



LIVEWIRE MOBILE, INC.

ANNUAL FINANCIAL STATEMENTS AND RELATED FOOTNOTES

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Livewire Mobile, Inc.

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FRIEDMAN LLP
ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
Livewire Mobile, Inc.
Littleton, Massachusetts

We have audited the accompanying financial statements of Livewire Mobile, Inc., which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive loss, stockholder's deficit and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Livewire Mobile, Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Friedman LLP

June 13, 2013

Livewire Mobile, Inc.
Consolidated Balance Sheets

	December 31,	
	2012	2011
	(in thousands, except share data)	
Assets		
Current assets:		
Cash.....	\$ 1,802	\$ 1,914
Restricted cash	150	—
Accounts receivable, net of allowance for doubtful accounts of \$34 and \$88	3,658	1,030
Inventories, net.....	295	241
Prepaid expenses and other assets	477	659
Total current assets.....	6,382	3,844
Property and equipment, net.....	975	1,247
Goodwill.....	2,047	1,959
Other intangibles, net	2,639	1,261
Other assets, net	105	259
Total assets	\$ 12,148	\$ 8,570
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$ 3,297	\$ 765
Accrued expenses and other liabilities.....	2,220	2,068
Accrued restructuring.....	—	166
Capital lease obligations, current portion.....	290	290
Deferred revenue.....	827	738
Convertible notes payable, net of debt discount of \$1,622 and \$580	3,993	1,070
Derivative liabilities	3,986	2,486
Total current liabilities.....	14,613	7,583
Convertible notes payable, net of debt discount of \$0 and \$1,108	—	357
Derivative liabilities	—	2,360
Other long-term liabilities.....	150	142
Capital lease obligations, long term portion	91	253
Total liabilities	14,854	10,695
Commitments and contingencies (Note 18)		
Stockholders' deficit:		
Preferred stock, \$0.05 par value, 300,000 shares authorized	—	—
Common stock, \$0.01 par value, 72,500,000 shares authorized at December 31, 2012 and 12,500,000 shares authorized at December 31, 2011; 4,651,433 shares issued and outstanding at December 31, 2012 and 2011.....	47	47
Additional paid-in capital	415,812	415,761
Accumulated deficit	(414,324)	(413,680)
Accumulated other comprehensive loss.....	(4,241)	(4,253)
Total stockholders' deficit	(2,706)	(2,125)
Total liabilities and stockholders' deficit.....	\$ 12,148	\$ 8,570

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

Livewire Mobile, Inc.
Consolidated Statements of Operations

	Year Ended December 31,	
	2012	2011
	(in thousands, except per share data)	
Service revenues	\$ 12,502	\$ 9,350
Product revenues	749	153
Total revenues	13,251	9,503
Total cost of revenues	9,091	4,768
Gross profit	4,160	4,735
Operating expenses:		
Selling, general and administrative	5,538	6,252
Research and development	3,233	3,088
Restructuring and other related charges	37	377
Total operating expenses	8,808	9,717
Operating loss	(4,648)	(4,982)
Gain (loss) on derivative liabilities	3,360	(2,900)
Bargain purchase gain on business acquisition	3,698	—
Other income (expense):		
Interest expense	(3,303)	(457)
Other	449	106
Other expense, net	(2,854)	(351)
Loss from continuing operations before income taxes	(444)	(8,233)
Income tax expense	24	43
Loss from continuing operations	(468)	(8,276)
Loss from discontinued operations	(176)	(142)
Net loss	\$ (644)	\$ (8,418)
Net loss from continuing operations per common share—basic and diluted	\$ (0.10)	\$ (1.78)
Net loss from discontinued operations per common share—basic and diluted	\$ (0.04)	\$ (0.03)
Net loss per common share—basic and diluted	\$ (0.14)	\$ (1.81)
Shares used in net loss per common share—basic and diluted	4,651	4,651

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

Livewire Mobile, Inc.
Consolidated Statements of Comprehensive Loss

	Year Ended December 31,	
	2012	2011
	(in thousands)	
Net loss	\$ (644)	\$ (8,418)
Other comprehensive loss (income):		
Foreign currency translation adjustments	12	(25)
Comprehensive loss	<u>\$ (632)</u>	<u>\$ (8,443)</u>

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

Livewire Mobile, Inc.
Consolidated Statements of Stockholders' Deficit

<u>(in thousands)</u>	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Accumulated</u>	<u>Treasury stock</u>		<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>paid-in</u>		<u>deficit</u>	<u>other</u>	<u>Shares</u>	
			<u>capital</u>		<u>comprehensive</u>		<u>(at cost)</u>	<u>Equity (Deficit)</u>
					<u>income (loss)</u>			
Balance, January 1, 2011	5,299	\$ 53	\$ 434,842	\$ (405,262)	\$ (4,228)	648	\$ (19,156)	\$ 6,249
Stock based compensation			69					69
Retirement of Treasury Stock	(648)	(6)	(19,150)			(648)	19,156	—
Foreign currency translation adjustment					(25)			(25)
Net loss				(8,418)				(8,418)
Balance, December 31, 2011	<u>4,651</u>	<u>\$ 47</u>	<u>\$ 415,761</u>	<u>\$ (413,680)</u>	<u>\$ (4,253)</u>	<u>—</u>	<u>\$ —</u>	<u>\$ (2,125)</u>
Stock based compensation			51					51
Foreign currency translation adjustment					12			12
Net loss				(644)				(644)
Balance, December 31, 2012	<u>4,651</u>	<u>\$ 47</u>	<u>\$ 415,812</u>	<u>\$ (414,324)</u>	<u>\$ (4,241)</u>	<u>—</u>	<u>\$ —</u>	<u>\$ (2,706)</u>

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

Livewire Mobile, Inc.
Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2012	2011
	(in thousands)	
Cash flow from operating activities:		
Net loss.....	\$ (644)	\$ (8,418)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation of property and equipment.....	702	737
Amortization of intangible assets.....	368	258
Impairment of intangible assets.....	—	12
Stock-based compensation expense.....	51	69
Amortization of development costs.....	192	295
Amortization of debt discount and deferred financing costs.....	2,679	298
Bargain purchase gain on business acquisition.....	(3,698)	—
(Gain) loss on derivative liabilities.....	(3,360)	2,900
Changes in operating assets and liabilities:		
Restricted cash.....	(150)	—
Accounts receivable.....	(2,610)	384
Inventories.....	(54)	53
Prepaid expenses and other assets.....	132	(438)
Accounts payable.....	2,523	(1,077)
Accrued expenses and other liabilities.....	(138)	(399)
Accrued restructuring.....	(166)	166
Deferred revenue.....	89	(317)
Cash used in operating activities.....	(4,084)	(5,477)
Cash flow from investing activities:		
Purchases of property and equipment.....	(75)	(11)
Cash from business acquisition.....	2,000	—
Cash provided by (used in) investing activities.....	1,925	(11)
Cash flow from financing activities:		
Payment of capital lease obligations.....	(339)	(370)
Proceeds from issuance of convertible notes.....	2,500	3,115
Payment of deferred financing costs.....	(37)	(145)
Cash provided by financing activities.....	2,124	2,600
Effect of exchange rate changes on cash.....	(77)	(37)
Net decrease in cash.....	(112)	(2,925)
Cash, beginning of year.....	1,914	4,839
Cash, end of year.....	\$ 1,802	\$ 1,914
Supplemental cash flow information:		
Purchase of equipment through capital leases.....	\$ 185	\$ 247
Interest paid.....	\$ 190	\$ 159
Taxes paid.....	\$ 19	\$ 28
<u>Acquisition of business, non-cash assets acquired:</u>		
Property and equipment.....	\$ 210	\$ —
Other intangibles.....	1,688	—
Accrued expenses and other liabilities.....	(200)	—
Net non cash assets acquired.....	\$ 1,698	\$ —

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

Livewire Mobile, Inc.

Notes to Consolidated Financial Statements

1—Summary of Significant Accounting Policies

Business Description

Livewire Mobile, Inc. (the “Company”) is a Mobile Internet provider of digital entertainment solutions for network operators, consumer device manufacturers, brands and media companies operating in the mobile market. The Company’s integrated suite of content services includes applications, video, games, ringback tones, ringtones, DRM-free full-track music, e-books and more as well as application and portal development, mobile advertising solutions, integrated content publishing and merchandising, and turnkey managed VAS operations. The Company sells these offerings as a managed service to mobile operators who then offer these services to their customers as a la carte purchases and through monthly subscriptions. Mobile operators offer the Company’s services to increase subscriptions and subscriber content consumption, and grow average revenue per user (“ARPU”) and reduce subscriber turnover. The Company also sells certain of its platforms as a bundled product and service offering (including installation, maintenance and support, professional services, and training), which the Company refers to as a “cap-ex” arrangement. The Company sells its services and products primarily through its direct sales force as well as through channel partners.

The Company’s business and operations and the industry in which it operates are subject to risks and uncertainties.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year's presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and 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, management evaluates estimates related to the allowance for doubtful accounts and sales returns, write-down of excess and obsolete inventories to the lower of cost or market value, the realizability of goodwill and other long-lived assets, income taxes, restructuring and other related charges, accounting for acquisitions and dispositions, contingent liabilities and accounting for the fair value of stock option awards. Management establishes these estimates based on historical experience and various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Foreign Currency Translation

Assets and liabilities of the Company’s subsidiaries operating outside the United States, which operate in a functional currency other than U.S. Dollars, are translated into U.S. Dollars using year-end exchange rates. Revenues and expenses are translated at the average exchange rates effective during the year. Foreign currency translation gains and losses are included as a component of accumulated other comprehensive loss within stockholders’ deficit. Gains and losses resulting from foreign currency transactions are included in other income (expense), net. The foreign currency translation gain or loss generated by the re-measurement of our intercompany debt at each reporting period is recorded as a component of accumulated other comprehensive loss within stockholders’ deficit, where the Company expects those loans to be permanently reinvested. In April 2009, the Company determined that it is unlikely that settlement of intercompany receivable and payable balances existing between the Company’s worldwide subsidiaries will occur in the foreseeable future. Accordingly, these gains or losses for the years ended December 31, 2012 and 2011 were excluded from the determination of net income and have been reported as a component of accumulated other comprehensive loss.

Livewire Mobile, Inc.

Notes to Consolidated Financial Statements (Continued)

1—Summary of Significant Accounting Policies (Continued)

Revenue Recognition

The Company derives its revenue from two sources: (i) services, including managed services, maintenance and support services, professional services, and (ii) sales of products, including hardware and software licenses. Managed services consist of supplying, outsourcing and/or maintaining systems for the benefit of customers. These systems may be Company-owned pursuant to a managed services arrangement or customer-owned. Maintenance and support services consist of bug fixes, telephone and on-line support, and training. Professional services projects may consist of multiple elements including hardware and/or software installation, configuration, integration and customization services provided to customers. The Company recognizes revenue from the sale of products when persuasive evidence of an arrangement exists; delivery has occurred; the fee is fixed or determinable; and collection is considered probable. For all sales, the Company uses a binding contract and/or a purchase order as evidence of an arrangement with the customer or channel partner. Sales to the Company's channel partners are evidenced by a master agreement governing the relationship, together with binding purchase orders for individual transactions. The Company considers delivery to occur when it ships the product, so long as title and risk of loss have passed to the customer. At the time of a transaction, the Company assesses whether the sale amount is fixed or determinable based upon the terms of the agreement. If the Company determines the fee is not fixed or determinable, the Company recognizes revenue when the fee is fixed. The Company assesses if collection is probable based on a number of factors, including past transaction history and the creditworthiness of the customer. If the Company determines that collection is not probable, the Company does not record revenue until such time as collection becomes probable, which is generally upon the receipt of cash or when payments become due.

For arrangements with customers that include acceptance provisions, the Company recognizes revenue upon the customer's acceptance of the product and services, which occurs upon the earlier of receipt of a written customer acceptance, expiration of the contractual acceptance period or commercial launch of a managed service. In some circumstances, the Company recognizes revenue on arrangements that contain certain acceptance provisions when it has historical experience that the acceptance provision is perfunctory. For material long term contracts, if any, the Company recognizes revenue on a percentage of completion basis.

The Financial Accounting Standards Board ("FASB") issued authoritative guidance on revenue recognition as it relates to multiple element arrangements. This guidance modifies the fair value requirements of revenue recognition on multiple element arrangements by allowing the use of the "best estimate of selling price" in addition to vendor specific objective evidence and third-party evidence for determining the selling price of a deliverable. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: (a) vendor-specific objective evidence, (b) third-party evidence, or (c) estimates. In addition, the guidance eliminates the residual method of allocation and significantly expands the disclosure requirements for such arrangements.

The Company provides managed services under long term arrangements, typically two to three years. The arrangements may contain provisions requiring customer acceptance of the set-up activities, including installation and implementation activities, prior to the commencement of the ongoing services arrangement. The Company recognizes revenue as the subscription services or download transactions are performed, or as and when reported by a customer if its reporting is used. The Company recognizes revenue from professional services as the services are performed or completed. Maintenance and support services, which are typically sold separately from products, consist of bug-fixes, telephone and on-line support and training. The Company defers maintenance and support services revenue, whether sold separately or as part of a multiple element arrangement, and recognizes it ratably over the term of the maintenance contract, generally twelve months. The Company recognizes maintenance and support and managed services revenue as amounts are earned when all of the following conditions are satisfied: there is persuasive evidence of an arrangement; the service has been provided to the customer; the amount of fees to be paid by the customer is fixed or determinable; and the collection of fees from the customer is reasonably assured.

When there are shipping and handling fees or travel-related fees, the Company invoices customers for such fees. The Company recognizes the invoiced amounts as revenue and the related costs as a cost of revenue.

Livewire Mobile, Inc.

Notes to Consolidated Financial Statements (Continued)

1—Summary of Significant Accounting Policies (Continued)

Capitalization of Managed Services Costs

The Company may capitalize certain costs associated with the set-up activities of a managed services arrangement. These costs represent incremental external costs or internal costs that are directly related to the set-up, enhancement or expansion of certain managed services offerings. The types of costs that are capitalized may include labor and related fringe benefits, subcontractor costs, consulting costs, travel costs, inventory costs and third party product costs. The Company begins to capitalize costs in the period when there is existence of an arrangement. Managed services arrangements may also require the procurement of equipment, development of internally developed software and consulting services related to system enhancements and expansions. These related costs are also capitalized. The Company amortizes these capitalized costs upon acceptance or commercial launch of the initial set-up, enhancement or expansion over the expected relationship period or the expected economic useful life, as appropriate, using the straight-line method. Routine expenses incurred to maintain and sustain the service delivery after the initial setup, enhancement or expansion of a managed service arrangement are expensed as incurred. The Company evaluates the lives and realizability of the capitalized costs on a periodic basis or when events or circumstances indicate that its carrying amount may not be recoverable.

In the event indications exist that capitalized managed service cost balances may be impaired, undiscounted estimated cash flows of the contract or series of contracts are projected over the remaining term, and compared to the unamortized managed services cost balance. If the projected cash flows are not adequate to recover the unamortized cost balance, the balance would be adjusted to equal the fair value in the period such determination is made. The primary indicator used to determine when impairment testing should be performed is when a material contract is materially underperforming, or is expected to materially underperform in the future, as compared to the financial model that was developed as part of the original proposal process and subsequent annual budgets, or in the event of non-renewal or loss of a major managed service customer.

Capitalization of Software Development Costs

The Company may capitalize software development costs incurred after a product's technological feasibility has been established and before it is available for general release to customers. Amortization of capitalized software costs is computed on an individual product basis and is amortized over the greater of (a) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues of that product or (b) the straight-line method over the estimated economic life of the product.

Cash Equivalents

Cash equivalents include short-term, liquid investments with remaining maturities of three months or less at date of purchase. Cash balances in banks are insured by the Federal Deposit Insurance Corporation subject to certain limitations. For purposes of the statement of cash flows, the Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Restricted Cash

In January 2012, the Company secured a \$150,000 irrevocable standby letter of credit, as required by an agreement with a content provider, with Silicon Valley Bank. The irrevocable standby letter of credit is secured by a \$150,000 money market account and expires in January 2014.

Accounts Receivable

The Company's accounts receivable balances are comprised of trade receivables. The Company has recorded receivables associated with product and services that have been delivered but not yet accepted.

Allowances against doubtful accounts for potential credit losses are established when the Company determines receivables are at risk for collection based upon the length of time the receivables are outstanding, as well as various other criteria. Receivables are written off against these allowances in the period they are determined to be uncollectible.

Livewire Mobile, Inc.

Notes to Consolidated Financial Statements (Continued)

1—Summary of Significant Accounting Policies (Continued)

Collateral is not required on accounts receivable or letters of credit on all foreign export sales. The Company evaluates its customers' creditworthiness before extending credit and performs periodic credit reviews on existing customers.

Advertising

Advertising costs are expensed in the period when incurred and were immaterial for each of the years presented.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market. Inventories consist of finished goods and inventory at customer sites. Inventory at customer sites represents inventory associated with product that has not yet been accepted by the customer. Write-downs of inventory to lower of cost or market value are based primarily on the estimated forecast of product demand and production requirements over the next twelve months.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is based on the following estimated useful lives of the assets using the straight-line method:

Machinery and equipment	3 years
Computer software and equipment	3 - 5 years
Furniture and fixtures	5 years
Telecommunications computer equipment	5 years
Leasehold improvements	Shorter of the lease term or economic life

Expenditures for additions, renewals and betterments of property and equipment are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred. As assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations.

Intangible and other Long-Lived Assets

Intangible assets consist of core technology, customer agreements, content supplier and label agreements, and non-compete agreements recorded at estimated fair value as a result of acquisitions. Such intangibles are considered to have finite lives and are amortized on a straight line basis over those estimated lives. Intangible assets are evaluated for impairment at least annually and whenever events and changes in circumstances indicated that the carrying amount of the assets may not be recoverable.

See Note 6 for a description of impairment charges in 2011 related to an acquisition of Fonestarz Media Group Limited in December 2010.

Goodwill

Goodwill represents the excess purchase price over the fair value of assets acquired and liabilities assumed in the acquisition of Fonestarz Media Group Limited in December 2010. Goodwill is evaluated for impairment at least annually and whenever events and changes in circumstances indicate that the carrying amount of goodwill may not be recoverable.

Research and Development

Research and development expenses consist primarily of salaries, personnel expenses and prototype fees related to the design, development, testing and enhancement of the Company's services and products. All research and development costs are expensed as incurred.

Livewire Mobile, Inc.

Notes to Consolidated Financial Statements (Continued)

1—Summary of Significant Accounting Policies (Continued)

Financial Instruments

The Company's financial instruments include cash, accounts receivable, capital lease obligations, convertible notes payable, and accounts payable. The fair value of accounts receivable, capital lease obligations, convertible notes payable, and accounts payable approximate their carrying value at December 31, 2012 and 2011, due to their short-term nature.

Restructuring and Other Related Charges and Accrued Restructuring

The Company has in the past, announced reorganization plans that may include eliminating positions within the Company. Each plan is reviewed to determine whether a restructuring charge is required to be recorded including an estimate of the fair value of any termination costs based on certain facts, circumstances and assumptions, considering specific provisions included in the underlying reorganization plan. The Company may cease to use certain facilities prior to expiration of the underlying lease agreements. Exit costs are reviewed in each of these circumstances on a case-by-case basis to determine whether a restructuring charge is required to be recorded by estimating the fair value of the exit costs based on certain facts, circumstances and assumptions.

Income Taxes

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement carrying amounts and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

The Company has established a valuation allowance against net deferred tax assets in certain jurisdictions around the world including the United States, because the Company believes that it is more likely than not that the tax assets in those jurisdictions will not be realized prior to their expiration. The Company will continue to assess the valuation allowance and to the extent it is determined that such allowance is no longer required, the tax benefit of the remaining net deferred tax assets would be recognized in the future.

At December 31, 2012 and 2011, the Company had accrued liabilities of \$150,000 and \$144,000, respectively, for uncertain tax positions. It is reasonably possible that the total amount of unrecognized tax benefits will increase or decrease in the next 12 months. Such changes would occur based on the results of ongoing tax audits in various jurisdictions around the world. Currently, an estimate of the range of reasonably possible outcomes cannot be made.

Stock Option Plans

All share-based payments to employees, including grants of stock options, are recognized in the financial statements based on their fair value. Stock-based compensation expense for awards granted is based on the grant date fair value. The fair value of the Company's stock-based awards, less estimated forfeitures, is amortized over the awards' vesting periods on a straight-line basis.

The fair value of each option award on the grant date was estimated using the Black-Scholes option-pricing model with the following assumptions: expected dividend yield, expected stock price volatility, weighted average risk-free interest rate and weighted average expected life of the options. The Company's expected volatility assumption used in the Black-Scholes option-pricing model was based exclusively on historical volatility and the expected life assumption was established based upon an analysis of historical option exercise behavior. The risk-free interest rate used in the Black-Scholes model was based on the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term approximately equal to the Company's expected term assumption. Prior to February 2010, the Company had not declared or paid any cash dividends on its common stock. On February 10, 2010, the Company's Board of Directors declared a dividend of \$0.20 per share of common stock for 2010. The dividend paid on March 26, 2010 to shareholders of

Livewire Mobile, Inc.

Notes to Consolidated Financial Statements (Continued)

1—Summary of Significant Accounting Policies (Continued)

record as of the close of business on March 12, 2010 totaled \$930,000. On March 1, 2011, the Company's Board of Directors determined not to declare a cash dividend for 2012 and 2011. Accordingly, and because of the uncertainty of the payment of dividends in the future, the Company assumed a dividend yield of 0% for all grants.

Basic and Diluted Net Loss Per Common Share

Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per common share is computed by dividing the net income (loss) by the sum of the weighted-average number of common shares outstanding plus all additional common shares that would have been outstanding if potentially dilutive common stock equivalents had been issued. Outstanding treasury stock is excluded from the computations of basic and diluted net income (loss) per share.

2—Discontinued Operations

On December 5, 2008, the Company sold its NMS Communications Platforms business to Dialogic Corporation including accounts receivable, inventory, equipment, records and related intellectual property (the "Asset Sale"), and certain liabilities as set forth in the Asset Purchase Agreement dated as of September 12, 2008 (the "Asset Purchase Agreement").

For the year ended December 31, 2012, the Company incurred \$176,000 of expenses primarily related to general and administrative efforts relating to professional services incurred related to its ongoing closure efforts of many of its foreign subsidiaries where there are no longer operations. For the year ended December 31, 2011, the Company incurred \$142,000 of expenses primarily related to general and administrative efforts relating to professional services incurred related to its ongoing closure efforts of many of its foreign subsidiaries where there are no longer operations.

3—Stock-Based Compensation

The following table presents stock-based compensation expense – all relating to stock options - and the effect of recording stock-based compensation expense in the Company's consolidated statements of operations for the years ended December 31, 2012 and 2011:

	Year ended	
	December 31,	
	2012	2011
	(in thousands)	
Effect of stock-based compensation on income by line item:		
Cost of revenues.....	\$ 1	\$ 2
Selling, general and administrative	1	4
Research and development	49	63
Total stock-based compensation expense	<u>\$ 51</u>	<u>\$ 69</u>

No stock options were granted in 2012 and 2011.

Livewire Mobile, Inc.

Notes to Consolidated Financial Statements (Continued)

3—Stock-Based Compensation (continued)

Stock Incentive Plans

The Company has stock option plans authorizing various types of stock option awards that may be granted to officers, directors and employees. The following is a summary of all of the plans of the Company as of December 31, 2012:

<u>Plan Name</u>	<u>Options Outstanding</u>	<u>Shares Reserved for Future Grant</u>
	(in thousands)	
2000 Equity Incentive Plan.....	167	—
2010 Equity Incentive Plan.....	4	20
	171	20

2010 Equity Incentive Plan

At the Company’s annual meeting of stockholders held on July 16, 2010, the Company’s stockholders approved the Livewire Mobile, Inc. 2010 Equity Incentive Plan (the “2010 Plan”). The 2010 Plan provides for the grant of stock options, stock appreciation rights and stock awards (collectively, the “Awards”) to employees, directors and consultants. The aggregate number of shares which may be issued under the 2010 Plan was 1,250,000 shares. On December 7, 2011, the Company’s Board of Directors reduced the number of reserved shares of Common Stock for the conversion of all options to purchase the Company’s common stock under any related plans to 250,000 shares. The exercise price of stock options granted may not be less than the fair market value of the Company’s common stock on the date of grant. Stock options granted under the 2010 Plan vest based on events, performance or time-based vesting as set by the Board of Directors. The terms of stock options granted under the 2010 Plan do not exceed ten years.

2000 Equity Incentive Plan

The Company’s 2000 Equity Incentive Plan (the “2000 Plan”) provides for the grant of incentive stock options and stock appreciation rights to employees and non-statutory stock options, stock bonuses, rights to purchase restricted stock and other awards based on the Company’s common stock (collectively, “Stock Awards”) to employees, non-employee directors and consultants. On April 28, 2005, the Company’s stockholders approved amendments to the 2000 Plan to: (i) increase the number of shares which may be issued under the 2000 Plan by 205,000 shares, (ii) eliminate the Company’s ability to grant non-statutory stock options at an exercise price less than fair market value of the Company’s common stock on the date of grant and (iii) amend certain other terms and conditions of the 2000 Plan. The aggregate number of shares which may be issued under the 2000 Plan, as amended, is 705,000. The exercise price of options granted pursuant to the 2000 Plan may not be less than the fair market value of the Company’s common stock on the date of grant. Options granted under the 2000 Plan generally vest based on performance targets set by the Board of Directors or time-based vesting over two to four years. Options granted to new hires generally vest over three years. The terms of options granted under the 2000 Plan do not exceed ten years. The 2000 Plan terminated on April 27, 2010 and no Stock Awards may be granted under the 2000 Plan after its termination.

The following table summarizes the Company’s stock option activity for the year ended December 31, 2012. The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option.

Livewire Mobile, Inc.

Notes to Consolidated Financial Statements (Continued)

3—Stock-Based Compensation (continued)

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Balance at January 1, 2012	229,855	\$ 3.90		\$ 1
Granted.....	—	—		—
Exercised	—	—		—
Forfeited/Cancelled	(46,149)	\$ 3.78		\$ 8
Expired	<u>(12,815)</u>	\$16.85		—
Balance at December 31, 2012.....	<u>170,891</u>	\$ 2.96	1.7	\$ —
Exercisable and vested at December 31, 2012.....	<u>151,381</u>	\$ 3.11	1.6	\$ —

No options were granted during the years ended December 31, 2012 and 2011.

At December 31, 2012, unrecognized compensation expense related to non-vested stock options, net of estimated forfeitures was \$11,000, which is expected to be recognized over a weighted average period of 0.31 years.

4—Loss per Common Share

The following table provides the computations of basic and diluted loss from continuing operations per common share and net loss per common share:

	<u>Year ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
	(in thousands except per share data)	
Numerator:		
Loss from continuing operations.....	\$ (468)	\$ (8,276)
Loss from discontinued operations	<u>(176)</u>	<u>(142)</u>
Net loss.....	<u>\$ (644)</u>	<u>\$ (8,418)</u>
Denominator:		
Shares used in net loss from continuing operations per common share—basic and diluted.....	<u>4,651</u>	<u>4,651</u>
Loss per common share—basic and diluted		
Continuing operations	\$ (0.10)	\$ (1.78)
Discontinued operations	<u>(0.04)</u>	<u>(0.03)</u>
Net loss per common share—basic and diluted	<u>\$ (0.14)</u>	<u>\$ (1.81)</u>

All of the Company's outstanding options were anti-dilutive for the years ended December 31, 2012 and 2011 due to the net loss position of the Company.

5—Acquisitions

Effective September 1, 2012, the Company closed an Asset Transfer and License Agreement with RealNetworks, Inc. (the "Agreement") whereby RealNetworks transferred to the Company services provided under two domestic carrier services contracts, together with a team of employees and associated hardware and software technology. As part of this transaction, RealNetworks paid the Company \$2.0 million at closing. Per the terms of the Agreement, the Company paid RealNetworks one payment of \$100,000 in September 2012 and established an accrued liability for a second payment of \$100,000 related to the performance of the services under one of these carrier contracts. Additionally, the Company recorded a bargain purchase gain of \$3,698,000 relating to the business acquisition in the year ended December 31, 2012.

Livewire Mobile, Inc.

Notes to Consolidated Financial Statements (Continued)

5—Acquisitions (Continued)

The fair value of RealNetworks, Inc. business acquisition is allocated to identifiable tangible and intangible assets and liabilities assumed based on their fair values as of the date of the completion of the transaction. Based upon a third-party valuation at the acquisition date, the Company has allocated the purchase price to assets and liabilities as follows:

	Amount (in thousands)	Estimated Life
Fixed assets	\$ 210	9 months
Customer relationships	1,678	5.0 years
Supplier relationships.....	10	1.0 years
Total assets acquired	1,898	
Total liabilities assumed	200	
Fair value of net assets acquired.....	<u>\$ 1,698</u>	

The allocation was based upon a valuation for which estimates and assumptions are subject to change within the measurement period (up to one year from the acquisition date). The final allocation price could differ materially from the preliminary allocation. Any subsequent changes to the purchase price allocation may result in changes to the Company's consolidated financial results.

The RealNetworks, Inc. business acquisition was accounted for as a purchase business combination. Accordingly, the related results of operations were included with those of the Company for the period subsequent to the date of the acquisition.

On December 17, 2010, the Company's wholly-owned subsidiary, LWM Holdings, Inc. entered into a Share Purchase Agreement ("SPA") with Fonestarz Media Group, Ltd. ("Fonestarz"), whose operations are based in the United Kingdom, for a purchase price of \$952,000, excluding transactions costs of \$319,000. Transaction costs were recorded as operating expenses within the statement of operations in the fourth quarter of 2010, in accordance with generally accepted accounting principles. Additionally, the Company repaid approximately \$1,345,000 of Fonestarz liabilities at closing.

Included in accrued liabilities on the consolidated balance sheet for the year ended December 31, 2011 is \$350,000 related to additional cash consideration that was contingent on certain conditions being met during the first twelve months subsequent to the closing of the acquisition. The \$350,000 was paid in full prior to December 31, 2012.

6—Goodwill and Other Intangible Assets

The Company recorded goodwill and other intangible assets as a result of the acquisition of Fonestarz in December 2010. The following table sets forth the change in the carrying amount of goodwill for the years ended December 31, 2012 and 2011:

	December 31,	
	2012	2011
	(in thousands)	
Goodwill at beginning of year	\$ 1,959	\$ 1,961
Additions to goodwill.....	—	—
Effect of foreign exchange.....	88	(2)
Goodwill at end of year	<u>\$ 2,047</u>	<u>\$ 1,959</u>

Livewire Mobile, Inc.

Notes to Consolidated Financial Statements (Continued)

6—Goodwill and Other Intangible Assets (continued)

Amortization expense of \$368,000 and \$258,000, respectively, was recorded as a component of selling, general and administrative expenses within the consolidated statements of operations for the years ended December 31, 2012 and 2011.

The following table summarizes the expected remaining amortization of the acquired intangible assets as of December 31, 2012:

Fiscal Year	<u>(in thousands)</u>
2013	\$ 590
2014	549
2015	438
2016	438
2017 and thereafter	624
	<u>\$ 2,639</u>

7—Restructuring and Other Related Charges

For the year ended December 31, 2012, the Company recorded restructuring charges of \$37,000. In order to reduce operating costs, the Company eliminated three employee positions during the first quarter of 2012.

For the year ended December 31, 2011, the Company recorded restructuring charges of \$377,000 related to:

- To reduce costs associated with excess office space, the Company amended the lease for its corporate headquarters in Littleton, MA to reduce its office space by approximately 37%, effective when the Company vacated the space in February 2011. The Company recorded a restructuring charge of \$222,000 related to the exited space in the quarter ended March 31, 2011. Also, in order to reduce operating costs, the Company eliminated a senior employee position in the first quarter of 2011 which resulted in severance-related costs of approximately \$21,000; and
- In order to reduce operating costs, the Company eliminated 9 employee positions in the second quarter of 2011 which resulted in severance-related costs of approximately \$48,000; and
- In the fourth quarter of 2011, in order to reduce operating costs, the Company eliminated a senior employee position in the fourth quarter of 2011 which resulted in severance-related costs of approximately \$64,000 and terminated a lease for excess lab space at its corporate headquarters in Littleton, MA, resulting in a charge totaling \$22,000.

Livewire Mobile, Inc.

Notes to Consolidated Financial Statements (Continued)

7—Restructuring and Other Related Charges (Continued)

The following table sets forth activity during the years ended December 31, 2012 and 2011, related to restructuring actions taken:

	Employee Related	Facility Related	Total
	(in thousands)		
Restructuring accrual balance at January 1, 2011	\$ —	\$ —	\$ —
Restructuring and other related charges	133	244	377
Cash payments.....	(65)	(146)	(211)
Restructuring accrual balance at December 31, 2011	68	98	166
Restructuring and other related charges	37	—	37
Cash payments.....	(105)	(98)	(203)
Restructuring accrual balance at December 31, 2012	\$ —	\$ —	\$ —

8—Business and Credit Concentration

At December 31, 2012, three customers represented 46%, 16% and 14%, respectively, of the Company's outstanding accounts receivable balance. At December 31, 2011, two customers represented 40% and 20%, respectively, of the Company's outstanding accounts receivable balance.

During 2012, two customers represented 20% and 18%, respectively, of the Company's total revenues. During 2011, two customers represented 23% and 22%, respectively, of the Company's total revenues.

9—Inventories

Inventories were comprised of the following:

	December 31,	
	2012	2011
	(in thousands)	
Finished goods	\$ 807	\$ 814
Inventory at customer sites	61	—
	868	814
Write-down of inventory to lower of cost or market value.....	(573)	(573)
Total inventory	\$ 295	\$ 241

Inventory at customer sites represents products that have not yet been accepted by the customer.

Livewire Mobile, Inc.

Notes to Consolidated Financial Statements (Continued)

10—Property and Equipment

Property and equipment consisted of the following:

	December 31,	
	2012	2011
	(in thousands)	
Computer equipment.....	\$ 5,146	\$ 4,701
Less accumulated depreciation.....	(4,171)	(3,454)
Property and equipment, net.....	\$ 975	\$ 1,247

Depreciation expense related to property and equipment was \$702,000 and \$737,000 for the years ended December 31, 2012 and 2011, respectively.

Included in the table above, as of December 31, 2012, the Company had \$2.1 million, gross, of computer equipment, and \$1.5 million of related accumulated depreciation under capital leases. As of December 31, 2011, the Company had \$1.9 million, gross, of computer equipment, and \$1.2 million of related accumulated depreciation under capital leases.

11—Income Taxes

The domestic and foreign components of loss from continuing operations before income taxes as shown in the consolidated statements of operations are as follows:

	Year ended December 31,	
	2012	2011
	(in thousands)	
Domestic	\$ (250)	\$ (8,058)
Foreign.....	(194)	(175)
	\$ (444)	\$ (8,233)

The domestic and foreign components of income tax expense related to continuing operations as shown in the consolidated statements of operations are as follows:

	Year ended	
	December 31,	
	2012	2011
	(in thousands)	
Current income tax expense:		
Federal.....	\$ —	\$ —
State.....	—	2
Foreign	24	41
	24	43
Deferred income tax expense:		
Federal.....	—	—
State.....	—	—
Foreign	—	—
	—	—
Total income tax provision	\$ 24	\$ 43

Livewire Mobile, Inc.

Notes to Consolidated Financial Statements (Continued)

11—Income Taxes (Continued)

The total income tax expense for the years ended December 31, 2012 and 2011 is as follows:

	Year ended December 31,	
	2012	2011
	(in thousands)	
Continuing operations	\$ 24	\$ 43
Discontinued operations	—	—
Total income tax provision	\$ 24	\$ 43

Significant components of the Company's deferred tax assets (liabilities) as of December 31, 2012 and 2011 are as follows:

	December 31,	
	2012	2011
	(in thousands)	
Deferred tax assets (liabilities):		
Net operating loss carryforwards	\$ 123,286	\$ 123,912
Research and development tax credit carryforwards	10,140	10,075
Capital loss carryforwards	112	112
Inventories	292	360
Intangible assets	11,444	13,735
Accrued expenses	3,898	3,890
Fixed assets	334	551
Acquisition costs	7	10
Other	19	50
	149,532	152,695
Acquired intangibles	(952)	(605)
Fixed assets	—	—
Less: valuation allowance	(148,580)	(152,090)
Net deferred taxes	\$ —	\$ —

For U.S. federal income tax purposes, the Company has net operating loss carryforwards available to reduce taxable income of \$342.1 million at December 31, 2012. The Company's ability to utilize its net operating loss carryforwards may be significantly limited, as under the provisions of the Internal Code Section 382, certain changes in the Company's ownership structure may result in a limitation on the amount of net operating loss carryforwards and research and development tax credit carryforwards that may be used in future years. If certain transactions occur with respect to the Company's capital stock, under rules prescribed by the U.S. Internal Revenue Code and applicable Treasury regulations, an annual limitation may be imposed with respect to the ability to utilize the Company's net operating loss carryforwards and federal tax credits. Similar provisions may exist for state tax purposes and vary by jurisdiction. During the third quarter of 2010, the Company received shareholder approval to amend its articles of incorporation in order to protect its NOLs (the "NOL Protective Measures") and those measures are now in effect. Under the NOL Protective Measures any person, company or investment firm that wishes to become a "5% shareholder" of Livewire Mobile, Inc. must first obtain a waiver from the Company's Board of Directors. In addition, any person, company or investment firm that is already a "5% shareholder" of Livewire Mobile, Inc. cannot make any additional purchases of Livewire Mobile, Inc. stock without a waiver from the Company's Board of Directors.

Because substantially all of the Company's net operating loss carryforwards are reserved for by a valuation allowance, the Company would not expect an annual limitation on the utilization of its net operating loss carryforwards to significantly reduce its net deferred tax asset, although the timing of its cash flows may be impacted to the extent any such annual limitation deferred the utilization of its net operating loss carryforwards to future tax years. These carryforwards

Livewire Mobile, Inc.

Notes to Consolidated Financial Statements (Continued)

11—Income Taxes (Continued)

begin to expire in 2013. The Company also had foreign net operating loss carryforwards of \$11.6 million. As of December 31, 2012, the Company had \$6.6 million of tax credits in the U.S., comprised of federal research and development tax credits and state and local credits. These credits begin to expire in 2013. The Company had Canadian investment tax credits of approximately \$4.4 million. These credits begin to expire in 2014.

The Company has established a full valuation allowance against net deferred tax assets in certain jurisdictions including the United States, because the Company believes that it is more likely than not that the tax assets in those jurisdictions will not be realized prior to their expiration. During 2012, the deferred tax valuation allowance decreased by \$3.5 million, primarily as a result of the expiration of certain state tax attributes, primarily net operating losses.

The Company will continue to assess the valuation allowance and to the extent it is determined that such allowance is no longer required, the tax benefit of the remaining net deferred tax assets would be recognized in the future. Approximately \$7.7 million of the valuation allowance for deferred tax assets relates to benefits for stock option deductions, which, if realized, will be allocated to additional paid in capital.

Income tax expense is primarily due to foreign income and withholding taxes, and additional accruals for uncertain tax positions in 2012. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 2008.

A reconciliation of the beginning and ending amount of the Company's uncertain tax positions is as follows:

	Year ended December 31,	
	2012	2011
	(in thousands)	
Beginning balance.....	\$ 120	\$ 114
Additions:		
Tax positions for current year.....	17	6
Reductions:		
Settlements of prior year positions	—	—
Ending balance.....	\$ 137	\$ 120

12—Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following:

	December 31,	
	2012	2011
	(in thousands)	
Accrued compensation and related expenses.....	\$ 263	\$ 217
Accrued interest on convertible debt	482	52
Royalties, service provider fees and contingent payments.....	997	941
Professional fees	233	253
Credits related to customer accounts	29	461
Other liabilities	216	144
	\$2,220	\$2,068

Livewire Mobile, Inc.

Notes to Consolidated Financial Statements (Continued)

13—Secured Convertible Notes Payable

On July 9, 2012, the Company closed debt funding totaling \$1,200,000 in senior secured convertible notes with three existing note holders. The notes mature in June 2013, bear interest at 10% per annum, and are convertible into common stock at any time at the option of the note holders at an initial conversion rate (subject to adjustment) of \$0.37 per common share. Quarterly interest on the new notes is earned from the date of issuance and is payable the first day of each following quarter, which began October 1, 2012.

In accordance with Accounting Standards Codification (“ASC”) 815 “Derivatives and Hedging”, and as more further described in Note 14 below, the Company recognized a debt discount of \$1,200,000 in connection with the issuance of the July 9, 2012 convertible notes. Total amortization of debt discount for the convertible notes amounted \$626,000 for the year ended December 31, 2012, and is included in interest expense.

On May 2, 2012, the Company closed debt funding totaling \$800,000 in senior secured convertible notes with three existing note holders. The notes mature in June 2013, bear interest at 10% per annum, and are convertible into common stock at any time at the option of the note holders at an initial conversion rate (subject to adjustment) of \$0.37 per common share. Quarterly interest on the notes is earned from the date of issuance and is payable the first day of each following quarter, which began July 1, 2012.

In accordance with ASC 815, and as more further described in Note 14 below, the Company recognized a debt discount of \$800,000 in connection with the issuance of the May 2, 2012 convertible notes. Total amortization of debt discount for the convertible notes amounted to \$490,000 for the year ended December 31, 2012, and is included in interest expense.

On March 16, 2012, the Company closed debt funding totaling \$500,000 in senior secured convertible notes with three existing note holders. The notes mature in June 2013, bear interest at 10% per annum, and are convertible at any time at the option of the holder, into shares of common stock at an initial conversion rate (subject to adjustment) of \$0.37 per common share. The March 16, 2012 funding modified the conversion price of the senior secured convertible notes issued in June 2011 and December 2011 to \$0.37. Quarterly interest on the notes is earned from the date of issuance and is payable the first day of each following quarter, which began July 1, 2012.

In accordance with ASC 815, and as more further described in Note 14 below, the Company recognized a debt discount of \$500,000 in connection with the issuance of the March 16, 2012 convertible notes. Total amortization of debt discount for the convertible notes amounted to \$317,000 for the year ended December 31, 2012, and is included in interest expense.

On December 8, 2011, the Company closed debt funding totaling \$1,465,000 in senior secured convertible notes with four existing and one new note holder. The notes mature in June 2013, bear interest at 10% per annum and are convertible at any time at the option of the holder, into shares of common stock at an initial conversion rate of \$0.45 (subsequently adjusted to \$0.37) per common share. Quarterly interest on the notes is earned from the date of issuance and is payable the first day of each following quarter, which began April 1, 2012.

In accordance with ASC 815, and as further described in Note 14 below, the Company recognized a debt discount of \$1,133,000 in connection with the issuance of the December 8, 2011 notes. Total amortization of debt discount for the convertible notes amounted to \$553,000 and \$25,000 for the years ended December 31, 2012 and 2011, respectively, and is included in interest expense.

On June 10, 2011, the Company closed debt funding totaling \$1,650,000 in senior secured convertible notes with three longstanding and one more recent stockholder. The notes (including accrued interest) totaling approximately \$1,800,000 matured on December 10, 2012. The Company notified the note holders in accordance with the Note Purchase Agreement on that date indicating default and its inability to repay the notes. Pursuant to the Security Agreement that underlies the Note Purchase Agreement and related Notes, the lenders had remedies to the default including the rights to all of the Company’s assets that secured the notes. At December 31, 2012, the Company was currently in discussions with the note holders to extend the maturity of the notes, and the terms of such extension were finalized in January 2013 – see the Subsequent Events footnote below.

Livewire Mobile, Inc.
Notes to Consolidated Financial Statements (Continued)

13—Secured Convertible Notes Payable (Continued)

In accordance with ASC 815, and as more further described in Note 14 below, the Company recognized a debt discount of \$813,000 in connection with the issuance of the June 10, 2011 convertible notes. Total amortization of debt discount for the convertible notes amounted to \$580,000 and \$233,000 for the years ended December 31, 2012 and 2011, and is included in interest expense.

Included in other assets, net, are deferred financing costs of approximately \$28,000 and \$106,000 respectively at December 31, 2012 and 2011 related to the issuance of the July 2012, May 2012, March 2012, December 2011, and June 2011 convertible notes. The deferred financing costs are amortized on the terms of such notes. Amortization of deferred financing costs amounted to \$116,000 and \$40,000 during the years ended December 31, 2012 and 2011, respectively, and is included in interest expense.

If the Company elects to defer payment of quarterly cash interest payments on any or all of the convertible notes when due, interest-in-kind is calculated at 12% per annum. For the quarters ending December 31, 2012, September 30, 2012 and June 30, 2012, interest was calculated at 12% per annum as the Company elected to defer payment of quarterly cash interest due on January 1, 2013, October 1, 2012 and July 1, 2012, respectively.

The notes are secured by all of the assets of the Company and contain certain operating and financial covenants applicable to the Company. At December 31, 2012, the Company was in compliance with its working capital covenant of its note purchase agreements. As of April 30, 2013, the Company was in default of the reporting requirement covenant under the secured convertible note agreements requiring audited financial statements to be supplied to the lender within 120 days of year end. On June 3, 2012 the Company received a waiver to the financial reporting covenant from its lender. The waiver included an extension of the 120 day limit to 175 days.

14—Derivative Liabilities

ASC 815 describes accounting for convertible instruments with provisions that protect holders from declines in the stock price ("down-round" provisions). Instruments with down-round protection are not considered indexed to a company's own stock under generally accepted accounting principles, because neither the occurrence of a sale of common stock by the company at market nor the issuance of another equity-linked instrument with a lower strike price is an input to the fair value of a fixed-for-fixed option on equity shares.

The Company has accounted for the embedded conversion feature of the notes described above as a liability in the financial statements at the estimated fair value of such embedded conversion feature, and records changes in fair value in results of operations.

July 9, 2012 Notes:

Based on fair value computations, using the closing stock price on the closing date of the notes issuance on July 9, 2012, the Company recorded a derivative liability totaling \$1,319,000 and a loss on derivatives on the statement of operations of \$119,000 – the amount of the derivative liability that exceeded the value of the \$1,200,000 notes on the date of issuance.

The fair value of the derivative instruments were based on the following assumptions:

Conversion price: \$ 0.37
Market price at date of grant: \$ 0.46
Expected volatility: 316.5%
Term: 11 months
Risk-free interest rate: 0.20%

The change in the fair value of the derivative liabilities amounted to a decrease of \$467,000 and was recognized as a gain in derivative liabilities on the statement of operations for the year ended December 31, 2012.

Livewire Mobile, Inc.

Notes to Consolidated Financial Statements (Continued)

14—Derivative Liabilities (Continued)

May 2, 2012 Notes:

Based on fair value computations, using the closing stock price on the closing date of the notes issuance on May 2, 2012, the Company recorded a derivative liability totaling \$990,000 and a loss on derivatives on the statement of operations of \$190,000 – the amount of the derivative liability that exceeded the value of the \$800,000 notes on the date of issuance.

The fair value of the derivative instruments were based on the following assumptions:

Conversion price: \$ 0.37

Market price at date of grant: \$ 0.51

Expected volatility: 298.5%

Term: 13 months

Risk-free interest rate: 0.19%

The change in the fair value of the derivative liabilities amounted to a decrease of \$422,000 and was recognized as a gain in derivative liabilities on the statement of operations for the year ended December 31, 2012.

March 16, 2012 Notes:

Based on fair value computations, using the closing stock price on the closing date of the notes issuance on March 16, 2012, the Company recorded a derivative liability totaling \$681,000 and a loss on derivatives on the statement of operations of \$181,000 – the amount of the derivative liability that exceeded the value of the \$500,000 notes on the date of issuance.

The fair value of the derivative instruments were based on the following assumptions:

Conversion price: \$ 0.37

Market price at date of grant: \$ 0.56

Expected volatility: 286.13%

Term: 15.5 months

Risk-free interest rate: 0.24%

The change in the fair value of the derivative liabilities amounted to a decrease of \$326,000 for the year ended December 31, 2012 and was recognized as a gain in derivative liabilities on the statement of operations.

December 8, 2011 Notes:

Based on fair value computations, using the closing stock price on the closing date of the notes issuance on December 8, 2011, the Company recorded a derivative liability totaling \$1,133,000.

The fair value of the derivative instruments were based on the following assumptions:

Conversion price: \$ 0.45

Market price at date of grant: \$ 0.45

Expected volatility: 197.39%

Term: 18 months

Risk-free interest rate: 0.16%

The change in the fair value of the derivative liabilities from January 1, 2012 amounted to a decrease of \$1,320,000 for the year ended December 31, 2012 and was recognized as a gain in derivative liabilities on the statement of operations. The change in the fair value of the derivative liabilities between December 8, 2011 and December 31, 2011, amounted to an increase of \$1,227,000 and was recognized as a loss in derivative liabilities on the statement of operations for the year ended December 31, 2011.

Livewire Mobile, Inc.

Notes to Consolidated Financial Statements (Continued)

14—Derivative Liabilities (Continued)

June 10, 2011 Notes:

Based on fair value computations, using the closing stock price on the closing date of the notes issuance on June 10, 2011, the Company recorded a derivative liability totaling \$813,000.

The fair value of the derivative instruments were based on the following assumptions:

Conversion price: \$ 2.50

Market price at date of grant: \$ 2.80

Expected volatility: 86.76%

Term: 18 months

Risk-free interest rate: 0.30%

The change in the fair value of the derivative liabilities from January 1, 2012 amounted to a decrease of \$1,315,000 for the year ended December 31, 2012 and was recognized as a gain in derivative liabilities on the statement of operations. The change in the fair value of the derivative liabilities between June 10, 2011 and December 31, 2011 as well as the modification in the conversion price caused by the December 8, 2011 funding, amounted to an increase of \$1,673,000 and was recognized as a loss in derivative liabilities on the statement of operations for the year ended December 31, 2011.

15—Other Expense, Net

Other expense, net includes the following for the stated periods:

	<u>Year ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
	<u>(in thousands)</u>	
Interest expense	\$ (622)	\$ (159)
FX transaction loss	(16)	(43)
Amortization of debt discount and deferred financing costs	(2,681)	(298)
Change in estimate of contingent and acquired liabilities	523	168
Taxes and other	<u>(58)</u>	<u>(19)</u>
Other expense, net	<u>\$ (2,854)</u>	<u>\$ (351)</u>

Included above for the years ended December 31, 2012 and 2011 is \$523,000 and \$168,000, respectively, of gains relating to changes in estimate of liabilities relating to contingent obligations from Fonestarz, which was acquired in December 2010.

16—Employee Retirement Plan

The Company has established an employee retirement plan under Section 401(k) of the Internal Revenue Code (the “401(k) plan”) covering all eligible full-time employees of the Company. Contributions to the 401(k) plan are made by the participants to their individual accounts through payroll withholding. Additionally, the 401(k) plan provides for the Company to make contributions to the 401(k) plan in amounts at the discretion of management. Employer contributions for the years ended December 31, 2012 and 2011 were zero.

Livewire Mobile, Inc.

Notes to Consolidated Financial Statements (Continued)

17—Equity

Treasury Stock Transactions

On December 7, 2011, the Company's Board of Directors approved that 647,711 shares of treasury stock be retired and reclassified as authorized stock available for future issuance.

Preferred Stock

Under its restated certificate of incorporation, the Company had authorized 3,000,000 shares of preferred stock, par value \$0.05 per share. At the Company's annual meeting of stockholders held on July 16, 2010, the Company's stockholders approved an amendment to the Company's Fourth Restated Certificate of Incorporation reducing the number of shares of authorized preferred stock from 3,000,000 to 300,000 shares.

As of December 31, 2012 and 2011, the Company had no shares of preferred stock issued and outstanding. The Company has the authority to issue preferred stock in one or more classes or series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, exchange rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any class or series or the designation of such class or series, without any further action by the stockholders.

Common Stock

Under its restated certificate of incorporation, the Company had authorized 125,000,000 shares of common stock, par value \$0.01 per share. At the Company's annual meeting of stockholders held on July 16, 2010, the Company's stockholders approved an amendment to the Company's Fourth Restated Certificate of Incorporation reducing the number of shares of authorized common stock from 125,000,000 to 12,500,000 shares. On April 30, 2012, the stockholders of Livewire Mobile, Inc. approved by consent an increase in the number of authorized shares of capital stock of the corporation from 12,800,000 shares to 72,800,000 shares, which included an increase in the number of authorized shares of common stock, \$0.01 par value, from 12,500,000 to 72,500,000 shares in accordance with an amendment to the Company's Fifth Restated Certificate of Incorporation.

18—Commitments and Contingencies

Operating Leases

The Company leases its current U.S. corporate office headquarters facilities under a lease extending to July 31, 2015. The Company occupies a technical support office in Montreal, Canada under a lease that expires on September 30, 2013 and has a sales and support office in Cambridgeshire, United Kingdom under a lease that expires on September 30, 2013. Rental expenses under all operating lease agreements during the years ended December 31, 2012 and 2011 were approximately \$396,000 and \$479,000, respectively.

Future minimum payments payable under operating leases are as follows as of December 31, 2012:

	<u>(in thousands)</u>
Fiscal Year	
2013	\$ 353
2014	264
2015	154
Total minimum lease payments	<u>\$ 771</u>

Livewire Mobile, Inc.

Notes to Consolidated Financial Statements (Continued)

18—Commitments and Contingencies (Continued)

Future minimum payments payable under capital leases are as follows as of December 31, 2012:

Fiscal Year	<u>(in thousands)</u>
2013	\$ 314
2014	<u>95</u>
Total minimum lease payments	409
Less interest and taxes	<u>(28)</u>
Present value of minimum payments	381
Less current portion	<u>(290)</u>
Long-term portion	<u>\$ 91</u>

Purchase Commitments

Purchase obligations are open purchase orders defined as agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable pricing provisions; and the approximate timing of the transactions. The Company had no significant capital spending or purchase commitments other than facility leases, equipment leases, and obligations under content and service providers arrangements and purchase orders in the ordinary course of business which total approximately \$2,122,000.

Litigation

From time to time, the Company has been and may be a party to various legal proceedings incidental to its business.

There are numerous patents covering technology in the ring back tone (“RBT”) market: (i) which may infringe on the RBT patents held by the Company or (ii) which the holders thereof may claim the Company’s RBT technology infringes on.

In September 2011 and November 2011, the Company received notices of request for indemnity from a customer in connection with the provision by the Company of RBT services. The complaints filed by two third-parties against the Company’s customer involves a number of services offered by the customer that are claimed to be infringing on the third-parties’ intellectual property (“IP”). Under the Company’s agreement with the customer, the Company may be obligated to indemnify and defend it against damages and attorneys’ fees in connection with valid IP claims related to the provision of our RBT services.

In November 2011 and February 2013, the Company received a notice of request for indemnity from a second and third customer, respectively, in connection with the provision by the Company of RBT services relating to claims made by one of the third-party complainants noted above.

In November 2011, the Company was sued by one of the third party complainants for patent infringement relating to certain RBT patents. The Company is defending itself and certain Customers, under a reservation of rights as to indemnity obligations, in these actions.

Given the current stage of these matters, we cannot predict the outcome of the matters nor estimate the possible loss or range of loss, if any, we could incur if there was an unfavorable outcome with respect to these claims and lawsuit. However, the Company believes that it has substantial legal and factual defenses to these claims and intends to defend its interests vigorously. Should the Company fail to prevail in any of these legal matters, its financial condition and results of operations could be materially adversely affected.

Livewire Mobile, Inc.

Notes to Consolidated Financial Statements (Continued)

18—Commitments and Contingencies (Continued)

Tax Claims

As of December 31, 2012, the Company had offices with current operations in the United States, Canada and the United Kingdom. The Company also has subsidiaries relating to its discontinued operations, including the NMS Communications Platforms business which was sold in December 2008 and its NI division which was sold in 2007 (“dormant subsidiaries”). Many of these dormant subsidiaries have no assets, operations, employees, revenues, cash flows, or office space. In the normal course of business the Company may be subject to examination, audit and/or claims by taxing authorities throughout the world, including dormant subsidiaries with discontinued operations.

In January 2013, the Company paid approximately \$119,000 to the India Tax Department as a deposit on a portion of outstanding tax assessments to allow the Company’s dormant Indian subsidiary to have its tax appeals heard for fiscal years ended March 31, 2007 and 2008. The \$122,000 represented the amount of outstanding transfer pricing tax assessments for fiscal years ended March 31, 2007 and 2008, plus interest. In addition to the transfer pricing assessments, the India Tax Department has disputed the Company’s use of a tax holiday for fiscal years ending March 31, 2007 and 2008, challenging that proper documentation of intercompany transactions were supplied by the Company. Also, for fiscal year ending March 31, 2009, the Company received a Draft Assessment Order in March 2013, which is a rebuttal of the Company’s transfer pricing amounts and the use of a tax holiday, which totaled approximately \$120,000. The Company filed an appeal to the Draft Assessment Order in March 2013 with the Dispute Resolution Panel in India and is awaiting their determination.

The total amount of tax claims for fiscal years March 31, 2007, 2008 and 2009, (including the \$122,000 payment made in January 2013 and interest and penalties) is approximately \$1,100,000 (and subject to additional interest and penalties). The Board of Directors of the dormant subsidiary has vigorously disputed the validity of the tax claims. As the claims relate to a dormant entity with no assets or local operations, it is unclear what future actions the Government of India Income Tax Department may take. Estimated obligations have been accrued within the consolidated balance sheet as of December 31, 2012 to the extent of the \$122,000 deposit paid in January 2013, and recorded as a loss from discontinued operations in the consolidated statement of operations for the year ended December 31, 2012. Management considers it remote that the Government of India Income Tax Department could effectively assert the tax assessments against the U.S. parent company or hold the U.S. parent company liable. Accordingly, these estimated obligations have not been accrued within the consolidated balance sheets as of December 31, 2012 or 2011. Changes in the current status of the tax assessments from the Government of India Income Tax Department could materially and adversely impact the financial condition of the Company.

Guarantees

The Company’s hardware products are generally sold with a twelve month warranty which is covered by the manufacturer. Accordingly, there are no warranty liability balances at December 31, 2012 and 2011.

Indemnification

The Company enters into indemnification agreements with certain of its customers in its ordinary course of business. Pursuant to these agreements the Company agrees that in the event its products infringe upon any proprietary right of a third party, the Company will indemnify its customer against any loss, expense or liability from any damages that may be awarded against the customer. Indemnifications related to infringement on intellectual property, such as the ones the Company has entered into, are considered guarantees. These arrangements have been recorded at a fair value of zero. See litigation section above for a discussion about certain third-party indemnification claims made against the Company.

Livewire Mobile, Inc.

Notes to Consolidated Financial Statements (Continued)

19—Geographic Information

During the years ended December 31, 2012 and 2011, the Company had operations established outside the United States - in the United Kingdom, Australia and Canada. The Company's services and products are sold throughout the world through the Company's direct sales force and channel partners. The Company is exposed to the risk of changes in social, political and economic conditions inherent in foreign operations, and the Company's results of operations and the value of its foreign assets are affected by fluctuations in foreign currency exchange rates.

The Company analyzes its operations as one segment. The following table presents the Company's revenue and long-lived assets by geographic region. Revenues by geographic region are presented by attributing revenues from external customers on the basis of where products are sold.

	Year ended December 31,	
	2012	2011
	(in thousands)	
Revenues by geographic area		
Americas.....	\$ 10,076	\$ 4,975
Europe, Middle East and Africa.....	2,801	3,976
Asia	374	552
Total revenues	\$ 13,251	\$ 9,503

The following table includes information about the Company's long-lived assets by geographic region as of:

	December 31,	
	2012	2011
	(in thousands)	
Long-lived assets by geographic area		
Americas.....	\$ 925	\$1,190
Europe, Middle East and Africa	50	57
Total long-lived assets	\$ 975	\$1,247

20—Subsequent Events

On January 2, 2013, the Company closed an agreement with the holders of senior secured convertible notes with a maturity date of December 10, 2012 to forbear the exercise of their rights under the notes and extend the maturity until June 8, 2013. In exchange for the forbearance and extension, the Company issued warrants to the note holders for the purchase of up to 1,032,035 common shares, in the aggregate, of the Company's common stock at \$0.52 per share. The notes will continue to earn interest at 12% per annum during the forbearance period.

On January 4, 2013, the Company paid approximately \$119,000 to the India Tax Department as a deposit on a portion of outstanding tax assessments See Note 18 above.

On February 11, 2013, the Company closed debt funding totaling \$1,000,000 in senior secured convertible notes with three existing note holders. The notes mature on June 8, 2013, bear interest at 10% per annum (12% per annum if paid-in-kind) and are convertible into common stock at any time at the option of the note holders at an initial conversion rate (subject to adjustment) of \$0.46 per common share. The notes are secured by all of the assets of the Company and contain certain operating and financial covenants applicable to the Company. Quarterly interest on the new notes is earned from the date of issuance and is payable the first day of each following quarter, beginning April 1, 2013.

On June 2, 2013, the Company entered into a definitive agreement for substantially all its business assets and certain liabilities to be acquired by OnMobile Global Limited. Under the terms of the agreement, the Company will receive \$17,800,000 for its existing business assets subject to certain escrow and performance contingencies. It is the Company's expectation that the holders of senior secured convertible notes will convert a majority of their notes and vote the converted

Livewire Mobile, Inc.

Notes to Consolidated Financial Statements (Continued)

20—Subsequent Events (Continued)

shares in favor of this transaction, which could amount to approximately 80% of the then fully-diluted outstanding shares. The transaction is targeted to close on June 30, 2013 upon satisfaction of various customary closing conditions.

On May 30, 2013, the Company was named as defendant in a suit from two former directors of the Company's non-operating Bangalore, India subsidiary. The plaintiffs are seeking an injunction of the transaction with OnMobile and requesting that \$1,200,000 be placed in escrow to defend the directors in the India Tax Dispute. The Company believes these claims are without merit and intends to defend them vigorously.

On June 8, 2013, the senior secured convertible notes totaling \$6,615,000 plus accrued and unpaid interest became due and payable. The Company failed to pay these amounts on the maturity date or since, resulting in an event of default under each of the senior secured convertible notes, which provides that all amounts owed shall thereafter bear interest at 18%, in addition to a number of other rights and remedies. On June 12, 2013, the holders of senior secured convertible notes agreed to forebear from the exercise of any additional rights and remedies (other than the default interest rate of 18%) through the earlier of either July 31, 2013 or the date of the closing of the OnMobile transaction described above.

The Company has evaluated all subsequent events through June 13, 2013, the date the financial statements were available to be issued.

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