Livewire Mobile Announces Financial Results for the Quarter Ended June 30, 2011

Re-Launches Three UK Games Store

Signs Music Distribution Agreement with Warner Music Group

LITTLETON, Mass., Sept. 29, 2011 – Livewire Mobile, Inc. (otcmarkets: LVWR), a Mobile Internet leader with one of the most comprehensive one-stop digital content solutions for carriers, handset/tablet manufacturers, and media companies today announced financial results for the second quarter ended June 30, 2011.

Quarter Ended June 30, 2011 Results

Total revenues for the second quarter of 2011 were $2.7 million, compared to $2.6 million for the first quarter of 2011 and $3.0 million for the second quarter of 2010.

Gross margin was 53% during the quarter ended June 30, 2011, up from 50% during the first quarter of 2011, and down from 64% during the second quarter of 2010, primarily due to the decrease in managed services revenue due to commercial changes with a large customer effective January 1, 2011.

The Company had a loss from continuing operations of $(0.9) million for the second quarter of 2011, or $(0.19) per share, which included restructuring expense of $48,000, or $(0.01) per share, compared to $(1.5) million, or $(0.33) per share, for the first quarter of 2011, which included $(0.2) million, or $(0.05) per share, of restructuring expense and $0.2 million, or $0.04 per share, of rent expense reduction resulting from an office lease amendment, and compared to $(0.4) million, or $(0.09) per share, for the second quarter of 2010.

The Company had a net loss of $(0.9) million for the second quarter of 2011, or $(0.19) per share, compared to a net loss of $(1.6) million, or $(0.34) per share for the first quarter of 2011, and net loss of $(0.6) million, or $(0.12) per share, for the second quarter of 2010.

Adjusted EBITDA from continuing operations (a non-GAAP financial measure) was $(0.8) million, or $(0.16) per share, for the second quarter of 2011, compared to $(1.0) million, or $(0.22) per share for the first quarter of 2011, and compared to $(0.2) million, or $(0.04) per share, for the second quarter of 2010. A complete reconciliation between adjusted EBITDA from continuing operations and operating loss on a GAAP basis is provided in the financial tables at the end of this release.

Cash totaled $3.0 million at June 30, 2011, compared to $4.8 million at December 31, 2010. The decrease in total cash from December 31, 2010 was primarily due to the Company's first half net loss, resulting primarily from a commercial change with a large customer effective January 1, 2011, and changes in its working capital, partially offset by the Company closing on $1.65 million in debt funding in June, 2011.

Company Closes $1.65 Million In Funding

In June 2011, the Company closed debt funding totaling $1.65 million in senior secured convertible notes with three longstanding and one more recent stockholder. The notes have a term of 18 months, 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 $2.50 per share. The notes are secured by all of the assets of the Company and contain certain operating and financial covenants applicable to the Company. The obligations under the notes are guaranteed by certain significant subsidiaries (as defined) of the Company. Quarterly interest is payable commencing the quarter ended June 30, 2011, and is payable the first day of each following quarter.

Launch of Three UK Games Store

In August 2011, the Company announced that leading UK Mobile Network Operator, Three, has re-launched its Games Store with a string of highly innovative features including social media integration and a dedicated HD games section.

The browser-based portal store powered by Livewire Mobile, Inc. also includes a series of Android games and applications targeted at the increasing numbers of Three gamers that use the portal as their mobile gaming hub.

A dedicated Android app with integrated Three billing is planned to be released ready for devices that will be in store and available for the pre-Christmas period.

It's also planned for the re-launched Game Store to feature an extensive offering of social games, allowing users to interact and compete with each other. These features, alongside an integrated web and browser store, are designed to offer users a unique retail experience.

The UK-based team at Livewire Mobile has been working with Three UK on a number of content projects since it launched a personalization site on the network in 2007. The new Games Store will be added to the growing portfolio of hosted multi-content services managed by the Livewire Mobile team.

The re-launched Games Store will support content across a number of mobile phone operating systems.

Enters Into Music Licensing and Distribution Agreement with Warner Music Group

The Company announced it has executed a distribution and licensing deal in July 2011 with Warner Music Group to expand its role as a leading digital music services provider. Featuring well-known artists such as Cee Lo Green, Red Hot Chili Peppers, Zac Brown Band, Eric Clapton and Metallica, and content from the entire group of labels including Atlantic, Asylum, Elektra and Rhino Records, the partnership enables the Company to offer consumers DRM-free full-track singles and albums directly through its mobile music services throughout the United States and Canada.

Business Perspective

Matthew Stecker, CEO of Livewire Mobile, said, "Our results for the quarter ended June 30, 2011 were in line with our expectations. We expected a decrease in our managed service revenues resulting from a commercial change that became effective January 1, 2011 with a large customer, as previously disclosed. This decrease was partially offset by revenues contributed from our Fonestarz subsidiary during the first quarter of 2011."

"I am pleased to announce that in June 2011 the Company closed $1.65 million in debt funding from four existing stockholders. This funding will help enable the Company to continue to expand its international market presence and expand its already deep content offerings, including the recent signing of a licensing and distribution agreement with Warner Music Group."

"I am also pleased to announce another expanding relationship with an existing customer, Three UK, with the re-launch of the Three Games Store. We are excited about our abilities to bring Android applications together with integrated carrier billing for a dramatically improved and seamless customer experience, such as our planned Three UK Games Store Android application planned to be available for the pre-Christmas period.

Mr. Stecker concluded, "We continue to be optimistic about our long-term pipeline generation that we believe will result from our acquisition of Fonestarz Media Group, Ltd. and other activities, and our extensive mobile internet, content management, music and other service offerings."

Use of Non-GAAP Financial Measures

In addition to reporting its financial results in accordance with generally accepted accounting principles, or GAAP, the Company has also provided in this release adjusted EBITDA from continuing operations which is a non-GAAP financial measure adjusted to exclude certain non-cash and other specified expenses. The Company believes the use of non-GAAP measures in addition to GAAP measures is an additional useful method of evaluating its results of operations. Management uses these non-GAAP financial measures when evaluating the Company's financial results, as well as for internal planning and forecasting purposes. Specifically, the Company has excluded stock-based compensation, depreciation, amortization of intangible assets, debt discount and deferred financing costs, restructuring charges, interest income and expense, other income/expense, gains and losses on derivative accounting and taxes from its non-GAAP financial measures. The non-GAAP financial measures disclosed by the Company should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and the expected results calculated in accordance with GAAP and reconciliations to those expected results should be carefully evaluated. The non-GAAP financial measures used by the Company may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies. The Company may consider whether other significant non-recurring items that arise in the future should also be excluded in calculating the non-GAAP financial measures it uses. Reconciliations between the non-GAAP financial measures on a GAAP basis and a non-GAAP basis are provided herein, as applicable.

Net Operating Losses (NOLs) Protective Provisions

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.

Livewire Mobile, Inc. strongly urges that any stockholder contemplating owning more than 185,000 shares contact the Company before doing so.

About Livewire Mobile, Inc.

Livewire Mobile (otcmarkets: LVWR) is a Mobile Internet leader with one of the most comprehensive one-stop digital content solutions for carriers, handset and tablet manufacturers, and media companies entering the mobile content market. The Company's integrated suite of personalization services includes ringback tones, ringtones, DRM-free mobile full-track music and videos, fully integrated storefronts, extensive content, and other applications, as well as dedicated content marketing, mobile advertising solutions, and integrated storefront management and merchandising. For more information, please visit www.livewiremobile.com.

Livewire Mobile is a registered service mark and MyCaller is a registered trademark of Livewire Mobile, Inc. All other trade names are the property of their respective owners.

Statements other than historical facts included or referred to in this Press Release are "forward-looking statements", including forward-looking statements about our optimism about our long-term pipeline generation that we believe will result from our acquisition of Fonestarz Media Group, Ltd, and other activities, our abilities to bring Android applications together with integrated carrier billing for a dramatically improved and seamless customer experience, our extensive mobile internet, content management, music and other service offerings, that our recent funding will help enable the Company to continue to expand its international market presence and expand its already deep content offerings, including the recent signing of a licensing and distribution agreement with Warner Music Group, the planned release of a dedicated Android app with integrated Three billing ready for devices that will be in store and available for the pre-Christmas period, the plans to re-launch the Game Store to feature an extensive offering of social games, allowing users to interact and compete with each other, the timing of the delivery of future features for Three including, without limitation, the addition of the new Games Store to the growing portfolio of hosted multi-content services managed by the Livewire Mobile team for Three, and Game Store support for content across a number of mobile phone Operating Systems. These statements are based on management's expectations as of the date of this document and are subject to uncertainties and changes in circumstances. Actual results may differ materially from these expectations due to risks and uncertainties including, but not limited to, our optimism about our long-term pipeline generation that we believe will result from our acquisition of Fonestarz Media Group, Ltd, and other activities, our abilities to bring Android applications together with integrated carrier billing for a dramatically improved and seamless customer experience, our extensive mobile internet, content management, music and other service offerings, that our recent funding will help enable the Company to continue to expand its international market presence and expand its already deep content offerings, including the recent signing of a licensing and distribution agreement with Warner Music Group, the planned release of a dedicated Android app with integrated Three billing ready for devices that will be in store and available for the pre-Christmas period, the plans to re-launch the Game Store to feature an extensive offering of social games, allowing users to interact and compete with each other, the timing of the delivery of future features for Three including, without limitation, the addition of the new Games Store to the growing portfolio of hosted multi-content services managed by the Livewire Mobile team for Three, and Game Store support for content across a number of mobile phone Operating Systems. In addition, while management may elect to update forward-looking statements at some point in the future, management specifically disclaims any obligation to do so, even if its estimates change. Any reference to our website in this press release is not intended to incorporate the contents thereof into this press release or any other public announcement.

Investor Relations:
Todd Donahue, CFO
Livewire Mobile, Inc.
978-742-3167
todd.donahue@livewiremobile.com

Media Relations:
Erin Schweppe, VP Product Marketing
Livewire Mobile, Inc.
978-742-3155
erin.schweppe@livewiremobile.com

LIVEWIRE MOBILE, INC.
Condensed Consolidated Balance Sheet

	June 30, 2011	December 31, 2010
	(unaudited)	
	(In thousands except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,955	$ 4,839
Accounts receivable, net of allowance for doubtful accounts of $3 and $38, respectively	1,922	1,406
Inventories, net	234	294
Prepaid expenses and other assets	527	591
Total current assets	5,638	7,130
Property and equipment, net	1,599	1,726
Goodwill	2,003	1,961
Other intangibles, net	1,449	1,524
Other assets, net	221	80
Total assets	$ 10,910	$ 12,421
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,084	$ 1,830
Accrued expenses and other liabilities	2,259	2,477
Accrued restructuring, current portion	169	-
Capital lease obligations, current portion	317	322
Deferred revenue	1,250	1,055
Total current liabilities	5,079	5,684
10% convertible notes payable, net of debt discount of $781	869	-
Derivative liabilities	516	-
Other long term liabilities	141	138
Capital lease obligations, long term portion	400	350
Total liabilities	7,005	6,172
Stockholders' equity:		
Preferred stock, $0.05 par value, 300,000 shares authorized at June 30, 2011 and December 31, 2010, no shares issued and outstanding	-	-
Common stock, $0.01 par value, 12,500,000 shares authorized at June 30, 2011 and December 31, 2010; 5,299,144 shares issued and 4,651,433 shares outstanding at June 30, 2011 and December 31, 2010.	53	53
Additional paid-in capital	434,874	434,842
Accumulated deficit	(407,733)	(405,262)
Accumulated other comprehensive loss	(4,133)	(4,228)
Treasury stock, at cost, 647,711 shares at June 30, 2011 and December 31, 2010, respectively.	(19,156)	(19,156)
Total stockholders' equity	3,905	6,249
Total liabilities and stockholders' equity	$ 10,910	$ 12,421

LIVEWIRE MOBILE, INC.
Consolidated Statements of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(Unaudited) (in thousands except per share data)			
Service revenues	$ 2,581	$ 2,911	$ 5,183	$ 5,854
Royalty revenues	-	45	-	109
Product revenues	96	-	96	-
Total revenues	2,677	2,956	5,279	5,963
Total cost of revenues	1,263	1,059	2,569	2,264
Gross profit	1,414	1,897	2,710	3,699
	53%	64%	51%	62%
Operating expenses:				
Selling, general and administrative	1,609	1,316	3,291	2,398
Research and development	836	967	1,718	1,891
Restructuring and other related charges	48	-	291	-
Total operating expenses	2,493	2,283	5,300	4,289
Operating loss	(1,079)	(386)	(2,590)	(590)
Gain on derivative liabilities	297	-	297	-
Other expense, net	(73)	(57)	(77)	(150)
Loss from continuing operations before income taxes	(855)	(443)	(2,370)	(740)
Income tax expense	8	(13)	22	11
Loss from continuing operations	(863)	(430)	(2,392)	(751)
Loss from discontinued operations	(27)	(131)	(79)	(249)
Net loss	$ (890)	$ (561)	$ (2,471)	$ (1,000)
Loss from continuing operations per common share - basic and diluted	$ (0.19)	$ (0.09)	$ (0.51)	$ (0.16)
Net loss per common share - basic and diluted	$ (0.19)	$ (0.12)	$ (0.53)	$ (0.22)
Common shares - basic and diluted	4,651	4,651	4,651	4,632

LIVEWIRE MOBILE, INC.
Condensed Consolidated Statements of Cash Flows

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(Unaudited) (In thousands)	
Cash flow from operating activities:		
Net loss	$ (2,471)	$ (1,000)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:		
Depreciation of property and equipment and amortization of managed service assets	381	284
Amortization of intangible assets	130	-
Amortization of debt discount and deferred financing costs	36	-
Stock-based compensation expense	33	62
Gain on derivative liabilities	(297)	-
Changes in operating assets and liabilities:		
Accounts receivable	(497)	839
Inventories	60	21
Prepaid expenses and other assets	33	391
Accounts payable	(742)	154
Accrued expenses and other liabilities	(297)	(539)
Accrued restructuring	169	(115)
Deferred revenue	195	302
Cash provided by (used in) operating activities	(3,267)	399
Cash flow from investing activities:		
Purchases of property and equipment, managed service assets and licenses	27	(73)
Cash used in investing activities	27	(73)
Cash flow from financing activities:		
Proceeds from issuance of convertible notes	1,650	-
Payment of deferred financing costs	(107)	-
Payment of dividend	-	(930)
Payment of capital lease obligations	(202)	(91)
Proceeds from issuance of common stock	-	71
Cash provided by (used in) financing activities	1,341	(950)
Effect of exchange rate changes on cash	15	(71)
Net decrease in cash and cash equivalents	(1,884)	(695)
Cash and cash equivalents, beginning of period	4,839	7,834
Cash and cash equivalents, end of period	$ 2,955	$ 7,139
Supplemental cash flow information:		
Purchase of equipment through capital leases	$ 247	$ 271

LIVEWIRE MOBILE, INC.

Unaudited Reconciliation of Non-GAAP Measures to Comparable GAAP Measures

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(Unaudited) (In thousands, except per share data)			
GAAP operating loss	$ (1,079)	$ (386)	$ (2,590)	$ (590)
Plus:				
Stock-based compensation	14	37	33	62
Amortization of intangibles	65	-	130	-
Depreciation	201	151	381	284
Restructuring	48	-	291	-
Non-GAAP adjusted EBITDA from continuing operations	$ (751)	$ (198)	$ (1,755)	$ (244)
GAAP operating loss per basic and diluted share:	$ (0.23)	$ (0.08)	$ (0.56)	$ (0.13)
Plus:				
Stock-based compensation	0.00	0.01	0.01	0.01
Amortization of intangibles	0.01	-	0.03	-
Depreciation	0.04	0.03	0.08	0.07
Restructuring	0.01	-	0.06	-
Non-GAAP adjusted EBITDA from continuing operations per share	$ (0.16)	$ (0.04)	$ (0.38)	$ (0.05)
Shares used in computing basic and diluted non-GAAP adjusted EBITDA from continuing operations per share	4,651	4,651	4,651	4,632

NOTES:

1) BASIS OF PRESENTATION

The condensed consolidated balance sheet as of June 30, 2011, the condensed consolidated statements of operations for the three and six months ended June 30, 2011 and 2010, and the condensed consolidated statements of cash flows for the six months ended June 30, 2011 and 2010 include the unaudited accounts of Livewire Mobile, Inc. and its wholly owned subsidiaries (collectively, the "Company"). The financial information included herein is unaudited. The condensed consolidated balance sheet at December 31, 2010 has been derived from, but does not include all the disclosures contained in the audited consolidated financial statements for the year ended December 31, 2010. The Company’s condensed consolidated statements of operations and cash flows for the six months ended June 30, 2011 and the condensed consolidated balance sheets as of June 30, 2011 and December 31, 2010 also include the results of operations of Fonestarz Media Group, Ltd. for the period subsequent to the acquisition on December 17, 2010.

In the opinion of management, all adjustments which are necessary to present fairly the financial position, results of operations and cash flows for all interim periods presented have been made. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") 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 various estimates including those 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, valuation of long-lived assets including goodwill and intangible assets, income taxes, restructuring and other related charges, and accounting for acquisitions and dispositions. 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. The operating results for the three and six months ended June 30, 2011 and 2010 are not necessarily indicative of the operating results to be expected for any future period.

The Company encourages you to read these financial statements in conjunction with its other public disclosures.

2) 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 $1.3 million of Fonestarz liabilities at closing.

Fonestarz is a retailer of mobile entertainment content for mobile network operators. It manages digital content services, from its proprietary merchandising and delivery platform for 11 mobile operators in eight countries around the world. Fonestarz services are currently deployed with premier operators including Vodafone, Hutchison 3 and O2 in countries including the United Kingdom, Ireland, Denmark, Sweden, Austria, New Zealand, South Africa and Egypt.

In accordance with generally accepted accounting principles, the fair value of Fonestarz is allocated to Fonestarz's identifiable tangible and intangible assets and liabilities assumed based on their fair values as of the date of the completion of the transaction. The following table presents the allocation of the purchase price and the lives of the acquired intangible assets. The acquired intangible assets are amortized over their estimated useful lives using the straight-line method. Based upon a third-party valuation of intangible assets as of that date, the Company has allocated the purchase price to assets and liabilities as follows:

	Amount (in 000's)	Estimated Life (in years)
Cash and cash equivalents	$ 213	
Accounts receivable	481	
Prepaid expenses and other current assets	127	
Fixed assets	125	
Core technology	460	4.0
Content	100	3.0
Non-compete agreements	10	1.5
Customer relationships	1,002	10.0
Goodwill	2,003	
Total assets acquired	4,521	
Total liabilities assumed	3,569	
Total net assets acquired	$ 952	

3) RESTRUCTURING AND OTHER RELATED CHARGES AND ACCRUALS

In the second quarter of 2011, in order to reduce operating costs, the Company eliminated 10 employee positions which resulted in severance-related costs of approximately $48,000.

In the first quarter of 2011, 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 the earlier of April 1, 2011 or when the Company vacates the space. The Company vacated the excess space in February 2011. The

Company recorded both a restructuring charge of $222,000 and a rent expense reduction of approximately $173,000 related to the elimination of a deferred rent liability associated with this exited space in the quarter ended March 31, 2011.

4) INCOME TAXES

The Company conducts business globally and, as a result, the Company or one or more of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions.

The Company has adopted accounting guidance relating to uncertainty in income taxes recognized in an enterprise's financial statements. The guidance prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken in or expected to be taken in a tax return. This interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, and disclosure and transition. The Company has established a 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.

5) DISCONTINUED OPERATIONS

On December 5, 2008, the Company sold its NMS Communications Platforms business and certain assets and liabilities of the NMS Communications Platforms business to Dialogic Corporation. Accordingly, the operating results, including certain compliance and other administrative costs related to several foreign subsidiaries of the NMS Communication Platforms business, have been reclassified as discontinued operations in the unaudited condensed consolidated statements of operations.

6) DIVIDEND

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 record as of the close of business on March 12, 2010 totaled $930,000 and is reflected in the statement of cash flows for the six months ended June 30, 2010.

On March 1, 2011, the Company’s board of directors voted to not approve the declaration of a cash dividend for 2011.

7) SECURED CONVERTIBLE NOTES PAYABLE

On June 10, 2011, the Company closed debt funding totaling $1.65 million in senior secured convertible notes with three longstanding and one more recent stockholder. The notes have a term of 18 months, 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 $2.50 (subject to adjustment). Quarterly interest is payable commencing the quarter ended June 30, 2011, and is payable the first day of each following quarter.

The notes are secured by all of the assets of the Company and contain certain operating and financial covenants applicable to the Company. The obligations under the notes are guaranteed by certain significant subsidiaries (as defined) of the Company.

In accordance with Accounting Standards Codification ("ASC") 815 "Derivatives and Hedging", and as more further described in Note 8 below, the Company recognized a debt discount of $813,000 in connection with the issuance of the 10% convertible notes. Total amortization of debt discount for the convertible notes amounted to $32,000 for the quarter ended June 30, 2011, and is included in interest expense.

Included in other assets at June 30, 2011 are deferred financing costs of approximately $107,000 related to the issuance of the convertible notes. The deferred financing costs are amortized on the terms of such notes. Amortization of deferred financing costs amounted to $4,000 during the quarter ended June 30, 2011 and is included in interest expense.

8) DERIVATIVE LIABILITIES

ASC 815 describes accounting for convertible instruments with provisions that protect holders from declines in the stock price ("round-down" provisions). Instruments with round-down 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. 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 between June 10, 2011 and June 30, 2011 amounted to a decrease of $297,000 and has been recognized as a gain in derivative liabilities on the statement of operations for the quarter ended June 30, 2011.

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