



# **LIVEWIRE MOBILE, INC.**

**Quarterly Report**

**Three and Nine Months Ended**

**September 30, 2011**

## **Livewire Mobile, Inc. Quarterly Report**

### **Table of Contents**

About Livewire Mobile, Inc.	3
Condensed Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010	5
Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2011 and 2010	6
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2011 and 2010	7
Reconciliation of GAAP Results to Non-GAAP Results for the Three and Nine Months Ended September 30, 2011 and 2010	8
Notes to the Condensed Consolidated Financial Statements	9

## **Company Closes \$1.465 Million In Funding**

In December 2011, the Company closed debt funding totaling \$1.465 million in senior secured convertible notes with four existing and one new note holder. 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 \$0.45 per common share. Additionally, the conversion price of the senior secured convertible notes issued in June 2011 has been adjusted from \$2.50 to \$0.45 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. The obligations under the notes are guaranteed by certain significant subsidiaries (as defined) of the Company. Quarterly interest on the new notes is payable commencing the quarter ended March 31, 2012, and is payable the first day of each following quarter, beginning April 1, 2012.

## **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 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, 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, 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](http://www.livewiremobile.com).

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

### **Investor Relations:**

Todd Donahue, CFO  
Livewire Mobile, Inc.  
978-742-3167  
[todd.donahue@livewiremobile.com](mailto:todd.donahue@livewiremobile.com)

### **Media Relations:**

Erin Schweppe, VP Product Marketing  
Livewire Mobile, Inc.  
978-742-3155  
[erin.schweppe@livewiremobile.com](mailto:erin.schweppe@livewiremobile.com)

**LIVEWIRE MOBILE, INC.**  
**Condensed Consolidated Balance Sheet**

	September 30, 2011	December 31, 2010
	(unaudited)	
	(In thousands except per share data)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,856	\$ 4,839
Accounts receivable, net of allowance for doubtful accounts of \$3 and \$38, respectively	1,471	1,406
Inventories, net	234	294
Prepaid expenses and other assets	710	591
Total current assets	4,271	7,130
Property and equipment, net	1,405	1,726
Goodwill	1,954	1,961
Other intangibles, net	1,351	1,524
Other assets, net	180	80
Total assets	\$ 9,161	\$ 12,421
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 914	\$ 1,830
Accrued expenses and other liabilities	2,382	2,477
Accrued restructuring, current portion	124	-
Capital lease obligations, current portion	283	322
Deferred revenue	1,126	1,055
Total current liabilities	4,829	5,684
10% convertible notes payable, net of debt discount of \$688	962	-
Derivative liabilities	212	-
Other long term liabilities	142	138
Capital lease obligations, long term portion	327	350
Total liabilities	6,472	6,172
Stockholders' equity:		
Preferred stock, \$0.05 par value, 300,000 shares authorized at September 30, 2011 and December 31, 2010, no shares issued and outstanding	-	-
Common stock, \$0.01 par value, 12,500,000 shares authorized at September 30, 2011 and December 31, 2010; 5,299,144 shares issued and 4,651,433 shares outstanding at September 30, 2011 and December 31, 2010.	53	53
Additional paid-in capital	434,899	434,842
Accumulated deficit	(408,888)	(405,262)
Accumulated other comprehensive loss	(4,219)	(4,228)
Treasury stock, at cost, 647,711 shares at September 30, 2011 and December 31, 2010, respectively.	(19,156)	(19,156)
Total stockholders' equity	2,689	6,249
Total liabilities and stockholders' equity	\$ 9,161	\$ 12,421

**LIVEWIRE MOBILE, INC.**  
**Consolidated Statements of Operations**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(Unaudited)			
	(in thousands except per share data)			
Service revenues	\$ 2,133	\$ 3,031	\$ 7,317	\$ 8,885
Royalty revenues	-	26	-	135
Product revenues	58	2	153	2
Total revenues	<u>2,191</u>	<u>3,059</u>	<u>7,470</u>	<u>9,022</u>
Total cost of revenues	<u>1,138</u>	<u>1,097</u>	<u>3,707</u>	<u>3,361</u>
Gross profit	1,053	1,962	3,763	5,661
	48%	64%	50%	63%
Operating expenses:				
Selling, general and administrative	1,554	1,197	4,845	3,595
Research and development	724	872	2,442	2,763
Restructuring and other related charges	-	-	291	-
Total operating expenses	<u>2,278</u>	<u>2,069</u>	<u>7,578</u>	<u>6,358</u>
Operating loss	(1,225)	(107)	(3,815)	(697)
Gain on derivative liabilities	304	-	601	-
Other expense, net	<u>(188)</u>	<u>(47)</u>	<u>(264)</u>	<u>(197)</u>
Loss from continuing operations before income taxes	(1,109)	(154)	(3,478)	(894)
Income tax expense	<u>7</u>	<u>27</u>	<u>29</u>	<u>38</u>
Loss from continuing operations	(1,116)	(181)	(3,507)	(932)
Loss from discontinued operations	<u>(39)</u>	<u>(89)</u>	<u>(119)</u>	<u>(338)</u>
Net loss	<u>\$ (1,155)</u>	<u>\$ (270)</u>	<u>\$ (3,626)</u>	<u>\$ (1,270)</u>
Loss from continuing operations per common share - basic and diluted	<u>\$ (0.24)</u>	<u>\$ (0.04)</u>	<u>\$ (0.75)</u>	<u>\$ (0.20)</u>
Net loss per common share - basic and diluted	<u>\$ (0.25)</u>	<u>\$ (0.06)</u>	<u>\$ (0.78)</u>	<u>\$ (0.27)</u>
Common shares - basic and diluted	<u>4,651</u>	<u>4,651</u>	<u>4,651</u>	<u>4,639</u>

**LIVEWIRE MOBILE, INC.**  
**Condensed Consolidated Statements of Cash Flows**

	Nine Months Ended September 30,	
	2011	2010
	(Unaudited)	
	(In thousands)	
Cash flow from operating activities:		
Net loss	\$ (3,626)	\$ (1,270)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:		
Depreciation of property and equipment and amortization of managed service assets	577	441
Amortization of intangible assets	195	-
Amortization of debt discount and deferred financing costs	146	-
Stock-based compensation expense	57	86
Gain on derivative liabilities	(601)	-
Changes in operating assets and liabilities:		
Accounts receivable	(53)	731
Inventories	60	(41)
Prepaid expenses and other assets	(127)	375
Accounts payable	(909)	133
Accrued expenses and other liabilities	(124)	(39)
Accrued restructuring	124	(115)
Deferred revenue	72	338
Cash provided by (used in) operating activities	(4,209)	639
Cash flow from investing activities:		
Purchases of property and equipment, managed service assets and licenses	(6)	(84)
Cash used in investing activities	(6)	(84)
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	(309)	(167)
Proceeds from issuance of common stock	-	71
Cash provided by (used in) financing activities	1,234	(1,026)
Effect of exchange rate changes on cash	(2)	(61)
Net decrease in cash and cash equivalents	(2,983)	(532)
Cash and cash equivalents, beginning of period	4,839	7,834
Cash and cash equivalents, end of period	\$ 1,856	\$ 7,302
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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(Unaudited)			
	(In thousands, except per share data)			
GAAP operating loss	\$ (1,225)	\$ (107)	\$ (3,815)	\$ (697)
Plus:				
Stock-based compensation	24	24	57	86
Amortization of intangibles	65	-	195	-
Depreciation	196	157	577	441
Restructuring	-	-	291	-
Non-GAAP adjusted EBITDA from continuing operations	<u>\$ (940)</u>	<u>\$ 74</u>	<u>\$ (2,695)</u>	<u>\$ (170)</u>
GAAP operating loss per basic and diluted share:	\$ (0.26)	\$ (0.02)	\$ (0.82)	\$ (0.15)
Plus:				
Stock-based compensation	0.01	0.01	0.01	0.02
Amortization of intangibles	0.01	-	0.04	-
Depreciation	0.04	0.03	0.12	0.09
Restructuring	-	-	0.06	-
Non-GAAP adjusted EBITDA from continuing operations per share	<u>\$ (0.20)</u>	<u>\$ 0.02</u>	<u>\$ (0.58)</u>	<u>\$ (0.04)</u>
Shares used in computing basic non-GAAP adjusted EBITDA from continuing operations per share	<u>4,651</u>	<u>4,651</u>	<u>4,651</u>	<u>4,639</u>
Shares used in computing diluted non-GAAP adjusted EBITDA from continuing operations per share	<u>4,651</u>	<u>4,703</u>	<u>4,651</u>	<u>4,639</u>



## **NOTES:**

### **1) BASIS OF PRESENTATION**

The condensed consolidated balance sheet as of September 30, 2011, the condensed consolidated statements of operations for the three and nine months ended September 30, 2011 and 2010, and the condensed consolidated statements of cash flows for the nine months ended September 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 nine months ended September 30, 2011 and the condensed consolidated balance sheets as of September 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 nine months ended September 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. 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:

	<u>Amount</u> (in 000's)	<u>Estimated Life</u> (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 .....	<u>2,003</u>	
Total assets acquired.....	<u>4,521</u>	
Total liabilities assumed.....	<u>3,569</u>	
Total net assets acquired .....	<u>\$ 952</u>	

### **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) per common share. 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 \$93,000 and \$125,000, respectively, for the three and nine months ended September 30, 2011, and is included in interest expense.

Included in other assets at September 30, 2011 are deferred financing costs, net of approximately \$87,000 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 \$17,000 and \$22,000, respectively, during the three and nine months ended September 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 was recognized as a gain in derivative liabilities on the statement of operations for the quarter ended June 30, 2011. During the quarter ended September 30, 2011, the Company recognized a gain in derivative liabilities of \$304,000.

## **9) Subsequent Events**

On December 8, 2011, the Company closed debt funding totaling \$1.465 million in senior secured convertible notes with four existing and one new note holder. 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 \$0.45 (subject to adjustment) per common share. Quarterly interest is payable commencing the quarter ended March 31, 2012, and is payable the first day of each following quarter, beginning April 1, 2012.

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.

The December 8, 2011 funding modified the conversion price of the \$1.65 million convertible notes issued on June 10, 2011 into common stock from the initial conversion price of \$2.50 per common share to \$0.45 per common share.

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

\*\*\*\*