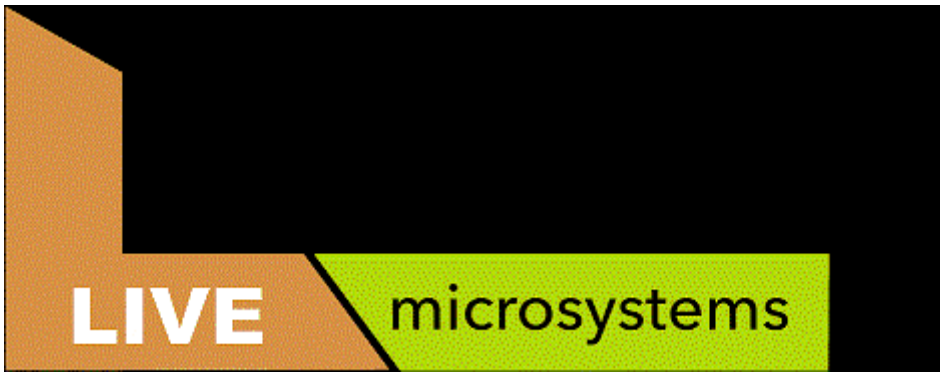


LIVE MICROSYSTEMS, INC. AND SUBSIDIARIES

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

AND RELATED FOOTNOTES

FOR THE YEARS ENDED DECEMBER 31, 2013 AND DECEMBER 31, 2012

Live Microsystems, Inc.

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FRIEDMAN LLP
ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
Live Microsystems, Inc.

We have audited the accompanying financial statements of Live Microsystems, Inc., and subsidiaries (the "Company") which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), stockholder's equity (deficit) and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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 consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Live Microsystems, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Friedman LLP

December 23, 2014

LIVE MICROSYSTEMS, INC.
Consolidated Balance Sheets

	December 31, 2013	December 31, 2012
	(In thousands except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,898	$ 1,802
Cash in escrow	734	-
Restricted cash	-	150
Prepaid expenses and other assets	40	-
Current assets of discontinued operations, net of reserve of $34	-	4,430
Total current assets	14,672	6,382
Other assets, net	-	41
Long term assets of discontinued operations	-	5,725
Total assets	$ 14,672	$ 12,148
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 127	$ -
Accrued expenses and other liabilities	443	636
Convertible notes payable, net of debt discount of $- and $1,622	3,115	3,993
Derivative liabilities	1,696	3,986
Current liabilities of discontinued operations	-	5,998
Total current liabilities	5,381	14,613
Other long term liabilities	150	150
Long term liability of discontinued operations	-	91
Total liabilities	5,531	14,854
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, $0.05 par value, 300,000 shares authorized	-	-
Common stock, $0.01 par value, 72,500,000 shares authorized at;		
16,073,027 and 4,651,433 shares issued and outstanding	161	47
Additional paid-in capital	420,751	415,812
Accumulated deficit	(407,359)	(414,324)
Accumulated other comprehensive loss	(4,412)	(4,241)
Total stockholders' equity (deficit)	9,141	(2,706)
Total liabilities and stockholders' equity (deficit)	$ 14,672	$ 12,148

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

LIVE MICROSYSTEMS, INC.
Consolidated Statements of Operations

	Year Ended December 31,	
	2013	**2012**
	(in thousands except per share data)	
Operating expenses:		
Selling, general and administrative	$ 1,032	$ -
Total operating expenses	1,032	-
Operating loss	(1,032)	-
Gain on derivative liabilities	1,021	3,360
Gain on debt extinguishment	1,774	-
Issuance of warrants	(597)	-
Bargain purchase gain on business acquisition	-	3,698
Interest expense	(2,849)	(3,303)
Other income (expense), net	(374)	449
Income / (loss) from continuing operations before income taxes	(2,057)	4,204
Income tax expense	-	24
Net income / (loss) from continuing operations	(2,057)	4,180
Gain on sale from discontinued operations, net of taxes of $75,000	10,835	-
Loss from discontinued operations	(1,813)	(4,824)
Net income / (loss)	$ 6,965	$ (644)
Income / (loss) from continuing operations per common share - basic	$ (0.26)	$ 0.90
Income/ (loss) from continuing operations per common share - diluted	$ (0.26)	$ 0.37
Net income / (loss) per common share - basic	$ 0.88	$ (0.14)
Net income / (loss) per common share - diluted	$ 0.46	$ (0.14)
Weighted average common shares - basic	7,879	4,651
Weighted average common shares - dilutive	21,971	19,827

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

LIVE MICROSYSTEMS, INC.
Consolidated Statements of Comprehensive Income (Loss)

	Year Ended December 31,	
	2013	2012
	(in thousands)	
Net Income / (loss)	$ 6,965	$ (644)
Other comprehensive income / (loss):		
Foreign currency translation adjustments	(171)	12
Comprehensive income / (loss)	$ 6,794	$ (632)

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

LIVE MICROSYSTEMS, INC.
Consolidated Statements of Stockholders' Equity (Deficit)

	Common stock		Additional paid-In	Accumulated	Accumulated other comprehensive	Total stockholder's
	Shares	Amount	capital	deficit	loss	equity (deficit)
Balance, January 1, 2011	4,651	$ 47	$ 415,761	$ (413,680)	$ (4,253)	$ (2,125)
Stock compensation expense	-		51	-	-	51
Foreign currency translation adjustment	-	-	-	-	12	12
Net loss	-	-	-	(644)	-	(644)
Balance, December 31, 2012	4,651	47	415,812	(414,324)	(4,241)	(2,706)
Stock compensation expense	-		25	-	-	25
Foreign currency translation adjustment	-	-	-	-	(171)	(171)
Issuance of warrants	-	-	597	-	-	597
Conversion of note payables and accrued interest	11,422	114	4,317	-	-	4,431
Net Income	-	-	-	6,965	-	6,965
Balance, December 31, 2013	16,073	$ 161	$ 420,751	$ (407,359)	$ (4,412)	$ 9,141

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

LIVE MICROSYSTEMS, INC.
Consolidated Statements of Cash Flows

	Year Ended December 30,	
	2013	2012
	(In thousands)	
Cash flow from operating activities:		
Net income / (loss)	$ 6,965	$ (644)
Adjustments to reconcile net income / (loss) to cash used in operating activities:		
Amortization of debt discount and deferred financing costs	2,166	2,679
Stock-based compensation expense	25	51
Gain on sale of business	(10,835)	-
Gain on derivative liabilities	(1,021)	(3,360)
Gain on extinguishment of debt	(1,774)	-
Bargain purchase gain on business acquisition	-	(3,698)
Issuance of warrants	597	-
Changes in operating assets and liabilities:		
Restricted cash	150	(150)
Cash in escrow	(734)	-
Prepaid expenses and other assets	(38)	-
Accounts payable	(127)	-
Accrued expenses and other liabilities	738	-
Cash used in operating activities - continued operations	(3,888)	(5,122)
Cash (used in) / provided by operating activities - discontinued operations	(6)	1,038
	(3,894)	(4,084)
Cash flow from investing activities:		
Cash from business acquisition	-	2,000
Proceeds from sale of business, net of transaction costs	15,299	-
Cash provided by investing activities - continuing operations	15,299	2,000
Cash used in financing activities - discontinued operations	(126)	(75)
	15,173	1,925
Cash flow from financing activities:		
Proceeds from issuance of convertible notes	1,000	2,500
Payment of deferred financing costs	-	(37)
Cash provided by financing activities - continuing operations	1,000	2,463
Cash used in financing activities - discontinued operations	(179)	(339)
	821	2,124
Effect of exchange rate changes on cash	(4)	(77)
Net increase in cash and cash equivalents	12,096	(112)
Cash and cash equivalents, beginning of year	1,802	1,914
Cash and cash equivalents, end of year	$ 13,898	$ 1,802
Non-Cash investing and financing activities		
Conversion of Note Payables, including accrued interest	$ 4,431	$ -

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

Live Microsystems, Inc.
Notes to Consolidated Financial Statements

1 - Summary of Significant Accounting Policies

Business Description

Live Microsystems, Inc., formerly Livewire Mobile, Inc., a Delaware corporation (the “Company”) was a 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 included 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 sold 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 offered 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 sold certain of its platforms as a bundled product and service offering (including installation, maintenance and support, professional services, and training), which the Company referred to as a “cap-ex” arrangement. The Company sold its services and products primarily through its direct sales force as well as through channel partners (collectively the "Livewire Operations").

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

On July 19, 2013 the Company sold the Livewire Operations to OnMobile Live, Inc. through an Asset Purchase Agreement (the "OM Asset Sale") for approximately $14.1M, net of transaction costs and escrowed amounts. Portions of the purchase price were placed in escrow. Since the OM Asset Sale the Company has managed the operations to conserve the proceeds of the OM Asset Sale, maintain the Company's existence, wind down unneeded subsidiaries and investigate potential business opportunities. Refer to Note 2 for additional information. On December 16, 2013 as a cost cutting measure Matthew Stecker resigned as the Company's CEO and President. Mr. Stecker continues to serve on the Company's Board of Directors. Upon Mr. Stecker's resignation Matthew Gerritsen was appointed to the position of Interim President and Treasurer.

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 reclassifications have been made to previously reported financial data to reflect the financial condition, results of operations and cash flows of the Company for discontinued operations. Accordingly, various accounts (e.g., accounts receivable, inventories, property and equipment, revenue, etc.) are no longer separately presented on the face of the financial statements but rather are summarized in the discontinued totals.

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 reliability 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' equity (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' equity (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, 2013 and 2012 were excluded from the determination of net income and have been reported as a component of accumulated other comprehensive loss.

Revenue Recognition

The Company derived 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 provided managed services under long term arrangements, typically two to three years. The arrangements contained 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 recognized revenue as the subscription services or download transactions were performed, or as and when reported by a customer if its reporting is used. The Company recognized revenue from professional services as the services were performed or completed. Maintenance and support services, which were typically sold separately from products, consist of bug-fixes, telephone and on-line support and training. The Company deferred 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 recognized maintenance and support and managed services revenue as amounts were earned when all of the following conditions were satisfied: persuasive evidence of an arrangement; the service provided to the customer; the amount of fees paid by the customer was fixed or determinable; and the collection of fees from the customer was 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.

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.

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 was secured by a $150,000 money market account. The letter of credit expired in January 2014 and the funds were transferred to the Company's operating account.

Accounts Receivable

The Company’s accounts receivable balances are comprised of trade receivables. The Company had 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. 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.

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.

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, 2013 and 2012, due to their short-term nature.

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, 2013 and 2012, the Company had accrued liabilities of $150,000 and $150,000, 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.

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 - Sale of Business

On July 19, 2013 the Company closed an Asset Purchase Agreement selling substantially all of its assets to OnMobile. In connection with the closing, the Company received cash proceeds (net of transaction costs and escrow amounts) of approximately $14.1 million. At closing $2.9 million was originally placed into escrow for certain performance and other contingencies, of which to date $1.2 million has been received and based on certain purchase price adjustments $1.7 million is not expected to be received. No distributions to shareholders are planned at this time. $1.7 million of the proceeds was deposited in escrow as a negotiated contingency stemming from a suit brought by two former directors of the Company's non-operating Bangalore, India subsidiary seeking indemnification against potential Indian tax liabilities. While the Company continues to believe these indemnification claims are without merit, it has entered into a Standstill Agreement placing the suit on hold and is working with the directors to resolve the underlying tax issues.

In connection with the sale, the Company recorded a gain of $10.8M, net of taxes. The net gain is reflected in the accompanying Statement of Operations as "Gain on Sale – net of taxes".

3 - 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").As noted above, on July 19, 2013 the Company sold its Livewire Mobile business operations and the Fonestarz subsidiaries to OnMobile Live, Inc. including accounts receivable, inventory, equipment, records and related intellectual property and certain liabilities through the OM Asset Sale. Assets and liabilities related to discontinued operations are as follows:

	December 31, 2012
	(in thousands)
Current assets:	
Accounts receivable	$ 3,658
Inventories	295
Prepaid expense and other current assets	477
Total current assets	4,430
Property and equipment, net	975
Goodwill	2,047
Other intangibles, net	2,639
Other assets, net	64
Total long-term assets	5,725
Total assets	$ 10,155
Current liabilities	
Accounts payable	$ 3,297
Accrued expenses and other liabilities	1,584
Capital lease obligations, current portion	290
Deferred revenue	827
Total current liabilities	5,998
Capital lease obligations, long term portion	91
Total long-term liabilities	91
Total liabilities	$ 6,089

Losses related to the discontinued operations for the year ended December 31, 2012 and the period from January 1, 2013 to date of sales are reflected as "Loss from discontinued operations, net of taxes" in the accompanying Statements of Operations. "Loss from discontinued operations, net of taxes" also includes losses derived from the NMS sale in 2008 noted above.

Summarized financial information for both dispositions for the year ended December 31, 2013 and 2012 are presented below:

	Year Ended December 31, 2013	Year Ended December 31, 2012
	(in thousands)	(in thousands)
Revenue	$ 9,772	$ 13,251
Cost of Sales	6,350	9,091
Gross profit	3,422	4,160
Operating expenses:		
Selling, general and administrative	2,985	5,714
Research and development	2,120	3,233
Restructuring and other related charges	130	37
Total operating expenses	5,234	8,984
Net Loss	$ (1,813)	$ (4,824)

4 - 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, 2013 and 2012 prior to reclassification to Loss on Discontinued operations:

	Year ended December 31,	
	2013	2012
	(in thousands)	
Effect of stock-based compensation on income by line item:		
Cost of revenues	$ -	$ 1
Selling, general and administrative	-	1
Research and development	25	49
Total stock-based compensation expense	$ 25	$ 51

No stock options were granted in 2013 and 2012.

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, 2013:

Plan Name	Options Outstanding	Shares Reserved for Future Grant
	(in thousands)	
2000 Equity Incentive Plan	0	-
2010 Equity Incentive Plan	0	20
	0	20

2010 Equity Incentive Plan

At the Company's annual meeting of stockholders held on July 16, 2010, the Company's stockholders approved the Live Microsystems, 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, 2013. 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.

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
			(in years)	(in thousands)
Balance at January 1, 2013	151,381	$ 3.11		$ -
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited/Cancelled	(151,381)	$ 3.11	-	$ -
Expired	-	-	-	-
Balance at December 31, 2013	-	-	-	$ -
Exercisable and vested at December 31, 2013	-	-	-	$ -

No options were granted during the years ended December 31, 2013 and 2012.

5 - 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:

	Year ended December 31,	
	2013	2012
	(in thousands except per share data)	
Numerator:		
Income (loss) from continuing operations	$ (2,057)	$ 4,180
Income (loss) from discontinued operations	9,022	(4,824)
Net Income (loss)	$ 6,965	$ (644)
Denominator:		
Shares used in net income (loss) from continuing operations per common share—basic	7,879	4,651
Shares used in net income (loss) from continuing operations per common share – diluted……..	21,971	19,827
Loss per common share—basic		
Continuing operations	$ (0.26)	$ 0.90
Discontinued operations	1.14	(1.04)
Net income (loss) per common share—basic	$ 0.88	$ (0.14)
Loss per common share—diluted		
Continuing operations	$ (0.26)	$ 0.37
Discontinued operations	0.72	(0.51)
Net income (loss) per common share—diluted	$ 0.46	$ (0.14)

All of the Company’s outstanding options were anti-dilutive for the years ended December 31, 2013 and 2012.

6 - 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 $3.7M relating to the business acquisition in the year ended December 31, 2012.

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	$ 1,698	

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.

7 - Income Taxes

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

	Year ended December 31,	
	2013	2012
	(in thousands)	
Domestic	$ (2,082)	$ (4,374)
Foreign	25	(194)
	$ (2,057)	$ 4,180

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,	
	2013	2012
	(in thousands)	
Current income tax expense:		
Federal	$ -	$ -
State	-	-
Foreign	-	24
	-	24
Deferred income tax expense:		
Federal	-	-
State	-	-
Foreign	-	-
	-	-
Total income tax provision	$ -	$ 24

The total income tax expense for the years ended December 31, 2013 and 2012 is as follows:

	Year ended December 31,	
	2013	2012
	(in thousands)	
Continuing operations	$ -	$ 24
Discontinued operations	-	-
Total income tax provision	$ -	$ 24

Significant components of the Company's deferred tax assets (liabilities) as of December 31, 2013 and 2012 are as follows:

	December 31,	
	2013	2012
	(in thousands)	
Deferred tax assets (liabilities):		
Net operating loss carry forwards	$ 118,592	$ 123,286
Research and development tax credit carryforwards	9,554	10,140
Capital loss carryforwards	112	112
Inventories	-	292
Intangible assets	6,387	11,444
Accrued expenses	-	3,898
Fixed assets	-	334
Acquisition costs	-	7
Other	-	19
	134,645	149,532
Acquired intangibles	-	(952)
Fixed assets	-	-
Less: valuation allowance	(134,645)	(148,580)
Net deferred taxes	$ -	$ -

For U.S. federal income tax purposes, the Company has net operating loss carryforwards available to reduce taxable income of $340.6 million at December 31, 2013. 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 Live Microsystems, 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 Live Microsystems, Inc. cannot make any additional purchases of Live Microsystems, 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 carry forwards began to expire in 2013. The Company also had foreign net operating loss carryforwards of $5.9 million. As of December 31, 2013, the Company had $6.0 million of tax credits in the U.S., comprised of federal research and development tax credits and state and local credits. These credits began 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 2013, the deferred tax valuation allowance decreased by

$13.9 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 2013. 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 2009.

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

	Year ended December 31,	
	2013	2012
	(in thousands)	
Beginning balance	$ 150	$ 133
Additions:		
Tax positions for current year	-	17
Reductions:		
Settlements of prior year positions	-	-
Ending balance	$ 150	$ 150

8- - Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following:

	December 31,	
	2013	2012
	(in thousands)	
Accrued compensation and related expenses	$ -	$ 32
Accrued interest on convertible debt	166	482
Professional fees	200	122
Other liabilities	77	-
	$443	$636

9 - Secured Convertible Notes Payable

On December 31, 2013 the Company entered into an agreement with the holders of the Company's Senior Secured Convertible Notes to forbear exercise of their rights under the notes and extend maturity to March 31, 2015. The notes will continue to earn interest of 3% per anum during the forbearance period.

On July 10, 2013 the holders of the February 2013 Notes, the July 2012 Notes, the May 2012 Notes and the March 2012 Notes (as defined below) converted the total

principal of those notes and paid in kind (“PIK”) interest accrued to date on all notes, a total of $4,426,653, into 11,421,594 shares of the Company's common stock pursuant to the terms of the notes.

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. As noted above, these notes were converted in July of 2013.

On February 11, 2013, the Company closed debt funding totaling $1,000,000 in senior secured convertible notes with three existing note holders ("February 2013 Notes"). The notes matured on June 8, 2013, bear interest at 10% per annum (12% per annum if paid-in-kind) and were 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. In accordance with Accounting Standards Codification (“ASC”) 815 “Derivatives and Hedging”, and as more further described in Note 11 below, the Company recognized a debt discount of $505,000 in connection with the issuance of the February 11, 2013 convertible notes. Total amortization of debt discount for the convertible notes amounted to $505,000 for the year ended December 31, 2013, and is included in interest expense. As disclosed above, these Notes, including PIK interest, were converted to common stock on July 10, 2013.

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 continued to earn interest at 12% per annum during the forbearance period.

On July 9, 2012, the Company closed debt funding totaling $1,200,000 in senior secured convertible notes with three existing note holders ("July 2012 Notes"). The notes matured in June 2013, bear interest at 10% per annum, and were 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 ASC 815, and as more further described in Note 10 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 to $626,000 and $574,000 for the years ended December 31, 2012 and 2013, respectively and is included in interest expense. As disclosed above, these Notes, including PIK interest, were converted to common stock on July 10, 2013.

On May 2, 2012, the Company closed debt funding totaling $800,000 in senior secured convertible notes with three existing note holders ("May 2012 Notes"). The notes originally matured in June 2013, bore interest at 10% per annum, and were 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 was earned from the date of issuance and was 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 10 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 and $310,000 for the years ended December 31, 2012 and 2013, respectively, and is included in interest expense. As disclosed above, these Notes, including PIK interest, were converted to common stock on July 10, 2013.

On March 16, 2012, the Company closed debt funding totaling $500,000 in senior secured convertible notes with three existing note holders ("March 2012 Notes"). The notes originally matured in June 2013, bear interest at 10% per annum, and were 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 10 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 and $183,000 for years ended December 31, 2012 and 2013, respectively, and is included in interest expense. As disclosed above, these Notes, including PIK interest, were converted to common stock on July 10, 2013.

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 ("December 2011 Notes"). The notes originally matured 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 10 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 $552,000 and $556,000 for the years ended December 31, 2012 and 2013, 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 (June 2011 Notes"). 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. In January 2013, the Company closed an agreement with the holders of the senior secured convertible notes 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. In accordance with ASC 815, and as more further described in Note 10 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 $233,000 and $-0- for the years ended December 31, 2012 and 2013, respectively, and is included in interest expense. The Company elected to defer payment of quarterly cash interest payments on any or all of the convertible notes when due, interest-in-kind was calculated at 12% per annum. For the quarters ending September 30, 2013, March 31, 2013, December 31, 2012, September 30, 2012 and September 30, 2012, interest was calculated at 12% per annum as the Company elected to defer payment of quarterly cash interest due on July 1, 2013, April 1, 2013, 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, 2013, the Company was in compliance with its working capital covenant of its note purchase agreements.

10 - 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 ("GAAP"), 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. As set forth in Note 9 above, certain notes were converted as of July 10, 2013 and the related fair value of the derivative liabilities at the conversion date, approximately $1.8M, was eliminated and under GAAP were recorded as a "gain on debt extinguishment" in the accompanying consolidated statement of operations.

For all convertible Notes, including converted Notes up to the date of conversion, the change in the fair value of the derivative liability for the year ended December 31, 2013 was approximately a gain of $1M. For the year ended December 31, 2012 a gain of approximately $3.4M was recorded in the accompanying consolidated statement of operations.

11 - Employee Retirement Plan

The Company 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, 2013 and 2012 were zero.

12 - Equity

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, 2013 and 2012, 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 Live Microsystems, 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.

13 - Commitments and Contingencies

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 Callertone, LLC, one of the third party complainants, for patent infringement relating to certain RBT patents.

The Company has reached a confidential settlement with Callertone for itself and those parties it was obligated to indemnify. The Company does not believe that it has any outstanding IP indemnification obligations.

In May 2013 two former directors of the Company's Indian subsidiary brought a claim against the Company for indemnification against potential personal liability stemming from the Indian Tax Claims (discussed below). The Company and the Directors have reached a Standstill Agreement under which the parties have stayed any action in the matter and are working amicably to resolve the tax issues. Pursuant to the agreement $1.7M of the OnMobile purchase price was placed in escrow (as discussed in Note 2). To date $1.0M of that amount has been used to satisfy outstanding obligations.

On June 10, 2014 OnMobile submitted a Claim Notice seeking the return of escrowed OnMobile Asset Sale purchase funds, OnMobile alleges, and the Company denies, that the Company breached certain Representations and Warranties contained in the OnMobile Asset Sale agreement. The Company has objected to the escrow release. Approximately $0.5M remains in escrow, however that full amount has been written off as the Company does not anticipate collecting the remaining balance. OnMobile may decide to pursue additional action in this matter. Monetary claims by OnMobile in such action may exceed the escrowed amount.

Tax Claims

During 2013, the Company had offices with operations in the United States, Canada and the United Kingdom that were discontinued following the OM Asset Sale. 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. In December 2013 the Company accrued an additional $200,000 payment to enable pursuit of an appeal of the tax claim for fiscal year ending March 31, 2009.

Guarantees

The Company’s hardware products were generally sold with a twelve month warranty which is covered by the manufacturer. Accordingly, there are no warranty liability balances at December 31, 2013 and 2012.

Indemnification

The Company entered into indemnification agreements with certain of its customers in its ordinary course of business. Pursuant to these agreements the Company agreed that in the event its products infringe upon any proprietary right of a third party, the Company would 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.

Pursuant to the OM Asset Purchase the Company agreed to indemnify OnMobile Live, Inc. under certain circumstances. A portion of the purchase price has been placed in escrow against such indemnification obligations. Approximately $.5M remains in this escrow, the Company has reserved this amount against potential claims.

14 - Subsequent Events

As more fully set out in Note 13, OnMobile submitted a claim for certain escrowed proceeds of the OM Asset Sale. OnMobile's claim alleges that the company breached certain representations and warranties contained in the Asset Purchase Agreement and other damages.

The Company has evaluated all subsequent events through December 23, 2014, the date the financial statements were available to be issued

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