



LIVEWIRE MOBILE, INC.

Quarterly Report

Three and Six Months Ended

June 30, 2013

Livewire Mobile, Inc. Quarterly Report

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Use of Non-GAAP Financial Measures

In addition to reporting its financial results in accordance with generally accepted accounting principles in the United States, or GAAP, the Company has also provided in this quarterly report 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, warrants expense, depreciation, amortization of intangible assets, debt discount and deferred financing costs, amortization of deferred development 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, Inc. (otcmarkets: LVWR) is a mobile internet powerhouse with one of the most comprehensive one-stop digital entertainment solutions for network operators, consumer device manufacturers, brands and media companies entering the mobile market. The Company's integrated suite of content services includes applications, video, games, ringback tones, ringtones, DRM-free full-track music, e-books and more as well as application and portal development, mobile advertising solutions, integrated content publishing and merchandising, and turnkey managed VAS operations. For more information, please visit www.livewiremobile.com.

Livewire Mobile is a registered service mark of Livewire Mobile, Inc. Other trademarks are properties of their respective owners.

LIVEWIRE MOBILE, INC.
Condensed Consolidated Balance Sheet

	June 30, 2013	December 31, 2012
	(unaudited)	
	(In thousands except per share data)	
ASSETS		
Current assets:		
Cash	\$ 1,099	\$ 1,802
Restricted cash	150	150
Accounts receivable, net of allowance for doubtful accounts of \$70 and \$34, respectively	3,553	3,658
Inventories, net	234	295
Prepaid expenses and other assets	243	477
Total current assets	5,279	6,382
Property and equipment, net	771	975
Goodwill	1,928	2,047
Other intangibles, net	2,287	2,639
Other assets, net	76	105
Total assets	\$ 10,341	\$ 12,148
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 2,275	\$ 3,297
Accrued expenses and other liabilities	3,501	2,220
Capital lease obligations, current portion	168	290
Deferred revenue	938	827
Convertible notes payable, net of debt discount of \$0 and \$1,622	6,615	3,993
Derivative liabilities	3,351	3,986
Total current liabilities	16,848	14,613
Other long term liabilities	152	150
Capital lease obligations, long term portion	35	91
Total liabilities	17,035	14,854
Stockholders' deficit:		
Preferred stock, \$0.05 par value, 300,000 shares authorized at June 30, 2013 and December 31, 2012	-	-
Common stock, \$0.01 par value, 72,500,000 shares authorized at June 30, 2013 and December 31, 2012; 4,651,433 shares issued and outstanding at June 30, 2013 and December 31, 2012.	47	47
Additional paid-in capital	416,434	415,812
Accumulated deficit	(418,763)	(414,324)
Accumulated other comprehensive loss	(4,412)	(4,241)
Total stockholders' deficit	(6,694)	(2,706)
Total liabilities and stockholders' deficit	\$ 10,341	\$ 12,148

LIVEWIRE MOBILE, INC.
Consolidated Statements of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Unaudited)			
	(in thousands except per share data)			
Service revenues	\$ 4,597	\$ 2,108	\$ 9,247	\$ 4,273
Product revenues	5	30	525	681
Total revenues	<u>4,602</u>	<u>2,138</u>	<u>9,772</u>	<u>4,954</u>
Total cost of revenues	<u>2,882</u>	<u>1,379</u>	<u>6,350</u>	<u>2,738</u>
Gross profit	1,720	759	3,422	2,216
	37%	36%	35%	45%
Operating expenses:				
Selling, general and administrative	2,037	1,307	3,450	2,737
Research and development	1,048	696	2,120	1,468
Restructuring and other related charges	70	-	70	37
Total operating expenses	<u>3,155</u>	<u>2,003</u>	<u>5,640</u>	<u>4,242</u>
Operating loss	(1,435)	(1,244)	(2,218)	(2,026)
Gain (loss) on derivative liabilities	(1,847)	230	1,140	1,755
Issuance of warrants	-	-	(597)	-
Other expense, net	<u>(1,360)</u>	<u>(669)</u>	<u>(2,682)</u>	<u>(1,019)</u>
Loss from continuing operations before income taxes	(4,642)	(1,683)	(4,357)	(1,290)
Income tax expense	<u>14</u>	<u>5</u>	<u>17</u>	<u>13</u>
Loss from continuing operations	(4,656)	(1,688)	(4,374)	(1,303)
Loss from discontinued operations	<u>(58)</u>	<u>(11)</u>	<u>(65)</u>	<u>(22)</u>
Net loss	<u>\$ (4,714)</u>	<u>\$ (1,699)</u>	<u>\$ (4,439)</u>	<u>\$ (1,325)</u>
Loss from continuing operations per common share - basic and diluted	<u>\$ (1.00)</u>	<u>\$ (0.36)</u>	<u>\$ (0.94)</u>	<u>\$ (0.28)</u>
Net loss per common share - basic and diluted	<u>\$ (1.01)</u>	<u>\$ (0.37)</u>	<u>\$ (0.95)</u>	<u>\$ (0.28)</u>
Common shares - basic and diluted	<u>4,651</u>	<u>4,651</u>	<u>4,651</u>	<u>4,651</u>

LIVEWIRE MOBILE, INC.
Condensed Consolidated Statements of Cash Flows

	Six Months Ended	
	June 30,	
	2013	2012
	(Unaudited)	
	(In thousands)	
Cash flow from operating activities:		
Net income	\$ (4,439)	\$ (1,325)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation of property and equipment	328	318
Amortization of intangible assets	291	128
Amortization of debt discount and deferred financing costs	2,166	754
Amortization of development costs	55	72
Stock-based compensation expense	24	31
Gain on derivative liabilities	(1,140)	(1,755)
Issuance of warrants	597	-
Changes in operating assets and liabilities:		
Restricted cash	-	(150)
Accounts receivable	77	(386)
Inventories	61	-
Prepaid expenses and other assets	201	63
Accounts payable	(1,007)	494
Accrued expenses and other liabilities	1,281	97
Accrued restructuring	-	(100)
Deferred revenue	111	(319)
Cash used in operating activities	(1,394)	(2,078)
Cash flow from investing activities:		
Purchases of property and equipment	(126)	(32)
Cash used in investing activities	(126)	(32)
Cash flow from financing activities:		
Proceeds from issuance of convertible notes	1,000	1,300
Payment of deferred financing costs	-	(27)
Payment of capital lease obligations	(179)	(167)
Cash provided by financing activities	821	1,106
Effect of exchange rate changes on cash	(4)	(19)
Net decrease in cash and cash equivalents	(703)	(1,023)
Cash and cash equivalents, beginning of period	1,802	1,914
Cash and cash equivalents, end of period	\$ 1,099	\$ 891
Supplemental cash flow information:		
Purchase of equipment through capital leases	\$ -	\$ 185

LIVEWIRE MOBILE, INC.
Unaudited Reconciliation of Non-GAAP Measures to Comparable GAAP Measures

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Unaudited)			
	(In thousands, except per share data)			
GAAP operating loss	\$ (1,435)	\$ (1,244)	\$ (2,218)	\$ (2,026)
Plus:				
Stock-based compensation	2	19	24	31
Amortization of intangibles	145	64	291	128
Amortization of development costs	15	36	55	72
Depreciation	140	163	328	318
Restructuring	70	-	70	37
Non-GAAP adjusted EBITDA from continuing operations	\$ (1,062)	\$ (962)	\$ (1,449)	\$ (1,440)
GAAP operating loss per basic and diluted share:	\$ (0.31)	\$ (0.27)	\$ (0.48)	\$ (0.44)
Plus:				
Stock-based compensation	0.00	0.00	0.01	0.01
Amortization of intangibles	0.03	0.01	0.06	0.03
Amortization of development costs	0.00	0.01	0.01	0.02
Depreciation	0.03	0.04	0.07	0.07
Restructuring	0.02	-	0.02	0.01
Non-GAAP adjusted EBITDA from continuing operations per share	\$ (0.23)	\$ (0.21)	\$ (0.31)	\$ (0.31)
Shares used in computing basic and diluted non-GAAP adjusted	4,651	4,651	4,651	4,651

NOTES:

1) BASIS OF PRESENTATION

The condensed consolidated balance sheets as of June 30, 2013 and December 31, 2012, the condensed consolidated statements of operations for the three and six months ended June 30, 2013 and 2012, and the condensed consolidated statements of cash flows for the six months ended June 30, 2013 and 2012 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, 2012 has been derived from, but does not include all the disclosures contained in, the audited consolidated financial statements for the year ended December 31, 2012. Certain prior period amounts have been reclassified to conform to the current period's presentation.

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, derivatives, 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, 2013 and 2012 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) SALE OF BUSINESS

On July 19, 2013 the Company closed an Asset Purchase Agreement selling substantially all of its assets to OnMobile Live, Inc.

In connection with the closing, the Company received cash proceeds (net of transaction costs) of approximately \$14.3 million. An additional \$2.9 million was placed into escrow for certain performance and other contingencies. No distributions to shareholders are planned at this time.

\$1.74 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. The Company continues to believe these indemnification claims as well as their associated underlying Indian tax claims are without merit and is maintaining a vigorous defense.

As of July 22, 2013 the Company changed its name to Live Microsystems. Live Microsystems, with its remaining assets and liabilities, will continue to trade on the limited-disclosure tier of OTC Markets under the new stock symbol LMSC.

Also effective with the closing, the majority of the Company’s employees have become employees of OnMobile. Further, the Company announces the following management changes:

- Robert Pons will continue as Chairman of the Board of Live Microsystems;
- Matthew Stecker will retain his role as CEO of Live Microsystems, and also become Treasurer;
- Todd Donahue, formerly CFO, has accepted a leadership role at OnMobile;
- Matt Gerritsen will retain his role as General Counsel of Live Microsystems

3) ACQUISITION

Effective September 1, 2012, the Company closed an Asset Transfer and License Agreement with RealNetworks, Inc. (the “Agreement”) whereby RealNetworks transferred to the Company services provided under two domestic carrier services contracts, together with a team of employees and associated hardware and software technology. As part of this transaction, RealNetworks paid the Company \$2.0 million at closing. Per the terms of the Agreement, the Company paid RealNetworks one payment of \$100,000 in September 2012 and established an accrued liability for a second payment of \$100,000 related to the performance of the services under one of these carrier contracts. Additionally, the Company recorded a bargain purchase gain of \$3,698,000 relating to the business acquisition in the quarter ending September 30, 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
	<hr/>	
Total assets acquired	1,898	
Total liabilities assumed	<u>200</u>	
Fair value of net assets acquired.....	<u>\$1,698</u>	

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

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

4) RESTRUCTURING AND OTHER RELATED CHARGES AND ACCRUALS

In the second quarter of 2013, the Company eliminated one of its hosting centers which resulted in lease termination related costs of approximately \$70,000.

In the first quarter of 2012, in order to reduce operating costs, the Company eliminated three employee positions which resulted in severance-related costs of approximately \$37,000, which were paid during the first quarter of 2012.

5) SECURED CONVERTIBLE NOTES PAYABLE

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 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 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 are convertible into common stock at any time at the option of the note holders at an initial conversion rate (subject to adjustment) of \$0.46 per common share. The notes are secured by all of the assets of the Company and contain certain operating and financial covenants applicable to the Company. Quarterly interest on the new notes is earned from the date of issuance and is payable the first day of each following quarter, beginning April 1, 2013. In accordance with Accounting Standards Codification ("ASC") 815 "Derivatives and Hedging", and as more further described in Note 6 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 \$321,000 for the three months ended June 30, 2013, and is included in interest expense. Total amortization of debt discount for the convertible notes amounted to \$505,000 for the six months ended June 30, 2013, and is included in interest expense.

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 mature in June 2013, bear interest at 10% per annum, and are convertible into common stock at any time at the option of the note holders at an initial conversion rate (subject to adjustment) of \$0.37 per common share. Quarterly interest on the new notes is earned from the date of issuance and is payable the first day of each following quarter, which began October 1, 2012. In accordance with ASC 815, and as more further described in Note 6 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 \$246,000 for the three months ended June 30, 2013 and is included in interest expense. Total amortization of debt discount for the convertible notes amounted to \$574,000 for the six months ended June 30, 2013 and is included in interest expense.

On May 2, 2012, the Company closed debt funding totaling \$800,000 in senior secured convertible notes with three existing note holders ("May 2012 Notes"). The notes mature in June 2013, bear interest at 10% per annum, and are convertible into common stock at any time at the option of the note holders at an initial conversion rate (subject to adjustment) of \$0.37 per common share. Quarterly interest on the notes is earned from the date of issuance and is payable the first day of each following quarter, which began July 1, 2012. In accordance with ASC 815, and as more further described in Note 6 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 \$125,000 and \$121,000 for the three months ended June 30, 2013 and 2012, respectively, and is included in interest expense. Total amortization of debt discount for the convertible notes amounted to \$310,000 and \$121,000 for the six months ended June 30, 2013 and 2012, respectively, and is included in interest expense.

On March 16, 2012, the Company closed debt funding totaling \$500,000 in senior secured convertible notes with three existing note holders ("March 2012 Notes"). The notes mature in June 2013, bear interest at 10% per annum, and are convertible at any time at the option of the holder, into shares of common stock at an initial conversion rate (subject to adjustment) of \$0.37 per common share. The March 16, 2012 funding modified the conversion price of the senior secured convertible notes issued in June 2011 and December 2011 to \$0.37. Quarterly interest on the notes is earned from the date of issuance and is payable the first day of each following quarter, which began July 1, 2012. In accordance with ASC 815, and as more further described in Note 6 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 \$83,000 and \$100,000 for the three months ended June 30, 2013 and 2012, respectively, and is included in interest expense. Total amortization of debt discount for the convertible notes amounted to \$183,000 and \$117,000 for the six months ended June 30, 2013 and 2012, respectively, and is included in interest expense.

On December 8, 2011, the Company closed debt funding totaling \$1,465,000 in senior secured convertible notes with four existing and one new note holder ("December 2011 Notes"). The notes mature in June 2013, bear interest at 10% per annum and are convertible at any time at the option of the holder, into shares of common stock at an initial conversion rate of \$0.45 (subsequently adjusted to \$0.37) per common share. Quarterly interest on the notes is earned from the date of issuance and is payable the first day of each following quarter, which began April 1, 2012. In accordance with ASC 815, and as further described in Note 6 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 \$278,000 and \$113,000 for the three months ended June 30, 2013 and 2012, respectively, and is included in interest expense. Total amortization of debt discount for the convertible notes amounted to \$556,000 and \$197,000 for the six months ended June 30, 2013 and 2012, 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 6 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 \$0 and \$143,000 for the three months ended June 30, 2013

and 2012, respectively, and is included in interest expense. Total amortization of debt discount for the convertible notes amounted to \$0 and \$267,000 for the six months ended June 30, 2013 and 2012, respectively, and is included in interest expense.

Included in other assets, net, there are no remaining deferred financing costs of at June 30, 2013. There were deferred financing costs of approximately \$28,000 at December 31, 2012 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 \$20,000 and \$28,000 during the three months ended June 30, 2013 and 2012, respectively, and is included in interest expense. Amortization of deferred financing costs amounted to \$39,000 and \$52,000 during the six months ended June 30, 2013 and 2012, respectively, and is included in interest expense.

If the Company elects to defer payment of quarterly cash interest payments on any or all of the convertible notes when due, interest-in-kind is calculated at 12% per annum. For the quarters ending June 30, 2013, March 31, 2013, December 31, 2012, September 30, 2012 and June 30, 2012, interest was calculated at 12% per annum as the Company elected to defer payment of quarterly cash interest due on 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 June 30, 2013, the Company was not in compliance with its working capital covenant of its note purchase agreements.

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 below.

6) DERIVATIVE LIABILITIES

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

The Company has accounted for the embedded conversion feature of the notes described above as a liability in the financial statements at the estimated fair value of such embedded conversion feature, and records changes in fair value in results of operations. As set forth in note 5 above, certain notes were converted as of July 10, 2013 and the related derivative liabilities were eliminated.

February 11, 2013 Notes:

Based on fair value computations, using the closing stock price on the closing date of the notes issuance on February 13, 2012, the Company recorded a derivative liability totaling \$505,000.

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

Conversion price: \$ 0.37
Market price at date of grant: \$ 0.50
Expected volatility: 112.3%
Term: 4 months
Risk-free interest rate: 0.15%

The change in the fair value of the derivative liabilities amounted to an increase of \$280,000 for the three months ended June 30, 2013 and was recognized as a loss in derivative liabilities on the statement of operations. The change in the fair value of the derivative liabilities from February 11, 2013 through June 30, 2013 amounted to an increase of \$2,000 and was recognized as a loss in derivative liabilities on the statement of operations.

July 9, 2012 Notes:

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

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

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

The change in the fair value of the derivative liabilities amounted to an increase of \$335,000 for the three months ended June 30, 2013 and was recognized as a loss in derivative liabilities on the statement of operations. The change in the fair value of the derivative liabilities amounted to a decrease of \$244,000 for the six months ended June 30, 2013 and was recognized as a gain in derivative liabilities on the statement of operations.

May 2, 2012 Notes:

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

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

Conversion price: \$ 0.37
Market price at date of grant: \$ 0.51
Expected volatility: 298.5%
Term: 13 months
Risk-free interest rate: 0.19%

The change in the fair value of the derivative liabilities amounted to an increase of \$223,000 for the three months ended June 30, 2013 and was recognized as a loss in derivative liabilities on the statement of operations. The change in the fair value of the derivative liabilities amounted to a decrease of \$163,000 for the six months ended June 30, 2013 and was recognized as a gain in derivative liabilities on the statement of operations.

March 16, 2012 Notes:

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

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

Conversion price: \$ 0.37
Market price at date of grant: \$ 0.56
Expected volatility: 286.13%
Term: 15.5 months
Risk-free interest rate: 0.24%

The change in the fair value of the derivative liabilities amounted to an increase of \$139,000 for the three months ended June 30, 2013 and was recognized as a loss in derivative liabilities on the statement of operations. The change in the fair value of the derivative liabilities amounted to a decrease of \$102,000 for the six months ended June 30, 2013 and was recognized as a gain in derivative liabilities on the statement of operations.

December 8, 2011 Notes:

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

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

Conversion price: \$ 0.45
Market price at date of grant: \$ 0.45
Expected volatility: 197.39%
Term: 18 months
Risk-free interest rate: 0.16%

The change in the fair value of the derivative liabilities amounted to an increase of \$409,000 for the three months ended June 30, 2013 and was recognized as a loss in derivative liabilities on the statement of operations. The change in the fair value of the derivative liabilities amounted to a decrease of \$298,000 for the six months ended June 30, 2013 and was recognized as a gain in derivative liabilities on the statement of operations. The change in the fair value of the derivative liabilities amounted to an increase of \$52,000 for the three months ended June 30, 2012 and was recognized as a loss in derivative liabilities on the statement of operations. The change in the fair value of the derivative liabilities amounted

to a decrease of \$748,000 for the six months ended June 30, 2012 and was recognized as a gain in derivative liabilities on the statement of operations.

June 10, 2011 Notes:

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

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

Conversion price: \$ 2.50
 Market price at date of grant: \$ 2.80
 Expected volatility: 86.76%
 Term: 18 months
 Risk-free interest rate: 0.30%

The change in the fair value of the derivative liabilities amounted to an increase of \$461,000 for the three months ended June 30, 2013 and was recognized as a loss in derivative liabilities on the statement of operations. The change in the fair value of the derivative liabilities amounted to a decrease of \$335,000 for the six months ended June 30, 2013 and was recognized as a gain in derivative liabilities on the statement of operations. The change in the fair value of the derivative liabilities amounted to a decrease of \$381,000 for the three months ended June 30, 2012 and was recognized as a gain in derivative liabilities on the statement of operations. The change in the fair value of the derivative liabilities amounted to a decrease of \$1,137,000 for the six months ended June 30, 2012 and was recognized as a gain in derivative liabilities on the statement of operations.

7) Warrants

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

The fair value of the warrants totaling \$597,000 was expensed on the statement of operations during the three months ended March 31, 2013.

8) Other Expense, Net

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<u>(In thousands)</u>				
Interest expense	\$ (257)	\$ (145)	\$ (466)	\$ (240)

FX transaction loss	(8)	(5)	(13)	(5)
Amortization of debt discount and deferred financing costs	(1,074)	(506)	(2,166)	(756)
Taxes and other	<u>(21)</u>	<u>(13)</u>	<u>(37)</u>	<u>(20)</u>
Other expense, net	<u>\$ (1,360)</u>	<u>\$ (669)</u>	<u>\$ (2,682)</u>	<u>\$ (1,019)</u>

9) Legal Matters

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 is defending itself and certain Customers, under a reservation of rights as to indemnity obligations, in these actions. The Company has reached a confidential settlement with Callertone, LLC and has accrued for the settlement as of June 30, 2013.

On May 30, 2013, the Company was named as defendant in a suit from two former directors of the Company's non-operating Bangalore, India subsidiary. The Company and plaintiffs agreed to place \$1,7000,000 of the proceeds of the OnMobile Asset Purchase, see above, in escrow to as a contingency against a certain India Tax Dispute. The Company believes these claims are without merit and intends to defend them vigorously.

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

10) Tax Claims

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. Management considers it remote that the Government of India Income Tax Department could effectively assert the tax assessments against the U.S. parent company or hold the U.S. parent company liable. Accordingly, these estimated obligations have not been accrued within the consolidated balance sheets as of June 30, 2013 or as of December 31, 2012. Changes in the current status of the tax assessments from the Government of India Income Tax Department could materially and adversely impact the financial condition of the Company.

11) Shareholders Equity

On April 30, 2012, the stockholders of Livewire Mobile, Inc. approved by consent an increase in the number of authorized shares of capital stock of the corporation from 12,800,000 shares to 72,800,000 shares, which included an increase in the number of authorized shares of common stock, \$0.01 par value, from 12,500,000 to 72,500,000 shares in accordance with an amendment to the Company's Fifth Restated Certificate of Incorporation.

12) Subsequent Events

On July 10, 2013 certain holders of the Company's Convertible Promissory Notes converted the principal of certain of these notes and accrued interest into shares of the Company's common stock, please see details at Note 5.

On July 19, 2013, the Company closed on the sale of certain of its assets and liabilities to OnMobile Global Limited, please see details at Note 2.

On July 29, 2013 Thomas Dusenberry resigned from the Corporation's Board of Directors. Julian Singer was appointed on August 9, 2013 to fill the resulting vacancy and will serve until his resignation or removal.

The Company has reached a confidential settlement with Callertone, LLC, please see Note 9.
