FORM 10-K

AMBIENT CORP /NY - AMBT

Filed: March 11, 2013 (period: December 31, 2012)

Annual report with a comprehensive overview of the company

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

FORM 10-K

☑ **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

for the fiscal year ended **December 31, 2012**

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

For the transition period from: _____________ to _____________

Commission file number **001-35259**

AMBIENT CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**98-0166007**
(State or Other Jurisdiction of Incorporation)	*(I.R.S. Employer Identification No.)*

7 WELLS AVENUE, NEWTON, MASSACHUSETTS 02459
(Address of Principal Executive Office)

617-332-0004
(Registrant's telephone number, including area code)

Securities Registered Under Section 12(b) of the Exchange Act:

Common Stock, par value $0.001 per share	**NASDAQ Capital Market**

Securities Registered Under Section 12(g) of the Exchange Act: None

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 Securities Act of 1933. 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 Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

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

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained in this form, and no disclosure will 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 smaller reporting company. See definition of "large accelerated filer, "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ 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 ☑

The registrant had 16,664,553. shares of common stock outstanding as of March 4, 2013. The aggregate market value of the common stock held by non-affiliates of the registrant as of June 29, 2012, was approximately $16.9 million computed by reference to the closing price of such common stock on the NASDAQ Capital Market on such date.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant intends to file a definitive proxy statement pursuant to Regulation 14A in connection with its 2013 Annual Meeting of Stockholders within 120 days after the close of the fiscal year covered by this Form 10-K. Portions of such proxy statement are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this report.

AMBIENT CORPORATION
2012 FORM 10-K ANNUAL REPORT

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FORWARD LOOKING STATEMENTS

The following discussion should be read in conjunction with the financial statements and related notes contained elsewhere in this annual report on Form 10-K. We make forward-looking statements in this report, in other materials we file with the Securities and Exchange Commission (the "SEC") or that we otherwise release to the public, and on our website. In addition, our senior management might make forward-looking statements orally to analysts, investors, the media, and others. These statements are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and 21E of the Securities Exchange Act of 1934, as amended. Statements concerning our future operations, prospects, strategies, financial condition, future economic performance (including growth and earnings) and demand for our products and services, and other statements of our plans, beliefs, or expectations, including the statements contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding our future plans, strategies and expectations are forward-looking statements. In some cases these statements are identifiable through the use of words such as "anticipate," "believe," "estimate," "predict," "expect," "intend," "plan," "project," "target," "continue," "can," "could," "may," "should," "will," "would," and similar expressions. You are cautioned not to place undue reliance on these forward-looking statements because these forward-looking statements we make are not guarantees of future performance and are subject to various assumptions, risks, and other factors that could cause actual results to differ materially from those suggested by these forward-looking statements. Thus, our ability to predict results or the actual effect of our future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to, our ability to retain and attract customers, particularly in light of our current dependence on a single customer for substantially all of our revenue; our expectations regarding our expenses and revenue, including our expectations that our research and development expenses and selling, general and administrative expenses may increase in absolute dollars; anticipated trends and challenges in our business and the markets in which we operate, including the market for smart grid technologies; our expectations regarding competition as more and larger companies enter our markets and as existing competitors improve or expand their product offerings; our plans for future products and enhancements of existing products; our anticipated cash needs and our estimates regarding our capital requirements; and our anticipated growth strategies. These risks and uncertainties, together with the other risks described from time to time in reports and documents that we file with the SEC, should be considered in evaluating forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, performance or achievements. Indeed, it is likely that some of our assumptions will prove to be incorrect. Our actual results and financial position will vary from those projected or implied in the forward-looking statements and the variances may be material. Moreover, we do not assume the responsibility for the accuracy and completeness of these forward-looking statements. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law.

PART I

ITEM 1. BUSINESS

Ambient Corporation is a leading provider of smart grid communications technology for utilities. Our innovative platform enables utilities to deploy and integrate multiple smart grid applications and technologies, in parallel on a single communications infrastructure, supporting smart metering, distribution automation, distribution management, demand response, distributed generation and more.

The term “smart grid” refers to the use of advanced technologies to upgrade the electric power grid, or the grid, effectively making the grid more intelligent and efficient. The grid was largely designed and built decades ago to reliably distribute electricity from generators to customers in a manner resulting in sizable capital investments and operating costs. A number of factors are increasingly straining the grid, including growing electricity demand, two-way power flow requirements, the implementation of renewable and distributed energy sources and advanced pricing plans. As such, the aging grid is prone to reliability, security, availability and power quality issues, costing utilities and consumers billions of dollars each year. Technology is now revolutionizing the grid and transforming it into an efficient, communicating energy service platform. We believe that the smart grid will address the current shortcomings of the grid and deliver significant benefits to utilities and consumers of energy, including reduced costs, increased power reliability and quality, accommodation of renewable energy technologies, consumer empowerment over energy consumption and a platform for continued integration of new technologies.

The Ambient Smart Grid® communications and applications platform, which includes hardware, software and firmware, enables utilities to effectively manage smart grid applications. Our communications platform provides utilities with a secure, two-way, flexible and open Internet protocol, or IP, architecture that efficiently networks smart grid applications and different technologies within each application and supports multiple communications technologies currently used by utilities, such as Wi-Fi, radio frequency (RF), cellular technologies, power line communications (PLC), serial and Ethernet. We believe that the Ambient Smart Grid ® communications platform delivers significant benefits to utilities, including support of a single network; an open, scalable and interoperable platform; preservation of utility investments; third-party application hosting; remote and distributed intelligence; secure communications; and reduced overall implementation and operating costs.

The Ambient Smart Grid products and services include communications nodes; a network management system, AmbientNMS ®; integrated applications; and maintenance and consulting services. The communications nodes are physical boxes that contain the hardware and software needed for communications and data collection in support of smart grid assets. We have configured our communications nodes to act as individual data processors and collectors that receive signals from other networked devices, enabling smart grid applications. Duke Energy, our marquee customer, has deployed to date approximately 125,000 of our communications nodes that receive data from smart electric and gas meters, using a variety of communications technologies, and process and transmit these data to the utility back office over a cellular carrier network for further processing. Furthermore, our communications nodes, in the fourth generation of development, also accommodate integrated applications that include our own developed technology and third-party technology, thereby substantially increasing their functionality. By enabling such system interoperability, our communications platform both reduces implementation and ongoing communications costs and improves overall power management efficiencies. We believe that, to date, no other single solution or technology has provided the necessary flexibility in a cost-effective manner, enabling a comprehensive digital communications platform while leveraging standards-based technologies. We developed our communications platform to fill this void.

Our long-standing relationship with Duke Energy, which we believe has one of the most forward-looking smart grid initiatives in North America, has been the source of substantially all of our revenue since 2008 . We entered into a long-term agreement in September 2009 with Duke Energy to supply the utility with our Ambient Smart Grid ® communications platform and license our AmbientNMS ® through 2015. Furthermore, we also intend to leverage our success with the Duke Energy to secure additional customers in the global utility market place.

We were incorporated in the state of Delaware in June, 1996. Our common stock currently trades on the NASDAQ Capital Market under the symbol “AMBT.”

Industry Overview

The Electric Power Distribution Grid

The grid was largely designed and built decades ago, and is increasingly becoming strained. Much of the current grid infrastructure, both in the United States and abroad, is over 25 years old and simply is not designed to accommodate the dynamic electricity distribution requirements of today or the future. As a result, the aging grid is prone to reliability, security, availability and power quality issues, costing utilities and consumers billions of dollars each year.

The Smart Grid

We believe that grid modernization will address the shortcomings of the current grid as well as deliver significant benefits to utilities and consumers of energy. The smart grid encompasses multiple technologies and applications, and represents significantly more than just smart electric meters. The U.S. Energy Independence and Security Act of 2007 provided the following, thorough definition of the smart grid:

The term smart grid refers to a modernization of the electricity delivery system so it monitors, protects and automatically optimizes the operation of its interconnected elements — from the central and distributed generator through the high-voltage network and distribution system, to industrial users and building automation systems, to energy storage installations and to end-use consumers and their thermostats, electric vehicles, appliances and other household devices. The smart grid will be characterized by a two-way flow of electricity and information to create an automated, widely distributed energy delivery network. It incorporates into the grid the benefits of distributed computing and communications to deliver real-time information and enable the near-instantaneous balance of supply and demand at the device level.

In brief, the term smart grid refers to the use of advanced communications technologies and modern computing capabilities to upgrade and modernize the electric power grid (and even other utility infrastructures, such as gas and water), effectively making the grid more intelligent and efficient. We believe that the implementation of intelligent and seamless communication across the grid represents the largest expected wave of information technology spending, similar to the previous telecommunications and Internet investment cycles.

Smart Grid Applications

The smart grid will connect millions of devices that generate, distribute, control, monitor and use energy, thereby enabling utilities and consumers to dynamically interact with the energy supply chain. The smart grid is more than just smart meters, and we believe that fully realizing the benefits of the smart grid will require the implementation of a variety of technologies and applications. For all smart grid applications to work seamlessly together, a flexible and open communications platform is needed for the interoperability of each connected smart grid application, including the following:

Smart Meters. Smart meters encompass the meters themselves, related communications equipment and data management systems that record and monitor real-time energy consumption information at regular intervals. Smart meters allow for two-way communication of data between the smart meter and a utility's back office, providing utilities with valuable information to measure and control production, transmission and distribution more efficiently and providing consumers with information to make informed choices regarding energy consumption. This technology further enables a utility to reduce the costs of operating its distribution system by automating various functions that are currently performed manually, such as reading customer meters and turning power on and off at the customer meter.

Distribution Automation. Distribution automation encompasses utilities deploying control devices and communications infrastructure to monitor and control energy distribution in real time, enabling intelligent control over grid functions at the distribution level. Utilities use distribution automation applications to directly control the flow of electricity from individual substations to consumers in order to improve the quality of power generation, reduce the frequency, duration and scale of power outages, reduce energy losses and ultimately optimize operating efficiency and reliability of the grid.

Demand Response. Demand response is an initiative in which utilities provide incentives to consumers to reduce energy usage during times of peak demand. Demand response includes technology that can manage the consumption of electricity in conjunction with supply and demand fluctuations, enabling variable pricing and providing information to encourage consumers to make more active decisions about their energy usage. Utilities can use demand response to enable consumers to reduce, or provide direct utility control of, electricity use, particularly during high price/demand periods, by sending time-differentiated prices to customers via the meter and recording customers' actual real-time usage. Demand response technology enables utilities to better manage their distribution network, delivering electricity more efficiently and potentially reducing peak and baseload generation requirements.

Network Management Systems. Utilities require back office software and computer hardware systems to monitor and manage the vast numbers of devices and information collected by those devices from various smart grid applications. Network management systems control smart grid devices and collect and process data in the back office relying on two-way communications.

Our Solution

Ambient Smart Grid ® Communications and Applications Nodes. Communications nodes are physical boxes that contain the hardware and software needed for communications and data collection in support of grid assets. We configured our communications nodes to act as individual data processors and collectors that receive signals from other networked devices, enabling smart grid applications. Our communications nodes can also contain our own or third-party embedded applications. We are currently in the final testing and evaluation of our fourth-generation communications nodes. The following is a graphical depiction of how our communications nodes interact and connect with smart grid applications and a utility.

AmbientNMS ® is a network management system that manages large numbers of communications nodes, devices and customers on a network. A utility can use the AmbientNMS ® to effectively manage its entire grid distribution system, providing valuable information over a single communications network. We customize AmbientNMS®, providing a utility with the tools necessary to tailor its monitoring and processing and to act upon vast amounts of information on a real-time basis. For example, we have integrated our AmbientNMS ® into an industry standard Distribution and Outage Management System (DOMS) that provides for the delivery of faster, more accurate information to power outage notification and restoration systems. DOMS allows utilities to quickly assess and respond to power delivery issues in reduced response time, thereby better managing disruptions and enhancing system reliability. AmbientNMS® also provides the functionality to predict, and precisely control, the amount of data traffic to be used by individual devices and the communications network as a whole. Utilities can systematically push software updates to deployed communications nodes and other downstream devices.

Ambient Power Quality Monitoring (PQM) . In a changing and challenging power environment with increased electricity demand and adoption of renewable and low carbon technologies, distribution grids are under stress, and utilities are under pressure to maintain and improve efficiency, reliability and avoid or defer costly infrastructure upgrades. The Ambient Power Quality Monitoring Solution – AmbientPQM - facilitates real-time visibility of distribution networks for proactive grid management to help surmount these challenges and ensure continued quality of customer service. AmbientPQM is a combination of software and hardware (PQM application, Ambient Smart Grid Nodes, and Sensors) that enables utilities and distribution network operators to measure an array of power quality parameters on medium and/or low voltage distribution grids – on overhead and/or underground lines and at distribution substations or transformers.

Maintenance and Consulting Service . We provide maintenance and implementation services to maintain the software installed within our communications platform. We can remotely distribute software upgrades and added features to deployed communications nodes within the network. We also provide a variety of consulting services relating to product development, network management services and smart grid deployment strategies. We provide maintenance and consulting services to provide a turnkey offering of our communications platform.

Duke Energy Relationship

Since 2005, we have maintained a strategic relationship with Duke Energy, and we believe that we are the leading supplier of its smart grid communications technology in connection with its smart grid implementation. With what we believe is one of the most forward-looking smart grid initiatives in North America, Duke Energy's smart grid deployment includes digital and automated technology, such as communications nodes, smart meters and automated power delivery equipment. The following table summarizes the evolution of our relationship with Duke Energy:

2005	● Security and safety testing of our communications nodes
2006	● Delivery of approximately 700 communications nodes for pilot deployment
2008	● Commercial agreement for 9,000 communications nodes
2009	● Award to Duke Energy of $204 million in American Recovery and Reinvestment Act of 2009 digital grid stimulus funds and Duke Energy announcement of plans to invest a total of $1 billion in smart grid deployment initiatives over five years ● Long-term supply agreement with Duke Energy to supply our communications nodes and services through 2015
2010	● Full-scale smart grid deployment begun by Duke Energy in Ohio, which includes smart meters, automated power distribution equipment and a communications network encompassing more than 130,000 of our communications nodes, 700,000 electric meters and 450,000 gas meters ● Deployment by Duke Energy of approximately 20,000 of our communications nodes

2011	●	Deployed a cumulative total of approximately 75,000 communications nodes, including approximately 3,000 of our communications nodes in the Carolinas
2012	●	Deployed a cumulative total of approximately 125,000 communications nodes

Duke Energy is actively deploying thousands of our communications nodes each month and is licensing the AmbientNMS® system, specifically for its deployment in Ohio. We believe that we are the predominant provider of communications nodes and network management system software for Duke Energy's Ohio deployment.

We believe that we have demonstrated that our technology is secure, two-way, flexible, open, scalable, reliable and cost-effective through the total deployment of over approximately 125,000 communications nodes in the field with Duke Energy. We believe that Duke Energy will continue to predominantly use our communications platform for the remainder of its Ohio smart grid deployment through 2013. Furthermore, Duke Energy's pilot deployment of over approximately 3,000 communications nodes in the Carolinas predominantly uses our communications platform as well. Throughout the past five years, we have worked with Duke Energy to develop our communications platform, which has enabled Duke Energy's ability to deploy its smart grid initiatives.

We believe that we have a substantial opportunity to grow our business with Duke Energy. In addition to the communications nodes scheduled for deployment in Ohio, we estimate that Duke Energy would potentially require hundreds of thousands of communications nodes if it implements a full deployment of smart grid communications nodes in Indiana, Kentucky and the Carolinas. Duke Energy is using information from its North Carolina pilot programs and its Ohio deployment to enhance its customer experience in its other service territories.

Research and Development

The majority of our employees are engaged in product research and development activities. We also engage independent contractors to provide research and development services. Research and development efforts are critical to ensure the continued success and growth of our business. We plan to expand our research and development activities, including hiring additional personnel. We also intend to continue to work with our customers so that we can continue to develop and provide additional product offerings. We incurred research and development expenses of approximately \$11.7 million in 2011 and approximately \$14.3 million in 2012.

Intellectual Property

We currently rely upon a combination of trade secrets, patents, copyrights, and trademarks, as well as non-disclosure agreements and invention assignment agreements, to protect our technologies and other proprietary company information. As of January 31, 2013, our intellectual property portfolio included 26 patents issued by the United States Patent and Trademark Office (USPTO), and we have 7 pending patent applications in the United States. We also have many patents issued by various foreign jurisdictions and more pending applications filed in foreign jurisdictions as well. Approximately half of our issued and pending U.S. patents relate to our legacy utilities communications technologies, and the other half relate to our communications platform, including our Energy Sensing Solution. Our issued U.S. patents will expire between 2020 and 2029. Ambient, Ambient Smart Grid and AmbientNMS are registered trademarks of Ambient Corporation. AmbientPQM is a trademark of Ambient Corporation.

Our policy is to require our employees, consultants, advisors and collaborators to execute confidentiality agreements. Additionally, we require our employees and consultants to execute assignment of invention agreements upon the commencement of employment, consulting or advisory relationships. These agreements generally provide that all confidential information developed or made known to a party by us during the course of the party's association with our company is to be kept confidential and not to be disclosed to third parties except in specific circumstances. In the case of employees and consultants, the agreements also provide that all inventions conceived by the individuals in the course of their employment or consulting relationship will be our exclusive property.

Employees

As of December 31, 2012, we had approximately 105 employees, all of which are full time. Almost of all of our employees are located at our Newton, Massachusetts headquarters. None of our employees are covered by collective bargaining agreements. We have never experienced any work stoppages and consider our relations with our employees to be good.

Manufacturing and Assembly

We have a Master Supply and Alliance Agreement with Bel Fuse Inc., a global producer of high-quality electronic components, for the manufacture and assembly of our communications nodes. We leverage the capabilities of Bel Fuse Inc. with respect to its low-cost, global manufacturing capabilities, supply-chain management and engineering expertise. Our products are made to order and are shipped directly to our customer's warehouses in the United States. We purchase components, such as power cords, brackets and other accessories, which typically are shipped directly to our customer. In order to minimize total cost and limit our exposure of excess inventory, we typically do not hold significant amounts of finished goods or component materials at any given time.

Competition

Competition in the smart grid market is increasing and involves evolving technologies, developing industry standards, frequent new product introductions, changes in customer or regulatory requirements and localized market requirements. Competitive pressures require us to keep pace with the evolving needs of utilities; to continue to develop and introduce new products, features and services in a timely, efficient and cost-effective manner; and to stay abreast of regulatory factors affecting the utility industry.

We compete with a wide array of manufacturers, vendors, strategic alliances, systems developers and other businesses. These include smart grid communications technology companies, ranging from relatively smaller companies focusing mainly on communications technology to large Internet, hardware and software companies. In addition, some providers of smart meters may add communications capabilities in the future to provide some level of connectivity to a utility's back office.

We believe that we compete effectively in the market based on a number of factors. These factors include the proven technology of our communications platform, our successful commercial deployments with Duke Energy, our focus on our communications platform, our scalable and interoperable products that we have purpose-built for the utility environment and our competitive cost of ownership. However, we may have to change our product offerings, invest more heavily in research and development or business development or acquire complementary technologies in order to remain competitive in the future.

AVAILABLE INFORMATION

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are made available free of charge though our internet website (http://www.ambientcorp.com) as soon as practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission. Except as otherwise stated in these documents, the information contained on our website or available by hyperlink from our website is not incorporated by reference into this report or any other documents we file with or furnish to the Securities and Exchange Commission.

ITEM 1A. RISK FACTORS

Our business, financial condition and results of operations could be materially adversely affected by various risks, including, but not limited to the principal risks noted below.

We currently depend on one customer for substantially all of our revenue, and any material delay, reduction or cancellation of orders from this customer would significantly reduce our revenue and have a material negative impact on our business.

Duke Energy accounted for substantially all of our revenue for each of our last two fiscal years. Any material delay, reduction or cancellation of orders from Duke Energy would have a material adverse effect on our business, including significantly reduced revenue, unabsorbed overhead and incurred net losses.

Although we have a long-term contract that stipulates the general terms of our relationship, Duke Energy does not provide us with firm purchase commitments for the duration of the contract. Instead, Duke Energy provides us with periodic purchase orders. Duke Energy can delay, reduce or cancel purchase orders at any time prior to the anticipated lead time for delivery of the products (typically three months), subject to Duke Energy's payment of a cancellation fee not to exceed the price of the products cancelled. Duke Energy may also delay, reduce or cancel its purchase orders without penalty if we are unable to deliver the products ordered thereunder within a specified time from the scheduled delivery date.

Our immediate business opportunities continue to be primarily dependent on the success of our deployments with Duke Energy and the future decisions of Duke Energy relating to its smart grid deployment in its service territories. Our goal is to increase our business with Duke Energy and to attract new customers. We may not achieve this goal within an acceptable period of time or at all. The failure to increase our business with Duke Energy or to attract new customers would have a material adverse effect on our business and prospects.

We have a limited history of profitability on an annual basis, and we may be unable to achieve or maintain profitability in future periods.

For 2012, we had a net loss of $5.4 million and an accumulated deficit of $226.8 million (however, $109 million of this amount was associated with mark- to- market adjustments relating to common stock warrants and derivative liabilities in 2009). To grow our revenue and customer base, we also plan to increase spending associated with research and development and business development, thereby increasing our operating expenses. These increased costs may cause us to incur net losses in the foreseeable future, and we may be unable to grow our revenue and expand our customer base to maintain profitability on an annual basis.

We may not be able to secure additional financing on favorable terms, or at all, to meet our future capital needs.

In the future, we may require additional capital to respond to business opportunities, challenges, acquisitions or unforeseen circumstances and may determine to engage in equity or debt financings or enter into credit facilities for other reasons. We may not be able to secure additional debt or equity financing on a timely basis or on favorable terms, or at all. Any debt financing obtained by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities. If we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences and privileges senior to those of holders of our common stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to grow or support our business and to respond to business challenges could be significantly limited.

We depend on factors affecting the utility industry over which we exercise no control.

We expect to continue to derive substantially all of our revenue from sales of products to utilities. Purchases of our products may be deferred as a result of many factors, including economic downturns, slowdowns in new residential and commercial construction, access to capital at acceptable terms, utility specific financial circumstances, mergers and acquisitions, regulatory decisions, weather conditions and interest rates. We may experience variability in operating results on an annual and a quarterly basis as a result of these factors.

Utility industry sales cycles can be lengthy and unpredictable, which can negatively impact our ability to expand the deployment of our products with Duke Energy and to secure new customers.

Sales cycles for smart grid projects are generally long and unpredictable due to budgeting, procurement and regulatory approval processes that can take up to several years to complete. Utility customers typically issue requests for quotes and proposals, establish evaluation committees, review different technical options, require pilot programs prior to commercial deployments, analyze cost and benefit metrics, consider regulatory factors and follow their normal budget approval processes. In addition, many electric utilities tend to be risk averse and tend to follow industry trends rather than be the first to purchase new products or services. These tendencies can extend the lead time for, or prevent acceptance of, new products or services, including those for smart grid initiatives despite the support of the federal government through grants and other incentives.

Accordingly, potential customers may take longer to reach a decision to initiate smart grid programs or to purchase our products or services. It is not unusual for a utility customer to go through the entire sales process and not accept any proposal or quote. This extended sales process requires the dedication of significant time by our personnel to develop relationships at various levels and within various departments of utilities and our use of significant financial resources, with no certainty of success or recovery of our related expenses. Long and unpredictable sales cycles with utility customers could have a material adverse effect on our business, operating results or our financial condition.

The market for our products and services, and smart grid technology generally, is still developing and we will have difficulty expanding our business and securing new customers if the market develops less extensively or more slowly than we expect.

The market for our products and services, and smart grid technology generally, is still developing, and it is uncertain whether our products and services will achieve and sustain high levels of demand and market acceptance. Our success will depend to a substantial extent on the willingness and ability of utilities to implement smart grid technology. Many utilities lack the financial resources and/or technical expertise required to evaluate, deploy and operate smart grid technology. Regulatory agencies, including public utility commissions, govern utilities' activities, and they may not create a regulatory environment that is conducive to the implementation of smart grid technologies in a particular jurisdiction. Furthermore, some utilities may be reluctant or unwilling to adopt smart grid technology because they may be unable to develop a business case to justify the up-front and ongoing expenditures. If utilities do not widely adopt smart grid technologies or do so more slowly than we expect, we will have difficulty expanding our business and securing new customers, which will adversely affect our business and operating results.

Because the markets for our products are highly competitive, we may lose sales to our competitors, which would harm our revenue and operating results.

Competition in the smart grid market is intense and involves changing technologies, evolving industry standards, new product introductions, changes in customer or regulatory requirements and localized market requirements. Competitive pressures require us to keep pace with the evolving needs of utilities; to continue to develop and introduce new products, features and services in a timely, efficient and cost-effective manner; and to stay abreast of regulatory factors affecting the utility industry.

We compete with a wide array of manufacturers, vendors, strategic alliances, systems developers and other businesses, including other smart grid communications technology companies, ranging from relatively smaller companies focusing mainly on communications technology to large Internet and software-based companies. In addition, some providers of smart meters may add communications capabilities to their existing business in the future, which could decrease our base of potential customers and could decrease our revenue and profitability. "Early adopters," or customers that have sought out new technologies and services, have largely comprised the target market for our products. Because the number of early adopters is limited, we will need to expand our target markets by marketing and selling our products to mainstream customers to continue our growth.

Some of our present and potential future competitors have, or may have, greater name recognition, experience and customer bases as well as substantially greater financial, technical, sales, marketing, manufacturing and other resources than we possess and that afforded them competitive advantages. These potential competitors may undertake more extensive marketing campaigns, adopt more aggressive pricing policies, obtain more favorable pricing from suppliers and manufacturers and exert more influence on sales channels than we do. Competitors may sell products at lower prices in order to obtain market share. Competitors may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Competitors may also be able to devote greater resources to the development, promotion and sale of their products and services than we can. Competitors may introduce products and services that are more cost-efficient, provide superior performance or achieve greater market acceptance than our products and services. Our competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties that enhance their ability to address the needs of our prospective customers. It is possible that new competitors or alliances among current and new competitors may emerge and rapidly gain significant market share. Other companies may also drive technological innovation and develop products that are equal or superior in quality and performance to our products and render our products non-competitive or obsolete.

Any of these competitive factors could make it more difficult for us to attract and retain customers, cause us to lower our prices in order to compete and reduce our market share and revenue, any of which could have a material adverse effect on our operating results and financial condition. If we fail to compete successfully with current or future competitors, we could experience material adverse effects on our business, financial condition, results of operations and cash flows.

Existing and future regulations concerning the electric utility industry may present technical, regulatory and economic barriers that may significantly impact future demand for our products.

International, federal, state and local government regulations and policies, as well as internal policies and regulations promulgated by electric utilities, heavily influence the market for the electric utility industry. These regulations and policies often relate to investment initiatives, including decisions relating to investment in smart grid technologies, as well as building codes, public safety regulations and licensing requirements. In addition, certain of our contracts with our potential utility customers may be subject to approval by federal, state or local regulatory agencies, which may not be obtained or be issued on a timely basis. In the United States and in a number of other countries, these regulations and policies are being modified and may continue to be modified and have a substantial impact on the market for our and other smart grid related technologies. If such regulations or policies do not continue to gain acceptance for smart grid initiatives or the adoption of such initiatives takes substantially longer than expected, our prospects for developing new customers could be significantly limited.

Duke Energy and some potential utility customers have applied for government grants and may also seek to participate in other government incentive programs, and if those grants or other incentives are not received or are significantly delayed, our results of operations could suffer.

Many utilities, including Duke Energy and some of our potential utility customers, have applied for grants and may seek to participate in other government incentive programs designed to stimulate the U.S. economy and support environmental initiatives, including smart grid technologies. In certain cases, such as with the American Reinvestment and Recovery Act of 2009, or ARRA, the U.S. government has approved the funds, and the government and the utilities have entered into agreements under which the government has agreed to award funds to the utilities, but significant portions of the funds have not yet been distributed. Furthermore, such funds must be spent by the end of 2013 or awards will not be further funded, which could reduce the demand for smart gird related products beyond 2013. Duke Energy has applied for and been granted funding under ARRA programs, which may account for a significant portion of our current and anticipated future revenue and billings. Duke Energy and our potential utility customers that seek these government grants or incentives may delay or condition the purchase of our products and services upon receipt of such funds or upon their confidence in the future disbursement and tax treatment of those funds. If Duke Energy and our potential utility customers do not receive these funds or if their receipt of funds is significantly delayed, our operating results could suffer. Similarly, the receipt of government funds or incentives may be conditioned upon utilities meeting milestones and other requirements, some of which may not be known until a future point in time. If our products and services do not meet the requirements necessary for receipt of government funds or other incentives, Duke Energy and our potential utility customers may delay or condition the purchase of our products and services until they meet these requirements, and our results of operations could suffer. Furthermore, there may not be government funds or incentives for utilities in future periods. As a result, Duke Energy and our potential utility customers may not have the resources or incentives to purchase our products and services in those future periods.

The adoption of industry standards applicable to our products or services could limit our ability to compete in the marketplace.

Standards bodies, which are formal and informal associations that seek to establish voluntary, non-governmental product and technology standards, are influential in the United States and abroad. We participate in voluntary standards organizations in order to both help promote non-proprietary, open standards for interoperability with our products and to prevent the adoption of exclusionary standards. However, we are not able to control the content of adopted voluntary standards and do not have the resources to participate in all voluntary standards processes that may affect our markets. The adoption, or expected adoption, of voluntary standards that are incompatible with our products or technology or that favor our competitors' products or technology could limit the market opportunity for our products and services or render them obsolete, any of which could materially and adversely affect our revenue, results of operations and financial condition.

If we become subject to product returns and product liability claims resulting from defects in our products, we may fail to achieve market acceptance of our products, and our business could be harmed.

We develop complex products for use in an evolving marketplace and generally warrant our products for a period of 12 months from the date of sale. Despite testing by us and customers, our products may contain or may be alleged to contain undetected errors or failures. In addition, a customer or its installation partners may improperly install or implement our products. The integration of our products in smart grid networks or applications may entail the risk of product liability or warranty claims based on disruption to these networks or applications. Any such manufacturing errors or product defects could result in a delay in recognition or loss of revenue, loss of market share or failure to achieve market acceptance. Additionally, these defects could result in financial or other damages to a customer; cause us to incur significant warranty, support and repair costs; and divert the attention of our engineering personnel from our product development efforts. A product liability claim brought against us, even if unsuccessful, would likely be time-consuming and costly to defend. The occurrence of these problems would likely harm our business.

We currently maintain property, general commercial liability, errors and omissions and other lines of insurance. Such insurance may be insufficient in amount to cover any particular claim, or we might not carry insurance that covers a specific claim. In addition, such insurance may not be available in the future or the cost of such insurance may increase substantially.

Our ability to provide bid bonds, performance bonds or letters of credit may be limited and could negatively affect our ability to bid on or enter into significant long-term agreements.

We may be required to provide bid bonds or performance bonds to secure our performance under customer contracts or, in some cases, as a prerequisite to submit a bid on a potential project. Our ability to obtain such bonds will depend upon our capitalization, working capital, past performance, management expertise and reputation, and external factors beyond our control, including the overall capacity of the surety market. Surety companies consider those factors in relation to the amount of our tangible net worth and other underwriting standards that may change from time to time. Surety companies may require that we collateralize a percentage of the bond with our cash or other form of credit enhancement. Events that affect surety markets generally may result in bonding becoming more difficult to obtain in the future, or being available only at a significantly greater cost. In addition, utilities may require collateral guarantees in the form of letters of credit to secure performance or to fund possible damages as the result of an event of default under any contracts with them. If we enter into significant long-term agreements that require the issuance of letters of credit, our liquidity could be negatively impacted. Our inability to obtain adequate bonding or letters of credit and, as a result, to bid or enter into significant long-term agreements, could have a material adverse effect on our ability to effectively compete and could impact our future business.

We currently rely on a single contract manufacturer to produce our products, and a loss of our sole contract manufacturer or its inability to satisfy our quality and other requirements could severely disrupt the production and supply of our products.

We utilize one contract manufacturer for all of our production requirements. This manufacturing is conducted in China by a U.S.-based company that also performs services for numerous other companies. We depend on our manufacturer to maintain high levels of productivity and satisfactory delivery schedules. Our reliance on our manufacturer reduces our control over the manufacturing process, exposing us to risks, including reduced control over quality assurance, product costs and product supply. Any financial, operational or other difficulties involving our manufacturer could adversely affect us. We currently do not have guarantees of production capacity, prices, lead times or delivery schedules with our contract manufacturer. Since our manufacturer serves other customers, a number of which have greater production requirements than we do, our manufacturer could determine to prioritize production capacity for other customers or reduce or eliminate production for us on short notice. We could also encounter lower manufacturing productivity and longer delivery schedules in commencing volume production of new products. Any of these problems could result in our inability to deliver our products in a timely manner and adversely affect our operating results. The loss of our relationship with our manufacturer or its inability to conduct its manufacturing services for us as anticipated in terms of cost, quality and timeliness could adversely affect our ability to fill customer orders in accordance with required delivery, quality and performance requirements. If this were to occur, the resulting decline in revenue would harm our business.

If any one of these risks materializes, it could significantly impact our operations and our ability to fulfill our obligations under purchase orders with Duke Energy as well as future orders from Duke Energy or other customers. Qualifying new manufacturers is time consuming and might result in unforeseen manufacturing and operational problems. If we had to transition to an alternative contract manufacturer we could experience operational delays, increased product costs and increased operating costs which could irreparably harm our relationship with Duke Energy, harm our reputation and could potentially impact our ability to secure new customers.

Shortages of components and materials may delay or reduce our sales and increase our costs, thereby harming our results of operations.

The inability of our manufacturer to obtain sufficient quantities of components and other materials necessary for the production of our products could result in reduced or delayed sales or lost orders. Any delay in or loss of sales could adversely impact our operating results. Some of the materials used in the production of our products are available from a limited number of foreign suppliers, particularly suppliers located in Asia. In most cases, neither we nor our manufacturer has long-term supply contracts with these suppliers. As a result, we are subject to increased costs, supply interruptions and difficulties in obtaining materials.

Security breaches involving our smart grid products or services, publicized breaches in smart grid products and services offered by others or the public perception of security risks or vulnerability created by the deployment of the smart grid in general, whether or not valid, could harm our business.

The security technologies we have integrated into our communications platform and products that are designed to detect unauthorized activity and prevent or minimize security breaches may not function as expected and our products and services, those of other companies with whose products our products and services are integrated or interact, or even the products of other smart grid solutions providers may be subject to significant real or perceived security breaches.

Our communications platform allows utilities to monitor, compile and analyze sensitive information related to consumers' energy usage, as well as the performance of different parts of the electric power distribution grid. As part of our data transfer and managed services, we may store and/or come into contact with sensitive consumer information and data when we perform operational, installation or maintenance functions for a utility customer. If, in handling this information, we, our partners or a utility customer fails to comply with privacy or security laws, we could face significant legal and financial exposure to claims of government agencies, utility customers and consumers whose privacy is compromised. Even the perception that we, our partners or a utility customer has improperly handled sensitive, confidential information could have a negative effect on our business. In addition, third parties may, through computer viruses, physical or electronic break-ins and other means, attempt to breach our security measures or inappropriately use or access our AmbientNMS ® or the communications nodes we have in the field. If a breach is successful, sensitive information may be improperly obtained, manipulated or corrupted, and we may face legal and financial exposure. In addition, a breach could lead to a loss of confidence in our products and services, and our business could suffer.

Our current and anticipated future products and services allow authorized personnel to remotely control equipment at residential and commercial locations, as well as at various points on the grid. For example, our software could allow a utility to remotely connect and disconnect electricity at specific customer locations. If an unauthorized third party were to breach our security measures and disrupt, gain access to, or take control of, any of our products or services, our business and reputation could be severely harmed.

Our products and services may also be integrated or interface with products and services sold by third parties, and rely on the security of those products and their secure transmission of proprietary data over the Internet and other networks. Because we do not have control over the security measures implemented by third parties in their products or in the transmission of data over the Internet and other networks, we cannot ensure the complete integrity or security of such third-party products and transmissions.

Concerns about security or customer privacy may result in the adoption of state or federal legislation that restricts the implementation of smart grid technology or requires us to make modifications to our products, which could significantly limit the deployment of our technologies or result in significant expense to modify our products.

Although we have not experienced security breaches associated with our product, any real or perceived security breach could seriously harm our reputation and result in significant legal and financial exposure, inhibit market acceptance of our products and services, halt or delay the deployment by utilities of our products and services, cause us to lose sales, trigger unfavorable legislation and regulatory action and inhibit the growth of the overall market for smart grid products and services. Any of these risks could have a material adverse effect on our business, operating results and financial condition.

We use some open source software in our products and services that may subject our products and services to general release or require us to re-engineer our products and services, which may cause harm to our business.

We use some open source software in connection with our products and services. From time to time, companies that incorporate open source software into their products have faced claims challenging the ownership of open source software and/or compliance with open source license terms. Therefore, we could be subject to suits by parties claiming ownership of what we believe to be open source software or noncompliance with open source licensing terms. Some open source software licenses require users who distribute open source software as part of their software to publicly disclose all or part of the source code to such software and/or make available any derivative works of the open source code on unfavorable terms or at no cost. We monitor the use of open source software in our products and services and try to ensure that none of the open source software is used in a manner that would require us to disclose the source code to the related product or that would otherwise breach the terms of an open source agreement. However, such use could inadvertently occur and we may be required to release our proprietary source code, pay damages for breach of contract, re-engineer our products, discontinue the sale of our products in the event re-engineering cannot be accomplished on a timely basis or take other remedial action that may divert resources away from our development efforts, any of which could adversely affect our business, operating results and financial condition.

Our quarterly results are inherently unpredictable and subject to substantial fluctuations, and, as a result, we may fail to meet the expectations of securities analysts and investors, which could adversely affect the trading price of our common stock.

Our revenue and other operating results may vary significantly from quarter to quarter as a result of a number of factors, many of which are outside of our control. There can be no assurance that our revenue will increase or will not decrease on a quarterly or annual basis in the future.

The factors that may affect the unpredictability of our quarterly results and cause our stock price to fluctuate include the following:

- long, and sometimes unpredictable, sales and customer deployment cycles;
- changes in the mix of products and services sold;
- our current dependence on a single customer;
- changing market conditions;
- changes in the competitive environment;
- failures of our products or components that we use in our products that delay deployments, harm our reputation or result in high warranty costs, contractual penalties or terminations;
- product or project failures by third-party vendors, utility customers or competitors that result in the cancellation, slowing down or deferring of projects;
- liquidated damage provisions in our current or future contracts, which could result in significant penalties if triggered or, even if not triggered, could affect our ability to recognize revenue in a given period;
- the ability of our suppliers and manufacturers to deliver supplies and products to us on a timely basis;
- delays associated with government funding programs for smart grid projects;
- political and consumer sentiment and the related impact on the scope and timing of smart grid deployment; and
- economic, regulatory and political conditions in the markets where we operate or anticipate operating.

As a result, we believe that quarter to quarter comparisons of operating results are not necessarily indicative of what our future performance will be. In future quarters, our operating results may be below the expectations of securities analysts or investors, in which case the price of our common stock may decline.

Negative economic conditions in the United States and globally may have a material and adverse effect on our operating results, cash flow and financial condition.

The economies in the United States and countries around the world have been recovering from a global financial crisis and recession, which began in 2008, but financial markets and world economies continue to be volatile. Significant long-term effects will likely result from the financial crisis and recession, including slower and more volatile future global economic growth than during the years prior to the financial crisis of 2008. A lower future economic growth rate could result in reductions in sales of our products and services, slower adoption of new technologies and an increase price competition. Any of these events would likely harm our business, results of operations and financial condition.

International manufacturing and sales risks could adversely affect our operating results.

Our products are produced in China by a U.S.-based, third-party contract manufacturer. We may also expand our addressable market by pursuing opportunities to sell our products in international markets. We have had little experience operating in markets outside of the United States. Accordingly, new markets may require us to respond to new and unanticipated regulatory, marketing, sales and other challenges. We may not be successful in responding to these and other challenges that we may face as we enter and attempt to expand in international markets. International operations also entail a variety of other risks. The manufacture of our products abroad and our potential expansion into international markets expose us to various economic, political and other risks that could adversely affect our operations and operating results, including the following:

- potentially reduced protection for intellectual property rights;
- political, social or economic instability in certain parts of the world;
- unexpected changes in legislature or regulatory requirements of foreign countries;
- differing labor regulations;
- tariffs and duties and other trade barrier restrictions;
- possible employee turnover or labor unrest;
- the burdens and costs of compliance with a variety of foreign laws;
- currency exchange fluctuations;
- potentially adverse tax consequences; and
- potentially longer payment cycles and greater difficulty in accounts receivable collections.

International operations are also subject to general geopolitical risks, such as political, social and economic instability and changes in diplomatic and trade relations. One or more of these factors could adversely affect any international operations and result in lower revenue than we expect and could significantly affect our profitability.

Our inability to protect our intellectual property could impair our competitive advantage, reduce our revenue and increase our costs.

Our success and ability to compete depend in part on our ability to maintain the proprietary aspects of our technologies and products. We rely on a combination of trade secrets, patents, copyrights, trademarks, confidentiality agreements and other contractual provisions to protect our intellectual property, but these measures may provide only limited protection. We generally enter into written confidentiality and non-disclosure agreements with our employees, consultants, customers, manufacturers and other recipients of our technologies and products and assignment of invention agreements with our employees and consultants. We may not always be able to enforce these agreements and may fail to enter into any such agreement in every instance when appropriate. We license from third parties certain technology used in and for our products. These third-party licenses are granted with restrictions; therefore, such third-party technology may not remain available to us on terms beneficial to us. Our failure to enforce and protect our intellectual property rights or obtain from third parties the right to use necessary technology could have a material adverse effect on our business, operating results and financial condition. In addition, the laws of some foreign countries do not protect proprietary rights as fully as do the laws of the United States.

Patents may not issue from the patent applications that we have filed or may file in the future. Our issued patents may be challenged, invalidated or circumvented, and claims of our patents may not be of sufficient scope or strength, or issued in the proper geographic regions, to provide meaningful protection or any commercial advantage. We have not applied for, and do not have, any copyright registration on our technologies or products. We have applied to register certain of our trademarks in the United States and other countries. We cannot assure you that we will obtain registrations of principle or other trademarks in key markets. Failure to obtain registrations could compromise our ability to protect fully our trademarks and brands and could increase the risk of challenge from third parties to our use of our trademarks and brands.

We may be required to incur substantial expenses and divert management attention and resources in defending intellectual property litigation against us.

We cannot be certain that our technologies and products do not and will not infringe issued patents or other proprietary rights of others. While we are not currently subject to any infringement claim, any future claim, with or without merit, could result in significant litigation costs and diversion of resources, including the attention of management, and could require us to enter into royalty and licensing agreements, any of which could have a material adverse effect on our business. We may not be able to obtain such licenses on commercially reasonable terms, if at all, or the terms of any offered licenses may be unacceptable to us. If forced to cease using such technology, we may be unable to develop or obtain alternate technology. Accordingly, an adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent us from manufacturing, using or selling certain of our products, which could have a material adverse effect on our business, operating results, and financial condition.

Furthermore, parties making such claims could secure a judgment awarding substantial damages, as well as injunctive or other equitable relief that could effectively block our ability to make, use or sell our products in the United States or abroad. Such a judgment could have a material adverse effect on our business, operating results and financial condition. In addition, we are obligated under certain agreements to indemnify the other party in connection with infringement by us of the proprietary rights of third parties. In the event we are required to indemnify parties under these agreements, it could have a material adverse effect on our business, financial condition and results of operations.

We may incur substantial expenses and divert management resources in prosecuting others for their unauthorized use of our intellectual property rights.

Other companies, including our competitors, may develop technologies that are similar or superior to our technologies, duplicate our technologies or design around our patents and may have or obtain patents or other proprietary rights that would prevent, limit or interfere with our ability to make, use or sell our products. Effective intellectual property protection may be unavailable or limited in some foreign countries in which we may do business, such as China.

Unauthorized parties may attempt to copy or otherwise use aspects of our technologies and products that we regard as proprietary. Our means of protecting our proprietary rights in the United States or abroad may not be adequate or competitors may independently develop similar technologies. If our intellectual property protection is insufficient to protect our intellectual property rights, we could face increased competition in the market for our technologies and products.

Should any of our competitors file patent applications or obtain patents that claim inventions also claimed by us, we may choose to participate in an interference proceeding to determine the right to a patent for these inventions because our business would be harmed if we fail to enforce and protect our intellectual property rights. Even if the outcome is favorable, this proceeding could result in substantial cost to us and disrupt our business.

In the future, we also may need to file lawsuits to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. This litigation, whether successful or unsuccessful, could result in substantial costs and diversion of resources, which could have a material adverse effect on our business, financial condition and results of operations.

We depend on key personnel who would be difficult to replace, and our business will likely be harmed if we lose their services or cannot hire additional qualified personnel.

Our success depends substantially on the efforts and abilities of our senior management and key personnel. The competition for qualified management and key personnel, especially engineers, is intense. Although we maintain noncompetition and nondisclosure covenants with most of our key personnel, we do not have employment agreements with most of them. The loss of services of one or more of our key employees or the inability to hire, train and retain key personnel, especially engineers and technical support personnel, could delay the development and sale of our products, disrupt our business and interfere with our ability to execute our business plan.

Potential strategic alliances may not achieve their objectives, and the failure to do so could impede our growth.

We anticipate that we will enter into strategic alliances. Among other matters, we continually explore strategic alliances designed to enhance or complement our technology or to work in conjunction with our technology; to provide necessary know-how, components or supplies; to attract additional customers; and to develop, introduce and distribute products utilizing our technology. Any strategic alliances may not achieve their intended objectives, and parties to our strategic alliances may not perform as contemplated. The failure of these alliances may impede our ability to introduce new products and expand our business.

Failure to maintain effective internal controls over financial reporting may lead investors and other users to lose confidence in our financial data.

Maintaining effective internal controls over financial reporting is necessary for us to produce reliable financial statements. In evaluating the effectiveness of its internal controls over financial reporting in connection with the preparation of our quarterly report as of and for the three and six months ended June 30, 2012, management concluded that there was a material weakness in internal control over financial reporting related to accounting for embedded derivatives associated with certain convertible debt and warrants to purchase common stock. This material weakness led to the need for the restatement of the Company's financial statements for the years ended December 31, 2009 through 2011 and for the first quarter of 2012 and the failure of the Company to file its Quarterly Report on Form 10-Q for the interim period ended June 30, 2012 on a timely basis. As of December 31, 2012, we remediated the material weakness previously reported in Amendment No. 1 on Form 10-K for the year ended December 31, 2011. If we fail to otherwise maintain effective controls over financial reporting in the future, it could result in a material misstatement of our financial statements that would not be prevented or detected on a timely basis and which could cause investors and other users to lose confidence in our financial statements.

Our compliance with the Sarbanes-Oxley Act of 2002 and SEC rules concerning internal controls may be time consuming, difficult and costly, and the failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our ability to produce accurate financial statements and on our stock price.

Under SEC regulations adopted pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to maintain internal controls over financial reporting and to report any material weaknesses in such internal controls. In addition, we anticipate that at some point in the future, we will be required to furnish a report by our management on our internal control over financial reporting that includes a statement that our independent auditors have issued an attestation report on management's assessment of internal control over financial reporting. While we have spent considerable time and effort in designing, documenting and testing our internal control procedures, we may need to spend additional financial and other resources improving our processes, which may result in increased general and administrative expenses and may shift management time and attention from revenue-generating activities to compliance activities. Despite our efforts, we can provide no assurance as to our independent auditor's conclusion with respect to the effectiveness of our internal control over financial reporting.

If we fail to comply in a timely manner with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 regarding internal control over financial reporting or to remedy any material weaknesses in our internal controls that we may identify, such failure could result in material misstatements in our financial statements, cause investors to lose confidence in our reported financial information, limit our ability to raise needed capital and have a negative effect on the trading price of our common stock.

Risks Related to Our Common Stock

Our principal stockholder exerts substantial influence over us.

Vicis Capital Master Fund, or Vicis, owns approximately 80% of the outstanding shares of our common stock as of December 31, 2012. Consequently, Vicis is able to exert substantial influence over our company and control matters requiring approval by our stockholders, including the election of all our directors, approving any amendments to our certificate of incorporation, increasing our authorized capital stock, effecting a merger or sale of our assets and determining the number of shares available for issuance under our stock plans. As a result of Vicis' control, no change of control of our company can occur without Vicis' consent.

Vicis' voting control may discourage transactions involving a change of control of our company, including transactions in which you as a holder of our common stock might otherwise receive a premium for your shares over the then current market price. Vicis is not prohibited from selling a controlling interest in our company to a third party and may do so without stockholder approval and without providing for a purchase of any stockholder' shares of common stock. Accordingly, shares of common stock may be worth less than they would be if Vicis did not maintain voting control over us.

We may issue additional capital stock in the future, which would dilute our existing stockholders.

In the future, we may issue our previously authorized and unissued securities, including shares of our common stock or securities convertible into or exchangeable for our common stock, resulting in the dilution of the ownership interests of our stockholders. We are authorized under our amended and restated certificate of incorporation to issue 100,000,000 shares of common stock and 5,000,000 shares of preferred stock.

We currently do not have any commitments for funding. In addition, we may also issue additional shares of our common stock or securities convertible into or exchangeable for our common stock in connection with the hiring of personnel, future acquisitions, future private placements of our securities for capital raising purposes or for other business purposes. Future issuances of our common stock, or the perception that such issuances could occur, could have a material adverse effect on the price of our common stock.

The market price of our common stock may be volatile, which could result in substantial losses for investors.

The market price of our common stock is likely to be volatile and could fluctuate widely in response to various factors, many of which are beyond our control, including the following:

- our ability to execute our business plan;
- the gain or loss of significant orders;
- volume and timing of customer orders;
- actual or anticipated changes in our operating results;
- changes in expectations relating to our products, plans and strategic position or those of our competitors or customers;
- market conditions and trends within the utilities industry and the smart grid market;
- introductions of new products of new pricing policies by us or by our competitors;
- the gain or loss of significant customers;
- industry developments;
- regulatory, legislative or other developments affecting us or the utilities industry in general or the smart grid market in particular;
- economic and other external factors;
- general global economic and political instability;
- changes in laws or regulations affecting the utilities industry;
- announcements of technological innovations or new products by us or our competitors;
- acquisitions or strategic alliances by us or by our competitors;
- litigation involving us, the utilities industry or the smart grid market;
- recruitment or departure of key personnel;
- future sales of our common stock;
- price and volume fluctuations it the overall stock market from time to time;
- changes in investor perception;
- the level and quality of any research analyst coverage of our common stock;
- changes in earnings estimates or investment recommendations by securities analysts;
- the financial guidance we may provide to the public, any changes in such guidance or our failure to meet such guidance; and
- trading volume of our common stock or the sale of stock by our parent, management team or directors.

In addition, the securities markets have experienced extreme price and volume fluctuations that often have been unrelated or disproportionate to the operating performance of particular companies. Public announcements by various companies concerning, among other things, their performance, accounting practices or legal problems could cause the market price of our common stock to decline regardless of our actual operating performance.

Future sales of common stock by Vicis or others or other dilutive events may adversely affect the market price of our common stock, even if our business is doing well.

Our existing stockholders could sell any or all of the shares of common stock owned by them from time to time for any reason. Future sales of substantial amounts of our common stock in the public market, or the perception that such sales could occur, could adversely affect prevailing trading prices of our common stock and could impair our ability to raise capital through future offerings of equity or equity-related securities. We cannot predict what effect, if any, future sales of our common stock, or the availability of shares for future sales, will have on the market price of our stock. As of December 31, 2012, we had the following outstanding securities:

- Approximately 16.6 million shares of common stock outstanding;
- Approximately 3.3 million shares of common stock issuable upon the exercise of then outstanding stock options at a weighted average exercise price of $7.55 per share;
- Approximately 134,000 shares of common stock issuable upon the exercise of then outstanding warrants at a weighted average exercise price of $3.50 per share; and
- Approximately 4.2 million shares of common stock reserved for issuance under our various stock incentive plans.

We do not expect to pay any dividends for the foreseeable future; hence stockholders must look solely to appreciation of our common stock to realize a gain on their investments.

We have never declared or paid cash dividends on our common stock, and we do not anticipate doing so in the foreseeable future. We currently intend to retain future earnings, if any, to fund our operations and support our growth strategies. Any determination to pay dividends in the future will be made at the discretion of our Board of Directors and will depend on our results of operations, financial conditions, contractual restrictions, restrictions imposed by applicable law, capital requirements and other factors our Board of Directors deems relevant. Accordingly, stockholders must look solely to appreciation of our common stock to realize a gain on their investment. This appreciation may not occur.

Our ability to use U.S. net operating loss carryforwards might be limited, subjecting our corporate income to earlier taxation.

At December 31, 2012, we had available approximately $71.7 million of net operating loss carryforwards, for U.S. income tax purposes which expire at various dates through 2031. However, due to changes in stock ownership resulting from historical investments provided by Vicis, we expect that the use of the U.S. net operating loss carryforwards will be significantly limited under Section 382 of the Internal Revenue Code. As such, approximately $61.4 million of our net operating loss carryforwards will expire and will not be available to use against future tax liabilities. In addition, our ability to utilize the current net operating loss carryforwards might be further limited by the issuance of common stock in future offerings. To the extent our use of net operating loss carryforwards is significantly limited, our income could be subject to corporate income tax earlier than it would if we were able to use net operating loss carryforwards, which could result in lower profits.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We do not own any real property. We currently lease approximately 28,000 square feet of office space in Newton, Massachusetts. Our leases expire on December 31, 2013. We believe that our facilities and future plans to lease are suitable and adequate for our present needs, and we periodically evaluate whether additional facilities are necessary.

ITEM 3. LEGAL PROCEEDINGS

We are not involved in any pending legal proceedings that we anticipate would result in a material adverse effect on our business or operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANTS COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock has been listed on the NASDAQ Capital Market under the symbol "AMBT" since August 3, 2011. Prior to August 3, 2011, our common stock was quoted on the OTC Bulletin Board under the symbol "ABTG."

Although trading in our common stock has occurred on a relatively consistent basis, the volume of shares traded has been sporadic. There can be no assurance that an established trading market will develop, that the current market will be maintained or that a liquid market for our common stock will be available in the future. Investors should not rely on historical stock price performance as an indication of future stock price performance.

The following table shows the quarterly high and low bid prices or sales prices for our common stock over the last two completed fiscal years and subsequent interim periods, as quoted on the OTC Bulletin Board (prior to August 3, 2011) and as reported on the NASDAQ Capital Market (beginning on August 3, 2011). In the case of OTC Bulletin Board quotes, the prices represent quotations by dealers without adjustments for retail mark-ups, mark-downs or commissions and may not represent actual transactions. The prices have been adjusted to reflect the 1- for -100 reverse stock split of our common stock that became effective on July 18, 2011.

	Low	High
Year Ended December 31, 2012		
Fourth Quarter	$ 2.98	$ 5.39
Third Quarter	4.82	7.57
Second Quarter	4.15	9.75
First Quarter	4.00	6.89
Year Ended December 31, 2011		
Fourth Quarter	$ 4.55	$ 8.40
Third Quarter	5.70	13.98
Second Quarter	7.00	9.50
First Quarter	7.60	11.90

As of March 4, 2013, there were 141 holders of record of our common stock. Other than our shares held by Vicis, a significant number of shares of our common stock are held in either nominee name or street name brokerage accounts, and consequently, we are unable to determine the number of beneficial owners of our stock.

DIVIDEND POLICY

We have paid no dividends on our common stock and do not expect to pay cash dividends in the foreseeable future. We plan to retain all earnings to provide funds for the growth of our company. In the future, our Board of Directors will decide whether to declare and pay dividends based upon our earnings, financial condition, capital requirements and other factors that our Board of Directors may consider relevant. We are not under any contractual restriction as to present or future ability to pay dividends.

UNREGISTERED SALESOF SECURITIES

A single warrant holder exercised an outstanding warrant on November 30, 2012 for 833 shares of Common Stock for $3.50 cash per share for a total consideration of $2,916. We issued such shares in reliance upon the exemption from the registration requirements of the Securities Act of 1933 as amended, under Section 4(2) of the Securities Act.

In claiming the exemption under Section 4(2), we relied in part on the following facts: (1) the offer and sale involved one warrant holder; (2) the warrant holder had access to information regarding the Company; and (3) the warrant holder represented that he (a) was an accredited investor; and (b) acquired the shares for his own account in a transaction not involving any general solicitation or general advertising, and not with a view to the distribution thereof.

ISSUER PURCHASES OF EQUITY SECURITIES

We do not have a stock repurchase program for our common stock and have not otherwise purchased any shares of our common stock.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.

Overview

Ambient Corporation is an award-winning provider of smart grid communications technology for utilities. Our innovative platform enables utilities to deploy and integrate multiple smart grid applications and technologies, in parallel on a single communications infrastructure, supporting smart metering, distribution automation, distribution management, demand response, distributed generation and more.

Company History

We were incorporated in 1996 in the state of Delaware. Through the third quarter of 2008, we were a development stage company. We are focused on the development of a communications platform that meets the needs of utilities, including specifically for the implementation of smart grid applications.

On July 18, 2011, we implemented a reverse stock split of our issued and outstanding shares of common stock at a ratio of 1-for-100 shares (the "Reverse Split"). On August 3, 2011, our common stock began to trade on the NASDAQ Capital Market under our new ticker symbol "AMBT."

Duke Energy Relationship

Since 2005, we have maintained a strategic relationship with Duke Energy. The utility is actively deploying our communications nodes and is licensing our AmbientNMS ® for its deployment in Ohio. We believe that we are the predominant provider of communications nodes and network management system software for Duke Energy's Ohio deployment.

We believe that we have demonstrated that our technology is secure, two-way, flexible, open, scalable, reliable and cost-effective through the total deployment of approximately 125,000 communications nodes in the field with Duke Energy. We believe that Duke Energy will continue to predominantly use our communications platform for the remainder of its Ohio smart grid deployment through 2013. Furthermore, Duke Energy's pilot deployment of approximately 3,000 communications nodes in the Carolinas predominantly uses our communications platform as well. Throughout the past five years, we have worked with Duke Energy to develop our communications platform, which has enabled Duke Energy's ability to deploy its smart grid initiatives.

We believe that we have a substantial opportunity to grow our business with Duke Energy. In addition to the communications nodes scheduled for deployment in Ohio, we estimate that Duke Energy would potentially require hundreds of thousands of communications nodes if it implements a full deployment of smart grid communications nodes in Indiana, Kentucky and the Carolinas. Duke Energy is using information from its North Carolina pilot programs and its Ohio deployment to enhance its customer experience in its other service territories.

Since we established our relationship with Duke Energy, we have been focused on developing our technology to meet the needs of their smart grid communications platform. Based upon the success of the relationship and our ability to prove our technology, we have recently begun to expand our infrastructure to focus on new business development, marketing and sales programs and further technology development in order to expand our customer base, and we expect to increase investment in our marketing and sales efforts over the next twelve months.

Backlog

We define our backlog as products that we are obligated to deliver based on firm commitments relating to purchase orders received from customers. As of December 31, 2012, we had backlog of approximately $10 million, entirely from Duke Energy.

Critical Accounting Policies and Use of Estimates

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, bad debts, investments, intangible assets and income taxes. Our estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

We have identified the accounting policies below as critical to our business operations and the understanding of our results of operations.

Revenue Recognition

Total revenue consists primarily of sales of hardware, software, and maintenance services. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is reasonably assured. Product is considered delivered to the customer once it has been shipped and title and risk of loss have been transferred. For most of the Company's product sales, these criteria are met at the time the product is shipped. The Company records deferred revenue when it receives payments in advance of the delivery of products or the performance of services.

Hardware sales consist of our Ambient Smart Grid® communications nodes which are physical boxes that contain the hardware and embedded software needed for communications and data collection in support of smart grid assets. The system software embedded in our communications nodes is used solely in connection with the operation of the physical boxes.

Our proprietary software AmbientNMS® is our smart grid network management system that controls the large numbers of communications nodes, devices and customers on a smart grid. NMS software is offered on a stand-alone basis.

We generally include a period of free maintenance services beginning from the sale of the communication nodes and NMS Software. As such, we recognize a portion of the revenue from the sales of our products upon delivery to the customer. The revenue allocated to the free period of maintenance services is deferred and recognized ratably over the period of performance.

We offer additional software maintenance service, on a fee basis, that entitles the purchasers of our products and AmbientNMS® software to post-contract customer support including help desk support and, unspecified updates and upgrades to our products on a when-and-if available basis. Maintenance services are recognized ratably over the period of performance.

The Company recognizes revenue from the sale of (i) hardware products and (ii) software bundled with hardware that is essential to the functionality of the hardware in accordance with revenue recognition for multiple element arrangements. The Company recognizes revenue in accordance with applicable industry specific software accounting guidance for (i) standalone sales of software products, (ii) maintenance renewals, and (iii) sales of software bundled with hardware not essential to the functionality of the hardware.

Revenue Recognition for Arrangements with Multiple Deliverables

In October 2009, the FASB issued ASU No. 2009-13, Multiple-Deliverable Revenue Arrangements, (amendments to ASC Topic 605, Revenue Recognition) (‘‘ASU 2009-13’’) (formerly EITF Issue 08-1) and ASU No. 2009-14, Certain Arrangements That Include Software Elements, (amendments to FASB ASC Topic 985, Software) (‘‘ASU 2009-14’’) (formerly EITF 09-3). ASU 2009-13 eliminates the residual method and requires arrangement consideration to be allocated using the relative selling price method, which requires entities to allocate revenue in an arrangement using the best estimated selling price ("BESP") of each element when a vendor does not have vendor-specific objective evidence of selling price ("VSOE") or third party evidence of selling price ("TPE"). ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are within the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 are effective for arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company adopted ASU 2009-13 and 2009-14 effective January 1, 2011.

We evaluate each deliverable in an arrangement to determine whether it should be accounted for as a separate unit of accounting. The delivered items or item shall be considered a separate unit of accounting if it has standalone value to the customer and there are no customer-negotiated refunds or return rights.

We allocate the total arrangement consideration to each unit of accounting in a multiple-element arrangement based on its relative selling price, and include our bundled hardware and software component as one unit of accounting and the free period of maintenance as a separate unit of accounting. The Company uses a hierarchy to determine the selling price to be used for allocating revenue to each of the deliverables. We determine the selling price for each deliverable using vendor specific objective evidence (VSOE), if it exists or third party evidence (TPE) if VSOE does not exist. If neither VSOE nor TPE of selling price exists for a deliverable, we use our best estimate of selling price (BESP) for that deliverable. Revenue allocated to each element is then recognized when the basic revenue recognition criteria are met for each element.

We determine VSOE of a deliverable based on the price at which we sell the deliverable on a standalone basis to third parties or from the stated renewal rate for the elements contained in the initial arrangement. VSOE has been established for our software maintenance element. When VSOE cannot be established for all deliverables in an arrangement with multiple elements, we attempt to estimate the selling price of each element based on TPE. When we are unable to establish a selling price using VSOE or TPE, we establish the BESP in our allocation of arrangement consideration. The objective of BESP is to determine the price at which we would transact a sale if the product or service were sold on a standalone basis. BESP has been established for our bundled hardware and software portion of the arrangement.

When establishing BESP the Company considers multiple factors including, but not limited to, the relative value of the features and functionality being delivered to the customer, and general pricing practices. Based on our analysis of pricing stated in contractual arrangements for our hardware products in historical multiple-element transactions, we have concluded that we typically price our hardware and embedded software at the contractually agreed upon amounts. Therefore, we have determined that, for our hardware and embedded software for which VSOE or TPE is not available, our BESP is generally comprised of prices based on our contractually agreed upon rates. We have established an annual review process around VSOE, TPE and BESP.

The Company accounts for multiple element arrangements that consist only of software or software-related products, including the sale of maintenance services to previously sold software, in accordance with industry specific software accounting guidance. For such multiple element software transactions, revenue is allocated to each element based on the residual method when VSOE has been established for the undelivered element. If the Company cannot objectively determine the VSOE of any undelivered element included in such multiple-element arrangements, the Company defers revenue until VSOE is established for any remaining undelivered elements, or all elements are delivered and services have been performed.

Inventory Valuation. We value inventory at the lower of cost or market determined on a first-in, first-out basis. Certain factors may impact the net realizable value of our inventory, including technological changes, market demand, new product introductions and significant changes to our cost structure. We make estimates of reserves for obsolescence based on the current product mix on hand and its expected net realizable value. If actual market conditions are less favorable or other factors arise that are significantly different than those anticipated by us, additional inventory write-downs or increases in obsolescence reserves may be required. We consider lower of cost or market adjustments and inventory reserves as an adjustment to the cost basis of the underlying inventory. Accordingly, we do not record favorable changes in market conditions to inventory in subsequent periods.

Software Development Costs. We have historically expensed costs incurred in the research and development of new software products and enhancements to existing software products as incurred. After we establish technological feasibility, we capitalize additional development costs. No software development costs have been capitalized as of December 31, 2012 or 2011.

Stock-Based Compensation. We account for stock-based compensation in accordance with accounting guidance now codified as Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, 718, "Compensation — Stock Compensation (formerly known as SFAS No. 123(R))." Under the fair value recognition provision of ASC 718, stock-based compensation cost is estimated at the grant date based on the fair value of the award. We estimate the fair value of stock options granted using the Black-Scholes option pricing model. Key input assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, the expected volatility of our stock price over the option's expected term, the risk-free interest rate over the stock option's expected term and the annual dividend yield.

Fair Value of Warrants. Warrants are recorded as liabilities at their estimated fair value at the date of issuance, with subsequent changes in estimated fair value recorded in other income (expense) in the statement of operations in each subsequent period. Fair value of the warrants is determined by management using a multiple scenario, probability-weighted option-pricing model using the following inputs: the fair value of the underlying common stock at the valuation measurement date; the risk-free interest rates; the expected dividend rates; the remaining contractual terms of the warrants; the expected volatility of the price of the underlying common stock; and the probability of certain events occurring. The assumptions used in calculating the estimated fair value of the warrants represent our best estimates; however, these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and different assumptions are used, the warrant liabilities and the change in their estimated fair values could be materially different.

Deferred Income Taxes. We recognize deferred income taxes for the tax consequences of "temporary differences" by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. At December 31, 2012, our deferred income tax assets consisted primarily of net operating loss and tax credit carryforwards and stock-based compensation charges that have been fully offset with a valuation allowance due to the uncertainty that a tax benefit will be realized from the assets in the future. At December 31, 2012, we had available approximately $71.7 million of net operating loss carryforwards, for U.S. income tax purposes which expire at various dates through 2031. However, due to changes in stock ownership resulting from historical investments, the use of the U.S. net operating loss carryforwards are significantly limited under Section 382 of the Internal Revenue Code. As such, approximately $61.4 million of our net operating loss carryforwards will expire and will not be available to use against future tax liabilities.

Warranties. We account for our warranties under the FASB ASC 450, "Contingencies." Our current standard product warranty includes a one-year warranty period for defects in material and workmanship. We currently accrue a liability of approximately 0.5% of current communications node revenues for the estimated future costs of meeting our warranty obligation, based on our actual historical return rate for repair of products within the one-year warranty period. We make and revise this estimate based on the number of communications nodes delivered and our historical experience with warranty claims. We continually monitor the rate of actual product returns for repair and the quality of our products including the quality of the products produced by our U.S.-based contract manufacturer in China.

We engage in product quality programs and processes, including monitoring and evaluating the quality of component suppliers, in an effort to ensure the quality of our products and reduce our warranty exposure. The warranty obligation will be affected not only by product failure rates, but also the costs to repair or replace failed products and potential service and delivery costs incurred in correcting a product failure. If our actual product failure rates, repair or replacement costs, or service or delivery costs differ from these estimates, accrued warranty costs would be adjusted in the period that such events or costs become known.

Our software license agreements generally include provisions for indemnifying customers against liabilities if our software infringes upon a third party's intellectual property rights. We have not provided for any reserves for such warranty liabilities. Our software license agreements also generally include a warranty that our software will substantially operate as described in the applicable program documentation. We also warrant that we will perform services in a manner consistent with industry standards. To date, we have not incurred any material costs associated with these product and service performance warranties, and as such we have not provided for any reserves for any such warranty liabilities in our operating results.

RESULTS OF OPERATIONS

Comparison of the Year Ended December 31, 2012 and the Year Ended December 31, 2011

*Total Revenue.*Total revenue for 2012 was $42.8 million compared to $62.1 million in 2011, representing a decrease of approximately 31%. Substantially all revenue from 2012 and 2011 was derived from one customer. The decrease in total revenue is primarily attributable to our primary customer's decision to modify its node deployment schedule which extended installations of nodes further into 2013. We expect that our primary customer will continue to be the source of a substantial portion of our revenue for the next twelve months.

*Cost of Goods Sold.*Cost of goods sold for 2012 was $24.5 million compared to $35.3 million in 2011. The decrease in cost of goods sold primarily reflected a decrease in sales volume to Duke Energy. Cost of goods sold includes all costs related to the manufacture of our products by our contract manufacturer, accruals for warranty and other overhead costs. Our contract manufacturer is responsible for substantially all aspects of manufacturing, including procuring most of the key components required for assembly.

*Gross Profit.*Gross profit for 2012 was $18.3 million compared to $26.8 million in 2011, a decrease of approximately 32%. Gross margin for 2012 and 2011 has remained flat at approximately 43%.

Research and Development Expenses. Research and development expenses were approximately $14.3 million for 2012 compared to approximately $11.7 million in 2011. The increase in research and development was primarily due to increased personnel and consultant expenses required for the continued development of our communications nodes, enhancements of our AmbientNMS ®, and other product development efforts. We believe that our continued development efforts are critical to our strategic objectives of enhancing our technology while simultaneously reducing costs. We expect that our research and development expenses will increase in 2013 as we continue to develop and improve our communications platform.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for 2012 were approximately $9.6 million compared to $8.2 million for 2011. The increase in selling, general and administrative expenses was due to an increase in personnel and related costs related to our increased efforts to market and commercialize our communications platform. Selling, general and administrative expenses consisted primarily of salaries and other related costs for personnel in executive and other administrative functions. Other significant costs included professional fees for legal, accounting and other services. In 2013, we expect our selling, general and administrative expenses to increase as we continue to increase our efforts to market and commercialize our communication platform to additional customers.

Write-off of Deferred Financing Costs. In August 2011, we filed a Form S-1 registration statement with the Securities and Exchange Commission for a proposed public offering of our common stock, for which we had incurred approximately $389,000 in expenses as of December 31, 2011. Such costs were capitalized and were to be charged to additional paid-in capital upon completion of our proposed public offering. In April 2012, we voluntarily filed an application with the Securities and Exchange Commission requesting the withdrawal of such registration statement. We requested withdrawal of the registration statement based on then current market conditions and management's ensuing determination to not proceed with the contemplated offering at that time. Accordingly, previously capitalized deferred financing costs of approximately $389,000 were written off in the three months ended March 31, 2012.

Other Income, net. Other income for 2012 was approximately $197,000 compared to approximately $19,000 for the corresponding period in 2011, primarily representing the partial recovery of loans made by us to an unrelated company during 2000 and 2001, which had been previously written off in 2001.

Mark-to-Market Adjustment of Warrant Liability. Changes in the fair value of warrant liabilities resulted in a net non-cash gain of $452,000 in 2012 and $3.3 million in 2011.

Provision for Income Taxes. As a result of our loss before taxes of $5.4 million, the Company did not record a provision for income taxes in 2012. As a result of our income before taxes of $10.3 million in 2011, we recorded a provision for income taxes of approximately $204,000 in 2011, primarily reflecting federal alternative minimum taxes.

Liquidity and Capital Resources

Since inception, we have funded our operations with proceeds from the sale of our securities and, more recently, with revenue from sales of our products. At December 31, 2012, we had working capital of $12.1 million, including cash and cash equivalents of $13.3 million.

Net cash used in operating activities during the year ended December 31, 2012 was approximately $4.4 million and net cash provided by operating activities during 2011 was approximately $12.1 million. Cash used in operations for the year ended December 31, 2012 was due primarily to a net loss of $5.4 million (partially offset by stock-based compensation expense of $2.5 million) and an increase in accounts receivable of $2.0 million (which were subsequently collected in January 2013) and a reduction in accounts payable of $1.2 million. Net cash provided by operating activities in 2011 was primarily due to net income of $10.1 million (plus stock based compensation of $3.5 million, which was substantially offset by mark-to-market adjustments of warrant liabilities of $3.3 million), as well as a decrease in accounts receivable of $1.4 million.

Net cash used in investing activities for the year ended December 31, 2012 was approximately $659,000 as compared to approximately $962,000 for the same period in 2011. Net cash used in investing activities for each period was for additions of fixed assets.

Net cash provided by financing activities for the year ended December 31, 2012 was approximately $376,000 as compared to net cash used by financing activities of approximately $129,000 in 2011. For the year ended December 31, 2012 net cash provided by financing activities consisted primarily of proceeds from exercises of warrants. For the year ended December 31, 2011, net cash used by financing activities consisted primarily of approximately $389,000 in deferred financing costs offset by proceeds from exercises of warrants and stock options.

We believe that our business plan will provide sufficient liquidity to fund our operating needs for the next 12 months. However, there are factors that can impact our ability continue to fund our operating needs, including:

- Our expectations regarding the continued favorable relationship with Duke Energy, which we expect will continue to be a substantial source of our revenue ;
- Our ability to maintain product pricing as expected, particularly in light of increased competition and its unknown effects on market dynamics;
- Our and our contract manufacturer's ability to reduce manufacturing costs as expected;
- Our ability to expand sales volume, which is highly dependent on the smart grid implementation plans of Duke Energy and other utilities; and
- The need for us to continue to invest in operating activities in order to remain competitive or acquire other businesses and technologies in order to complement our products, expand the breadth of our business, enhance our technical capabilities or otherwise offer growth opportunities.

If we cannot effectively manage these factors, we may need to raise additional capital in order to fund our operating needs. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to grow or support our business and to respond to business challenges could be significantly limited and we may be required to implement spending reduction measures in order to preserve cash.

Off-Balance Sheet Arrangements

As of December 31, 2012 and 2011, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Other than our operating leases for office space and certain other capital lease obligations, we do not engage in off-balance sheet financing arrangements. In addition, we do not engage in trading activities involving non-exchange traded contracts. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations as of December 31, 2012 and the effect such obligations are expected to have on our liquidity and cash flow in future periods:

(in thousands)	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Contractual Obligations					
Rent obligations	$ 583	$ 583			
Insurance premium obligations	237	237			
Total	$ 820	$ 820	$ -	$ -	$ -

Recently Issued Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-04: Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). ASU 2011-04 clarifies application of fair value measurement and disclosure requirements and was effective for annual periods beginning after December 15, 2011. The Company adopted the provisions of ASU 2011-04 which did not have a material effect on its financial position and results of operations.

In February 2013, the FASB issued guidance requiring disclosure of amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present either on the face of the statement of operations or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For amounts not reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. This guidance is effective prospectively for the Company for annual and interim periods beginning January 1, 2013. The Company will comply with the disclosure requirements of this guidance for the quarter ending March 30, 2013.

We do not believe that any other recently issued, but not yet effective, accounting standard if currently adopted would have a material effect on our accompanying financial statements.

ITEM 7A. QUANTITAVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for by Item 8 is included following the "Index to Financial Statements" on page F-1 contained in this annual report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" in Rule 13a-15(e).

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with participation of management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. 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 accounting principles generally accepted in the United States. Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Our management, including our Chief Executive Officer and our Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on their evaluation under the framework in Internal Control - Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2012.

REMEDIATION OF PREVIOUSLY DISCLOSED MATERIAL WEAKNESS

Management previously reported a material weakness in the Company's internal control over financial reporting related to (1) accounting for embedded derivatives associated with certain convertible debt and warrants to purchase common stock, (2) the valuation of stock- based compensation, and (3) the selection of appropriate revenue recognition accounting guidance relating to certain customer contracts, in Amendment No. 1 on Form 10-K/A for the year ended December 31, 2011, as well as in the Company's Amended Form 10-Q/A for the quarter ended March 31, 2012 and its Form 10-Q for the quarters ended June 30, 2012 and September 30, 2012. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

The Company made the following changes to its internal controls over financial reporting to remediate the material weakness reported in Amendment No. 1 on Form 10-K/A for the year ended December 31, 2011, as well as in the Company's Amended Form 10-Q/A for the quarter ended March 31, 2012, and its Form 10-Q for the quarters ended June 30, 2012 and September 30, 2012:

- Established detailed controls as part of the Company's quarterly financial closing process to ensure that embedded derivatives are appropriately valued and accounted for, including determining changes in valuation assumptions such as the underlying stock price of the Company's common stock, changes in peer group stock price volatility, appropriately accounting for exercises or expirations of underlying warrants and evaluating any changes in the Company's business that may impact the treatment of or accounting for embedded derivatives;

- Established controls to evaluate the appropriateness of the stock price volatility assumption used in determining stock option values, including calculating the Company's historical stock price volatility and comparing it to a peer group to assess reasonableness, and when appropriate, calculating a peer group stock price volatility (based on peer group member's public disclosures and/or recalculating stock price volatility);

- Established improved controls for reviewing the potential accounting impact of material agreements entered into by the company, including maintaining a log of all agreements entered into by the Company and reviews of all material agreements by both the Controller and Chief Financial Officer; and

- Provided outside training to our accounting and finance staff for the development of technical competencies.

The Company completed the documentation and testing of the corrective actions described above and, as of December 31, 2012, has concluded that the steps taken have remediated the material weakness previously disclosed in Amendment No. 1 on Form 10-K/A for the year ended December 31, 2011 , as well as in the Company's Amended Form 10-Q/A for the quarter ended March 31, 2012 and its Form 10-Q for the quarters ended June 30, 2012 and September 30, 2012.

Changes in Internal Control over Financial Reporting

During our fourth quarter ended December 31, 2012, there were no changes made in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated by reference to the Company's definitive proxy statement for the 2013 annual meeting of stockholders.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the Company's definitive proxy statement for the 2013 annual meeting of stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference to the Company's definitive proxy statement for the 2013 annual meeting of stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTORS INDEPENDENCE

The information required by this Item is incorporated by reference to the Company's definitive proxy statement for the 2013 annual meeting of stockholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference to the Company's definitive proxy statement for the 2013 annual meeting of stockholders.

PART IV

ITEM 15. EXHIBITS

(a) (1) Financial Statements:

(b) Exhibits

Exhibit Number	Description
3 .1	Restated Certificate of Incorporation of Ambient Corporation, as amended (filed as Exhibit 3.1 to the Quarterly Report of Ambient Corporation on Form 10-Q for the three month period ended June 30, 2011, filed August 10, 2011).(1)
3 .2	Bylaws of Ambient Corporation (filed as Exhibit 3.2 to the Annual Report of Ambient Corporation on Form 10-K for the year ended December 31, 2011, filed March 6, 2012). (1)
4 .1	Specimen Stock Certificate (filed as Exhibit 4.1 to the Annual Report of Ambient Corporation on Form 10-K for the year ended December 31, 2011, filed March 6, 2012). (1)
4 .2	Common Stock Purchase Warrant (Series A) (filed as Exhibit 4.2 to the Current Report of Ambient Corporation on Form 8-K, filed July 31, 2007).(1)
4 .3	Common Stock Purchase Warrant (Series B) (filed as Exhibit 4.3 to the Current Report of Ambient Corporation on Form 8-K, filed July 31, 2007).(1)
4 .4	Common Stock Purchase Warrant (Series C) (filed as Exhibit 4.2 to the Current Report of Ambient Corporation on Form 8-K, filed July 31, 2007).(1)
4 .5	Common Stock Purchase Warrant (Series D) (filed as Exhibit 4.3 to the Current Report of Ambient Corporation on Form 8-K, filed November 5, 2007).(1)
4 .6	Common Stock Purchase Warrant (Series E) (filed as Exhibit 4.2 to the Current Report of Ambient Corporation on Form 8-K, filed January 17, 2008).(1)
4 .7	Warrant issued as of April 23, 2008 (filed as Exhibit 4.1 to the Quarterly Report of Ambient Corporation on Form 10-Q for the three month period ended June 30, 2008, filed August 14, 2008).(1)
4 .8	Common Stock Purchase Warrant (Series G) (filed as Exhibit 4.1 to the Quarterly Report of Ambient Corporation on Form 10-Q for the three month period ended September 30, 2009, filed November 16, 2009).(1)
10 .1	Ambient Corporation 2000 Equity Incentive Plan (filed as Appendix A to the Definitive Information Statement of Ambient Corporation on Schedule 14C, filed December 24, 2009).(1)+
10 .2	Ambient Corporation 2002 Non-Employee Directors Stock Option Plan (filed as Appendix B to the Definitive Information Statement of Ambient Corporation on Schedule 14C, filed December 24, 2009).(1)+
10 .3	Amended and Restated Employment Agreement effective as of December 30, 2008 between Ambient Corporation and John Joyce (filed as Exhibit 10.4 to the Quarterly Report of Ambient Corporation on Form 10-Q for the three month period ended March 31, 2008, filed May 15, 2008).(1)+
10 .4	Amended and Restated Employment Agreement effective as of June 2, 2008 between Ambient Corporation and Ramdas Rao (filed as Exhibit 10.5 to the Quarterly Report of Ambient Corporation on Form 10-Q for the three month period ended March 31, 2008, filed May 15, 2008).(1)+
10 .5	Employment Agreement effective as of August 4, 2011 between Ambient Corporation and Mark L. Fidler (filed as Exhibit 10.1 to the Current Report of Ambient Corporation on Form 8-K, filed on August 8, 2011).(1)+
10 .6	Securities Purchase Agreement dated as of May 26, 2006 among Ambient Corporation and certain investors (filed as Exhibit 10.8 to the Registration Statement of Ambient Corporation on Form SB-2, filed June 8, 2006, as File No. 333-134872).(1)
10 .7	Registration Rights Agreement dated as of May 26, 2006 among Ambient Corporation and certain investors (filed as Exhibit 10.9 to the Registration Statement of Ambient Corporation on Form SB-2, filed June 8, 2006, as File No. 333-134872).(1)

10 .8	Registration Rights Agreement, dated as of July 31, 2007, between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.1 to the Current Report of Ambient Corporation on Form 8-K, filed on July 31, 2007).(1)
10 .9	Securities Purchase Agreement, dated as of July 31, 2007 between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.2 to the Current Report of Ambient Corporation on Form 8-K, filed on July 31, 2007).(1)
10 .10	Security Agreement, dated as of July 31, 2007 between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.3 to the Current Report of Ambient Corporation on Form 8-K, filed on July 31, 2007).(1)
10 .11	Securities Purchase Agreement dated as of November 1, 2007, between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.1 to the Current Report of Ambient Corporation on Form 8-K, filed on November 5, 2007).(1)
10 .12	First Amendment dated as of November 1, 2007 to Registration Rights Agreement, dated as of July 31, 2007, between Ambient and Vicis Capital Master Fund (filed as Exhibit 10.2 to the Current Report of Ambient Corporation on Form 8-K, filed on November 5, 2007).(1)
10 .13	First Amendment dated as of November 1, 2007 to Securities Purchase Agreement, dated as of July 31, 2007 between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.3 to the Current Report of Ambient Corporation on Form 8-K, filed on November 5, 2007).(1)
10 .14	Securities Purchase Agreement dated as of January 15, 2008, between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.1 to the Current Report of Ambient Corporation on Form 8-K, filed on January 17, 2008).(1)
10 .15	Second Amendment dated as of January 15, 2008 to Registration Rights Agreement, dated as of July 31, 2007, between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.2 to the Current Report of Ambient Corporation on Form 8-K, filed on January 17, 2008).(1)
10 .16	First Amendment dated as of January 15, 2008 to Securities Purchase Agreement, dated as of November 1, 2007 between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.3 to the Current Report of Ambient Corporation on Form 8-K, filed on January 17, 2008).(1)
10 .17	Second Amendment dated as of January 15, 2008 to Securities Purchase Agreement, dated as of July 31, 2007 between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.4 to the Current Report of Ambient Corporation on Form 8-K, filed on January 17, 2008).(1)
10 .18	Securities Purchase Agreement dated as of April 23, 2008 between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.1 to the Quarterly Report of Ambient Corporation on Form 10-Q for the three month period ended June 30, 2008, filed August 14, 2008).(1)
10 .19	Amendment and Waiver dated as of April 23, 2008 between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.2 to the Quarterly Report of Ambient Corporation on Form 10-Q for the three month period ended June 30, 2008, filed August 14, 2008).(1)
10 .20	Debenture Amendment Agreement dated as of November 21, 2008 between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.1 to the Current Report of Ambient Corporation on Form 8-K, filed November 24, 2008).(1)

10 .21	Securities Purchase Agreement, dated as of November 16, 2009 between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.2 to the Quarterly Report of Ambient Corporation on Form 10-Q for the three month period ended September 30, 2009, filed November 16, 2009).(1)
10 .22	Registration Rights Agreement, dated as of November 16, 2009 between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.3 to the Quarterly Report of Ambient Corporation on Form 10-Q for the three month period ended September 30, 2009, filed November 16, 2009).(1)
10 .23	Amendment to Securities Purchase Agreement dated as of January 15, 2010, between Ambient and Vicis Capital Master Fund (filed as Exhibit 10.26 to the Annual Report of Ambient Corporation on Form 10-K for the year ended December 31, 2009, filed March 31, 2010).(1)
10 .24	Commercial Deployment Agreement dated as of March 31, 2008 between Ambient Corporation and Duke Energy Carolinas, LLC (filed as Exhibit 10.1 to the Quarterly Report of Ambient Corporation on Form 10-Q for the three month period ended March 31, 2008, filed May 15, 2008). (Pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, the registrant has requested confidential treatment of the portion of this exhibit deleted from the filed copy).(1)
10 .25	Master Supply and Alliance Agreement dated as of February 17, 2009 between Ambient Corporation and Bel Fuse Inc. (Pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, the registrant has requested confidential treatment of the portion of this exhibit deleted from the filed copy) (filed as Exhibit 10.25 to the Annual Report of Ambient Corporation on Form 10-K for the year ended December 31, 2011, filed March 6, 2012). (1)
10 .26	Product Sales, Services & Software Agreement between Ambient Corporation and Duke Energy business Services LLC on its own behalf and as agent for and on behalf of Duke Energy Carolinas, LLC, Duke Energy Indiana, Inc, Duke Energy Ohio, Inc., Duke Energy Kentucky, Inc., and certain after acquired affiliates (filed as Exhibit 10.1 to the Quarterly Report of Ambient Corporation on Form 10-Q for the three month period ended September 30, 2009, filed November 16, 2009). (Pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, the registrant has requested confidential treatment of portions of this exhibit deleted from the filed copy.)(1)
10 .27	Office Lease Agreement dated as of May 21, 2009, between Ambient Corporation and NS 7/57 Acquisition LLC (filed as Exhibit 10.1 to the Quarterly Report of Ambient Corporation on Form 10-Q for the three month period ended June 30, 2009, filed August 7, 2009).(1)
10.28	Ambient Corporation 2012 Stock Incentive Plan (filed as Appendix A to the Definitive Proxy Statement of Ambient Corporation on Schedule 14A filed April 24, 2012) (1)+
10.29	Ambient Corporation Management Incentive Bonus Plan (filed as Appendix B to the Definitive Proxy Statement of Ambient Corporation on Schedule 14A filed April 24, 2012) (1)+
14	Code of Business Conduct and Ethics (filed as Exhibit 14.1 to the Current Report of Ambient Corporation on Form 8-K, filed August 2, 2011).(1)
23.1	Consent of PricewaterhouseCoopers LLP
23.2	Consent of Rotenberg Meril Solomon Bertiger & Guttilla, P.C.
31 .1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31 .2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32	Certification of Chief Executive Officer and Chief Financial Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101 .INS*	XBRL Instance Document
101 .SCH*	XBRL Taxonomy Extension Schema
101 .CAL*	XBRL Taxonomy Extension Calculation Linkbase
101 .DEF*	XBRL Taxonomy Extension Definition Linkbase
101 .LAB*	XBRL Taxonomy Extension Label Linkbase
101 .PRE*	XBRL Taxonomy Extension Presentation Linkbase

+ Management Agreement

* *Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.*

(1) Incorporated by reference

SIGNATURES

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

AMBIENT CORPORATION
(Registrant)

By: */s/ John J. Joyce*	By: */s/ Mark Fidler*
John J. Joyce	Mark Fidler,
President and Chief Executive Officer	Vice President and Chief Financial Officer
(Principal Executive Officer)	(Principal Financial and Accounting Officer)
Date: March 11, 2013	Date: March 11, 2013

Pursuant to requirements with 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.

Signature	Title	Date
/s/ John J. Joyce John J. Joyce	PRESIDENT, CHIEF EXECUTIVE OFFICER, CHAIRMAN OF THE BOARD and DIRECTOR (Principal Executive Officer)	March 11, 2013
/s/ Mark L. Fidler Mark L. Fidler	VICE PRESIDENT, CHIEF FINANCIAL OFFICER and TREASURER (Principal Financial Officer and Principal Accounting Officer)	March 11, 2013
/s/ Michael L. Widland Michael L. Widland	DIRECTOR	March 11, 2013
/s/ D. Howard Pierce D. Howard Pierce	DIRECTOR	March 11, 2013
/s/ Thomas Michael Higgins Thomas Michael Higgins	DIRECTOR	March 11, 2013
/s/ Shad L. Stastney Shad L. Stastney	DIRECTOR	March 11, 2013
/s/ Francesca E. Scarito Francesca E. Scarito	DIRECTOR	March 11, 2013

AMBIENT CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Ambient Corporation:

In our opinion, the accompanying consolidated balance sheet as of December 31, 2012 and the related consolidated statement of operations, of changes in stockholders' equity (deficit) and of cash flows for the year then ended present fairly, in all material respects, the financial position of Ambient Corporation and its subsidiary at December 31, 2012 and the results of their operations and their cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts

March 11, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Ambient Corporation

We have audited the accompanying balance sheet of Ambient Corporation (the “Company”) as of December 31, 2011, and the related statements of operations, changes in stockholders’ equity and cash flows for the year then ended. The financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audit 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and the results of their operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Rotenberg Meril Solomon Bertiger & Guttilla, P.C.

ROTENBERG MERIL SOLOMON BERTIGER & GUTTILLA, P.C.
Saddle Brook, New Jersey

March 6, 2012, except for Notes 2, 3, 7, 8, 10, and 11 as to which the date is September 24, 2012

AMBIENT CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	December 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 13,314	$ 17,965
Accounts receivable	2,287	284
Inventory	575	1,460
Prepaid expenses and other current assets	709	527
Total current assets	16,885	20,236
Property and equipment, net	1,444	1,249
Deferred finance costs	-	389
Total assets	$ 18,329	$ 21,874
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 2,842	$ 3,920
Accrued expenses and other current liabilities	1,139	714
Deferred revenue	683	453
Accrued warranty	126	115
Income taxes payable	-	41
Warrant liability	3	671
Total current liabilities	4,793	5,914
Non-current liabilities		
Deferred rent	-	99
Total liabilities	$ 4,793	$ 6,013
Commitments (Note 13)		
Stockholders' Equity:		
Preferred stock, $0.001 par value; 5,000,000 authorized, none issued and outstanding	-	-
Common stock, $0.001 par value; 100,000,000 shares authorized; 16,664,553 and 16,567,384 shares issued; and 16,664,553 and 16,557,384 shares outstanding, respectively	17	17
Additional paid-in capital	240,340	237,421
Accumulated deficit	(226,821)	(221,377)
Less: treasury stock; 0 and 10,000 shares at cost	-	(200)
Total stockholders' equity	13,536	15,861
Total liabilities and stockholders' equity	$ 18,329	$ 21,874

See Notes to the Consolidated Financial Statements

AMBIENT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	For the Year Ended December 31, 2012	2011
Total revenue	$ 42,805	$ 62,112
Cost of goods sold	24,517	35,274
Gross profit	18,288	26,838
Operating expenses:		
Research and development expenses	14,336	11,665
Selling, general and administrative expenses	9,656	8,244
Write-off of deferred financing costs	389	-
Total operating expenses	24,381	19,909
Operating (loss) income	(6,093)	6,929
Interest income	198	19
Interest expense	(1)	-
Mark-to-market adjustment of warrant liability	452	3,306
Total other income	649	3,325
(Loss) income before taxes	(5,444)	10,254
Provision for income taxes	-	204
Net (loss) income	$ (5,444)	$ 10,050
Net (loss) income per basic share	$ (0.33)	$ 0.61
Net (loss) income per diluted share	$ (0.33)	$ 0.59
Weighted average shares used in computing basic net (loss) income per share	16,625	16,515
Weighted average shares used in computing diluted net (loss) income per share	16,625	16,905

See Notes to the Consolidated Financial Statements

AMBIENT CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
(in thousands, except share data)

	Common Stock		Additional Paid-in	Treasury	Accumulated	
	Shares	Amount	Capital	Stock	Deficit	Total
Balance - December 31, 2010	16,483,764	$ 16	$ 233,254	$ (200)	$ (231,427)	$ 1,643
Common stock issued upon exercise of warrants	68,538	1	615	-	-	616
Common stock issued upon exercise of options	5,082	-	30	-	-	30
Stock-based compensation expense	-	-	3,522	-	-	3,522
Net income	-	-	-	-	10,050	10,050
Balance - December 31, 2011	16,557,384	$ 17	237,421	$ (200)	$ (221,377)	$ 15,861
Common stock issued upon exercise of warrants	106,228	-	588	-	-	588
Common stock issued upon exercise of options	941	-	4	-	-	4
Stock-based compensation expense	-	-	2,527	-	-	2,527
Retirement of treasury stock	-	-	(200)	200	-	-
Net loss	-	-	-	-	(5,444)	(5,444)
Balance - December 31, 2012	16,664,553	$ 17	$ 240,340	$ -	$ (226,821)	$ 13,536

See Notes to the Consolidated Financial Statements.

AMBIENT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Year Ended December 31, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$ (5,444)	$ 10,050
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	574	458
Stock-based compensation	2,527	3,522
Write-off of deferred finance costs	389	-
Mark-to-market adjustment of warrant liability	(452)	(3,306)
Changes in operating assets and liabilities:		
Accounts receivable	(2,003)	1,447
Inventory	885	(626)
Prepaid expenses and other current assets	(182)	(251)
Accounts payable	(1,188)	312
Accrued expenses and other current liabilities	425	81
Deferred revenue	230	313
Accrued warranty	11	115
Income taxes payable	(41)	41
Deferred rent	(99)	(87)
Net cash (used in) provided by operating activities	(4,368)	12,069
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(659)	(962)
Net cash used in investing activities	(659)	(962)
CASH FLOWS FROM FINANCING ACTIVITES		
Deferred finance charges	-	(389)
Proceeds from exercise of warrants	372	240
Proceeds from exercise of stock options	4	30
Payments of capitalized lease obligations	-	(10)
Net cash provided by (used) in financing activities	376	(129)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,651)	10,978
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	17,965	6,987
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 13,314	$ 17,965
Non-cash financing and investing activities:		
Purchases of property and equipment not yet paid	$ 110	$ -
Supplemental disclosures of cash flow information:		
Interest paid	$ 1	$ 246
Income taxes paid	$ 41	$ 163

See Notes to the Consolidated Financial Statements.

AMBIENT CORPORATION
NOTES TO CONSOLIATED FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF BUSINESS

Ambient Corporation ("Ambient," the "Company," "we or "us") is a Delaware corporation incorporated in June, 1996 and is a leading provider of smart grid communications technology for utilities. The Ambient Smart Grid ® communications platform, which includes hardware, software and firmware, provides the network platform to effectively manage grid applications. The Company's innovative communications platform enables utilities to deploy and integrate multiple smart grid applications and technologies, in parallel on a single communications infrastructure, supporting smart metering, distribution automation, distribution management, demand response, distributed generation and more.

The Company's long-standing relationship with Duke Energy, which it believes has one of the most forward-looking smart grid investment initiatives in North America, has driven significant historical growth in the Company's business. The Company entered into a long-term agreement in September 2009 with Duke Energy, currently its primary customer, to supply Duke Energy with their Ambient Smart Grid ® communications nodes through 2015 and license our AmbientNMS®.

On July 18, 2011, the Company implemented a reverse stock split of its outstanding shares of common stock at a ratio of 1-for-100 shares. The reverse stock split has been reflected in this Annual Report on Form 10-K. See Note 9.

Since inception, the Company has funded its operations with proceeds from the sale of securities and, more recently, with revenue from sales of products. At December 31, 2012, the Company had working capital of $12.1 million, including cash and cash equivalents of $13.3 million.

The Company's business plan will provide sufficient liquidity to fund its operating needs for the next 12 months. However, there are factors that can impact the Company's ability continue to fund its operating needs, including:

- The Company's expectations regarding the continued favorable relationship with Duke Energy, which it expects will continue to be a substantial source of it's revenue;
- The Company's ability to maintain product pricing as expected, particularly in light of increased competition and its unknown effects on market dynamics;
- The Company's ability and its contract manufacturer's ability to reduce manufacturing costs as expected;
- The Company's ability to expand sales volume, which is highly dependent on the smart grid implementation plans of Duke Energy and other utilities; and
- The need for the Company to continue to invest in operating activities in order to remain competitive or acquire other businesses and technologies in order to complement its products, expand the breadth of its business, enhance its technical capabilities or otherwise offer growth opportunities.

If the Company cannot effectively manage these factors, the Company may need to raise additional capital in order to fund its operating needs. If the Company is unable to obtain adequate financing or financing on terms satisfactory to the Company when it requires it, the Company's ability to continue to grow or support its business and to respond to business challenges could be significantly limited and may be required to implement spending reduction measures in order to preserve cash.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

During 2011, the Company's only wholly-owned subsidiary, Insulated Connections Corporation Limited, was dissolved. Prior to its dissolution in 2011, the financial statements included the accounts of Insulated Connections Corporation Limited, though the subsidiary had been inactive since 2001.

On August 23, 2012, the Company established Ambient Corporation Europe Limited, its subsidiary under the laws of the United Kingdom. The entity is wholly-owned and was established to serve as a Company sales office. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All inter-company balances and transactions have been eliminated in consolidation.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The Company bases its estimates on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Some of these estimates can be subjective and complex and, consequently, actual results may differ from these estimates under different assumptions or conditions. For any given estimate or assumption made by the Company's management, there may be other estimates or assumptions that are as reasonable. The Company believes that, given the current facts and circumstances, it is unlikely that applying any such other reasonable estimate or assumption would materially impact the financial statements.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with maturities of three months or less from the date of purchase and whose carrying amount approximates fair value to be cash equivalents.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company measures at fair value its assets and liabilities based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's own assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities, which include certificates of deposits and money market funds.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities, including liabilities resulting from embedded derivatives associated with certain warrants to purchase common stock (see Note 8).

STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation in accordance with accounting guidance codified as Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 718, "Compensation – Stock Compensation." Stock-based compensation cost is estimated at the grant date based on the fair value of the award. The Company estimates the fair value of stock options granted using the Black-Scholes option pricing model.

NET INCOME (LOSS) PER SHARE

The Company computes net income (loss) per common share in accordance with the Earning Per Share topic of the FASB ASC. Basic net income (loss) per share (EPS) is computed by dividing net income (loss) available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share adjusts basic net income (loss) per share for the effects of convertible securities, stock options and other potentially dilutive instruments; only in the periods in which such effect is dilutive.

The following is a reconciliation of the denominators of basic and diluted earnings per share computations:

	December 31,	
(in thousands)	**2012**	**2011**
Weighted average shares outstanding used to compute basic earnings per share	16,625	16,515
Effect of dilutive stock options and warrants	-	390
Weighted average shares outstanding and dilutive securities used to compute dilutive earnings per share	16,625	16,905

The following securities have been excluded from the calculation of net income (loss) per share, as their effect would be anti-dilutive.

	December 31,	
(in thousands)	**2012**	**2011**
Stock options	2,426	747
Warrants	56	800
Total anti-dilutive shares	2,482	1,547

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which range from one to five years. Upon retirement or disposal, the cost of the disposed asset and the related accumulated depreciation are removed from the accounts and any gain or loss is reflected in net income or loss.

REVENUE RECOGNITION

Revenue Recognition.

Total revenue consists primarily of sales of hardware, software, and maintenance services. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is reasonably assured. Product is considered delivered to the customer once it has been shipped and title and risk of loss have been transferred. For most of the Company’s product sales, these criteria are met at the time the product is shipped. The Company records deferred revenue when it receives payments in advance of the delivery of products or the performance of services.

Hardware sales consist of the Company’s Ambient Smart Grid® communications nodes which are physical boxes that contain the hardware and embedded software needed for communications and data collection in support of smart grid assets. The system software embedded in the Company’s communications nodes is used solely in connection with the operation of the physical boxes.

Ambient’s proprietary software AmbientNMS® is our smart grid network management system that controls the large numbers of communications nodes, devices and customers on a smart grid. NMS software is offered on a stand-alone basis.

The Company generally includes a period of free maintenance services beginning from the sale of the communication nodes and NMS Software. As such, the Company recognizes a portion of the revenue from the sales of its products upon delivery to the customer. The revenue allocated to the free period of maintenance services is deferred and recognized ratably over the period of performance.

The Company offers additional software maintenance service, on a fee basis, that entitles the purchasers of its products and AmbientNMS® software to post-contract customer support including help desk support, and unspecified updates and upgrades to its products on a when-and-if available basis. Maintenance services are recognized ratably over the period of performance.

The Company recognizes revenue from the sale of (i) hardware products and (ii) software bundled with hardware that is essential to the functionality of the hardware in accordance with revenue recognition for multiple element arrangements. The Company recognizes revenue in accordance with applicable industry specific software accounting guidance for (i) standalone sales of software products, (ii) related software maintenance renewals, and (iii) sales of software bundled with hardware not essential to the functionality of the hardware.

Revenue Recognition for Arrangements with Multiple Deliverables

In October 2009, the FASB issued ASU No. 2009-13, Multiple-Deliverable Revenue Arrangements, (amendments to ASC Topic 605, Revenue Recognition) (‘‘ASU 2009-13’’) (formerly EITF Issue 08-1) and ASU No. 2009-14, Certain Arrangements That Include Software Elements, (amendments to FASB ASC Topic 985, Software) (‘‘ASU 2009-14’’) (formerly EITF 09-3). ASU 2009-13 eliminates the residual method and requires arrangement consideration to be allocated using the relative selling price method, which requires entities to allocate revenue in an arrangement using the best estimated selling price ("BESP") of each element when a vendor does not have vendor-specific objective evidence of selling price ("VSOE") or third party evidence of selling price ("TPE"). ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are within the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 were effective for arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company adopted ASU 2009-13 and 2009-14 effective January 1, 2011.

For hardware sales, we evaluate each deliverable in an arrangement to determine whether it should be accounted for as a separate unit of accounting. The delivered items or item shall be considered a separate unit of accounting if it has standalone value to the customer and there are no customer-negotiated refunds or return rights.

We allocate the total arrangement consideration to each unit of accounting in a multiple-element arrangement based on its relative selling price, and include our bundled hardware and software component as one unit of accounting and the free period of maintenance as a separate unit of accounting. The Company uses a hierarchy to determine the selling price to be used for allocating revenue to each of the deliverables. We determine the selling price for each deliverable using VSOE, if it exists or TPE if VSOE does not exist. If neither VSOE nor TPE of selling price exists for a deliverable, we use our BESP for that deliverable. Revenue allocated to each element is then recognized when the basic revenue recognition criteria are met for each element.

We determine VSOE of a deliverable based on the price at which we sell the deliverable on a standalone basis to third parties or from the stated renewal rate for the elements contained in the initial arrangement. VSOE has been established for our software maintenance element The objective of BESP is to determine the price at which we would transact a sale if the product or service were sold on a standalone basis. BESP has been established for our bundled hardware and software portion of the arrangement.

We have established an annual review process around VSOE, TPE and BESP. When establishing BESP the Company considers multiple factors including, but not limited to, the relative value of the features and functionality being delivered to the customer, and general pricing practices. Based on our analysis of pricing stated in contractual arrangements for our hardware products in historical multiple-element transactions, we have concluded that we typically price our hardware and embedded software at the contractually agreed upon amounts. Therefore, we have determined that, for our hardware and embedded software for which VSOE or TPE is not available, our BESP is generally comprised of prices based on our contractually agreed upon rates.

The Company accounts for multiple element arrangements that consist only of software or software-related products, including the sale of maintenance services for previously sold software, in accordance with industry specific software accounting guidance. For such multiple element software transactions, revenue is allocated to each element based on the residual method when VSOE has been established for the undelivered element. If the Company cannot objectively determine the VSOE of any undelivered element included in such multiple-element arrangements, the Company defers revenue until VSOE is established for any remaining undelivered elements, or all elements are delivered and services have been performed.

ACCOUNTS RECEIVABLE

Accounts receivable are recorded net of an allowance for doubtful accounts based upon management's analysis of the collectability of the balances. At December 31, 2012 and 2011, the Company believed that no allowance was necessary.

At December 31, 2012 one customer accounted for substantially all of our of accounts receivable and at December 31, 2011 one customer accounted for 100% of our accounts receivable. See Note 12.

INVENTORY

Inventory is valued at the lower of cost or market determined on the first-in, first-out (FIFO) basis. The value of the inventory is adjusted for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions.

RESEARCH AND DEVELOPMENT AND PATENT COSTS

Both research and development costs and patent costs are expensed as incurred.

SOFTWARE DEVELOPMENT COSTS

Costs incurred in the research and development of new software products and enhancements to existing software products have historically been expensed as incurred. After technological feasibility is established, additional development costs are capitalized. As of December 31, 2012 and 2011 no software development costs have been capitalized as the costs incurred after establishing technological feasibility were not material.

INCOME TAXES

The Company accounts for income taxes in accordance with accounting guidance now codified as FASB ASC 740, “Income Taxes,” which requires that the Company recognize deferred tax liabilities and assets based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities, using enacted tax rates in effect in the years the differences are expected to reverse. Deferred income tax benefit (expense) results from the change in net deferred tax assets or deferred tax liabilities. A valuation allowance is recorded when it is more likely than not that some or all deferred tax assets will not be realized.

The Company has adopted the provisions of FASB ASC 740-10-05, “Accounting for Uncertainties in Income Taxes.” The ASC clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. The ASC prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The ASC provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and, disclosure.

WARRANTIES

The Company accounts for its warranties under the FASB ASC 450 “Contingencies.” The Company’s current standard product warranty includes a one-year warranty period for defects in material and workmanship. The Company accrues a liability of approximately 0.5% of current communications node revenues for the estimated future costs of meeting its warranty obligation, based on the actual historical return rate for repair of products within the one-year warranty period. The Company makes and revises this estimate based on the number of communications nodes delivered and its historical experience with warranty claims. The Company continually monitors the rate of actual product returns for repair and the quality of its products including the quality of the products produced by its U.S.-based contract manufacturer in China.

The Company engages in product quality programs and processes, including monitoring and evaluating the quality of component suppliers, in an effort to ensure the quality of its products and reduce its warranty exposure. The warranty obligation will be affected not only by product failure rates, but also the costs to repair or replace failed products and potential service and delivery costs incurred in correcting a product failure. If the Company’s actual product failure rates, repair or replacement costs, or service or delivery costs differ from these estimates, accrued warranty costs would be adjusted in the period that such events or costs become known.

The following table summarizes the activity of the Company's warranty accrual for the years ended 2012 and 2011, respectively:

(in thousands)	December 31, 2012	December 31, 2011
Balance at beginning of period	$ 115	$ -
Warranty costs accrued, net	110	115
Warranty costs incurred	(99)	-
Balance at end of period	$ 126	$ 115

The Company's software license agreements also generally include a warranty that the Company's software products will substantially operate as described in the applicable program documentation. The Company also warrants that services the Company performs will be provided in a manner consistent with industry standards. To date, the Company has not incurred any material costs associated with these software product and service performance warranties, and as such the Company has not provided for any reserves for any such warranty liabilities in its operating results.

WARRANTS

Warrants (defined in Note 8) are recorded as liabilities at their estimated fair value at the date of issuance, with subsequent changes in estimated fair value recorded in other income (expense) in the statement of operations in each subsequent period. Fair value of the warrants is determined by management using a multiple scenario, probability-weighted option-pricing model using the following inputs: the fair value of the underlying common stock at the valuation measurement date; the risk-free interest rates; the expected dividend rates; the remaining contractual terms of the warrants; the expected volatility of the price of the underlying common stock; and the probability of certain events occurring. The assumptions used in calculating the estimated fair value of the warrants represent management's best estimates; however, these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and different assumptions are used, the derivative and warrant liabilities and the change in their estimated fair values could be materially different.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from future undiscounted cash flows. Impairment losses are recorded for the excess, if any, of the carrying value over the fair value of the long-lived assets. The Company did not record an impairment charge in 2012 and 2011.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-04: Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). ASU 2011-04 clarifies application of fair value measurement and disclosure requirements and was effective for annual periods beginning after December 15, 2011. The Company adopted the provisions of ASU 2011-04 which did not have a material effect on its financial position and results of operations.

In February 2013, the FASB issued guidance requiring disclosure of amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present either on the face of the statement of operations or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For amounts not reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. This guidance is effective prospectively for the Company for annual and interim periods beginning January 1, 2013. The Company will comply with the disclosure requirements of this guidance for the quarter ending March 31, 2013.

The Company does not believe that any other recently issued, but not yet effective, accounting standard if currently adopted would have a material effect on the accompanying financial statements.

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company measures at fair value its assets and liabilities based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's own assumptions. The fair value of cash and cash equivilents approximate the carrying amount due to the short term maturities of these instruments.

The following table provides the assets and liabilities at fair value measured on a recurring basis as of December 31, 2012 and 2011:

(in thousands)

	December 31, 2012			
	Total Carrying Value	**Quoted Prices in Active Markets (Level 1)**	**Using Significant Other Observable Inputs (Level 2)**	**Using Significant Unobservable Inputs (Level 3)**
Assets:				
Cash and cash equivalents:				
Money market funds and certificates of deposit	$ 12,070	$ -	$ 12,070	$ -
Total assets	12,070	-	12,070	-
Current liabilities:				
Warrant liabilities	3	-	-	3
Total liabilitities	$ 3	$ -	$ -	$ 3

	December 31, 2011			
	Total Carrying Value	**Quoted Prices in Active Markets (Level 1)**	**Using Significant Other Observable Inputs (Level 2)**	**Using Significant Unobservable Inputs (Level 3)**
Assets:				
Cash and cash equivalents:				
Money market funds and certificates of deposit	$ 17,622	$ -	$ 17,622	$ -
Total assets	17,622	-	17,622	-
Current liabilities:				
Warrant liabilities	671	-	-	671
Total liabilitities	$ 671	$ -	$ -	$ 671

NOTE 4 – INVENTORY

At December 31, 2012 and 2011, inventory of approximately $575,000 and $1.5 million, respectively, consisted of shipments in transit, which represent the cost of finished goods inventory shipped for which title has not yet passed to our customer. The value of inventory is adjusted for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2012 and 2011:

(in thousands)	December 31, 2012	December 31, 2011
Computers	$ 723	$ 654
Software	816	657
Machinery and equipment	1,433	975
Furniture and office equipment	288	248
	$ 3,260	$ 2,534
Less - accumulated depreciation	$ (1,816)	$ (1,285)
	$ 1,444	$ 1,249

The Company disposed of $43,000 of fully depreciated assets during 2012. Depreciation expense was approximately $574,000 and $458,000 for the years ended December 31, 2012 and 2011, respectively.

NOTE 6 – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

(in thousands)	December 31, 2012	December 31, 2011
Accrued compensation and benefits	$ 628	$ 391
Accrued insurance premiums	237	-
Accrued professional services	93	16
Accrued freight	52	140
Accrued excise taxes	20	43
Other accrued liabilities	109	124
	$ 1,139	$ 714

During 2012, the Company renewed its directors' and officers' liability insurance policies which experienced significant increases in premiums. The Company elected to extend the payment terms of a significant portion of the insurance premiums with a third party. The principal amount extended was $267,000, of which approximately $237,000 in principal was outstanding at December 31, 2012. Payments including finance charges are payable monthly through September 2013, bearing an interest rate of 5.75% per annum.

NOTE 7 – WARRANTS

In July 2007, the Company entered into a Securities Purchase Agreement (the "July 2007 Purchase Agreement") with Vicis, pursuant to which Vicis purchased the Company's Secured Convertible Promissory Note in aggregate principal amount of $7.5 million (the "July 2007 Note"). The July 2007 Note had a term of three years and was scheduled to become due on July 31, 2010. The outstanding principal amount of the July 2007 Note was convertible at the option of the holder into shares of the Company's common stock at an initial conversion price of $7.50 per share, subject to certain adjustments. The July 2007 Note was secured by substantially all of the assets of the Company. In January 2010, the July 2007 Note was converted into 5.0 million shares of common stock. Pursuant to the July 2007 Purchase Agreement, the Company issued to Vicis warrants to purchase 1.5 million shares of common stock, exercisable through July 31, 2012, at original exercise prices between $6.00 and $7.50 per share. All of these warrants were exercised in November 2008. In addition, the Company paid fees to a registered broker dealer of $570,000 and issued warrants to purchase up to 173,500 shares of the Company's common stock at an original per share exercise price of $7.50 (all of the warrants issued in connection with the July 2007 Note referred to as the "July 2007 Warrants"). As of December 31, 2012 none of these warrants were outstanding.

In November 2007, the Company entered into a Securities Purchase Agreement (the "November 2007 Purchase Agreement") with Vicis, pursuant to which Vicis purchased the Company's Secured Convertible Promissory Note in aggregate principal amount of $2.5 million (the "November 2007 Note"). The November 2007 Note had a term of three years and was scheduled to become due on November 1, 2010. The outstanding principal amount of the November 2007 Note was convertible at the option of the holder into shares of the Company's common stock at an initial conversion price of $4.50 per share, subject to certain adjustments. The November 2007 Note was secured by substantially all of the assets of the Company. In January 2010, the November 2007 Note was converted into approximately 1.7 million shares of common stock. Pursuant to the November 2007 Purchase Agreement, the Company issued to Vicis warrants to purchase 833,333 shares of common stock, exercisable through October 31, 2012, at original exercise prices between $4.50 and $5.00 per share. All of these warrants were exercised in November 2008. In addition, the Company issued to a registered broker dealer warrants to purchase up to 116,667 shares of the Company's common stock at an original per share exercise price of $4.50 (all of the warrants issued in connection with the November 2007 Note referred to as the "November 2007 Warrants"). As of December 31, 2012 none of these warrants were outstanding.

In January 2008, the Company entered into a Securities Purchase Agreement (the "January 2008 Purchase Agreement") with Vicis, pursuant to which Vicis purchased the Company's Secured Convertible Promissory Note in aggregate principal amount of $2.5 million (the "January 2008 Note"). The January 2008 Note had a term of three years and was scheduled to become due on January 15, 2011. The outstanding principal amount of the January 2008 Note was convertible at the option of the holder into shares of the Company's common stock at an initial conversion price of $3.50 per share, subject to certain adjustments. The January 2008 Note was secured by substantially all of the assets of the Company. In August 2009, the January 2008 Note was converted into approximately 1.7 million shares of common stock. Pursuant to the January 2008 Purchase Agreement, the Company issued to Vicis warrants to purchase 1.1 million shares of common stock, exercisable through January 15, 2013, at an original exercise price of $3.50 per share. All of these warrants were exercised in November 2008. In addition, the Company issued to a registered broker dealer warrants to purchase up to 150,000 shares of the Company's common stock at an original per share exercise price of $3.50 (all of the warrants issued in connection with the January 2008 Note referred to as the "January 2008 Warrants"). As of December 31, 2012, approximately 134,000 of these warrants were outstanding.

In November 2009, the Company and Vicis entered into an agreement ("2009 Escrow Agreement"), which was subsequently amended in January 2010, pursuant to which Vicis deposited into an escrow account $8.0 million to be drawn upon, from time to time, as the Company's cash balances fell below $1.5 million (the ''Cash Balance Condition Precedent"). The Company was entitled to receive $500,000 from the account in consideration of which the Company would issue to Vicis 50,000 shares of common stock and warrants to purchase 50,000 shares of common stock. Between January and December 2010, we completed six draw-downs in the amount of the $3.0 million and issued 300,000 shares of our common stock and warrants to purchase 300,000 shares of common stock at an exercise price of $25.00 per share. In November 2012, as a result of the impact of super-storm Sandy, the Board of Directors approved a 30-day extension of the then outstanding portion of these warrants to give holders some additional time to exercise their warrants. The modification of the expiration date of these warrants resulted in a charge of approximately $24,000, representing the change in fair value of the warrants at the time of the modification. All of these remaining warrants expired by the end of 2012.

On December 30, 2010, the Company and Vicis further amended the 2009 Escrow Agreement ("Second Amendment") pursuant to which Vicis allowed us to draw the remaining $5.0 million in the escrow account, despite the fact that the Cash Balance Condition Precedent had not been met. In consideration of the Second Amendment and drawdown of the $5.0 million in escrow, the Company issued to Vicis 500,000 shares of common stock as well as warrants to purchase, over a two year period from the date of issuance, an additional 500,000 shares of common stock with an exercise price of $20.00 per share. All of these warrants expired during 2012.

The following table summarizes warrant activity during the year ended December 31, 2012:

	Warrants	Weighted Average Exercise Price
Warrants outstanding, December 31, 2011	1,123,484	$ 16.61
Exercised	(106,228)	3.50
Expired	(883,327)	23.01
Warrants outstanding, December 31, 2012	133,929	$ 3.50

The following table summarizes the warrants outstanding as of December 31, 2012 and 2011, respectively:

Exercise Price		December 31, 2012	December 31, 2011
	$ 3.50	133,929	315,984
	$ 7.50	-	7,500
	$ 20.00	-	500,000
	$ 25.00	-	300,000
		133,929	1,123,484
Weighted average exercise price		$ 3.50	$ 16.61
Vicis warrants		8,000	955,033
Weighted average exercise price		$ 3.50	$ 18.89

NOTE 8 – WARRANT LIABILITIES

In connection with certain historical financing transactions described in Note 7,the Company issued warrants to purchase common stock (collectively, the "Warrants") which have been classified as liabilities in accordance with ASC 815, due primarily to an anti-dilution price protection feature common with such warrants. Changes in the fair values of these instruments require adjustments to the amount of the liabilities recorded on the Company's balance sheet, and the corresponding gain or loss is required to be recorded in the Company's statement of operations.

Fair value of the warrants is determined by management using a multiple scenario, probability-weighted option-pricing model using the following inputs: the fair value of the underlying common stock at the valuation measurement date; the risk-free interest rates; the expected dividend rates; the remaining contractual terms of the warrants; the expected volatility of the price of the underlying common stock; and the probability of certain events occurring.

The assumptions used by the Company to determine fair value for the Warrants are summarized in the following tables:

	December 31,	
	2012	2011
Risk free interest rate	0.9%-1.50%	1.7%
Expected life (yrs)	0.1-0.3	0.1-1.3
Expected volatility	60.2%-62.3%	62.3%
Dividend yield	0%	0%
Underlying stock price	$ 3.01	$ 4.63

The Company currently has no history or expectation of paying cash dividends on its common stock. The Company estimates the volatility of its common stock at the date of grant based on the volatility of the stock prices of a peer group of publicly-traded companies for a period that approximates the expected life of the warrants. The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with the remaining term of the warrants.

The following table summarizes the changes in the estimated fair value of the warrants for the years ended December 31, 2012 and 2011 (in thousands).

	December 31,	
(in thousands)	2012	2011
Balance at beginning of period	$ 671	$ 4,353
Mark-to-market adjustment	(253)	(3,306)
Exercise and expiration of warrants	(415)	(376)
Balance at end of period	$ 3	$ 671

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NOTE 9 – STOCKHOLDERS' EQUITY

The Company has two classes of capital stock: common and preferred. As of December 31, 2012, the Company had 100,000,000 shares of common stock authorized and 5,000,000 shares of preferred stock authorized, both at $0.001 par value per share. Currently, the terms of the authorized preferred stock have not been established.

On July 18, 2011, the Company filed a Certificate of Amendment to its Restated Certificate of Incorporation effecting a reverse stock split of its outstanding shares of common stock at a ratio of 1-for-100 shares (the “Reverse Split”). The Certificate of Amendment provided that each 100 outstanding shares of the Company’s common stock would be exchanged and combined, automatically, without further action, into one share of common stock. Following the implementation of the Reverse Split, the number of authorized shares of common stock that we are authorized to issue from time to time is 100,000,000 shares. The Reverse Split became effective on July 18, 2011 and has been reflected in this Annual Report on Form 10-K. On August 3, 2011, the Company's common stock began to trade on the NASDAQ Capital Market under our new ticker symbol “AMBT.”

NOTE 10 – STOCK-BASED COMPENSATION

The following table presents stock-based compensation expense included in the Company’s statements of operations for the years ended December 31, 2012 and 2011:

(in thousands)	December 31,	
	2012	**2011**
Cost of goods sold	$ 345	$ 357
Research and development	855	891
Selling, general and administrative expenses	1,327	2,274
Total stock-based compensation	$ 2,527	$ 3,522

Stock Incentive Plans

In November 2000, the Company adopted the 2000 Equity Incentive Plan (the "2000 Incentive Plan"). The 2000 Incentive Plan provides for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, bonus stock, awards in lieu of cash obligations, other stock-based awards and performance units. On August 15, 2011, the Board of Directors of the Company approved an amendment to the Company’s 2000 Incentive Plan to increase the number of shares of the Company’s common stock available for issuance under the 2000 Incentive Plan from 1,100,000 to 2,750,000 shares. The Company may continue to grant equity incentives under this plan.

In December 2002, the Company adopted the 2002 Non-Employee Directors Stock Option Plan (the "2002 Directors Plan") providing for the issuance of shares of Common Stock to non-employee directors. Under the 2002 Directors Plan, only non-qualified options may be issued, and they will be exercisable for a period of six years from the date of grant. On August 15, 2011, the Board of Directors of the Company also approved an amendment to the Company's 2002 Directors Plan to increase the number of shares of the Company's common stock available for issuance under the 2002 Directors Plan from 250,000 to 750,000 shares. By written consent, the holder of a majority of the shares of outstanding common stock of the Company approved the amendment for such increase.

On June 7, 2012, the Company adopted the 2012 Stock Incentive Plan (the "2012 Stock Incentive Plan"). The 2012 Stock Incentive Plan provides for the grant of stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards, all as defined in the 2012 Stock Incentive Plan. A total of 4,000,000 shares of Common Stock have been reserved for issuance under the 2012 Stock Incentive Plan.

In addition to the options granted under the stock option plans discussed above (the "Plans"), the Company has issued options outside of the Plans, pursuant to various employment, consulting and separation agreements (referred to as "Non-plan" stock options).

The following table summarizes stock option activity during the year ended December 31, 2012:

	Plan	Non-plan	Total	Weighted Average Exercise Price
Options outstanding, December 31, 2011	2,733,707	15,000	2,748,707	$ 8.15
Granted	599,500	-	599,500	5.60
Exercised	(941)	-	(941)	4.68
Forfeited	(71,084)	-	(71,084)	14.70
Options outstanding, December 31, 2012	3,261,182	15,000	3,276,182	$ 7.55
Shares of Common Stock available for future grant under the plans	4,238,818			

There was no aggregate intrinsic value of the underlying stock options as of December 31, 2012.

The following table summarizes information about stock options outstanding at December 31, 2012:

Ranges of price	Number Outstanding	Weighted Average Remaining Contractual Life (yrs)	Exercise Price	Options Exercisable Weighted Average Number Exercisable	Exercise Price
$ 3.00 - $4.50	403,790	5.28	$ 3.69	387,457	$ 3.71
$ 4.62 - $7.50	2,155,409	8.38	6.42	841,978	6.45
$ 7.51 - $12.30	623,983	6.97	11.78	532,217	11.86
$ 15.00 - $20.00	78,500	1.96	19.62	78,125	19.64
$ 25.00 - $30.00	9,500	2.47	27.63	9,500	27.63
$ 50.00	5,000	1.55	50.00	5,000	50.00
$ 3.00 to $50.00	3,276,182	7.54	$ 7.55	1,854,277	$ 8.21

Share based compensation - The fair values of stock options granted were estimated using the Black-Scholes option-pricing model with the following assumptions:

	December 31, 2012	December 31, 2011
Risk free interest rate	0.9%-1.50%	1.7%
Expected life (yrs)	5.6	5.1
Expected volatility	60.2%-62.3%	62.3%
Dividend yield	0%	0%
Weighted-average grant date fair value per share	$ 3.15	$ 2.94

The Company currently has no history or expectation of paying cash dividends on our common stock. The Company estimates the volatility of its common stock at the date of grant based on the volatility of the stock prices of a peer group of publicly-traded companies for a period that approximates the expected life of its stock options. The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with the expected term of the awards in effect at the time of grant. The expected term represents the weighted-average period the stock options are expected to remain outstanding. As of December 31, 2012, there was $3.0 million of unrecognized compensation cost related to non-vested options granted. That cost is expected to be recognized over a weighted-average period of approximately 24 months.

NOTE 11 – INCOME TAXES

Due to the Company's loss from operations during the year ended December 31, 2012, no provision for income taxes was recorded. The provision for income taxes for the year ended December 31, 2011 was comprised of federal alternative minimum tax. The differences between the statutory United States federal income tax rate of 34% and the Company's effective tax rate are as follows:

	2012	2011
Statutory tax rate	34%	34%
State tax net of federal benefit	5%	5%
Mark-to-market adjustment of warrant liability	3%	(11)%
Research and development tax credits	7%	(7)%
Valuation allowance	(49)%	(21)%
Alternative minimum tax	0%	2%
Effective federal tax rate	0%	2%

The components of the net deferred tax assets at December 31, 2012 and 2011 were as follows (in thousands):

	2012	2011
Deferred Tax Assets:		
Net operating loss and tax credit carry forwards	$ 6,188	$ 2,775
Stock based compensation	2,913	2,004
Capitalized patent costs, net of amortization	742	714
Other	153	117
Total deferred tax assets	9,996	5,610
Deferred Tax Liabilities:		
Depreciation	(416)	(372)
Total deferred tax liabilities	(416)	(372)
Net deferred tax assets, before valuation allowance	9,580	5,238
Valuation allowance	(9,580)	(5,238)
Net deferred tax assets	$ -	$ -

The increase in the valuation allowance was due to increased net operating losses, the effects of accrued expenses and depreciation and amortization net of increases in stock based compensation. The increase is also due to a full valuation allowance being recognized against $1.7 million of deferred tax assets recorded in 2012 for U.S. federal and state tax credit carryforwards generated in earlier periods. This out-of-period adjustment has no impact on the Company's balance sheet, statement of operations, or statement of cash flows and is considered immaterial to the Company's current and prior period financial statements taken as a whole. In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future income, and tax planning strategies in making this assessment. The Company has recorded a full valuation allowance against the U.S net deferred tax assets since the Company believes that, after considering all of the available objective evidence, both positive and negative, historical and prospective, with greater weight given to historical evidence, it is not more likely than not that these assets will be realized.

At December 31, 2012, the Company had available $71.7 million of net operating loss carry forwards, for U.S. income tax purposes which expire at various dates through 2031. The Company also has Massachusetts net operating loss carryforwards of approximately $11.0 million that expire at various dates through 2031. The Company also has federal and state research and development tax credit carryforwards of approximately $2.3 million that expire at various dates through 2021, as well as a federal alternative minimum tax credit carry forward of $0.2 million that can be carried forward indefinitely. However, due to changes in stock ownership, the use of the U.S. net operating loss carry forwards is limited under Section 382 of the Internal Revenue Code. As such, approximately $61.4 million of these net operating loss carry forwards will expire and will not be available to use against future tax liabilities.

At December 31, 2011 and 2012, the Company had no material unrecognized tax benefits, and no adjustments to liabilities or operations were required. The Company does not expect that its unrecognized tax benefits will materially increase within the next twelve months. The Company did not recognize any interest or penalties related to uncertain tax positions at December 31, 2011 and 2012.

The Company files U.S. and state income tax returns in jurisdictions with varying statutes of limitations. The 2009 through 2012 tax years generally remain subject to examination by federal and most state tax authorities. Carryforward attributes that were generated in earlier periods remain subject to examination to the extent the year in which they were used or will be used remains open for examination.

On January 2, 2013, the American Taxpayer Relief Act of 2012 reinstated the federal research and development tax credit with retroactive application to January 1, 2012, the tax effect of which will be recognized as a discrete event in the first quarter of 2013. The Company does not expect this discrete event to have a material impact on the 2013 financial statements.

NOTE 12 – CONCENTRATION OF CREDIT RISK AND SIGNIFICANT CUSTOMER

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, and accounts receivable. The Company places its cash and cash equivalents with high quality financial institutions. With respect to accounts receivable, such receivables are primarily from Duke Energy, comprising substantially all of the Company’s revenues. This customer concentration increases the Company’s exposure to credit risk since the financial insolvency of this customer could have a significant impact on its liquidity and results of operations.

The Company utilizes one contract manufacturer for all of its production requirements. The Company’s products are manufactured in China by a U.S.-based company that also performs services for numerous other companies. The Company depends on its manufacturer to maintain high levels of productivity and satisfactory delivery schedules. The Company’s reliance on its manufacturer reduces its control over the manufacturing process, exposing the Company to risks, including reduced control over quality assurance, product costs and product supply.

NOTE 13 – COMMITMENTS

The Company does not own any real property. The Company currently leases approximately 28,000 square feet of office space in Newton, Massachusetts. The Company’s leases expire on December 31, 2013.

Deferred rent represents the cumulative excess of the straight-lined rent expense over cash paid for rent. As of December 31, 2012, deferred rent was fully amortized to rent expense. The minimum rental payments for 2013 are approximately $583,000. Rent expense for 2012 and 2011 was $498,000 and $348,000, respectively.

NOTE 14 – RETIREMENT PLANS

Effective January 1, 2012, the Company established a 401(k) plan for eligible employees. Under the provision of the plan, eligible employees may voluntarily contribute a portion of their compensation up to the statutory limit. The Company’s 401(k) plan provides for a matching contribution of up to 4% of participating employee compensation. The Company's contribution for 2012 was approximately $341,000.

During the fiscal year 2011, the Company maintained a SIMPLE IRA plan for the benefit of its employees. The Company made contributions to the plan in the amount of 3% of compensation, but such contributions could not exceed the amount of the employee's contribution. The Company's contribution for 2011 was approximately $123,000.

NOTE 15 – RELATED PARTY TRANSACTIONS

The Company retains the services of a law firm to perform legal services from time to time. One of the partners of the firm is a non-employee director of the Company. Legal fees incurred with this firm amounted to approximately $179,000 and $394,000 for 2012 and 2011, respectively.

EXHIBIT INDEX

Exhibit Number	Description
3 .1	Restated Certificate of Incorporation of Ambient Corporation, as amended (filed as Exhibit 3.1 to the Quarterly Report of Ambient Corporation on Form 10-Q for the three month period ended June 30, 2011, filed August 10, 2011).(1)
3 .2	Bylaws of Ambient Corporation (filed as Exhibit 3.2 to the Annual Report of Ambient Corporation on Form 10-K for the year ended December 31, 2011, filed March 6, 2012). (1)
4 .1	Specimen Stock Certificate (filed as Exhibit 4.1 to the Annual Report of Ambient Corporation on Form 10-K for the year ended December 31, 2011, filed March 6, 2012). (1)
4 .2	Common Stock Purchase Warrant (Series A) (filed as Exhibit 4.2 to the Current Report of Ambient Corporation on Form 8-K, filed July 31, 2007).(1)
4 .3	Common Stock Purchase Warrant (Series B) (filed as Exhibit 4.3 to the Current Report of Ambient Corporation on Form 8-K, filed July 31, 2007).(1)
4 .4	Common Stock Purchase Warrant (Series C) (filed as Exhibit 4.2 to the Current Report of Ambient Corporation on Form 8-K, filed July 31, 2007).(1)
4 .5	Common Stock Purchase Warrant (Series D) (filed as Exhibit 4.3 to the Current Report of Ambient Corporation on Form 8-K, filed November 5, 2007).(1)
4 .6	Common Stock Purchase Warrant (Series E) (filed as Exhibit 4.2 to the Current Report of Ambient Corporation on Form 8-K, filed January 17, 2008).(1)
4 .7	Warrant issued as of April 23, 2008 (filed as Exhibit 4.1 to the Quarterly Report of Ambient Corporation on Form 10-Q for the three month period ended June 30, 2008, filed August 14, 2008).(1)
4 .8	Common Stock Purchase Warrant (Series G) (filed as Exhibit 4.1 to the Quarterly Report of Ambient Corporation on Form 10-Q for the three month period ended September 30, 2009, filed November 16, 2009).(1)
10 .1	Ambient Corporation 2000 Equity Incentive Plan (filed as Appendix A to the Definitive Information Statement of Ambient Corporation on Schedule 14C, filed December 24, 2009).(1)+
10 .2	Ambient Corporation 2002 Non-Employee Directors Stock Option Plan (filed as Appendix B to the Definitive Information Statement of Ambient Corporation on Schedule 14C, filed December 24, 2009).(1)+
10 .3	Amended and Restated Employment Agreement effective as of December 30, 2008 between Ambient Corporation and John Joyce (filed as Exhibit 10.4 to the Quarterly Report of Ambient Corporation on Form 10-Q for the three month period ended March 31, 2008, filed May 15, 2008).(1)+
10 .4	Amended and Restated Employment Agreement effective as of June 2, 2008 between Ambient Corporation and Ramdas Rao (filed as Exhibit 10.5 to the Quarterly Report of Ambient Corporation on Form 10-Q for the three month period ended March 31, 2008, filed May 15, 2008).(1)+
10 .5	Employment Agreement effective as of August 4, 2011 between Ambient Corporation and Mark L. Fidler (filed as Exhibit 10.1 to the Current Report of Ambient Corporation on Form 8-K, filed on August 8, 2011).(1)+
10 .6	Securities Purchase Agreement dated as of May 26, 2006 among Ambient Corporation and certain investors (filed as Exhibit 10.8 to the Registration Statement of Ambient Corporation on Form SB-2, filed June 8, 2006, as File No. 333-134872).(1)
10 .7	Registration Rights Agreement dated as of May 26, 2006 among Ambient Corporation and certain investors (filed as Exhibit 10.9 to the Registration Statement of Ambient Corporation on Form SB-2, filed June 8, 2006, as File No. 333-134872).(1)

10 .8	Registration Rights Agreement, dated as of July 31, 2007, between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.1 to the Current Report of Ambient Corporation on Form 8-K, filed on July 31, 2007).(1)
10 .9	Securities Purchase Agreement, dated as of July 31, 2007 between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.2 to the Current Report of Ambient Corporation on Form 8-K, filed on July 31, 2007).(1)
10 .10	Security Agreement, dated as of July 31, 2007 between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.3 to the Current Report of Ambient Corporation on Form 8-K, filed on July 31, 2007).(1)
10 .11	Securities Purchase Agreement dated as of November 1, 2007, between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.1 to the Current Report of Ambient Corporation on Form 8-K, filed on November 5, 2007).(1)
10 .12	First Amendment dated as of November 1, 2007 to Registration Rights Agreement, dated as of July 31, 2007, between Ambient and Vicis Capital Master Fund (filed as Exhibit 10.2 to the Current Report of Ambient Corporation on Form 8-K, filed on November 5, 2007).(1)
10 .13	First Amendment dated as of November 1, 2007 to Securities Purchase Agreement, dated as of July 31, 2007 between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.3 to the Current Report of Ambient Corporation on Form 8-K, filed on November 5, 2007).(1)
10 .14	Securities Purchase Agreement dated as of January 15, 2008, between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.1 to the Current Report of Ambient Corporation on Form 8-K, filed on January 17, 2008).(1)
10 .15	Second Amendment dated as of January 15, 2008 to Registration Rights Agreement, dated as of July 31, 2007, between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.2 to the Current Report of Ambient Corporation on Form 8-K, filed on January 17, 2008).(1)
10 .16	First Amendment dated as of January 15, 2008 to Securities Purchase Agreement, dated as of November 1, 2007 between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.3 to the Current Report of Ambient Corporation on Form 8-K, filed on January 17, 2008).(1)
10 .17	Second Amendment dated as of January 15, 2008 to Securities Purchase Agreement, dated as of July 31, 2007 between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.4 to the Current Report of Ambient Corporation on Form 8-K, filed on January 17, 2008).(1)
10 .18	Securities Purchase Agreement dated as of April 23, 2008 between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.1 to the Quarterly Report of Ambient Corporation on Form 10-Q for the three month period ended June 30, 2008, filed August 14, 2008).(1)
10 .19	Amendment and Waiver dated as of April 23, 2008 between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.2 to the Quarterly Report of Ambient Corporation on Form 10-Q for the three month period ended June 30, 2008, filed August 14, 2008).(1)
10 .20	Debenture Amendment Agreement dated as of November 21, 2008 between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.1 to the Current Report of Ambient Corporation on Form 8-K, filed November 24, 2008).(1)

10 .21	Securities Purchase Agreement, dated as of November 16, 2009 between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.2 to the Quarterly Report of Ambient Corporation on Form 10-Q for the three month period ended September 30, 2009, filed November 16, 2009).(1)
10 .22	Registration Rights Agreement, dated as of November 16, 2009 between Ambient Corporation and Vicis Capital Master Fund (filed as Exhibit 10.3 to the Quarterly Report of Ambient Corporation on Form 10-Q for the three month period ended September 30, 2009, filed November 16, 2009).(1)
10 .23	Amendment to Securities Purchase Agreement dated as of January 15, 2010, between Ambient and Vicis Capital Master Fund (filed as Exhibit 10.26 to the Annual Report of Ambient Corporation on Form 10-K for the year ended December 31, 2009, filed March 31, 2010).(1)
10 .24	Commercial Deployment Agreement dated as of March 31, 2008 between Ambient Corporation and Duke Energy Carolinas, LLC (filed as Exhibit 10.1 to the Quarterly Report of Ambient Corporation on Form 10-Q for the three month period ended March 31, 2008, filed May 15, 2008). (Pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, the registrant has requested confidential treatment of the portion of this exhibit deleted from the filed copy).(1)
10 .25	Master Supply and Alliance Agreement dated as of February 17, 2009 between Ambient Corporation and Bel Fuse Inc. (Pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, the registrant has requested confidential treatment of the portion of this exhibit deleted from the filed copy) (filed as Exhibit 10.25 to the Annual Report of Ambient Corporation on Form 10-K for the year ended December 31, 2011, filed March 6, 2012). (1)
10 .26	Product Sales, Services & Software Agreement between Ambient Corporation and Duke Energy business Services LLC on its own behalf and as agent for and on behalf of Duke Energy Carolinas, LLC, Duke Energy Indiana, Inc, Duke Energy Ohio, Inc., Duke Energy Kentucky, Inc., and certain after acquired affiliates (filed as Exhibit 10.1 to the Quarterly Report of Ambient Corporation on Form 10-Q for the three month period ended September 30, 2009, filed November 16, 2009). (Pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, the registrant has requested confidential treatment of portions of this exhibit deleted from the filed copy.)(1)
10 .27	Office Lease Agreement dated as of May 21, 2009, between Ambient Corporation and NS 7/57 Acquisition LLC (filed as Exhibit 10.1 to the Quarterly Report of Ambient Corporation on Form 10-Q for the three month period ended June 30, 2009, filed August 7, 2009).(1)
10.28	Ambient Corporation 2012 Stock Incentive Plan (filed as Appendix A to the Definitive Proxy Statement of Ambient Corporation on Schedule 14A filed April 24, 2012) (1)+
10.29	Ambient Corporation Management Incentive Bonus Plan (filed as Appendix B to the Definitive Proxy Statement of Ambient Corporation on Schedule 14A filed April 24, 2012) (1)+
14	Code of Business Conduct and Ethics (filed as Exhibit 14.1 to the Current Report of Ambient Corporation on Form 8-K, filed August 2, 2011).(1)
23.1	Consent of PricewaterhouseCoopers LLP
23.2	Consent of Rotenberg Meril Solomon Bertiger & Guttilla, P.C.
31 .1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31 .2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32	Certification of Chief Executive Officer and Chief Financial Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101 .INS*	XBRL Instance Document
101 .SCH*	XBRL Taxonomy Extension Schema
101 .CAL*	XBRL Taxonomy Extension Calculation Linkbase
101 .DEF*	XBRL Taxonomy Extension Definition Linkbase
101 .LAB*	XBRL Taxonomy Extension Label Linkbase
101 .PRE*	XBRL Taxonomy Extension Presentation Linkbase

\+ Management Agreement

* *Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.*

(1) Incorporated by reference

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-182351) of Ambient Corporation of our report dated March 11, 2013 relating to the financial statements, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Boston, MA
March 11, 2013

Exhibit 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS TO THE COMPANY'S REGISTRATION STATEMENTS ON FORM S-8

We hereby consent to the incorporation by reference in the Post-Effective Amendment No. 2 to Registration Statement on Form S-8 (333-112569), the Registration Statement on Form S-8 (333-177179) and the Registration Statement on Form S-8 (333-182351) of Ambient Corporation of our report dated March 6, 2012 except for Notes 2, 3, 7, 8, 10, and 11 as to which the date is September 24, 2012 relating to the 2011 financial statements which appear in this Annual Report on Form 10-K.

/s/ Rotenberg Meril Solomon Bertiger & Guttilla, P.C.

Rotenberg Meril Solomon Bertiger & Guttilla, P.C.
Certified Public Accountants
Saddle Brook, NJ
March 11, 2013

EXHIBIT 31.1

RULE 13a-14(a) CERTIFICATION

I, John J. Joyce, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2012 of Ambient Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of 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.

March 11, 2013

By: /s/ John J. Joyce
John J. Joyce
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

RULE 13a-14(a) CERTIFICATION

I, Mark L. Fidler, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2012 of Ambient Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of 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.

March 11, 2013

By: /s/ Mark L. Fidler
Mark L. Fidler
Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer and
Accounting Officer)

EXHIBIT 32

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 of Ambient Corporation (the "Company") on Form 10-K for the year ended December 31, 2012 (the "Annual Report") filed with the Securities and Exchange Commission, we, John J. Joyce, President and Chief Executive Officer of the Company, and Mark L. Fidler, Vice President, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

1. The Annual 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 Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented in the Annual Report.

Date: March 11, 2013

By: /s/ John J. Joyce
John J. Joyce
President and Chief Executive Officer

By: /s/ Mark L. Fidler
Mark L. Fidler
Vice President, Chief Financial Officer and Treasurer

A certification furnished pursuant to this Item will not be deemed “filed” for purposes of section 18 of the Exchange Act (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.