xplore will pay Ubiqconn compensation for completion of non-recurring engineering (“NRE”) services relating to the Products, as detailed in the SOWs. Payment will be made in installments upon completion of certain milestones, as further described in the SOWs. Each payment will be made by telegraphic transfer (T/T) to Ubiqconn’s designated bank account. Failure by Xplore to make timely payments hereunder may result in delays in the NRE services schedule, for which Ubiqconn will not be held responsible. For the Tomcat project, after the 1st [REDACTED] units delivered by Ubiqconn, Ubiqconn agrees to rebate \$ [REDACTED] for each from [REDACTED] unit until all NRE fees of Tomcat is refunded.

6. Continued Effectiveness. Except as otherwise provided herein, all terms and conditions of the Agreement shall remain in full force and effect.

7. Governing Law. This Amendment shall in all respects be governed by and construed in accordance with the laws of Singapore, without regard to conflicts of law provisions thereof.
8. Counterparts. This Assignment Agreement will be executed in two counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

IN WITNESS WHEREOF, the Parties hereto, intending to be legally bound hereby, have executed this Amendment as of the date first above written.

Ubiquonn Technology Inc

Xplore Technologies Corp.

Signature:

Signature:

/s/ Begonia Tsui

/s/ Steve Linahan

By: Begonia Tsui

By: Steve Linahan

Title: CEO

Title: Vice President, Operations

Date: 7/3/2013

Date: 7/2/2013



## FIFTH AMENDMENT TO LEASE AGREEMENT

This FIFTH AMENDMENT TO LEASE AGREEMENT (this "**Amendment**") is made and entered into as of May 29, 2014 by and between G&I VII Summit Tech, LP, a Delaware limited partnership ("**Lessor**"), and Xplore Technologies Corp., a Delaware corporation ("**Lessee**").

## BACKGROUND:

- A. On May 18, 2003, Lessor's predecessor in interest ("**Original Lessor**") and Lessee's predecessor in interest ("**Original Lessee**") entered into that certain Lease Agreement (the "**Original Lease**") for approximately 16,485 rentable square feet (the "**Original Leased Premises**") in the "**Building**" (herein so called) known by street address as 14000 Summit Drive, Suite 900, Austin, Texas 78728, being a part of the Commercial Park commonly known as Summit Tech Center (the "**Commercial Park**").
- B. On May 18, 2003, Original Lessor and Original Lessee entered into that certain First Amendment to Lease (the "**First Amendment**").
- C. By letter dated February 3, 2004, Original Lessee exercised its right of first refusal as to 5,192 additional rentable square feet of the Expansion Premises (as defined in the Original Lease) (the "**Additional Space**") (the Original Lease Premises, together with the Additional Space, will be referred to herein collectively as the "**Leased Premises**"). Original Lessee's exercise of its right of first refusal for the Additional Space was memorialized when Original Lessee and Original Lessor entered into that certain Second Amendment of Lease dated May 26, 2004 (the "**Second Amendment**").
- D. On June 29, 2004, Original Lessor and Original Lessee entered into that certain Third Amendment of Lease (the "**Third Amendment**").
- E. Bailard Austin II, Limited Partnership ("**Bailard**") succeeded to the interest of Original Lessor and Lessee succeeded to the interest of Original Lessee under the Original Lease.
- F. On March 1, 2009, Bailard and Lessee entered into that certain Fourth Amendment to Lease Agreement (the "**Fourth Amendment**") (the Original Lease, together with the First Amendment, the Second Amendment, the Third Amendment and the Fourth Amendment will be referred to herein collectively as the "**Lease**").
- G. Lessor purchased the Commercial Park and succeeded to the interest of Bailard under the Lease.
- H. Lessor and Lessee desire to amend the Lease to, among other things, extend the term of the Lease.

**AGREEMENT:**

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which are acknowledged, the parties agree as follows:

1. **Capitalized Terms.** All capitalized terms which are not otherwise defined herein shall have the meaning set forth in the Lease, as amended hereby.
2. **Renewal.** The Term is extended to expire on August 31, 2019 (the "**Expiration Date**").
3. **Base Monthly Rent.** From September 1, 2014 (the "**Effective Date**") through the Expiration Date, the Base Monthly Rent payable under the Lease is as follows:

<b>Months</b>	<b>Base Monthly Rent per Square Foot</b>	<b>Base Monthly Rent</b>
9/01/2014 – 8/31/2015	\$0.80	\$17,341.60
9/01/2015 – 8/31/2016	\$0.82	\$17,775.14
9/01/2016 – 8/31/2017	\$0.84	\$18,208.68
9/01/2017 – 8/31/2018	\$0.86	\$18,642.22
9/01/2018 – 8/31/2019	\$0.88	\$19,075.76

Lessee shall continue to pay all other amounts payable under the Lease.

4. **Cap on Controllable Expenses.** The parties agree that, beginning in calendar year 2015 and continuing through the Expiration Date, the CAM charges and Management fee (together, "**Controllable Expenses**") may increase by as much as eight percent (8%) over those charges actually paid by Tenant in the previous calendar year; for example, the maximum amount of Controllable Expenses that may be charged to Tenant for each calendar year after 2014 shall equal the product of the 2014 Controllable Expenses and the following percentages for the following calendar years: 108% for 2015; 116.64 for 2016; 125.97 for 2017, etc.

Therefore, the second sentence of Article 4.F of the Original Lease is hereby deleted in its entirety and replaced as follows:

*"The CAM charges and the Management fee will not increase more than eight percent (8%) on a compounding and cumulative basis from the prior calendar year's actual cost for the same ("Cap on Controllable Expenses")."*

5. **Option to Renew.** Lessor shall grant Lessee with the option to renew and further extend the Term in accordance with **Attachment C** attached to this Amendment.
6. **Acceptance of Leased Premises.** Lessee accepts the Leased Premises in their "**AS-IS**" condition and Lessor shall have no obligation to improve, repair, restore or refurbish the Leased Premises except as otherwise specifically provided in this Amendment. Lessee acknowledges that neither Lessor nor any agent of Lessor has made any representation or warranty, except as otherwise expressly provided in this Amendment, with respect to the Leased Premises or any other portion of the Commercial Park including, without limitation, any representation or warranty with respect to the suitability or fitness of the Leased Premises or any other portion of the Commercial Park for the conduct of Lessee's business. Lessor shall be responsible for any necessary repairs to all HVAC units on the Leased Premises for the first year after execution of this Amendment. Thereafter, Lessee shall be required to keep such HVAC units under maintenance contracts for the remainder of the Term and will be responsible for all upkeep of such units following the first year after execution of this Amendment; provided, however, that Lessee will not be responsible for maintenance and care of such HVAC units in excess of \$500 per year per unit.

7. Finish-Out of Leased Premises. Lessor agrees to conduct the finish work described more fully in and in accordance with Attachment A attached to this Amendment.

8. Indemnity. Section 7(A) of the Lease is deleted and the following substituted therefor:

A. Lessee agrees to indemnify and hold Lessor, Lessor's agents and Lessor's employees harmless from all losses, claims, suits, actions, damages, and liability (including reasonable attorneys' fees and other costs and expenses of defending against all of the aforesaid) arising (or alleged to arise) from any act or omission of Lessee or Lessee's agents, employees, assignees, sublessees, contractors, customers or invitees, or arising from any injury to or death of any person or persons or damage to or destruction of the property of any person or persons occurring in or about the Leased Premises or on the sidewalks adjacent thereto, and Lessee assumes responsibility for the condition of the Leased Premises and agrees to give Lessor written notice in the event of any damage, defect or disrepair therein. **The indemnity set forth in this Article 7 is intended to indemnify Lessor, its agents and employees against the consequences of their own negligence or fault, even when Lessor or its agents are jointly, comparatively, contributively, or concurrently negligent with Lessee, and even though any such claim, cause of action or suit is based upon or alleged to be based upon the strict liability of Lessor, its agents or employees; however, such indemnity shall not apply to the sole or gross negligence or willful misconduct of Lessor, its agents or employees.**

9. Holding Over. Article 23 of the Lease is deleted and the following substituted therefor:

A. If Lessee fails to vacate the Leased Premises at the expiration or earlier termination of the Lease, Lessee shall be deemed to be a Lessee at sufferance and, in addition to all other damages and remedies to which Lessor may be entitled for such holding over, Lessee shall pay, in addition to all other amounts payable hereunder, Base Monthly Rent equal to 150% of the Base Monthly Rent payable during the last month of the Term. Such occupancy is subject to all the terms and conditions of the Lease.

B. The terms of this Article 23 shall not be deemed to limit or constitute a waiver of any other rights or remedies of Lessor provided herein or at law. If Lessee fails to surrender the Leased Premises at the end of the Lease Term, in addition to any other liabilities to Lessor accruing therefrom, Lessee shall protect, defend, indemnify and hold Lessor harmless from all loss, costs (including reasonable attorneys' fees) and liability resulting from such failure.

10. Move-Out. Article 22 of the Lease is deleted and the following substituted therefor:

Lessee will not commit waste but will maintain the Leased Premises in a clean condition and in good repair. Upon termination of the Lease, Lessee will surrender the Leased Premises to Lessor broom-clean, in good repair and condition, free of Hazardous Substances placed on the Leased Premises during the Term, reasonable wear and tear and damage by casualty expected, and shall deliver to Lessor all keys to the Leased Premises. Without limiting the generality of the foregoing sentence, Lessee shall be responsible, prior to termination or expiration of the Lease Term, to perform, to Lessor's satisfaction, each and every repair and maintenance item listed on **Attachment B** attached hereto and incorporated herein (the "**Lessee Move-Out Responsibilities**"). At least thirty (30) days, but not more than sixty (60) days, prior to the termination or expiration of the Lease Term, Lessee shall schedule a meeting with Lessor at the Leased Premises to review the status of the Lessee Move-Out Responsibilities (the "**Move-Out Meeting**"), which Move-Out Meeting shall occur no later than five (5) days prior to the termination or expiration date. At the Move-Out Meeting, the parties shall identify those items of the Lessee Move-Out Responsibilities which have been completed and those that have not been completed. If certain items have not been completed, Lessor and Lessee shall schedule a subsequent, final walk-through of the Leased Premises prior to the termination or expiration date so that Lessor may confirm that Lessee has completed all of the Lessee Move-Out Responsibilities. If Lessee fails or refuses to complete all of the Lessee Move-Out Responsibilities, to Lessor's satisfaction, prior to the termination or expiration date of the Lease, then Lessor may (but shall not be obligated to) complete all remaining Lessee Move-Out Responsibilities. Lessee shall reimburse Lessor, upon demand, for all costs and expenses incurred by Lessor to complete any unfinished, incomplete Lessee Move-Out Responsibilities ("**Lessor Move-Out Costs**"), plus an administrative fee payable to Lessor equal to fifteen percent (15%) of the total Lessor Move-Out Costs. Failure of Lessee to perform any of its obligations under this section including, but not limited to, its failure to perform the Lessee Move-Out Responsibilities to Lessor's satisfaction, within the time period required in this section, shall constitute an Event of Default under the Lease and shall entitle Lessor, in addition to all other recourses and remedies provided in the Lease, to deduct from any security deposit held by Lessor under the Lease an amount equal to the Lessor Move-Out Costs plus the fifteen percent (15%) administrative fee described above.

11. Address for Lessor. As of the date of this Amendment, all notices to be provided to Lessor under this Amendment shall be sent to the following addresses:

c/o Stream Realty Partners – Austin, L.P.  
401 W. 15th Street, Suite 1250  
Austin, Texas 78701

with copy to:

c/o DRA Advisors LLC  
220 East 42nd Street (27th Floor)  
New York, New York 10017  
Attn: Asset Management

12. OFAC. Lessee represents and warrants to Lessor that Lessee is currently in compliance with, and Lessee further covenants to Lessor that Lessee shall at all times during the Lease Term (including any extension thereof) remain in compliance with, the regulations of the Office of Foreign Assets Control ("**OFAC**") of the U.S. Department of Treasury (including those named on OFAC's Specially Designated Nationals and Blocked Persons List) and any statute, executive order (including, but not limited to, Executive Order 13224, dated September 24, 2001 and entitled "Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism"), or other governmental, regulatory, or administrative action relating thereto.
13. Brokerage. Neither Lessor nor Lessee has dealt with any broker or agent in connection with the negotiation or execution of this Amendment, other than Stream Realty Partners – Austin, L.P. ("**Lessor's Broker**") and Jackson Cooksey ("**Lessee's Broker**") (collectively, the "**Brokers**"), whose commissions shall be paid by Lessor pursuant to separate written agreements. Lessee and Lessor shall each indemnify, defend and hold harmless the other against all costs, expenses, attorneys' fees, liens and other liability for commissions or other compensation claimed by the Brokers or any other broker or agent claiming the same by, through, or under the indemnifying party.
14. WAIVER OF JURY TRIAL. TO THE MAXIMUM EXTENT PERMITTED BY LAW, LESSOR AND LESSEE EACH WAIVE ANY RIGHT TO TRIAL BY JURY IN ANY LITIGATION OR TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE ARISING OUT OF OR WITH RESPECT TO THE LEASE OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH OR THE TRANSACTIONS RELATED HERETO.
15. Governing Law. The Lease shall be governed by and construed in accordance with the laws of the state in which the Leased Premises are located and all claims, suits, demands and actions relating to the Lease will be made and brought in Travis County, Texas.
16. Recordation of Lease. Lessee shall not record the Lease or any memorandum of the Lease without the prior written consent of Lessor, which consent may be withheld or denied in the sole and absolute discretion of Lessor, and any recordation by Lessee shall be a material breach of the Lease. Lessee grants to Lessor a power of attorney to execute and record a release releasing any such recorded instrument of record that was recorded without the prior written consent of Lessor.
17. Calculation of Charges. Lessor and Lessee agree that each provision of the Lease for determining charges and amounts payable by Lessee (including provisions regarding additional rent and Lessee's Proportionate Share of Operating Expenses) is commercially reasonable and, as to each such charge or amount, constitutes a statement of the amount of the charge or a method by which the charge is to be computed for purposes of Section 93.012 of the Texas Property Code.
18. No Waiver. Neither acceptance of rent (or any portion thereof) or any other sums payable by Lessor or Lessee hereunder (or any portion thereof) by Lessor or Lessee nor failure by Lessor or Lessee to complain of any action, non-action or default of the other shall constitute a waiver as to any breach of any covenant or condition of Lessee contained herein nor a waiver of the rights of any party hereunder. Waiver of any default shall not constitute a waiver of any prior or subsequent default under the Lease. No right, remedy, covenant, duty or obligation hereunder shall be deemed waived unless such waiver be in writing.

19. No Offsets. Lessee hereby represents to Lessor that to the best of Lessee's knowledge, as of the date of this Amendment, Lessee has no defenses to or offsets against the full and timely payment and performance of each and every covenant and obligation required to be performed by Lessee under the terms of the Lease.
20. Conflicts. The terms of this Amendment prevail if there is a conflict with the terms of the Lease.
21. Headings. The headings or captions of the paragraphs in this Amendment are for convenience only and shall not act and shall not be implied to act to limit or expand the construction and intent of the contents of the respective paragraph.
22. Binding Effect. This Amendment is binding upon and shall inure to the benefit of the parties and their respective successors and assigns (but this reference to assigns shall not be deemed to act as a consent to an assignment by Lessee).
23. Ratification. The Lease, as amended and modified hereby, is ratified and confirmed by the parties as being in full force and effect.
24. Non-Disturbance Agreement. Lessor shall use its reasonable best efforts to facilitate the execution of a Non-Disturbance Agreement between Lessee and Lessor's lender. Costs arising from such agreement shall be the responsibility of Lessee.

[signature page follows]

EXECUTED as of the date first above written.

**LESSOR:**

**G&I VII Summit Tech LP,**  
a Delaware limited partnership

By: G&I VII Ranger GP LLC, a Delaware limited liability company, its general partner

By: /s/ Brian T. Summers

Name: Brian T. Summers

Title: Vice President

**LESSEE:**

**Xplore Technologies Corp.,**  
a Delaware corporation

By: /s/ Michael J. Rapisand

Name: Michael J. Rapisand

Title: Chief Financial Officer

ATTACHMENT "A"

**LESSEE FINISH-WORK: WORK OF LIMITED SCOPE (NO PLANS)  
(Lessor Performs the Work)**

1. **Acceptance of Leased Premises.** Except as set forth in this Attachment A, Lessee accepts the Leased Premises in their "**AS-IS**" condition on the date that this Amendment is entered into.

2. **Scope of Work.** Lessor, at its sole cost and expense, shall perform the following work in the Leased Premises (the "**Work**"):

- Install one (1) 3-ton ductless split in the server room in the Leased Premises.
- Paint the interior walls in the office portion of the Leased Premises with Building-standard paint.
- Replace all carpet and VCT in those portions of the Leased Premises with carpet and/or VCT using Building-standard carpet and Building-standard VCT, where applicable.
- Replace lighting in the warehouse portion of the Leased Premises with thirty-two (32) 6-lamp T5 lights.
- Provide a \$1,000.00 budget for Lessee to balance the air throughout the Leased Premises.
- Install an air conditioning "grill" in the back office portion of the Leased Premises using Building-standard materials.
- Install a 2' x 2' window in door leading to warehouse portion of the Leased Premises using Building-standard materials.
- Repair unstable toilet in bathroom and removed fixtures from bathroom prior to installing new flooring.
- Repair "hot breaker" in warehouse portion of Leased Premises per Lessee's recommendation for \$245.00.
- Replace all damaged ceiling tiles through the Leased Premises using Building-standard materials.

Within three business days after the date of this Amendment, Lessee shall select all Building-standard materials to be incorporated into the Work and give written notice of such selection to Lessor.



ATTACHMENT "B"

**MOVE OUT STANDARDS**

<b><u>ITEM</u></b>	<b><u>EXPECTED CONDITION</u></b>
<b>Ceiling:</b>	1. Replace all damaged, missing and stained tiles and ceiling grid
<b>Dock Doors/ Truck Wells:</b>	1. Repair and replace dented/damaged panels 2. Ensure doors operate properly 3. Leave keys to doors near the locks on inside of the premises 4. Replace any missing dock bumpers
<b>Doors:</b>	1. Ensure all front and rear doors close and lock properly, leave keys in locks.
<b>Electrical:</b>	1. Ensure all outlets, telephone jacks and switches are in good working order and have face plates
<b>Exterior:</b>	1. Ensure all downspouts and drains are in good condition, replace damaged downspouts and drains (requirement is only applicable to that portion of the exterior wall along the space which tenant occupies)
<b>Floors:</b>	1. Clean tile areas 2. Vacuum all carpet 3. Repair cut and torn carpets 4. Ensure cove base is attached and intact 5. Remove any protrusions from floor area—cut off at floor level 6. Remove any tars, paints, greases or other residue from warehouse floor, sweep, power wash or mop and seal if necessary.
<b>HVAC:</b>	1. Ensure that HVAC is in good operating condition (filters, ducts, thermostats, coils, pan, Freon levels, belt). 2. Clean all HVAC vent returns
<b>Lighting:</b>	1. Ensure all lamps, bulbs and ballasts are in good operating condition 2. Ensure all light lenses covers are intact and if broken replace
<b>Plumbing:</b>	1. Ensure all plumbing fixtures are in good working order 2. Ensure fire sprinklers are in good working order (if applicable) 3. Turn off all gas and equipment and ensure all is in good working order 4. Ensure that any leaks are repaired
<b>Signs:</b>	1. Remove storefront signage 2. Cap off wires if applicable

3. Lessor will patch fascia and bill Lessee

**Trash:**

1. Dispose of trash/debris within space as well as the exterior rear
2. Remove dumpsters
3. Remove all warehouse racking systems, fences, etc.

**Walls:**

1. Repair any damage to interior, exterior (limited to that portion of the exterior wall along the space which tenant occupies) and demising walls, and paint colored walls white.
2. Repair or replace any damaged structural steel columns (must consult with Property Manager).

**Windows:**

1. Remove all paint/vinyl/markings/tape except address and suite number
2. Clean windows, mullions and blinds
3. Replace damaged glass
4. Ensure all window blinds are operating properly (remove if necessary)

**Hazardous**

**Materials:**

1. Remove all Hazardous Substances placed in or about the Leased Premises or the Commercial Park by Lessee, its employees, agents, contractors or invitees as well as all installations (interior and exterior) made by or on behalf of Lessee relating to the storage, use, treatment, disposal or transportation of Hazardous Substances, and cause such Hazardous Substances and installations to be transported for use, storage or disposal in accordance and compliance with all Environmental Laws.

ATTACHMENT "C"

**RENEWAL OPTION**

Provided no Event of Default exists and Lessee is occupying the entire Premises at the time of such election, Lessee may renew the Lease for one additional period of five (5) years, by delivering written notice of the exercise thereof to Lessor not earlier than twelve (12) nor later than nine (9) months before the expiration of the Term. The Base Rent payable for each month during such extended Lease Term shall be the prevailing rental rate (the "**Prevailing Rental Rate**"), at the commencement of such extended Lease Term, for renewals of space in the Building of equivalent quality, size, utility and location, with the length of the extended Lease Term, the "AS IS" nature of the renewal, and the credit standing of Lessee to be taken into account. Within 30 days after receipt of Lessee's notice to renew, Lessor shall deliver to Lessee written notice of the Prevailing Rental Rate and shall advise Lessee of the required adjustment to Base Rent, if any, and the other terms and conditions offered. Lessee shall, within ten days after receipt of Lessor's notice, notify Lessor in writing whether Lessee accepts or rejects Lessor's determination of the Prevailing Rental Rate. If Lessee timely notifies Lessor that Lessee accepts Lessor's determination of the Prevailing Rental Rate, then, on or before the commencement date of the extended Term, Lessor and Lessee shall execute an amendment to this Lease extending the Lease Term on the same terms provided in this Lease, except as follows:

- (a) Base Rent shall be adjusted to the Prevailing Rental Rate;
- (b) Lessee shall have no further renewal option unless expressly granted by Lessor in writing; and
- (c) Lessor shall lease to Lessee the Premises in their then-current condition, and Lessor shall not provide to Lessee any allowances (e.g., moving allowance, construction allowance, and the like) or other Lessee inducements.

If Lessee rejects Lessor's determination of the Prevailing Rental Rate and timely notifies Lessor thereof, Lessee may, in its notice to Lessor, require that the determination of the Prevailing Rental Rate be made by brokers (and if Lessee makes such election, Lessee shall be deemed to have irrevocably renewed the Lease Term, subject only to the determination of the Prevailing Rental Rate as provided below). In such event, within ten days thereafter, each party shall select a qualified commercial real estate broker with at least ten years' experience in leasing property and buildings in the city or submarket in which the Premises are located. The two brokers shall give their opinion of prevailing rental rates within 20 days after their retention. In no event, however, shall the Base Rent in the renewal term be less than the then current Base Rent rate per rentable square foot in effect hereunder. In the event the opinions of the two brokers differ and, after good faith efforts over the succeeding 20-day period, they cannot mutually agree, the brokers shall immediately and jointly appoint a third broker with the qualifications specified above. This third broker shall immediately (within five days) choose either the determination of Lessor's broker or Lessee's broker and such choice of this third broker shall be final and binding on Lessor and Lessee. Each party shall pay its own costs for its real estate broker. Following the determination of the Prevailing Rental Rate by the brokers, the parties shall equally share the costs of any third broker. The parties shall immediately execute an amendment as set forth above. If Lessee fails to timely notify Lessor in writing that Lessee accepts or rejects Lessor's determination of the Prevailing Rental Rate, time being of the essence with respect thereto, Lessee's rights under this Attachment shall terminate and Lessee shall have no right to renew this Lease.

Lessee's rights under this Attachment shall terminate if (1) this Lease or Lessee's right to possession of the Premises is terminated, (2) Lessee assigns any of its interest in this Lease or sublets any portion of the Premises, or (3) Lessee fails to timely exercise its option under this Attachment, time being of the essence with respect to Lessee's exercise thereof.

ATTACHMENT C TO FIFTH AMENDMENT TO LEASE AGREEMENT  
RENEWAL OPTION

PAGE 2

**XPLORE TECHNOLOGIES CORP.**  
**TRANSACTION BONUS PLAN**

**Plan Overview.** Xplore Technologies Corp. is formally adopting the Transaction Bonus Plan (the “Plan”) to establish a bonus program for senior management employees of the Company who are in a position to significantly impact the value received by the Company’s stockholders from a Transaction (as defined below) during the term of the Plan. The Plan is based upon the theory that senior management employees of the Company should be incentivized and rewarded in the event the Company consummates a Transaction. The Plan amends and restates in its entirety the Company’s transaction bonus pool adopted in 2006.

**Definitions.** Unless the context otherwise requires, the following words as used herein shall have the following meanings:

“Administrator” means the Board of Directors of the Company, unless the Board determines to appoint a committee of the Board to administer the Plan.

“Affiliate” means any person or entity that directly or indirectly controls, is controlled by, or is under common control with the Company.

“Board” means the entire Board of Directors of the Company.

“Cause” means any one or more of the following, as determined by the Board in its sole discretion: the Participant’s (a) commission of an act or acts involving any breach of fiduciary duty or fraud; (b) misconduct having an adverse effect on the Company or any of its Affiliates or commission of an act or acts of embezzlement or theft against the property or personnel of the Company or its Affiliates involving a potential loss of more than a nominal amount; (c) conviction of, or a plea of guilty or nolo contendere to, (i) a felony or (ii) any other criminal offense and such conviction or plea results in an adverse effect on the Company or its Affiliates; (d) repeated failure or refusal to perform the Participant’s duties for the Company; (e) abuse of alcohol, drugs or any controlled substance that interferes with the Participant’s ability to perform his or her duties or has an adverse effect on the Company or its Affiliates, monetarily or otherwise; (f) breach of any confidentiality, non-competition, non-solicitation, non-disparagement or similar agreement with the Company or any of its Affiliates; or (g) violation of any written policy of the Company that has a material negative effect on the Company or its Affiliates, monetarily or otherwise. If a Participant and the Company have entered into an employment agreement or other similar agreement that specifically defines “cause,” then with respect to that Participant, “Cause” will have the meaning defined in the Plan for purposes of the Plan and in that agreement for purposes of that agreement. For purposes of the Plan, a Participant’s employment shall be deemed to have been terminated for Cause if, after the Participant’s termination of employment for any reason, facts and circumstances are discovered that would have justified, in the opinion of the Board, a termination for Cause.

“Company” means Xplore Technologies Corp., a Delaware corporation.

“Disability” means a condition rendering a Participant disabled, within the meaning of Section 22(e)(3) of the Internal Revenue Code of 1986, as amended.

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“Effective Date” means August 6, 2013.

“Individual Bonus Multiplier” means, with respect to Mark Holleran, the Company’s Chief Operating Officer as of the Effective Date, 50%, with respect to Michael J. Rapisand, the Company’s Chief Financial Officer as of the Effective Date, 30%, and with respect to Bryan J. Bell, the Company’s Vice President of Engineering as of the Effective Date, 5%. The sum of the Individual Bonus Multipliers for all Participants as of the Effective Date is 85%. In the event the Administrator designates additional individuals as Participants in the Plan, the Administrator shall assign, in its sole discretion, an Individual Bonus Multiplier to such new Participant, provided that the aggregate Individual Bonus Multipliers for all Participants may not exceed 100%.

“Investment Amount” means, as of the Effective Date, \$69,000,000, increased, on a dollar for dollar basis, by the amount of gross proceeds received by the Company in connection with the future issuance of any shares of capital stock or any securities convertible into or exchangeable for capital stock of the Company (including any indebtedness of the Company) after the Effective Date plus the aggregate amount of interest and dividends, if any, paid or payable in respect of such future issuances of such stock or securities (“Additional Investment”).

“Named Executive Officers” means Mark Holleran, the Company’s Chief Operating Officer as of the Effective Date, Michael J. Rapisand, the Company’s Chief Financial Officer as of the Effective Date, and Bryan J. Bell, the Company’s Vice President of Engineering as of the Effective Date.

“Net Proceeds” means, with respect to a Transaction, the aggregate dollar value of the consideration actually received by the Company’s stockholders pursuant to the terms of such Transaction in respect to their equity interests (excluding any assumption of liabilities or other indebtedness by any counterparty and any Transaction Expenses incurred by the Company in connection with the Transaction). Any such consideration received by the Company’s stockholders in the form of property or securities will be deemed to have the value of such consideration, as determined in good faith by the Board. If non-cash consideration is provided pursuant to the terms of the Transaction, then the Plan bonus payments received by the Participants shall consist of the same type of non-cash consideration or the same relative ratio of cash and such non-cash consideration as was received by the Company’s stockholders in respect of the Transaction.

“Net Proceeds Bonus Pool” means, with respect to a Transaction, the sum of (a) 5% times the Investment Amount (or 5% times the Net Proceeds, if the Net Proceeds is less than the Investment Amount), plus (b) 10% times any amount of Net Proceeds in excess of the Investment Amount, if any. For example, if the Net Proceeds from a Transaction is \$109.5 million (and there has been no Additional Investment since the Effective Date such that the Investment Amount remains \$69 million), then the Net Proceeds Bonus Pool would equal the sum of (a) 5% times \$69 million (\$3,450,000), plus (b) 10% times \$40.5 million (\$4,050,000), for a total of \$7.5 million.

“Participant” means each of the Named Executive Officers and any other senior management employee of the Company eligible to receive a bonus under the Plan, as determined by the Administrator, provided that any individual (a) whose employment is terminated by the Company for Cause at any time or who voluntarily resigns from the Company prior to the closing of a Transaction shall cease to be a Participant as of the date of termination, (b) who violates Section 5(f) or breaches any confidentiality, non-competition, non-solicitation, non-disparagement or similar agreement with the Company or any of its Affiliates shall cease to be a Participant as of the date of such violation or breach, or (c) who ceases to be eligible for a payment under the Plan following the six month anniversary of their termination of employment pursuant to Section 5(c) or 5(d) shall cease to be a Participant as of such six month anniversary; and, in each case of clause (a), (b) or (c) of this Section 2(m), such individual shall not be eligible for any payment or benefit hereunder.

“Plan” means this Xplore Technologies Corp. Transaction Bonus Plan, as may be amended by the Company from time to time.

“Transaction” means either of the following events: (i) the sale of all or substantially all of the outstanding securities of the Company, in a single transaction or series of related transactions, to an unrelated third party or parties; or (ii) the sale, lease, transfer or exclusive license or other disposition, in a single transaction or series of related transactions, by the Company or any subsidiary of the Company of all or substantially all the assets of the Company and its subsidiaries taken as a whole, or the sale or disposition (whether by merger or otherwise) of one or more subsidiaries of the Company if substantially all of the assets of the Company and its subsidiaries taken as a whole are held by such subsidiary or subsidiaries, except where such sale, lease, transfer, exclusive license or other disposition is to a wholly owned subsidiary of the Company; provided, in each case, that such event qualifies as a “change in the ownership” or a “change in the ownership of a substantial portion of the assets” of the Company within the meaning of Treasury Regulation section 1.409A-3(i)(5)(v) or section 1.409A-3(i)(5)(vii), respectively.

“Transaction Expenses” means, for any Transaction, the amounts, if any, paid or payable by the Company (or deducted from the consideration paid or payable under the terms of the Transaction) for broker fees and expenses, investment banking fees, legal and accounting fees and expenses, and any other out-of-pocket costs or expenses incurred by the Company that are related to such Transaction.

**Eligibility to Participate.** The Participants are eligible to participate in the Plan; provided that each Participant executes an Acknowledgment and Agreement of Participation. No Participant will be eligible for a payment hereunder unless he or she (or his or her representative in the event of the Participant’s death or Disability) timely executes, delivers and does not revoke a general release of claims against the Company and its Affiliates in a form, substantially the same as set forth in Exhibit A, to be furnished by the Company on or prior to the closing of a Transaction (the “Release Condition”).

**Bonus Formula.** The Plan bonus payable to a Participant for a Transaction will be the product of (a) the Net Proceeds Bonus Pool multiplied by (b) the Participant’s Individual Bonus Multiplier. For example, if the Net Proceeds Bonus Pool is \$8 million, then a Participant having an Individual Bonus Multiplier of 10% would be eligible to receive a Plan bonus payment of \$800,000 (determined as \$8 million times 10%), less applicable withholding for taxes. The Participants as of the Effective Date would be eligible to receive the following gross amounts in the event of a Net Proceeds Bonus Pool of \$8 million: Mark Holleran: \$4 million (50% of \$8 million), Michael Rapisand: \$2.4 million (30% of \$8 million), and Bryan Bell: \$400,000 (5% of \$8 million). For the avoidance of doubt, regardless of whether the aggregate Individual Bonus Multipliers for all Participants is equal to or is less than 100% at the time of a Transaction (or whether any Participant becomes ineligible to receive a bonus payment), the foregoing formula will continue to apply, and there shall be no reallocation of bonus payments to eligible Participants in respect of any amount by which the Net Proceeds Bonus Pool exceeds the aggregate gross payable Plan bonuses.

**Time of Payment; Termination of Employment; Forfeiture.**

In General. Subject to the provisions of Section 3, payments will be made to the eligible Participants on the same schedule and under the same terms and conditions as apply to the payment of Transaction consideration to the stockholders of the Company in respect of their equity interests in accordance with the requirements of Treasury Regulation section 1.409A-3(i)(5)(iv). For avoidance of doubt, each bonus payable for such Transaction will be paid to the eligible Participants in cash, in-kind or in a combination of cash and non-cash consideration, in accordance with Section 2(k). Such payment (or payments) shall satisfy the Company's entire obligation to any Participant under the Plan, and the Participant shall have no further right to any payments hereunder.

Continued Employment. Except as provided below, a Participant must be continuously employed by the Company or its Affiliate through the date of the closing of a Transaction to be eligible to receive a bonus payment under the Plan.

Death or Disability. If a Participant's employment with the Company terminates due to the Participant's death or Disability within six (6) months prior to the closing of a Transaction, the Participant (or his or her representative, estate or designated beneficiary) will be eligible to receive the bonus in accordance with Section 4, subject to the conditions provided herein (including compliance with any confidentiality, non-competition, non-solicitation, non-disparagement or similar agreement with the Company or any of its Affiliates as provided under Section 2(m) and the Release Condition in Section 3), with any such payment to be paid in a lump sum to the Participant, his or her personal representative, estate or designated beneficiary, as applicable, at the time set forth in Section 5(a).

Involuntary Termination without Cause. If a Participant's employment with the Company is involuntarily terminated by the Company other than for Cause within six (6) months prior to the closing of the Transaction, the Participant will be eligible to receive the Plan bonus in accordance with Section 4, subject to the provisions of the Plan (including compliance with any confidentiality, non-competition, non-solicitation, non-disparagement or similar agreement with the Company or any of its Affiliates as provided under Section 2(m) and the Release Condition in Section 3), with any such payment to be paid in a lump sum at the time set forth in Section 5(a).



Voluntary Resignation or Termination with Cause. If a Participant's employment with the Company is terminated by the Company for Cause or is terminated voluntarily by the Participant prior to the closing of a Transaction, then no bonus will be paid to such individual for the Transaction, in accordance with clause (a) of Section 2(m).

Non-Competition; Non-Solicitation. Notwithstanding anything to the contrary herein, a Participant shall cease to be a Participant and shall not be eligible for any payment under the Plan if the Board determines in its sole discretion that a Participant, prior to the closing of the Transaction, directly or indirectly, acting alone or together with any other person or entity, (a) engages in the design, manufacture, marketing or distribution of rugged personal computer devices of the same or a similar type as the Company designed, manufactured, marketed and distributed (or had in development) during the Participant's employment with the Company (the "Business"); (b) solicits the business of any person or entity that is a customer of the Company, or was a customer of the Company during the 12 month period prior to the Participant's termination of employment with the Company, in a manner that competes, directly or indirectly, with the Business of the Company; or (c) solicits to hire or hires any employee or consultant of the Company, or otherwise encourages any such individual to cease providing services to the Company. The term "Company" in this Section 5(f) shall mean the Company and/or any Affiliate of the Company.

Administration. The Administrator shall have the sole authority to interpret the provisions of the Plan and to make any and all determinations as to the eligibility for and amount of any bonuses paid under the Plan and any other decisions to be made in the administration and operation of the Plan. All such determinations and decisions shall be final, conclusive and binding on all interested parties and shall be afforded the maximum permissible deference upon judicial review. The Administrator (including any member of a body acting as the Administrator, if applicable, such as a member of the Board) shall not be personally liable by reason of carrying out his or her duties under the Plan.

**Miscellaneous.**

No Funding. The Company will not be required to segregate or physically set aside any funds or assets to satisfy any amount due under the Plan. Neither a Participant, nor any beneficiary nor any other person will be deemed to have any property interest, legal or equitable, in any specific asset of the Company with respect to any right to payment of any amount under the Plan. To the extent that any person becomes a Participant, his or her right to payment under the Plan will be no greater than, nor will it have any preference or priority over, the rights of any unsecured general creditor of the Company.

Amendment and Termination. The Plan will remain in effect until terminated by the Board. The Board has the power to amend or terminate the Plan at any time for any reason; provided that no amendment or action to terminate the Plan that would materially adversely affect the rights of any Participant shall be adopted without the written consent of such Participant.

Withholding of Taxes. The Company shall have the right to withhold an amount for taxes that in the determination of the Company is required to be withheld under law with respect to any amount due or paid under the Plan.

Expenses. All expenses and costs in connection with the adoption and administration of the Plan shall be borne by the Company; provided that the Company shall not be responsible for any costs or expenses incurred by any Participant in respect of his or her participation in the Plan.

No Prior Right or Offer. Except as expressly provided pursuant to the Plan, nothing in the Plan shall be deemed to give any employee any contractual or other right to participate in the benefits of the Plan or any other plan or program of the Company.

No Continued Employment. Neither the establishment of the Plan or the grant of an award thereunder will be deemed to constitute an express or implied contract of employment of any Participant for any period of time or in any way abridge the rights of the Company to determine the terms and conditions of employment or to terminate the employment of any employee with or without cause at any time.

Binding upon Successors. The obligations of the Company under the Plan are and will be binding upon any successor corporation or organization that succeeds to substantially all of the assets and business of the Company, and the term "Company," whenever used in the Plan, shall mean and include any such corporation or organization after such succession.

Other Plans. Nothing contained herein shall limit the Company's power to grant bonuses to employees of the Company, whether or not they are Participants in the Plan.

Section 409A. Payments under the Plan are intended to comply with the applicable requirements of Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder ("Section 409A") and the Plan shall be interpreted in accordance with such intention. For the avoidance of doubt, in no event shall the Company be liable for any tax, interest or penalty imposed under Section 409A or any damages for failing to comply with Section 409A.

Governing Law. This Plan will be interpreted and enforced under the laws of the State of Delaware (without regard to their choice-of-law provisions).

Exclusive Jurisdiction. All disputes or claims arising out of or relating to the Plan, participation therein or any obligations thereunder shall be brought in the United States District Court for the State of Delaware; provided that if such dispute or claim shall not satisfy applicable federal jurisdiction requirements, such dispute shall be brought in the state courts of the State of Delaware, located in the County of Kent. By executing and delivering to the Company the Acknowledgment and Agreement of Participation, each Participant irrevocably: (a) accepts generally and unconditionally the exclusive jurisdiction and venue of such courts; (b) waives, to the fullest extent permitted by applicable law, any objection which he or she may now or hereafter have to the laying of venue of any such dispute brought in such court or any defense of inconvenient forum for the maintenance of such dispute; and (c) agrees that these provisions relating to jurisdiction and venue shall be binding and enforceable to the fullest extent permissible under applicable law.

Waiver of Jury Trial. By executing and delivering to the Company the Acknowledgment and Agreement of Participation, each Participant irrevocably waives all right to trial by jury in any action, proceeding or counterclaim arising out of or relating to the Plan.

**EXHIBIT A: FORM OF RELEASE**

**AGREEMENT AND GENERAL RELEASE**

THIS AGREEMENT AND GENERAL RELEASE (the "Agreement") is made and entered into on \_\_\_\_\_, 20\_\_ by and between \_\_\_\_\_ ("Executive") and Xplore Technologies Corp. ("Employer").

WHEREAS, Executive participated in the Xplore Technologies Corp. Transaction Bonus Plan (the "Plan") as an employee of the Employer or its affiliate, and the parties wish to resolve all outstanding and/or possible claims and disputes between them;

NOW, THEREFORE, in consideration of the mutual promises, covenants and agreements set forth in this Agreement and General Release, the sufficiency of which the parties acknowledge, it is agreed as follows:

1. In consideration for Executive's promises, covenants and agreements in this Agreement and Agreement, Executive agrees to make a payment to Executive in the amount of [-], pursuant to the terms and subject to the conditions of the Plan. Executive would not otherwise be entitled to such payments but for his promises, covenants and agreements in this Agreement and General Release.

2. The parties agree that the payments and benefits in Section 1 are in full, final and complete settlement of all claims set forth in Section 5 that Executive has or may have as of the date hereof against Employer, all of Employer's related holding, parent or subsidiary entities, each of their past and present affiliates, and the respective officers, directors, shareholders, employees, agents, advisors, consultants, insurers, attorneys, successors and/or assigns of each of the foregoing (collectively, the "Releasees"). Nothing in this Agreement shall be construed as an admission of liability by Employer or any other Releasee, and Employer specifically disclaims liability to or wrongful treatment of Executive on the part of itself and all other Releasees.

3. Executive agrees that he will not encourage or assist any of Employer's or Employer's affiliate's employees to litigate claims or file administrative charges against Employer or any other Releasee with respect to any claim based on events, facts or circumstances as of the date hereof; provided, however that Executive may provide testimony or documents pursuant to a lawful subpoena or other compulsory legal process, in which case he agrees to notify Employer immediately of his receipt of such subpoena so that Employer has the opportunity to contest the same. If any court has or assumes jurisdiction of any action against Employer or any of its affiliates on behalf of Executive, Executive will promptly request that court to withdraw from or dismiss the matter with prejudice. Executive further represents that he has reported to Employer in writing any and all work-related injuries that he has suffered or sustained during his employment with Employer.

4. Executive represents that he has not filed any complaints or charges against Employer or any of its affiliates with the Equal Employment Opportunity Commission, or with any other federal, state or local agency or court, and covenants that he will not seek to recover on any claim released in this Agreement.

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5. Executive covenants not to sue, and fully and forever releases and discharges Employer and all other Releasees from any and all legally waivable claims, liabilities, damages, demands, and causes of action or liabilities of any nature or kind, whether now known or unknown, arising out of or in any way connected with Executive's employment with Employer or any of its affiliates; provided, however, that nothing in this Agreement shall either waive any rights or claims of Executive (i) that arise after Executive signs this Agreement; (ii) to enforce the terms of this Agreement; (iii) for the provision of accrued benefits conferred to Executive or his beneficiaries under the terms of the Employer's medical, dental, life insurance, expense reimbursement or "employee pension benefit plans" (within the meaning of section 3(2) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")) and, if applicable, the ongoing obligations of the Employer with respect to the continuing employment by Employer or its affiliates of the Executive; or (iv) relating to the Executive's outstanding equity securities in the Employer. This release includes but is not limited to claims arising under federal, state or local laws concerning employment discrimination, termination, retaliation and equal opportunity, including but not limited to Title VII of the Civil Rights Act of 1964, as amended, the Age Discrimination in Employment Act of 1967, as amended, the Equal Pay Act of 1963, the Americans with Disabilities Act of 1990, as amended, the Worker Adjustment and Retraining Notification Act of 1988, as amended, ERISA (including but not limited to fiduciary claims), the Family and Medical Leave Act, any and all statutory or common law provisions relating to or affecting Executive's employment by Employer, claims for attorneys' fees or costs, and any and all claims in contract, tort, or premised on any other legal theory. Executive acknowledges that he is releasing claims based on age, race, color, sex, sexual orientation or preference, marital status, religion, national origin, citizenship, veteran status, disability and other legally protected categories. This provision is intended to constitute a general release of Executive's claims and potential claims against the Releasees to the maximum extent permitted by law. Notwithstanding any provision of this Agreement to the contrary, this general release does not include any claim for worker's compensation or unemployment benefits, and does not release or affect any claim that cannot be released by an agreement voluntarily entered into between private parties.

6. Executive acknowledges that (i) he has been given at least twenty-one (21) calendar days after actual receipt of the Agreement to consider and execute the Agreement and that mutually agreed-upon changes, whether material or immaterial, do not restart the 21-day period; (ii) he has seven (7) calendar days from the date he executes this Agreement in which to revoke it; and (iii) this Agreement will not be effective or enforceable nor the amounts set forth in Section 1 paid until after the seven-day revocation period ends without revocation by Executive. Revocation can be made by delivery and receipt of a written notice of revocation to Xplore Technologies Corp., 14000 Summit Drive, Suite 900, Austin, TX 78728, Attention: Chief Financial Officer, by midnight on or before the seventh calendar day after Executive signs the Agreement. Executive agrees and acknowledges that if he chooses to sign this Agreement before 21 days after receiving it, he has done so voluntarily.

7. Executive acknowledges that he has been advised to consult with an attorney of his choice with regard to this Agreement. Executive hereby acknowledges that he understands the significance of this Agreement, and represents that the terms of this Agreement are fully understood and voluntarily accepted by him.

8. Executive agrees that he will treat the existence and terms of this Agreement as confidential and will not discuss the Agreement or its terms with anyone other than: (i) his counsel or tax advisor as necessary to secure their professional advice, (ii) his spouse, or (iii) as may be required by law.

9. Executive agrees to refrain from making any unfavorable or disparaging comments, in writing or orally, about Employer, any of Employer's operations, policies, or procedures, or about the Releasees. Notwithstanding the foregoing, it shall not be a violation of this Section for Executive to make truthful statements when required by order of a court or other body having jurisdiction, any governmental investigation or inquiry by a governmental entity, subpoena, court order, compulsory legal process or as otherwise may be required by law.

10. This Agreement shall be binding on Employer and Executive and upon their respective heirs, representatives, successors and assigns, and shall run to the benefit of the Releasees and each of them and to their respective heirs, representatives, successors and assigns.

11. This Agreement sets forth the entire agreement between Executive and Employer, and fully supersedes any and all prior agreements or understandings between them regarding its subject matter.

12. Employer and Executive agree that in the event any provision of this Agreement is deemed to be invalid or unenforceable by any court or administrative agency of competent jurisdiction, or in the event that any provision cannot be modified so as to be valid and enforceable, then that provision shall be deemed severed from the Agreement and the remainder of the Agreement shall remain in full force and effect.

13. This Agreement may only be modified by written agreement signed by both parties.

14. The parties agree that the possibility that such unknown claims exist was taken into account in determining the amount of consideration to be paid for the giving of this Agreement.

**PLEASE READ CAREFULLY. THIS  
AGREEMENT AND GENERAL RELEASE INCLUDES A  
RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS.**

Dated: \_\_\_\_\_

\_\_\_\_\_  
[EXECUTIVE]

**XPLORE TECHNOLOGIES CORP.**

Dated: \_\_\_\_\_

By: \_\_\_\_\_

**Consent of Independent Registered Public Accounting Firm**

We hereby consent to the incorporation by reference in the previously filed Registration Statement on Form S-8 (File No. 333-161890), the previously filed Registration Statement on Form S-8 (File No. 333-164741), and the previously filed Registration Statement on Form S-3 (File No. 333-187198) of Xplore Technologies Corp. of our report dated June 25, 2014, relating to the consolidated financial statements of Xplore Technologies Corp. and subsidiary for the two year period ended March 31, 2014, which report appears in this Annual Report on Form 10-K of Xplore Technologies Corp.

/s/ PMB Helin Donovan, LLP

Austin, TX  
June 25, 2014



## CERTIFICATION

I, Philip S. Sassower, certify that:

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

Date: June 25, 2014

By: /s/ PHILIP S. SASSOWER

Philip S. Sassower  
Chief Executive Officer

## CERTIFICATION

I, Michael J. Rapisand, certify that:

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

Date: June 25, 2014

By: /s/ MICHAEL J. RAPISAND

Michael J. Rapisand  
Chief Financial Officer

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

In connection with the Annual Report on Form 10-K of Xplore Technologies Corp. (the "Company") for the fiscal year ended March 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Philip S. Sassower, as Chief Executive Office of the Company, and Michael J. Rapisand, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of each such officer's knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ PHILIP S. SASSOWER  
Philip S. Sassower  
Chief Executive Officer

Date: June 25, 2014

By: /s/ MICHAEL J. RAPISAND  
Michael J. Rapisand  
Chief Financial Officer

Date: June 25, 2014