UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C.

FORM 10-Q

(Mark One)
☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2012

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 001-34785

VRINGO, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**20-4988129**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
44 W. 28th Street New York, New York	**10001**
(Address of principal executive offices)	**(Zip Code)**

(646) 525-4319
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	NYSE Amex
Warrants to purchase Common Stock	NYSE Amex

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of May 15, 2012, 14,060,424 shares of the registrant's common stock were outstanding.

VRINGO, INC.

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Part I — FINANCIAL INFORMATION

Item 1. Financial Statements.

Vringo, Inc. and Subsidiary
(a Development Stage Company)
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in thousands except share and per share data)

	March 31, 2012 U.S.$	December 31, 2011 U.S.$
Current assets		
Cash and cash equivalents	**3,630**	1,190
Accounts receivable	**152**	341
Prepaid expenses and other current assets	**144**	187
Total current assets	**3,926**	1,718
Long-term deposit	**8**	8
Property and equipment, at cost, net of $470 and $454 accumulated depreciation and amortization, as of March 31, 2012 and December 31, 2011, respectively	**133**	144
Deferred tax assets—long-term	—	25
Total assets	**4,067**	1,895

The accompanying notes form an integral part of these consolidated financial statements.

Vringo, Inc. and Subsidiary
(a Development Stage Company)
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in thousands except share and per share data)

	Note	March 31, 2012 U.S.$	December 31, 2011 U.S.$
Current liabilities			
Deferred tax liabilities, net—short-term		**3**	67
Accounts payable and accrued expenses*		**617**	428
Accrued employee compensation		**357**	228
Accrued short-term severance pay	4	**233**	—
Total current liabilities		**1,210**	723
Long-term liabilities			
Accrued severance pay	4	—	165
Derivative liabilities on account of warrants	3	**1,836**	2,172
Total long-term liabilities		**1,836**	2,337
Commitments and contingencies	6		
Stockholders' equity (deficit)	5		
Preferred stock, $0.01 par value per share; 5,000,000 authorized; none issued and outstanding as of March 31, 2012 and December 31, 2011, respectively		—	—
Common stock, $0.01 par value per share 28,000,000 authorized; 13,866,423 and 9,954,516 issued and outstanding as of March 31, 2012 and December 31, 2011, respectively		**139**	100
Additional paid-in capital		**44,072**	36,281
Deficit accumulated during the development stage		**(43,190)**	(37,546)
Total stockholders' equity (deficit)		**1,021**	(1,165)
Total liabilities and stockholders' equity (deficit)		**4,067**	1,895

* Amounts recorded as of March 31, 2012 and December 31, 2011 include $12 and $10 to a related party, respectively.

The accompanying notes form an integral part of these consolidated financial statements.

Vringo, Inc. and Subsidiary
(a Development Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands except share and per share data)

	Note	For three month period ended March 31, 2012	2011	Cumulative from inception to March 31, 2012
		U.S.$	U.S.$	U.S.$
Revenue		**106**	147	**1,055**
Costs and Expenses*				
Cost of revenue		**31**	25	**397**
Research and development		**512**	519	**13,883**
Marketing		**759**	621	**11,970**
General and administrative		**1,460**	665	**9,729**
Total operating expenses		**2,762**	1,830	**35,979**
Operating loss		**(2,656)**	(1,683)	**(34,924)**
Non-operating income		**13**	4	493
Non-operating expenses		**(3)**	(10)	(177)
Interest and amortization of debt discount expense		**—**	(110)	(6,657)
Gain (loss) on revaluation of warrants	3,5	**(411)**	708	139
Issuance of preferential reload warrants	3	**(1,476)**	—	(1,476)
Issuance of non-preferential reload warrants	5	**(1,091)**	—	(1,091)
Gain on restructuring of venture loan		**—**	—	963
Loss on extinguishment of debt		**—**	—	(321)
Loss before taxes on income		**(5,624)**	(1,091)	(43,051)
Income tax expense		**(20)**	(18)	(139)
Net loss		**(5,644)**	(1,109)	(43,190)
Basic and diluted net loss per common share		**(0.46)**	(0.19)	(19.00)
Weighted average number of shares used in computing basic and dilutive net loss per common share		**12,371,472**	5,724,253	2,272,707

* The amount recorded for the three month period ended March 31, 2012 and 2011 and the cumulative period from inception include $20, $131 and $1,123, respectively, to related parties.

The accompanying notes form an integral part of these consolidated financial statements.

Vringo, Inc. and Subsidiary
(a Development Stage Company)
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
(Unaudited)
(in thousands)

	Common stock	Series A convertible preferred stock	Additional paid-in capital	Deficit accumulated during the development stage	Total
	U.S.$	U.S.$	U.S.$	U.S.$	U.S.$
Balance as of January 9, 2006 (inception)	—	—	—	—	—
Issuance of common stock	*—	—	—	—	*—
Issuance of series A convertible preferred stock, net of issuance costs of $33	—	*—	2,321	—	2,321
Stock dividend	20	24	(44)	—	—
Grants of stock options, net of forfeitures—employees	—	—	7	—	7
Grants of stock options, net of forfeitures—non employees	—	—	4	—	4
Net loss for the period	—	—	—	(1,481)	(1,481)
Balance as of December 31, 2006 (Audited)	20	24	2,288	(1,481)	851
Issuance of common stock as part of conversion of convertible loan	2	—	138	—	140
Discounts to temporary equity	—	—	43	—	43
Amortization of discounts to temporary equity	—	—	(4)	—	(4)
Grants of stock options, net of forfeitures—employees	—	—	98	—	98
Grants of stock options, net of forfeitures—non employees	—	—	15	—	15
Net loss for the year	—	—	—	(5,163)	(5,163)
Balance as of December 31, 2007 (Audited)	22	24	2,578	(6,644)	(4,020)
Issuance of warrants	—	—	360	—	360
Amortization of discounts to temporary equity	—	—	(7)	—	(7)
Grants of stock options, net of forfeitures—employees	—	—	18	—	18
Grants of stock options, net of forfeitures—non employees	—	—	11	—	11
Net loss for the year	—	—	—	(7,332)	(7,332)

* Consideration for less than $1.

The accompanying notes form an integral part of these consolidated financial statements.

Vringo, Inc. and Subsidiary
(a Development Stage Company)
STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
(Unaudited)
(in thousands)

	Common stock	Series A convertible preferred stock	Additional paid-in capital	Deficit accumulated during the development stage	Total
	U.S.$	U.S.$	U.S.$	U.S.$	U.S.$
Balance as of December 31, 2008 (Audited)	22	24	2,960	(13,976)	(10,970)
Issuance of warrants	—	—	60	—	60
Loan modification	—	—	500	—	500
Amortization of discounts to temporary equity	—	—	(7)	—	(7)
Grants of stock options, net of forfeitures—employees	—	—	178	—	178
Grants of stock options, net of forfeiture—non employees	—	—	10	—	10
Net loss for the year	—	—	—	(6,149)	(6,149)
Balance as of December 31, 2009 (Audited)	22	24	3,701	(20,125)	(16,378)
Issuance of common stock, net of issuance costs of $1,768	24	—	9,239	—	9,263
Exchange of series A convertible preferred stock for common stock	24	(24)	—	—	—
Conversion of bridge notes	9	—	2,536	—	2,545
Amortization of discounts to temporary equity	—	—	(3)	—	(3)
Grants of stock options, net of forfeitures—employees	—	—	883	—	883
Grants of stock options, net of forfeitures—non employees	—	—	29	—	29
Exercise of warrants to charity	*—	—	11	—	11
Grants of warrants to lead investors	—	—	1,342	—	1,342
Grants of warrants to charity	—	—	37	—	37
Exercise of stock options	1	—	—	—	1
Exercise of warrants	2	—	—	—	2
Stock dividend	19	—	(19)	—	—
Reverse stock split	(93)	—	93	—	—
Exchange of series B convertible preferred stock for common stock	46	—	11,925	—	11,971
Net loss for the year	—	—	—	(9,942)	(9,942)
Balance as of December 31, 2010 (Audited)	54	—	29,774	(30,067)	(239)
Grants of stock options, net of forfeitures—employees	—	—	1,300	—	1,300
Grants of stock options, net of forfeitures—non employees	—	—	131	—	131
Exercise of warrants	3	—	—	—	3
Conversion of convertible notes and accrued interest	27	—	2,484	—	2,511
Issuance of shares, net of issuance costs of $65	8	—	777	—	785
Issuance of shares to a consultant	2	—	293	—	295
Issuance of shares in connection with restructuring of venture loan	3	—	210	—	213
Grants of warrants to charity	*—	—	43	—	43
Exercise of stock options	3	—	—	—	3
Beneficial conversion feature recorded in connection with convertible notes	—	—	1,269	—	1,269
Net loss for the year	—	—	—	(7,479)	(7,479)
Balance as of December 31, 2011 (Audited)	**100**	**—**	**36,281**	**(37,546)**	**(1,165)**
Grants of stock options, net of forfeitures—employees	—	—	**714**	—	**714**
Grants of stock options, net of forfeitures—non employees	—	—	**150**	—	**150**
Exercise of warrants	**39**	—	**5,836**	—	**5,875**
Issuance of non-preferential reload warrants	—	—	**1,091**	—	**1,091**
Exercise of stock options	*—	—	—	—	*—
Net loss for the period		—	—	**(5,644)**	**(5,644)**
Balance as of March 31, 2012 (Unaudited)	**139**	—	**44,072**	**(43,190)**	**1,021**

* Consideration for less than $1.

The accompanying notes form an integral part of these consolidated financial statements.

Vringo, Inc. and Subsidiary
(a Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	For the three month period ended March 31,		Cumulative from inception to March 31,
	2012	2011	2012
	U.S.$	U.S.$	U.S.$
Cash flows from operating activities			
Net loss	**(5,644)**	(1,109)	(43,190)
Adjustments to reconcile net cash flows used in operating activities:			
Items not affecting cash flows			
Depreciation and amortization	**16**	9	470
Change in deferred tax assets and liabilities	**(41)**	(1)	11
Increase (decrease) in accrued severance pay	**63**	(176)	213
Share-based payment expenses	**864**	431	5,326
Accrued interest expense	**—**	52	2,855
Interest and amortization of discount in connection with convertible notes	**—**	—	1,280
Gain on restructuring of venture loan	**—**	—	(963)
Increase (decrease) in fair value of warrants	**411**	(708)	(139)
Issuance of non-preferential reload warrants	**1,091**	—	1,091
Issuance of preferential reload warrants	**1,476**	—	1,476
Loss on extinguishment of debt	**—**	—	321
Exchange rate (gains) losses	**(10)**	(15)	71
Changes in current assets and liabilities			
Decrease (increase) in receivables, prepaid expenses and other current assets	**233**	7	(299)
Increase (decrease) in payables and accruals	**326**	(7)	959
Net cash used in operating activities	**(1,215)**	(1,517)	(30,518)
Cash flows from investing activities			
Acquisition of property and equipment	**(5)**	(6)	(603)
Increase in lease deposits	**—**	—	(8)
Investment in short-term deposits (restricted)	**—**	20	—
Net cash provided by (used in) investing activities	**(5)**	14	(611)

The accompanying notes form an integral part of these consolidated financial statements.

Vringo, Inc. and Subsidiary
(a Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	For the three month period ended March 31,		Cumulative from inception to March 31,
	2012	2011	2012
	U.S.$	U.S.$	U.S.$
Cash flows from financing activities			
Receipt of venture loan	—	—	5,000
Repayment on account of venture loan	—	(348)	(3,651)
Receipt of convertible notes	—	—	2,500
Issuance of common stock and warrants, net	—	—	10,048
Issuance of warrants	—	—	1,070
Receipt of convertible loans	—	—	3,976
Issuance of convertible preferred stock	—	—	12,195
Exercise of common stock options and warrants	**3,652**	3	3,674
Net cash provided by (used in) financing activities	**3,652**	(345)	34,812
Effect of exchange rate changes on cash and cash equivalents	**8**	8	(53)
Increase (decrease) in cash and cash equivalents	**2,440**	(1,840)	3,630
Cash and cash equivalents at beginning of period	**1,190**	5,407	—
Cash and cash equivalents at end of period	**3,630**	3,567	3,630
Supplemental disclosure of cash flows information			
Interest paid	—	79	1,137
Income taxes paid	**7**	12	47
Non-cash investing and financing transactions			
Conversion of convertible loan into convertible preferred stock	—	—	1,964
Extinguishment of debt	—	—	321
Discount to the series B convertible preferred stock	—	—	43
Allocation of fair value of loan warrants	—	—	334
Allocation of fair value of conversion warrants	—	—	1,564
Exchange of series B convertible preferred stock for common stock	—	—	11,971
Exchange of series A convertible preferred stock for common stock	—	—	24
Conversion of bridge notes into common stock	—	—	2,545
Amortization of discounts to temporary equity	—	—	21
Issuance of shares in consideration of restructuring of venture loan	—	—	213
Beneficial conversion feature recorded in connection with convertible notes	—	—	1,269
Conversion of convertible notes into common stock	—	—	2,511
Conversion of derivative liabilities into common stock	**2,223**	—	2,223

The accompanying notes form an integral part of these consolidated financial statements.

Vringo, Inc. and Subsidiary
(a Development Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1—General

Vringo, Inc. (a Development Stage Company) (the "Parent") was incorporated in Delaware on January 9, 2006 and commenced operations during the first quarter of 2006. The Parent formed a wholly-owned subsidiary, Vringo (Israel) Ltd. (the "Subsidiary") in March 2006, primarily for the purpose of providing research and development services, as detailed in the intercompany service agreement. The Parent and the Subsidiary are collectively referred to herein as the "Company".

The Company is engaged in developing software platforms and applications for mobile phones. The Company develops and provides a wide variety of mobile video services, including a comprehensive platform that allows users to create, download and share video ringtones. The Company's proprietary ringtone platform includes social networking capability and integration with web systems.

The Company is still in the development stage. There is no certainty regarding the Company's ability to complete the development of its products and ensure the success of its marketing. The continuation of the stages of development and the realization of assets related to the planned activities depend on future events, including future financings and achieving operational profitability.

The high-tech industry in which the Company operates is highly competitive and is characterized by the risks of rapidly changing technologies. Penetration into global markets requires investment of considerable resources and continuous development efforts. The Company's future success depends upon several factors including the technological quality, price and performance of its product relative to those of its competitors.

In June 2010, the Company completed an initial public offering (the "IPO") of 2,392,000 units, each containing one share of common stock and two warrants, at an issue price of $4.60 per unit. Each warrant in the IPO unit is exercisable for five years after the IPO at an exercise price of $5.06. Gross proceeds of the IPO totaled approximately $11 million, of which the Company received approximately $9.3 million in net proceeds after deducting underwriting discounts and other offering costs. Immediately prior to the closing of the offering, the Company's outstanding shares of preferred stock were exchanged for shares of common stock and the Company effected a 1 for 6 reverse stock split of its common stock. The Company issued a stock dividend to holders of the preferred stock prior to the split and exchange. Pursuant to the IPO, all share and per-share information in these consolidated financial statements have been adjusted to give effect to the reverse stock split. On July 27, 2010, the units were separated into their components and the shares and warrants began to trade separately. Upon separation of the units into shares and warrants, the units ceased trading.

In February 2012, the Company entered into agreements with holders (the “Holders”) of certain of its outstanding Special Bridge and Conversion Warrants, pursuant to which the Holders exercised warrants to purchase 3,828,993 shares of our common stock for aggregate proceeds of $3.65 million (“February 2012 warrant exercise”). In addition, certain Holders were granted additional warrants to purchase 2,660,922 shares of common stock of the Company, at an exercise price of $1.76 per share. See also Note 3 and 5.

On March 12, 2012, the Company entered into an agreement and Plan of Merger Agreement (“Merger Agreement”), pursuant to which, once the Merger commences, Innovate/Protect, Inc. (“I/P”) will merge with and into VIP Merger Sub, Inc., which will be a wholly owned subsidiary of the Company (“Merger Sub”), with Merger Sub being the surviving corporation through an exchange of capital stock of I/P for capital stock of the Company. The consummation of the Merger Agreement is subject to stockholder approval and other closing conditions. In addition, the Company is exploring further opportunities, including merger and acquisitions and/or additional financing necessary to ensure that the Company will continue to operate as a going concern. There can be no assurance, however, that any such opportunities will materialize. This Merger will be accounted for as a reverse acquisition.

Despite the foregoing, there is still significant doubt as to the ability of the Company to continue operating as a "going concern". The Company has incurred significant losses since its inception and expects that it will continue to operate at a net loss in the foreseeable future. For the three month period ended March 31, 2012 and for the cumulative period from inception until March 31, 2012, the Company incurred net losses of $5.6 million and $43.2 million, respectively. The Company believes that its current cash levels will be sufficient to support its activity into the first quarter of 2013.

These financial statements were prepared using principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business for the foreseeable future, and do not include any adjustments to reflect the possible effects on the recoverability and classification of assets, or the amounts and classification of liabilities that may result should the Company not be able to continue as a going concern.

As of March 31, 2012, approximately $521 thousand of the Company's net assets were located outside of the United States.

Note 2—Significant Accounting and Reporting Policies

(a) Basis of presentation

The accompanying consolidated financial statements include the accounts of the Parent and the Subsidiary and are presented in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements were prepared in accordance with U.S. GAAP and instructions to Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. Nevertheless, these financial statements should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2011. The results of operations for the three month period ended March 31, 2012, are not necessarily indicative of the results that may be expected for the entire fiscal year or for any other interim period.

(b) Development stage enterprise

The Company's principal activities to date have been the research and development of its products and the Company has not generated significant revenues from its planned, principal operations. Accordingly, the Company's financial statements are presented as those of a development stage enterprise.

(c) Translation into U.S. dollars

The currency of the primary economic environment in which the operations of the Company are conducted is the U.S. dollar ("dollar"). Therefore, the dollar has been determined to be the Company's functional currency.

Transactions in foreign currency (primarily in New Israeli Shekels or "NIS") are recorded at the exchange rate as of the transaction date. All exchange gains and losses from re-measurement of monetary balance sheet items denominated in non-dollar currencies are reflected as finance expense in the statement of operations, as they arise.

At March 31, 2012, the exchange rate was U.S. $1 = NIS 3.715 (March 31, 2011—U.S. $1 = NIS 3.481). The average exchange rate for the three month period ended March 31, 2012 and 2011, was U.S. $1 = NIS 3.741 and U.S. $1 = NIS 3.601, respectively.

(d) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from such estimates. Significant items subject to such estimates and assumptions include the deferred tax assets and liabilities, valuation of warrants, valuation of common stock share-based compensation, income tax uncertainties and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

(e) Accounts receivables and allowance for doubtful accounts

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. The need for an allowance for doubtful accounts is based on the Company’s best estimate of the amount of credit loss in the Company’s existing receivables. The need for an allowance is determined on an individual account receivable basis. The Company considers customers’ historical payment patterns, general and industry specific economic factors in determining their customers’ probability of default. The Company reviews the need for an allowance for doubtful accounts on a monthly basis. From inception through March 31, 2012, neither write-offs, nor provision for doubtful accounts was created. The Company does not have any significant off-balance-sheet credit exposure related to its customers.

Note 2—Significant Accounting and Reporting Policies—(cont'd)

(f) Impact of recently implemented accounting standards

In April 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. This ASU amends current fair value measurement and disclosure guidance to include increased transparency around valuation input and investment categorization. ASU 2011-04 is effective for fiscal years and interim periods beginning after December 15, 2011, with early adoption not permitted. The adoption of ASU 2011-04 in the first quarter of 2012 did not have an impact on the Company's financial position, results of operations, or cash flows.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. ASU 2011-05 allows an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. In December 2011, the FASB issued ASU 2011-12 Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05."ASU 2011-12 deferred the effective date of the specific requirement to present items that are reclassified out of accumulated other comprehensive income to net income alongside their respective components of net income and other comprehensive income. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. ASU 2011-05 is effective for fiscal years and interim periods beginning after December 15, 2011 and must be applied retrospectively. The adoption of ASU 2011-05 in the first quarter of 2012 did not have an impact on the Company's financial position, results of operations, or cash flows.

(g) Impact of recently issued accounting standards

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities, which require companies to disclose information about financial instruments that have been offset and related arrangements to enable users of their financial statements to understand the effect of those arrangements on their financial position. Companies will be required to provide both net (offset amounts) and gross information in the notes to the financial statements for relevant assets and liabilities that are offset. ASU 2011-11 is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The Company does not expect the adoption of ASU 2011-11 in the first quarter of 2013 to have an impact on its financial position, results of operations, or cash flows.

Note 2—Significant Accounting and Reporting Policies—(cont'd)

(h) Net loss per share data

Basic net loss per share is computed by dividing the net loss for the period by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by dividing the net loss for the period by the weighted-average number of shares of common stock plus dilutive potential common stock considered outstanding during the period. However, as the Company generated net losses in all periods presented, potentially dilutive securities, comprised mainly of warrants and stock options, are not reflected in diluted net loss per share because such shares are anti-dilutive.

The table below presents the computation of basic and diluted net losses per common share:

	Three months ended March 31,		Cumulative from inception to March 31,
	2012	**2011**	**2012**
	(in thousands, except share and per share data)		
Numerator:			
Net loss attributable to common stock shares (basic and diluted)	**(5,644)**	(1,109)	(43,190)
Denominator:			
Weighted average number of common stock shares outstanding during the period (basic and diluted)	**12,173,409**	5,554,385	2,216,110
Weighted average number of penny stock options and warrants (basic and diluted)	**198,063**	169,868	56,597
Basic and diluted shares of common stock outstanding	**12,371,472**	5,724,253	2,272,707
Basic and diluted net losses per share of common stock	**(0.46)**	(0.19)	(19.00)

Note 3—Fair Value Measurements

The Company measures fair value in accordance with ASC 820-10, "*Fair Value Measurements and Disclosures*" (formerly SFAS 157, "*Fair Value Measurements*"). ASC 820-10 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, ASC 820-10 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date. The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Note 3—Fair Value Measurements — (cont'd)

The Company measures its cash equivalents and derivative liabilities at fair value. Cash equivalents are classified within Level 1 because they are valued using quoted active market prices. The Special Bridge Warrants, Conversion Warrants and Preferential Reload Warrants (refer to Note 5) are classified within Level 3 because they are valued using the Black-Scholes-Merton and the Monte-Carlo models (as these warrants include a down-round protection clause), which utilize significant inputs that are unobservable in the market such as the expected stock price volatility and the dividend yield, and the remaining period of time the warrants will be outstanding before they expire.

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of March 31, 2012 and December 31, 2011, aggregated by the level in the fair-value hierarchy within which those measurements fall:

		Fair value measurement at reporting date using		
Description	March 31, 2012	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	U.S.$ thousands			
Assets				
Cash equivalents	**351**	351	—	—
Total assets	**351**	351	—	—
Liabilities				
Derivative liabilities on account of warrants	**1,836**	—	—	1,836
Total liabilities	**1,836**	—	—	1,836

		Fair value measurement at reporting date using		
Description	December 31, 2011	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	U.S.$ thousands			
Liabilities				
Derivative liabilities on account of warrants	**2,172**	—	—	2,172
Total liabilities	**2,172**	—	—	2,172

In addition to the above, the Company's financial instruments at March 31, 2012 and December 31, 2011 consisted of cash, accounts receivable, long-term deposits and accounts payable. The carrying amounts of all the aforementioned financial instruments, approximate fair value.

Note 3—Fair Value Measurements—(cont'd)

The following table summarizes the changes in the Company's liabilities measured at fair value using significant unobservable inputs (Level 3) during the three months ended March 31, 2012:

	Level 3			
	Special Bridge Warrants	**Conversion Warrants**	**Preferential Reload Warrants**	**Total**
	U.S.$ thousands			
Original allocated amount	1,070	—	—	1,070
Additional allocated amount (upon IPO)	88	1,564	—	1,652
Fair value adjustment included in statement of operations	(382)	(570)	—	(952)
Balance at December 31, 2010	**776**	**994**	—	**1,770**
Fair value adjustment included in statement of operations	511	(109)	—	402
Balance at December 31, 2011	**1,287**	**885**	—	**2,172**
Issuance of Preferential Reload Warrants	—	—	**1,476**	**1,476**
Fair value adjustment prior to exercise of warrants, included in statement of operations	**163**	**107**	—	**270**
Exercise of Conversion and Special Bridge Warrants	**(1,320)**	**(903)**	—	**(2,223)**
Fair value adjustment included in statement of operations	**144**	**101**	**(104)**	**141**
Balance at March 31, 2012	**274**	**190**	**1,372**	**1,836**

Valuation processes for Level 3 Fair Value Measurements

Fair value measurement of the derivative liability on account of Special Bridge Warrants, Conversion Warrants and Preferential Reload Warrants, which fall within Level 3 of the fair value hierarchy are determined and then reviewed by the Company's accounting department, who reports to the Chief Financial Officer. The fair value measurements are compared to those of the prior reporting periods to ensure that changes are consistent with expectations of management based upon the sensitivity and nature of the inputs.

Description	**Valuation Technique**	**Unobservable Inputs**	**Range**
Special Bridge Warrants, Conversion Warrants and Preferential Reload Warrants	Black-Scholes-Merton and the Monte-Carlo models	Volatility	73.13%-82.95%
		Risk free interest rate	0.50%-1.05%
		Expected term, in years	2.75-4.86
		Dividend yield	0.0%
		Probability and timing of down-round triggering event	30% in September 2012

Note 3—Fair Value Measurements—(cont'd)

Sensitivity of Level 3 measurements to changes in significant unobservable inputs

The inputs to estimate the fair value of the Company's derivative warrant liability are the current market price of the Company's common stock, the exercise price of the warrant, its remaining term, the volatility of the Company's common stock market price, Company's estimations regarding the probability and timing of a down-round protection triggering event and the risk-free interest rate. Significant changes in any of those inputs in the isolation can result in a significant change in the fair value measurement. Generally, a positive change in the market price of the Company's common stock, and an increase in the volatility of the Company's commons stock, or an increase in the remaining term of the warrant, or an increase of a probability of a down-round triggering event would result in a directionally similar change in the estimated fair value of the Company's Special Bridge Warrants, Conversion Warrants and Preferential Reload Warrants and thus an increase in the associated liability. An increase in the risk-free interest rate or a decrease in the positive differential between the warrant's exercise price and the market price of the Company's common stock would result in a decrease in the estimated fair value measurement of the Special Bridge Warrants, Conversion Warrants and Preferential Reload Warrants and thus a decrease in the associated liability. The Company has not, nor plans to, declare dividends on its common stock, and thus, there is no directionally similar change in the estimated fair value of the warrants due to the dividend assumption.

Note 4 - Accrued Severance Pay

Under Israeli law, the Subsidiary is required to make severance payments to dismissed employees, and employees leaving employment in certain other circumstances. All of the Subsidiary's employees signed agreements with the Subsidiary, limiting the Subsidiary's severance liability to actual deposits in the insurance policies, as per Section 14 of the Severance Payment Law of 1963.

In March 2012, the Company signed a separation agreement with its former CEO, Jonathan Medved. According to the terms of the separation agreement and consistent with Mr. Medved's employment agreement and amendment hereto, Mr. Medved will be entitled to receive salary and benefits during a ninety day notice period and a nine month severance period, until February 2013, and continue to vest stock options after his termination (refer also to Note 5). As a result, the accrued severance pay provision was recorded as a short-term liability. There are no statutory or agreed-upon severance arrangements with U.S. employees, other than with the current CEO, should there be a merger subsequent to the Merger with I/P.

Note 5—Stockholders' Equity

Stock Options

In January 2012, the Company's Board of Directors (the "Board") approved a one year acceleration of option vesting for all option holders, except for the Company's new Chief Executive Officer (CEO) who will obtain 50% acceleration on all his unvested options, should the Company be subject to a change of control in a merger and/or acquisition transaction. In addition, in March 2012, the Board approved participation of all outstanding options, as of the consummation of the Merger with I/P, except for grants pursuant to separation arrangements, in future dividends, if any, as well as the acceleration of vesting of certain outstanding options, according to the following market conditions: should the target of a $5.00 price or $250 million market cap be reached for twenty of thirty consecutive trading days, a 50% acceleration of all granted would occur; should the target of a $10.00 price or $500 million market cap be reached for twenty of thirty consecutive trading days, a 75% acceleration of all granted would occur would occur; should the target of a $20.00 price or $1,000 million market cap be reached for twenty of thirty consecutive trading days, a 100% acceleration of all granted would occur would occur. In addition, upon a subsequent change of control, defined as a more than 50% change in shareholder ownership excluding the transaction with I/P, 75% of the then unvested options held by each grantee shall automatically vest. Moreover, all outstanding options granted to members of the Board shall fully vest if a Board member ceases to be a director at any time during the six-month period immediately following a change of control. As of March 31, 2012, the Company expects to account for no dividend payouts, acceleration of vesting triggered by the Merger with I/P will be accounted for upon the consummation of the Merger; moreover, as of the date the abovementioned market conditions were introduced, the Company estimated that the effect of acceleration under the new terms to be immaterial, due to low probability of occurrence.

In January and February 2012, the Board approved the granting of 81,300 fully vested options to management and consultants at an exercise price of $0.01 per share.

In January 2012, the Board also approved the granting of 604,500 options at an exercise price of $0.96 to the Company's management, employees and consultants. These options will vest over four years (according to the applicable schedule of each optionee).

In February 2012, Board also approved the granting of 130,000 options at an exercise price of $1.21 to the Company's management. These options will vest over four years.

In March 2012, the Board approved the granting of 1,700,000 options to Board members and management (including 100,000 options granted to its former CEO) at an exercise price of $1.65 per share. These options will vest quarterly over three years.

Note 5—Stockholders' Equity—(cont'd)

During the three month period ended March 31, 2012 and 2011, 124 thousand and 189 thousand stock options were forfeited and 27 thousand and 0 stock options were exercised, respectively.

For the three month period ended March 31, 2012 and 2011 the Company recorded compensation expense of $864 thousand and $431 thousand, respectively. Cumulative from inception the Company has recorded compensation expense of $3,887 thousand, in respect of stock options granted.

As of March 31, 2012, there was approximately $2.8 million of total unrecognized share-based payment cost related to non-vested share-based compensation arrangements granted under the incentive plans. That cost is expected to be recognized over an estimated 3 years period. As of March 31, 2012, there were approximately 9.1 million shares of common stock available for grant under the Stock Option Plan.

The following table summarizes the option activity for the year 2012 by grant date:

	No. of options to Employees, Management and Directors	No. of options to Consultants	Exercise price	Average fair value of granted option
			U.S.$	U.S.$
January 2012	599,500	5,000	$ 0.96	$ 0.50
January – February 2012	20,000	61,300	$ 0.01	$0.95-$1.2
February 2012	130,000	—	$ 1.21	$ 0.68
March 2012	1,600,000	100,000	$ 1.65	$ 0.99

Warrants Exercise and New Issuance

Between February 6 and February 14, 2012, the Company entered into agreements with Holders, pursuant to which the Holders exercised 2,274,235 Special Bridge and 1,554,758 Conversion Warrants to purchase an aggregate of 3,828,993 shares of our common stock for aggregate proceeds of $3.65 million. In addition, the Company issued new warrants to purchase an aggregate of 2,660,922 shares of common stock at an exercise price of $1.76 per share, in consideration for the immediate exercise of the warrants (“Reload Warrants”). 1,392,972 of the Reload Warrants bear down-round protection clauses; as a result, they were classified as a long term derivative liability and recorded at fair value (“Preferential Reload Warrants”). Fair value of the Preferential Reload Warrants, in the total amount of $1,476 thousand was calculated using the Black-Scholes-Merton and the Monte-Carlo models, using the following assumptions: 72.89% expected volatility, a risk-free interest rate of 0.79%, estimated life of 5 years and no dividend yield. The fair value of the common stock was $1.76. The Company estimated there is a 30% probability that down-round protection will be activated in September 2012. The remaining 1,268,950 non-Preferential Reload Warrants were recorded as equity. The transaction was accounted for as an inducement to convert convertible debt, due to the fact that the exercised Special Bridge and Conversion Warrants were recorded as a derivative long-term liability. According to ASC 470-20-40-16, the Company recorded additional non-operating expense, in the total amount of $2,567 thousand, equal to the fair value of both the Preferential and the non-Preferential Reload Warrants on the date of the induced exercise of the above mentioned Special Bridge and Conversion Warrants.

Note 6—Commitments and Contingencies

Future minimum lease payments under non-cancelable operating leases for office space and cars, as of March 31, 2012, are as follows:

	U.S.$ thousands
Year ending December 31,	
2012 (nine month period from April 1, 2012 through December 31, 2012)	37
2013	27
	64

Rental expense for operating leases for both office space and cars for the three month period ended March 31, 2012 and 2011 was $34 thousand, and $33 thousand, respectively.

Note 7—Risks and Uncertainties

(a) Financial instruments which potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company maintains its cash and cash equivalents with various major financial institutions. These major financial institutions are located in Israel and the United States, and the Company’s policy is designed to limit exposure to any one institution. With respect to accounts receivable, the Company is subject to a concentration of credit risk, as a majority of its outstanding trade receivables relate to sales to a limited number of customers.

(b) The Company's video ringtone data is hosted at a remote location. Although the Company has full alternative site data backed up, it does not have data hosting redundancy and are thus exposed to the business risk of significant service interruptions to its video ringtone service.

(c) The Company’s subscription based video ringtone products are subject to regulation in the markets in which the service operates. Regulatory changes can adversely affect the Company’s ability to generate revenue from its products in that market.

(d) The Company’s Facetones™ application creates an automated video slideshow using friends' photos from social media web sites, primarily from Facebook®, the world's leading social media site. In the event Facebook® prohibits or restricts the ability of the Company’s application to access photos on its site, the Company’s revenue from this application and projected growth could be harmed.

(e) A significant portion of the Company's expenses are denominated in NIS. The Company expects this level of NIS expenses to continue for the foreseeable future. If the value of the U.S. dollar weakens against the value of NIS, there will be a negative impact on the Company's operating costs. In addition, to the extent the Company holds monetary assets and liabilities that are denominated in currencies other than the U.S. dollar, the Company will be subject to the risk of exchange rate fluctuations.

(f) The wireless industry in which the Company conducts its business is characterized by rapid technological changes, frequent new product innovations, changes in customer requirements and expectations and evolving industry standards.

Note 8—Subsequent Events

(a) On April 26, 2012, the NYSE Amex notified the Company that it had resolved the continued listing deficiency referenced in the NYSE Amex's letter dated May 24, 2011, which stated that the Company was not in compliance with Section 1003(a) (iv) of the NYSE Amex's continued listing standards. The NYSE Amex's conclusion was based on a review of available information with respect to the Company, including its filings with the Securities and Exchange Commission. The Company's continued listing eligibility will be assessed on an ongoing basis.

(b) On April 6, 2012, the Company filed a Form S-4 Registration Statement with the Securities Exchange Commission regarding the proposed Merger with I/P, and is currently addressing comments received from the Securities Exchange Commission regarding this Registration Statement.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained herein that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "will," "plan," "project," "seek," "should," "target," "will," "would," and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included in our Annual Report on Form 10-K filed on March 30, 2012. The forward-looking statements set forth herein speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

We provide a range of software products for mobile video entertainment, personalization and mobile social applications. Our comprehensive software platforms include applications that allow users to: (i) create, download and share mobile video entertainment content in the form of video ringtones for mobile phones, (ii) create social picture ringtone and ringback content, in the form of animated slideshows sourced from friends' social networks, (iii) create ReMixed video clips from artists and branded content, and (iv) utilize Fan Loyalty mobile applications for contestant based reality TV shows. Our applications and services have been launched with ten carriers in eight markets. The billing integrations that we have with these operators are of significant strategic value to our operations. In addition, we have deals in place with two of the four largest handset makers in the world. We believe that social network information and updates will be shared regularly when friends regularly communicate by voice and by text. Our video ringtone solutions and other mobile social and video applications, which encompass a suite of mobile and PC-based tools, enable users to create, download and share video and other social content with ease as part of the normal communication process, and provide our business partners with a consumer-friendly and easy-to-integrate monetization platform. While our current portfolio of applications and services represents what we believe to be cutting edge mobile technology that can work across many operating systems, we recognize that the pace at which the mobile landscape is changing has increased and the two most dominant operating systems are Google's Android and Apple's iOS. Moving forward, we intend to develop additional applications and services for these two key operating systems, as well as other dominant smartphone operating systems that may emerge. We believe that we can leverage our existing distribution and relationships to promote apps and services for these two operating systems.

We are a development stage company. From inception through March 31, 2012, we have raised approximately $34.8 million. These amounts have been used to finance our operations, as until now, we have not yet generated any significant revenues. From inception through March 31, 2012, we recorded losses of $43.2 million and net cash outflow from operations of $30.5 million. Our average monthly cash burn rate from operations for the three month period ended March 31, 2012, was approximately $0.4 million. For the three month period ended March 31, 2012, the operational cash burn included expenses incurred in connection with merger and acquisition activities, in the total amount of approximately $0.45 million.

In February 2012, we raised approximately $3.6 million through warrant exercises. Pursuant to agreements with warrant holders, we issued new warrants to purchase an aggregate of 2,660,922 shares of common stock at an exercise price of $1.76 per share (the "Reload Warrants"), with the potential of raising up to an additional $5.0 million. The shares of common stock issuable upon the exercise of these warrants are pending registration approval by the Securities Exchange Commission, pursuant to a Form S-3 Registration Statement filed on March 30, 2012.

On March 12, 2012, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with VIP Merger Sub, Inc., a Delaware corporation, which will be our wholly-owned subsidiary ("Merger Sub"), and Innovate/Protect, Inc., a Delaware corporation and an intellectual property firm founded in 2011 whose wholly-owned subsidiary, I/P Engine, holds eight patents that were acquired from Lycos Inc. ("Innovate/Protect"), pursuant to which Innovate/Protect will merge with and into Merger Sub, with Merger Sub being the surviving corporation (the "Surviving Corporation") through an exchange of capital stock of Innovate/Protect for our capital stock (the "Merger").

Under the terms of the Merger Agreement, upon completion of the Merger, (i) each share of then-outstanding common stock of Innovate/Protect, par value $0.0001 per share (other than shares held by us, Innovate/Protect or any of our and their subsidiaries, which will be cancelled at the completion of the Merger) will be automatically converted into the right to receive the number of shares of our common stock, par value $0.01 per share multiplied by the Common Stock Exchange Ratio (as defined below) and (ii) each share of then-outstanding Series A Convertible Preferred Stock of Innovate/Protect, par value $0.0001 per share (other than shares held by us, Innovate/Protect or any of our and their subsidiaries, which will be cancelled at the completion of the Merger) will be automatically converted into the right to receive the same number of shares of our Series A Convertible Preferred Stock, which as of March 31, 2012, 6,818 shares shall be initially convertible into an aggregate of 20,573,998 shares of our common stock (or at a current conversion rate of 3,017.6). The preferred stock to be issued, will have the powers, designations, preferences and other rights as will be set forth in a Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock to be filed by us prior to closing. The Common Stock Exchange Ratio initially is 3.0176, which is subject to adjustment in the event of a reverse stock split to provide the holders of shares of Innovate/Protect capital stock with the same economic benefit as contemplated by the Merger Agreement prior to any such reverse stock split. In addition, at the effective time of the Merger, we will issue to the holders of Innovate/Protect capital stock and the holder of Innovate/Protect's issued and outstanding warrant (on a pro rata as-converted basis) an aggregate of 15,959,838 warrants to purchase an aggregate of 15,959,838 shares of our common stock with an exercise price of $1.76 per share, each subject to equitable adjustment in the event of a reverse stock split. The issued and outstanding warrant to purchase Innovate/Protect common stock shall be exchanged for 250,000 shares of our common stock and 850,000 warrants to purchase 850,000 shares of our common stock with an exercise price of $1.76 per share, each subject to equitable adjustment in the event of a reverse stock split. In addition, the aggregate number of shares of our common stock and the aggregate number of warrants (and the aggregate number of shares of our common stock that may be purchased upon exercise thereof) to be issued in exchange for the issued and outstanding warrant of Innovate/Protect shall each be ratably adjusted to give effect to any partial exercise of such warrant prior to the effective time of the Merger.

In addition, at the effective time of the Merger, each outstanding and unexercised option to purchase Innovate/Protect common stock, whether vested or unvested will be converted into and become an option to purchase our common stock and we will assume such Innovate/Protect stock option in accordance with the terms of the Innovate/Protect 2011 Equity Incentive Plan. After the effective time of the Merger, (a) each Innovate/Protect stock option assumed by us may be exercised solely for shares of our common stock and (b) the number of shares of our common stock and the exercise price subject to each Innovate/Protect stock option assumed by us shall be determined by the Common Stock Exchange Ratio.

Immediately following the completion of the Merger, the former stockholders of Innovate/Protect are expected to own approximately 56.05% of the outstanding common stock of the combined company, and our current stockholders are expected to own approximately 43.95% of the outstanding common stock of the combined company. On a fully diluted basis, the former stockholders of Innovate/Protect are expected to own approximately 67.55% of the outstanding common stock of the combined company, and our current stockholders are expected to own approximately 32.45% of the outstanding common stock of the combined company.

We have expended significant effort and management attention on the proposed transaction. There is no assurance that the transaction contemplated by the Merger Agreement will be consummated. If the transaction is not consummated for any reason, our business and operations, as well as the market price of our stock and warrants may be adversely affected. For accounting purposes, based on our preliminary assessment, Innovate/Protect was identified as the "Acquirer", as it is defined in FASB Topic ASC 805. As a result, in the post-combination consolidated financial statements, Innovate/Protect's assets and liabilities will be presented at its pre-combination amounts, and our assets and liabilities will be recognized and measured in accordance with the guidance for business combinations in ASC 805. On April 6, 2012, we filed a Form S-4 Registration Statement with the Securities Exchange Commission regarding the proposed Merger with Innovate/Protect, although the Registration Statement is pending approval by the SEC. The Merger requires approval by the stockholders of both companies. We currently estimate that the Merger will be consummated in the third quarter of 2012.

As of March 31, 2012, we had approximately $3.6 million in cash and cash equivalents. We believe that current cash levels, after taking into effect the Merger with Innovate/Protect, will be sufficient to support our activity into the fourth quarter of 2012. The continuation of our business, as a going concern is dependent upon the successful consummation of our Merger with Innovate/Protect, or additional merger or acquisition, financing, and upon the further development of our products. In addition a significant portion of our issued and outstanding warrants are currently "in the money" and the shares of common stock underlying such warrants will become freely tradable upon exercise after registration, with the potential of up to $5 million of incoming funds for us. A Form S-3 Registration Statement was filed on March 30, 2012 and is pending approval by the Securities Exchange Commission. Provided that our stock price remains at or near its current level, we expect that the exercise of these instruments will generate substantial additional funds for our operations. There can be no assurance, however, that any such opportunities will materialize. All of our audited consolidated financial statements since inception have contained a "going concern" reference by our auditors, expressing substantial doubt about our ability to continue as a going concern.

Our financial statements were prepared using principles applicable to a going concern, which contemplate the realizations of assets and liquidation of liabilities in the normal course of business for the foreseeable future, and do not include any adjustments to reflect the possible effects on the recoverability and classification of assets, or the amounts and classification of liabilities that may result if we are not able to continue as a going concern.

On April 26, 2012, the NYSE Amex notified us that it had resolved the continued listing deficiency referenced in the NYSE Amex's letter dated May 24, 2011, which stated that we were not in compliance with Section 1003(a) (iv) of the NYSE Amex's continued listing standards. The NYSE Amex's conclusion was based on a review of available information, including our filings with the Securities and Exchange Commission. Our continued listing eligibility will be assessed on an ongoing basis.

Our Strategy

Our goal is to become a leading global provider and licensor of mobile video and mobile social applications, services and software, including mobile personalization, and interactive services via our different software platforms and maximize the benefits of our intellectual property. To achieve this goal, we plan to:

Grow our business. On March 12, 2012, we announced the entry into a Merger Agreement with Innovate/Protect. The objectives of the Merger are to maximize the economic benefits of our intellectual property assets, add significant talent in technological innovation, and be positioned to enhance its opportunities for revenue generation through the monetization of the combined company’s assets. Innovate/Protect is the owner of certain patent assets acquired from Lycos, one of the largest search engine websites of its kind in the mid-late 1990s, including technologies that remain critical to current search platforms. We believe that the Merger, if consummated, will potentially enhance our technology, our portfolio of intellectual property, and as a result, open new business opportunities for our company.

Maintain and grow our product technology and monetization of intellectual property. Our technical team is made up of highly regarded industry professionals that continually ensure that our product is on the cutting-edge in terms of ease of use, functionality and look and feel. Our applications and services have millions of downloads and registered users, however there is no guarantee that we can maintain this leadership position. Separately, the mobile video and mobile social networking industries are in their infancy and in order to create a user base with scale and ultimately substantial revenue we will need to spend additional capital resources. In addition to product leadership we continue to grow our portfolio of intellectual property through internal development. We plan to continue to allocate technical resources to remain ahead of our competition and provide users with a product that is easy-to-use and cutting-edge. We have filed 24 patent applications for our platform (three of which have been issued to date) and we continue to create new intellectual property. We believe that, if consummated, the Merger will add significant talent in technological innovation, and position the combined company for potential enhanced opportunities and revenue generation through the monetization of the combined company’s assets.

Continue to maintain a base of strategically important intellectual property. If consummated, the Merger will substantially increase our intellectual property portfolio, we believe that there are additional intellectual property assets that we will be able to partner with, license or acquire. Our success depends on not just the monetization of the existing portfolio of patents, but expanding it further.

Create additional applications and services. We intend to develop, license or acquire additional applications and services to distribute through our carrier, handset and application store partners. While we have gained significant user adoption for our products and services we believe that to achieve substantial revenue we will need to create new products in particular for Apple’s iOS devices. Apple is currently the dominant operating system for the monetization of mobile applications followed by Android. We have already deployed 4 applications for Apple’s iOS and generated over 1 million downloads on Android alone for our Facetones product. To be competitive we will continue to focus on the two most dominant smartphone platforms.

Grow our subscription services through mobile carrier partnerships. We have built our products so as to be easily integrated with mobile carriers and content aggregators. We believe the mobile carrier channel is one of the most cost effective channels to grow our user base and to monetize our products. Our subscription services are currently live in Belgium, India, Malaysia, Singapore, the United Kingdom and the United Arab Emirates and in limited release in the United States.

Generate revenue via software licensing partnerships. We have licensed our software to 2 of the 4 largest handset makers in the world, ZTE and Nokia. We believe that the market for pre-loaded software for mobile devices is a fast growing market that provides broad reach and sustainable recurring revenue.

Enhance our viral and social tools. We believe that there is substantial opportunity to increase the social and viral nature of our products, which will be critical for our growth. We will continue to add features to the product platforms to enhance their viral and social aspects and which enable users to connect with their existing social networks on platforms such as Facebook™, Twitter™ and LinkedIn™.

Build a strong revenue base of recurring revenue. We will focus on recurring revenue stream generated by operator partners and advertising. We believe that our products and services are well suited for monetization through these avenues. While the mobile advertising market is promising, it is still in its infancy and our success is dependent on the growth of the market as a whole. Our aim is to penetrate this market through our established partnerships; however we recognize that the realization of this model on a significant scale will continue to require investment over a sustained period of time.

Find new forms of distribution. While we are currently focused on the mobile carrier distribution channel, we believe there are other avenues that could be successful distribution channels for us. Specifically, we believe broadcasters and content owners could greatly benefit by promoting our service to their customers by monetizing either their content or leveraging their relationship with advertisers via ads.

Business Overview

Our video ringtone platform was our primary product of focus from inception through the launch of our Facetones product in the third quarter of 2011. We continue to develop business for this product. We believe that our comprehensive video ringtone service represents the next stage in the evolution of the ringtone market from standard audio ringtones to high-quality video ringtones, with social networking capability and integration with web systems. Our solution, which encompasses a suite of mobile and PC-based tools, enables users to create, download and share video ringtones with ease. Furthermore, our solution, provides our business partners with a consumer-friendly and easy-to-integrate monetization platform. This platform combines a downloadable mobile application which works on multiple operating systems and over 400 mobile handsets, a WAP site, which is a simplified website accessible by a user on a mobile phone, and a website, together with a robust content integration, management and distribution system. As part of providing a complete end-to-end video ringtone platform, we have amassed a library of over 12,000 video ringtones that we provide for our users in various territories. Certain portions of this library are geographically restricted. We also have developed substantial tools for users to create their own video ringtones and for mobile carriers and other partners to include their own content and deliver it exclusively to their customers. Our VringForward™ video ringtone technology allows users to enjoy a rich social experience by sharing video ringtones from our library or which they created.

Until the end of 2009, our video ringtone service was offered to consumers for free. At that point, we moved to a paid service model together with mobile carriers and other partners around the world. The revenue model for our video ringtone service offered through the carriers is generally a subscription-based model where users pay a monthly fee for access to our service and additional fees for premium content. Our free version is still available in markets where we have not entered into commercial arrangements with carriers or other partners. We have built our video ringtone platform with a flexible back-end and front-end that is easy to integrate with the back-end systems of mobile carriers and easy to co-brand with mobile carriers. To date, we have filed 24 patent applications for our platform, three of which have been issued in the United States and we have received one notice of allowance in Europe to date, and we continue to create new intellectual property.

As of May 15, 2012, we have commercial video ringtone services with the following eight carriers and partners.

- Celcom AxiataBerhad, or Celcom, a mobile carrier in Malaysia, with 11.0 million subscribers. Celcom is one of the largest mobile telecommunications operators in Malaysia with the widest national 2G and 3G coverage in the country, with 25 thousand subscribers to our paid service. Celcom is a Vodafone partner and is part of the Axiata Group of Companies, one of the world’s largest telecommunications companies with more than 160 million customers across 10 Asian markets (launched in October 2011);

- Maxis Mobile Services SDN BHD, or Maxis, a mobile carrier in Malaysia with 11.4 million subscribers, of which there are 139 thousand subscribers to our paid service and an additional 7 thousand subscribers on a free trial basis (launched in September 2009);

- Emirates Telecommunications Corporation, or Etisalat, a mobile carrier with 7.3 million subscribers in the United Arab Emirates and which has more than 94.0 million subscribers worldwide, where we have launched our products and services and have 23 thousand subscribers to our paid service, (launched in January 2010);

- Everything Everywhere Limited (EEL), a mobile carrier with almost 30.0 million subscribers in the United Kingdom. Our video ringtone platform launched was with Orange UK, a large mobile communications company and subsidiary of EEL, with 16.0 million subscribers and we have 33 thousand subscribers to our paid service (launched in February 2011);

- Starhub, a mobile carrier with 2.0 million subscribers in Singapore (initially launched in February 2011 and re-launched in the first quarter 2012);

- RTL in Belgium, part of the Bertelsman RTL Television network, has offered together with us, a subscription service on all three Belgian mobile operators (with a combined subscriber base of 1 million) that includes RTL content (launched in June 2010 with limited subscribers due to regulatory limitations introduced on mobile services);

- Hungama, a content and mobile services aggregator in India. The service with Hungama is being offered to customers of 15 different mobile carriers in India. Our paid service was on temporary hold as a result of regional legalities in India, however we re-launched the service in March 2012 in partnership with Hungama and Tata DOCOMO; and

- Emirates Integrated Telecommunications Company (du Networks), a mobile carrier with 5.0 million subscribers in the United Arab Emirates, where we have launched our products and services in February 2012.

We are currently in discussions with several other mobile carriers and we will be pursuing additional agreements with mobile carriers over the next 12 to 24 months. As of May 15, 2012, our partners have an aggregate of approximately 700 million subscribers, of which 227 thousand are paid subscribers to our service, and another 9 thousand subscribers have enrolled on a free-trial basis.

Our new Facetones™ social ringtone platform generates social visual ringtone content automatically by aggregating and displaying a user's friends' pictures from social networks and then displaying as a video ringtone, as well as a video ringback tone. These ringtones do not replace, but rather enhance, standard ringtone and ringback tones with relevant, current social content that is visually displayed. The Facetones™ product is available for devices running Android, iOS, and Nokia's Symbian S3. We are currently working together with mobile handset makers to develop this application for other operating systems.

Facetones™ is experiencing growth both in consumer downloads and in the number of commercial deals with major partners already announced. The product is being made available to consumers in several different configurations and with a variety of distribution and monetization methods. As of May 5, 2012, the Facetones™ free ad-supported version had more than a million downloads and is generating more than 3.8 million requests in mobile ad inventory on a weekly basis.

Facetones™ is offered directly to consumers via leading mobile application stores and download sites where both for purchase versions (at prices ranging from $1 to $5), as well as ad-supported free versions are available. Facetones is available in application stores integrated into popular handsets such as the Google Android Market and Apple App Store. We have announced placement deals for the app with GetJar, the world's largest independent app store, Mobango and AppBrain. In August 2011, we launched Facetones™ in Japan for Android users through the DOCOMO market, a mobile internet portal operated by NTT DOCOMO, INC., the largest mobile phone operator in Japan, with more than 50 million users. In October 2011, Verizon, the largest mobile operator in the United States, announced the launch of Facetones™ as a subscription service for Verizon subscribers for $0.99 a month. We continue to pursue business for Facetones™ together with handset manufacturers. In December 2011, we launched Facetones™ for Symbian in cooperation with Nokia. In January 2012, we launched Facetones™ for iPhone which generates, as of the end of February 2012, close to a thousand daily downloads without any promotion. In March 2012, we shifted from providing an ad-based free-of-charge for iPhone to a one-time fee ads-free app.

In addition to our direct to consumer and carrier marketed versions of the Facetones™ application, we believe that licensing our software to handset makers will provide a growing and significant revenue stream during 2012 and beyond. In November 2011, we announced an agreement with ZTE Corporation, the largest handset maker in China and fourth-largest globally, to preload the Facetones™ application on Android handsets manufactured by ZTE. ZTE will pay us a royalty for each device that our software is pre-loaded on. These ZTE handsets will be sold via mobile phone operators and through various OEM contracts to brand name handset manufacturers. In addition, we have entered into a development contract with Nokia, the world's largest handset maker, to supply Facetones for Nokia's S3 devices, subsequent to delivering this version of our application it was recently launched on the Nokia Ovi Store.

Early in 2011, we launched our new Video ReMix platform that allows users to download an application for iOS (iPhone, iPad, iPod) or Android phones and create their own music video by tapping on a variety of music beats and video files. Essentially, the user is able to “Remix” this music video content and add his own user generated video to the mix and then view this content or share it with friends via Facebook® or other social networks. This application turns the smartphone or tablet into a virtual video ReMix sound/video board where this “mixing” is accomplished by simple tapping on the touch screen interface. The Video ReMix applications are branded with an artist or sponsor and then monetized via advertising, sponsorship, a-la carte sales or in app store purchases.

The initial Video ReMix application was developed with Nappy Boy Enterprises, the music production company of the artist T-Pain. Booty Symphony was released in an ad-supported free Android version as well as paid versions for iOS and Android. Our newest application on our Video ReMix platform was delivered in the second quarter of 2011 to partner Corso Communications and its client Heineken. This sponsored version highlighted music and video of the group Dirty Vegas, and was used by Heineken “brand ambassadors” at the Coachella Music festival. We later created an additional version of this application for Heineken in the third quarter of 2011. We continue to seek new business for this platform with other recording artists and sponsored by additional major brands.

Our Fan Loyalty platform was launched in mid-2011 by co-branding our Fan-Loyalty application with Star Academy 8, the largest music competition in the Middle East and Nokia, the world's largest handset maker. This platform enables users to obtain video content from the show as well as from behind the scenes, retrieve information regarding the show and vote for their favorite contestants. The free app was launched in partnership with Rotana, a diversified media company and the world's largest producer of music and music television in the Middle East, and sponsored by Nokia. The application featured exclusive content and fully integrated live voting capabilities for the blockbuster "Star Academy" reality music show, which reached over 300 million viewers and was available in over 10 countries in the region. In the first quarter of 2012, we entered into an agreement with Endemol, a producer of entertainment and reality TV programming, to work together on additional sponsored versions of this application.

The Fan Loyalty application for Star Academy was made available exclusively for download on the Ovi Store, and had more than 200 thousand downloads during the season. We are in discussions with several other entertainment groups regarding potential deals for this Fan Loyalty platform.

As of March 31, 2012, we had 24 full time employees and 4 part-time employees.

Revenue

We recognize revenue from monthly subscription from carriers, development projects and content sales when all the conditions for revenue recognition are met: (i) persuasive evidence of an arrangement exists, (ii) collection of the fee is probable, (iii) the sales price is fixed and determinable and (iv) delivery has occurred or services have been rendered. Our subscription service arrangements are evidenced by a written document signed by both parties. Our revenues from monthly subscription fees, content purchases and advertisement revenues are recognized when we have received confirmation that the amount is due to us, which provides proof that the services have been rendered, and making collection probable. We recognize revenue from non-refundable up-front fees relating to set-up and billing integration across the period of the contract for the subscription service as these fees are part of hosting solution that we provide to the carrier. The hosting is provided on our servers for the entire period of the arrangement with this carrier, and the revenues relating to the monthly subscription, set-up fees and billing integration have been recognized over the period in the agreement.

Cost of revenue

Cost of revenue consists primarily of third party expenses directly related to providing our service in launched markets. In addition, these costs include royalty fees for content sales and amortization of prepaid content licenses. Cost of revenue does not include expenses related to product development, integration, and support. These costs are included in research and development and marketing expenses.

Research and development expenses

Research and development expenses consist primarily of salary expenses of our development and quality assurance engineers in our research and development facility in Israel, outsourcing of certain development activities, preparation of patent filings, labor cost incurred in connection with customer integration, server and support functions for our development environment.

Marketing expenses

Marketing expenses include the salary of all business development and marketing personnel, travel expenses relating to business development activity and trade shows, as well as public relations, advertising, ongoing customer relations and customer acquisition expenses. As we increase our sales, certain commissions to agents will affect marketing expenses.

General and administrative expenses

General and administrative expenses primarily include the salary of our finance and administrative personnel, rental costs, legal and accounting fees, insurance, telephone and other office expenses including depreciation and amortization.

Non-operating income (expenses)

Non-operating income (expenses) includes transaction gains (losses) from foreign exchange rate differences, interest on deposits, bank charges, as well as fair value adjustments of derivative liabilities on account of the Preferential Reload Warrants, Special Bridge Warrants and the Conversion Warrants, which are highly influenced by our stock price at the period end (revaluation date). Finally, in the first quarter of 2012, non-operating income included non-recurring expense related to the issuance of the Reload Warrants (see also Notes 3 and 5 to the financial statements).

Income taxes

Our effective tax rate differs from the statutory federal rate primarily due to differences between income and expense recognition prescribed by income tax regulations and generally accepted accounting principles. We utilize different methods and useful lives for depreciating and amortizing property and equipment and different methods and timing for certain expenses. Furthermore, permanent differences arise from certain income and expense items recorded for financial reporting purposes but not recognizable for income tax purposes. In addition, our income tax expense has been adjusted for the effect of foreign income from our wholly owned subsidiary. At March 31, 2012, our deferred tax assets generated from our U.S. activities were entirely offset by a valuation allowance because realization depends on generating future taxable income, which, in our estimation, is not more likely than not to be generated. The deferred tax assets and liabilities generated from our subsidiary's operations are not offset by an allowance, as in our estimation, they are more likely than not to be realized.

Our subsidiary generates net taxable income from services it provides to us. The subsidiary charges us for research, development, certain management and other services provided to us, plus a profit margin on such costs, which is currently 8%. On December 5, 2011, the Knesset (Israel's Parliament) approved the Law to Change the Tax Burden (Legislative Amendments) - 2011. According to the new law, the corporate tax rate will be 25% starting in 2012. However, the subsidiary is a "Beneficiary Enterprise" as defined in amendment No. 60 to the Israeli Law for the Encouragement of Capital Investment, 1959, which means that income arising from its approved research and development activities is subject to zero percent tax for a period of two years and a reduced tax rate for the subsequent five years. The subsidiary elected to receive the zero percent tax benefits for the fiscal years of 2007-2008. In January 2011, new legislation amending the Investment Law was enacted. According to the amendment, the uniform tax rate applicable to a "Beneficiary Enterprise" in the zone where the production facilities of the subsidiary are located would be 15% in 2011 and 2012, 12.5% in 2013 and 2014, and 12% in 2015 and thereafter. Under the transitory provisions of the newly legislated amendment, the subsidiary irrevocably implemented the new law while waiving benefits provided under the current law.

Results of Operations

Three months ended March 31, 2012, compared to the three months ended March 31, 2011 and the development stage period (cumulative from inception through March 31, 2012)

The following analysis compares the results of our operations for the three month period ended March 31, 2012, to the results of operations for the three month period ended March 31, 2011 and the results of our operations from inception through March 31, 2012.

Revenue

	Three month period ended March 31,			Cumulative from inception to March 31,
	2012	2011	Change	2012
	($ - in thousands)			($ - in thousands)
Revenue	106	147	(41)	1,055

During the three month period ended March 31, 2012, we recorded total revenues of $106 thousand, which represents decrease of $41 thousand (or 28%) compared to revenues recorded in the three month period ended March 31, 2011. The decrease, compared to the first quarter of 2011, was mainly due to a decrease in revenue recorded in connection with one time set up fees in Singapore and Armenia. Additional decrease in revenues was due to Video ReMix platform revenue recorded in the first quarter of 2011, in the total amount of $23 thousand, which did not occur in 2012. In addition, in the first quarter of 2012, the number of subscribers in Maxis was reduced due to system updates of recycled numbers from the regulated carrier database, as a result revenue decreased by $40 thousand (or 50%), compared to the first quarter of 2011. The decrease was offset by revenue from new subscription agreement in Malaysia ($16 thousand recorded in the first quarter of 2012) and an increase in revenue in the UK (an increase of $17 thousand, compared to the first quarter of 2011). Overall, we do not expect the abovementioned decrease in subscribers in Maxis to have a material effect on our future revenue.

During the three month period ended March 31, 2011, we recorded revenues of $147 thousand, which represents an increase of $117 thousand (or 390%) from revenues recorded for the three month period ended March 31, 2010. The recognized revenue in the first quarter of 2011 was mainly from our revenue-sharing agreements in Malaysia ($77 thousand recorded, an increase of $67 thousand compared to the first quarter of 2010). In addition, we recognized revenue for one time set up fees in Singapore ($9 thousand in the first quarter of 2011 and Armenia ($9 thousand in the first quarter of 2011). Revenue for our Video ReMix platform commenced this quarter, with the recognition of $23 thousand in March 2011. The revenue in the first quarter of 2010 was mainly comprised of our then new revenue-sharing agreements in Malaysia, the United Arab Emirates and Armenia, whereby we recognized approximately $10 thousand for each one of these customers.

From inception through March 31, 2012, we recorded revenues of $1,055 thousand, which includes $726 thousand from revenue share subscription services, $118 thousand from one-time setup fees, $91 thousand from Facetones™, $80 thousand from Fan Loyalty application formats, $30 thousand from Video ReMix platform and $10 thousand from applications sold.

We expect to continue to generate a substantial portion of our future revenues from: (i) Facetones™ preloads through the agreement with ZTE as well as the development of additional business from handset makers, (ii) Facetones™ app, and Fan Loyalty application platforms, (iii) revenue-sharing agreements in India, Malaysia, Singapore, United Arab Emirates and UK, (iv) new revenue-sharing agreements for subscription-based services in new territories, (v) one-time service fees for customized production and development of the Facetones and Fan Loyalty application platforms, (vi) monetization of our intellectual property.

Cost of Revenue

	Three month period ended March 31,			Cumulative from inception to March 31,
	2012	**2011**	**Change**	**2012**
		($ - in thousands)		**($ - in thousands)**
Cost of revenue	31	25	6	397

During the three month period ended March 31, 2012, our cost of revenue was $31 thousand, which represents an increase of $6 thousand (or 24%) compared to our cost of revenue for the three month period ended March 31, 2011. During the three month period ended March 31, 2011 and 2010, our cost of revenue was $25 thousand and $34 thousand, respectively, which represents a decrease of $9 thousand (or 26%) compared to cost of revenue for the three month period ended March 31, 2010. Our cost of revenue is mainly comprised of cost of services related to the provision of content to end-users and cost of hosted servers needed to support our service in markets where we have launched our product. The change in cost of revenue, between the presented periods was mainly related to changes in content amortization expenses.

We expect that cost of revenue will increase over time, as we diversify the portfolio of our products. As some of these costs are fixed irrespective of our revenues, we expect our gross margin to increase, as our revenues increase.

Research and Development

	Three month period ended March 31,			Cumulative from inception to March 31,
	2012	**2011**	**Change**	**2012**
		($ - in thousands)		**($ - in thousands)**
Research and development	512	519	(7)	13,883

Research and development expenses decreased from $519 thousand to $512 thousand (or 1%) during the three month period ended March 31, 2012, compared to the three month period ended March 31, 2011. In the first quarter of 2012, our research and development expenses mainly consisted of workforce and consulting related costs ($371 thousand, compared to $374 thousand in the first quarter of 2011), as well as share based compensation costs ($35 thousand, compared to $82 thousand in the first quarter of 2011). The decrease was mainly due to a decrease in shares based compensation expense, offset by higher patent expenses (an increase of $36 thousand in the first quarter of 2012), following our decision to enhance and diversify our intellectual property portfolio.

Research and development expenses decreased from $587 thousand to $519 thousand (12%) during the three month period ended March 31, 2011, compared to the three month period ended March 31, 2010. The decrease is mainly due to a separation agreement we entered into with our former Chief Technology Officer. This was offset by an increase in share based compensation expense in connection with 2011 and 2010 grants.

From inception through March 31, 2012, research and development expenses amounted to approximately $13.9 million. Of this amount, approximately $9.0 million was attributed to salaries and related expenses, $0.6 million to share based payments, $2.2 million was attributed to sub-contracting and consulting services, $0.9 million was attributed to operating expenses, $0.3 million was attributed to overhead and $0.9 million was attributed to patent expenses.

We anticipate that our research and development costs will remain constant until after the consummation of the proposed Merger with Innovate/Protect. Following the completion of the proposed Merger, those costs may increase, should we seek to develop additional technology and intellectual property to diversify and enhance our business.

Marketing

	Three month period ended March 31,			Cumulative from inception to March 31,
	2012	2011	Change	2012
	($ - in thousands)			($ - in thousands)
Marketing	759	621	138	11,970

During the three month period ended March 31, 2012, marketing expenses increased by $138 thousand (or 22%), to $759 thousand, from $621 thousand in the three month period ended March 31, 2011. The increase in our marketing expenses in the first quarter of 2012, was mainly due to an increase of $254 thousand in non-cash share-based compensation expenses, related to new grants in 2012 and the effect of the separation agreement signed between us and our former CEO (an increase of $0.16 million). This increase was offset by a decrease of $81 thousand in payroll expenses related to reclassification of 50% of the cost of our President and newly appointed CEO in the United States, as of March 2012, to general and administrative expenses.

The increase in our marketing expenses for the three month period ended March 31, 2011, was in part due to the hiring, in April 2010, of our President in the United States, whose efforts are focused on marketing and business development. In addition, the increase relates to the 2011 and 2010 options grants for marketing employees, thereby increasing the respective compensation expense. Furthermore, we had an increase in public relations and advertising costs in connection with new commercial launches in 2011.

From inception through March 31, 2012, marketing expenses amounted to approximately $12 million. Of this amount, approximately $5.2 million was attributed to salaries, $1.4 million was attributed to share based payments and related expenses, $2.2 million was attributed to travel and trade shows, $1.6 million was attributed to sub-contracting and consulting services, $1.4 million was attributed to public relations services and customer acquisition expenses and $0.2 million was attributed to overhead expenses.

A significant portion of our marketing activity relates to the launching of services with our global partners and building a pipeline for further agreements. In addition, we conduct direct-to-consumer marketing activities in countries where we have launched our services to build on the efforts of our partners. While we do not expect to invest heavily in direct-to-consumer marketing activities in the future, we do expect an increase in marketing expenses as we continue launching our service in different global markets. In certain markets, our marketing efforts may include hiring local personnel to introduce us to the market and purchasing rights to certain local content. As our market reach grows, we expect our marketing expenses to continue to increase our visibility to potential partners.

General and Administrative

	Three month period ended March 31,			Cumulative from inception to March 31,
	2012	2011	Change	2012
	($ - in thousands)			($ - in thousands)
General and administrative	1,460	665	795	9,729

During the three month period ended March 31, 2012, general and administrative expenses increased by $795 thousand (or 120%), to $1,460 thousand, from $665 thousand during the three month period ended March 31, 2011. General and administrative expenses increased mostly due to the increase in various professional fees in connection with increased merger and acquisition activity (an increase of approximately $0.4 million, compared to the first quarter of 2011). In addition, there was an increase due to non-cash share based compensation expenses due to new option grants in 2012 and the effect of the separation agreement signed between us and our former CEO (an increase of $0.16 million). Finally, an additional increase in expense in the first quarter of 2012, compared to the first quarter of 2011, was due an increase in payroll expenses of $76 thousand, related mainly to reclassification of 50% of the cost of our President and new CEO in the United States to general and administrative expenses.

During the three month period ended March 31, 2011, general and administrative expenses increased $471 thousand (or 242%), to $665 thousand, from $194 thousand in the three month period ended March 31, 2010. The increase is mostly due to increase in various professional fees in connection with becoming a public company. In addition, there was an increase due to additional insurance costs for our directors' and officers' liability insurance and an increase in share based compensation expenses due to new option grants in 2011 and 2010.

From inception through March 31, 2012, general and administrative expenses totaled approximately $9.7 million. Of this amount, approximately $2.4 million was attributed to salaries and related expenses, $2.1 million was attributed to share based payments, $1.8 million was attributed to various office expenses, $2.8 million was attributed to professional fees and $0.6 million was attributed to depreciation and amortization.

We expect that our general and administrative expenses will remain high, as we expect to incur significant costs in connection with future merger, acquisition and financing activities. These costs will be reflected in increased accounting, legal and insurance costs. We also expect that our compensation costs will increase significantly due to the recording of expense related to management share based compensation.

Non-operating Expense (Income), Net

	Three month period ended March 31,			Cumulative from inception to March 31,
	2012	2011	Change	2012
	($ - in thousands)			($ - in thousands)
Non-operating income (expense), net	(2,968)	592	(3,560)	(8,127)

During the three month period ended March 31, 2012, non-operating income (expense) changed by $3.6 million (or -603%), to an expense of $3.0 million, from an income of $0.6 million, in the three month period ended March 31, 2011.

In the three month period ended March 31, 2012, we recorded non-operating expense in the amount of $3.0 million, which was mainly comprised of an expense of $2.6 million recorded in connection with issuance of the Reload Warrants accounted for as an inducement to convert convertible debt (see Notes 3 and 5 to the accompanying financial statements), as well as an additional expense of $0.4 million, recorded due to adjustment of fair value of the Preferential Reload Warrants, Special Bridge Warrants and the Conversion Warrants.

In the three month period ended March 31, 2011, we recorded non-operating income in the amount of $0.6 million, which was mainly comprised of an income of $0.7 million recorded due to decrease in the fair value of the Special Bridge Warrants and the Conversion Warrants and an expense on $0.1 million in connection with interest on venture loan.

The non-operating expense in the first quarter of 2010 was mainly comprised of $0.5 million in connection with the bridge financing and an interest expense of $0.1 million relating to the bridge notes and the venture loan.

From inception through March 31, 2012, non-operating income (expense) totaled approximately $8.1 million. This amount mainly included: income from interest on deposits of $0.2 million, interest expense on venture loan of $1.6 million, $0.1 million of debt extinguishment expense related to the Series B Convertible Preferred Stock, $0.2 million of debt extinguishment expenses as a result of the loan modification agreement with SVB/Gold Hill, $1.0 million of additional interest expense as a result of the conversion of the convertible loan, $0.3 million of warrant amortization and $1.1 million of additional interest expense from the Bridge Notes, $1.3 million as additional interest expense for warrants granted to lead investors of the Bridge Financing, $1.0 million income in connection with the settlement of the venture loan and $1.3 million expense recorded in connection with amortization of discount on convertible notes, and non-operating income of $0.1 million for the adjustment of the fair value of the Preferential Reload, Special Bridge and the Conversion Warrants. Finally, additional non-operating expense of approximately $2.6 million was recorded due to issuance of the Reload Warrants, accounted for as an inducement to convert convertible debt.

Taxes on Income

	Three month period ended March 31,			Cumulative from inception to March 31,
	2012	2011	Change	2011
	($ - in thousands)			($ - in thousands)
Income tax expense (benefit)	20	18	2	139

During the three month period ended March 31, 2012, we recorded an income tax expense in the total amount of $20 thousand, which reflects an increase of $2 thousand compared to tax expense of $18 thousand recorded in the three month period ended March 31, 2011. In addition, income tax expense recorded during the three month period ended March 31, 2011, reflect a decrease of $2 thousand compared to tax expense of $20 thousand recorded in the three month period ended March 31, 2010.

Taxes on income are mainly due to taxable profits generated by our subsidiary, as a result of the intercompany cost plus agreement between us and the subsidiary, whereby the subsidiary performs development and other services for us and is reimbursed for its expenses plus 8%. For financial statements purposes, these profits are eliminated upon consolidation. The profits of the subsidiary benefitted from a tax holiday in the 2007-2008 tax years and a taxable loss in 2009, 2010 and 2011. We expect a taxable income in our subsidiary, in 2012, under the terms of the intercompany agreement. In addition, during the three month period ended March 31, 2012, 2011 and 2010, we recorded income tax expense of $7 thousand, $12 thousand and $0 thousand, respectively, in connection with tax withheld at source by our partner in Malaysia, which we do not expect to be reclaimed.

From inception through March 31, 2012, income tax expense totaled $139 thousand. We expect tax expense to increase as our business grows and as our subsidiary continues to generate taxable income under the intercompany cost plus agreement.

Off-Balance Sheet Arrangements

We have no obligations, assets or liabilities which would be considered off-balance sheet arrangements. We do not participate in transactions that create relationships with unconsolidated entities or financial partnerships, often referred to as variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements.

Liquidity and Capital Resources

As of March 31, 2012, we had a cash balance of $3.6 million and $2.7 million in net working capital. The increase of $2.4 million in our cash balance from December 31, 2011, was mainly due to $3.65 million received from exercise of approximately 90% of the then outstanding Special Bridge and Conversion Warrants, offset by net cash used by us in our business operations ($0.8 million) and funds used in connection with the Merger (approximately $0.4 million). As of March 31, 2012, our total stockholders' equity was $1.0 million, mainly due to the exercise of the abovementioned warrants, offset by continued operating deficits from inception to date.

The Company believes that its current cash levels will be sufficient to support its activity into the first quarter of 2013. Based on current operating plans, additional resources that may be required for the continuation of our operations approximates $0.9 million and $4.4 million, for the twelve month periods ending March 31, 2013 and March 31, 2014, respectively. After taking into effect the Merger with Innovate/Protect, additional resources that may be required for the continuation of our combined operations approximates $4.3 million and $11.8 million, for the twelve month periods ending March 31, 2013 and March 31, 2014, respectively. These estimates include a projected $0.7 million cash outflow for merger and integration costs relating to the Innovate/Protect combination, specifically for legal, accounting and exchange fees, as well as an expected increase in D&O insurance.

In addition a significant portion of our issued and outstanding warrants are currently “in the money” and the shares of common stock underlying such warrants will become freely tradable upon exercise after registration, with the potential of up to $5 million of incoming funds for us. A Form S-3 Registration Statement was filed on March 30, 2012 and is pending approval by the Securities Exchange Commission. Provided that our stock price remains at or near its current level, we expect that the exercise of these instruments will generate substantial additional funds for our operations. There can be no assurance, however, that any such opportunities will materialize.

The continuation of our business, as a going concern is dependent upon the successful consummation of the proposed Merger with Innovate/Protect, or similar merger or acquisition, financing, and upon the further development of our products. There can be no assurance, however, that any such opportunities will materialize. We anticipate that we will continue to issue equity and/or debt securities as a source of liquidity, when needed, until we generate positive cash flow to support our operations. We cannot give any assurance that the necessary capital will be raised or that, if funds are raised, it will be on favorable terms. Any future sales of securities to finance our operations may require stockholder approval and will dilute existing stockholders' ownership. We cannot guarantee when or if we will ever generate positive cash flow.

Cash flows

	Three month period ended March 31,			Cumulative from inception to March 31,
	2012	2011	Change	2012
	($ - in thousands)			
Net cash used in operating activities	(1,215)	(1,517)	302	(30,518)
Net cash provided by (used in) investing activities	(5)	14	(19)	(611)
Net cash provided by financing activities	3,652	(345)	3,997	34,812

Operating activities

During the three month period ended March 31, 2012, net cash used in operating activities totaled $1.2 million. During the three month period ended March 31, 2011, net cash used in operating activities totaled $1.5 million. The decrease of $0.3 million in cash used in operating activities was mainly due to increased collection of receivables ($0.3 million the first quarter of 2012, compared to $0.1 million in the first quarter of 2011), as well as reduction in workforce related costs. The operating activities included merger and acquisition related expenses (increase of $0.45 million compared to the first quarter of 2011).

During the three month period ended March 31, 2011, net cash used in operating activities totaled $1.5 million. During the quarter ended March 31, 2010, net cash used in operating activities totaled $1.7 million. The decrease of $0.2 million used in operating activities was mainly due to reduction in workforce related costs in connection with the cost reduction plan implemented in the first quarter of 2011.

We expect our net cash used in operating activities to increase due to costs related to merger and acquisition activity, as well as due to possible future financing activity. As we move towards greater revenue generation, we expect that these amounts will be offset by revenue. Since we receive most of our revenues directly from carriers whose payment schedules are generally net 90 days or longer, and our suppliers' payment schedules are generally net 30 days, we do not expect the increase in revenue will initially increase our net cash from operating activities.

Investing activities

During the three month period ended March 31, 2012, net cash used in investing activities totaled $5 thousand. During the three month period ended March 31, 2011, net cash provided by investing activities totaled $14 thousand. This change of $19 thousand in cash provided by investing activities was primarily due to the release of a short term deposit, which was offset by the purchase of fixed assets in the first quarter of 2011. Fixed asset purchases in the three month period ended March 31, 2012, amounted to $5 thousand compared to $7 thousand for the three month period ended March 31, 2011.

We expect that net cash used in investing activities will increase as we intend to continue to upgrade our computers and software in 2012. Moreover, as our service continues to grow, we will need to increase our server capacity to meet the needs of our customers.

Financing activities

During the three month period ended March 31, 2012, net cash provided by financing activities totaled $3.65 million, which relates to the exercise of warrants in February 2012. Pursuant to agreements with warrant holders, we issued Reload Warrants at an exercise price of $1.76 per share, with the potential for raising up to an additional $5.0 million.

We expect to continue to see a net cash inflow from financing activities, as a result of possible inflows from the exercise of warrants and options granted to employees management and consultants.

Future operations

In March 2012, we entered into the Merger Agreement with Innovate/Protect. We believe that the Merger, if consummated, will maximize the economic benefits of our intellectual property portfolio, add significant talent in technological innovation, and potentially enhance our opportunities for revenue generation through the monetization of the combined company’s assets. Innovate/Protect is the owner of certain patent assets acquired from Lycos, one of the largest search engine websites of its kind in the mid-late 1990s, including technologies that remain critical to current search platforms. The completion of the Merger is subject to a number of conditions and there can be no assurance that the conditions to the completion of the Merger will be satisfied and the Merger will be consummated.

In the fourth quarter of 2011, we announced an agreement with ZTE Corporation, the largest handset maker in China and fourth-largest globally, to preload the Facetones™ application on Android handsets, which is scheduled to commence late in the second quarter or third quarter of 2012. As part of the commercial terms of the agreement, these handsets will be sold via mobile phone operators and through various OEM contracts. Similar arrangement are being pursued with other handset manufacturers, although there can be no assurance that any such opportunities may arise.

We are currently in discussions with several potential strategic partners and mobile carriers and we will be pursuing additional agreements over the next 12 to 24 months. In addition, we are continuing to explore further opportunities for strategic business alliances, however, there can be no assurance that any such opportunities may arise, or that any such opportunities will be consummated.

Together with the executive team from Innovate/Protect we anticipate the creation of additional products and services that will be distributed through our existing operator and handset relationships.

Critical Accounting Estimates

While our significant accounting policies are more fully described in the notes to our audited consolidated financial statements for the years ended December 31, 2011, we believe the following accounting policies to be the most critical in understanding the judgments and estimates we use in preparing our consolidated financial statements.

Accounting for Stock-based Compensation

We account for stock-based awards under ASC 718, "Compensation—Stock Compensation" (formerly SFAS 123R, "Share-Based Payment"), which requires measurement of compensation cost for stock-based awards at fair value on the date of grant and the recognition of compensation over the service period in which the awards are expected to vest. In addition, for options granted to consultants, FASB ASC 505-50, "*Equity-Based Payments to Non Employees*" is applied. Under this pronouncement, the measurement date of the option occurs on the earlier of counterparty performance or performance commitment. The grant is revalued at every reporting date until the measurement date. The estimation of stock-based awards that will ultimately vest requires judgment, and to the extent actual results differ from our estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. We consider various factors when estimating expected forfeitures, including historical experience. Actual results may differ substantially from these estimates.

We determine the fair value of stock options granted to employees, directors and consultants using the Black-Scholes-Merton, the Lattice (for out-of-money option grants) and the Monte-Carlo (for grants that include market conditions) valuation models, those require significant assumptions regarding the expected stock price volatility, the risk-free interest rate and the dividend yield, and the estimated period of time option grants will be outstanding before they are ultimately exercised. Due to insufficient history, we estimate our expected stock volatility based on historical stock volatility from comparable companies.

In January 2012, our board of directors approved an acceleration of option vesting for all option holders, should we will be subject to a change of control in a merger and/or acquisition transaction. In addition, in March 2012, the board of director approved participation of all outstanding options, except for those grants pursuant to separation arrangements, in future dividends, if any, as well as the acceleration of vesting of certain outstanding options, according certain market conditions. In addition, upon a subsequent change of control, defined as a more than 50% change in shareholder ownership excluding the transaction Innovate/Protect, 75% of the then unvested options held by each grantee shall automatically vest. Moreover, all outstanding options granted to members of the board of directors shall fully vest if a member of the board of directors ceases to be a director at any time during the six-month period immediately following a change of control. As of March 31, 2012, the Company expects to account for no dividends payouts, acceleration of vesting triggered by the Merger with Innovate/Protect will be accounted for upon the consummation of the proposed Merger; moreover, it assumes that the estimated effect of acceleration pursuant to meeting the abovementioned market conditions will be immaterial, due to low probability of occurrence, please refer to Note 5 to the accompanying financial statements.

These option pricing models utilize various inputs and assumptions, which are highly subjective. Had we used different assumptions, our results may have been significantly different. For further information on judgments and assessments used, please refer to Note 11 in our consolidated financial statements for the year ended December 31, 2011.

Valuation of Financial Instruments

On December 29, 2009, we consummated a bridge financing pursuant to which we issued 5% subordinated convertible promissory notes, ("Bridge Notes"), in the aggregate amount of $2.98 million in a private placement, as well as warrants to purchase 795,200 shares of common stock (the "Special Bridge Warrants", and collectively with the Bridge Notes, the "Bridge Financing"). Proceeds from the Bridge Financing were first allocated to the Special Bridge Warrants, which were classified as a derivative liability and recorded at fair value, with the residual amount allocated to the Bridge Notes.

On December 1, 2011, we entered into financing agreements which triggered anti-dilution provisions in certain of our outstanding warrants. As a result, the exercise price was reduced to $0.94 and the number of Special Bridge Warrants outstanding was adjusted to 2,528,615. Between February 6 and February 14, 2012, we entered into agreements with holders of the Special Bridge Warrants, pursuant to which such holders exercised 2,274,235 Special Bridge Warrants (see also to Notes 3 and 5 to the accompanying financial statements). As of March 31, 2012, the Special Bridge Warrants were revalued using the Black-Scholes-Merton and the Monte-Carlo models. As the terms of these warrants include a special down-round protection clause, i.e. in a new issuance of common stock at a lower price than the current exercise price, the current exercise price will be lowered to the new issuance price and the number of warrants granted will increase so that the total exercisable value remains as under the original terms. As of March 31, 2012, we estimated 30% probability of such protection being activated in September 2012. We have estimated the value of the down-round protection using a Monte-Carlo simulation. The following assumptions were used: 82.95% expected volatility, a risk-free interest rate of 0.50%, estimated life of 2.75 years and no dividend yield.

Upon the consummation of the IPO, the Bridge Notes automatically converted into 864,332 shares of common stock and 1,728,664 warrants (the "Conversion Warrants"). The Conversion Warrants have down-round protection clauses, i.e. in a new issuance of common shares at a lower price than the current exercise price, the current exercise price will be adjusted to the new issuance price. On December 1, 2011, we entered into financing agreements which triggered anti-dilution provisions in certain of our outstanding warrants. As a result, the exercise price was reduced to $0.94. Between February 6 and February 14, 2012, we entered into agreements with holders of the Special Bridge Warrants and Conversion Warrants, pursuant to which such holders exercised 1,554,758 Conversion Warrants (see also to Notes 3 and 5 to the accompanying financial statements). As of March 31, 2012, the Conversion Warrants were revalued using the Black-Scholes-Merton and the Monte-Carlo models. As the terms of these warrants include a special down-round protection clause, i.e. in a new issuance of common stock at a lower price than the current exercise price, the current exercise price will be lowered to the new issuance price and the number of warrants granted will increase so that the total exercisable value remains as under the original terms. As of March 31, 2012, we estimated 30% probability of such protection being activated in September, 2012. We have estimated the value of the down-round protection using a Monte-Carlo simulation. The following assumptions were used: 79.26% expected volatility, a risk-free interest rate of 0.60%, estimated life of 3.23 years and no dividend yield.

Between February 6 and February 14, 2012, we entered into agreements with holders of the Special Bridge Warrants and Conversion Warrants, pursuant to which such holders exercised 2,274,235 Special Bridge Warrants and 1,554,758 Conversion Warrants to purchase an aggregate of 3,828,993 shares of our common stock for aggregate proceeds of approximately $3.6 million. In addition, we issued Reload Warrants to purchase an aggregate of 2,660,922 shares of common stock at an exercise price of $1.76 per share in consideration for the immediate exercise of the warrants. 1,392,972 of the Reload Warrants bear down-round protection clauses; as a result, they will be classified as a long term derivative liability and recorded at fair value ("Preferential Reload Warrants"). At the issuance date fair value, in the total amount of $1,476 thousand was calculated using the Black-Scholes-Merton and the Monte-Carlo models (see also to Notes 3 and 5 to the accompanying financial statements), using the following assumptions: 72.89% expected volatility, a risk-free interest rate of 0.79%, estimated life of 5 years and no dividend yield. The fair value of the common stock was $1.76. We estimated there is a 30% probability that down-round protection will be activated in September 2012. As of March 31, 2012 fair value of the Preferential Reload Warrants was calculated using the Black-Scholes-Merton and the Monte-Carlo models, using the following assumptions: 73.13% expected volatility, a risk-free interest rate of 1.05%, estimated life of 4.86 years and no dividend yield. We estimated there is a 30% probability that down-round protection will be activated in September 2012.

Had we made different assumptions about the fair value of the stock price (before it was publicly traded), risk-free interest rate, volatility, the impact of the down-round provision, or the estimated time that the above-mentioned warrants will be outstanding before they are ultimately exercised, the recorded expense, our net loss and net loss per share amounts could have been significantly different.

Accounting for Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves management estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not more likely than not, we must establish a valuation allowance. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. At March 31, 2012, we have fully offset our U.S. net deferred tax asset with a valuation allowance. Our lack of earnings history and the uncertainty surrounding our ability to generate U.S. taxable income prior to the expiration of such deferred tax assets were the primary factors considered by management in establishing the valuation allowance. Also, refer to Note 14 of our consolidated financial statements for the year ended December 31, 2011.

ASC 740, "Income Taxes" (formerly FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement 109"), prescribes how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. Additionally, for tax positions to qualify for deferred tax benefit recognition under ASC 740, the position must have at least a "more likely than not" chance of being sustained upon challenge by the respective taxing authorities, which criteria is a matter of significant judgment.

Recently Issued Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. This ASU amends current fair value measurement and disclosure guidance to include increased transparency around valuation input and investment categorization. ASU 2011-04 is effective for fiscal years and interim periods beginning after December 15, 2011, with early adoption not permitted. The adoption of ASU 2011-04 in the first quarter of 2012 did not have an impact on our financial position, results of operations, or cash flows.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. ASU 2011-05 allows an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. In December 2011, the FASB issued ASU 2011-12 Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05."ASU 2011-12 deferred the effective date of the specific requirement to present items that are reclassified out of accumulated other comprehensive income to net income alongside their respective components of net income and other comprehensive income. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. ASU 2011-05 is effective for fiscal years and interim periods beginning after December 15, 2011 and must be applied retrospectively. The adoption of ASU 2011-05 in the first quarter of 2012 did not have an impact on our financial position, results of operations, or cash flows.

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities, which require companies to disclose information about financial instruments that have been offset and related arrangements to enable users of their financial statements to understand the effect of those arrangements on their financial position. Companies will be required to provide both net (offset amounts) and gross information in the notes to the financial statements for relevant assets and liabilities that are offset. ASU 2011-11 is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. We do not expect the adoption of ASU 2011-11 in the first quarter of 2013 to have an impact on our financial position, results of operations, or cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are a smaller reporting company and therefore, we are not required to provide information required by this Item of Form 10-Q.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer (principal executive officer) and our Chief Financial Officer (principal financial officer), evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2012. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31, 2012, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were ineffective for the reasons set forth below.

Our management has identified a material weakness in our disclosure controls and procedures relating to insufficient controls in connection with recognition, valuation and accounting for equity, debt and derivative instruments. We are enhancing our proficiency of the professional literature on these subjects. In addition, we are in the process of remediating this material weakness by broadening the role of external qualified valuation and accounting experts, to allow for our stronger oversight in this area.

Changes in Internal Controls

During the three month period ended March 31, 2012, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II

OTHER INFORMATION

Item1. Legal Proceedings.

We are not a party to any material legal proceedings.

Item 1A. Risk Factors.

The risk factors set forth below update the risk factors in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011. In addition to the risk factors below, you should carefully consider the other risks highlighted elsewhere in this report or in our other filings with the Securities and Exchange Commission, which could materially affect our business, financial position and results of operations. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business, financial position and results of operations.

We may not be able to consummate our Merger with Innovate/Protect.

On March 12, 2012, we entered into a Merger Agreement, pursuant to which Innovate/Protect will merge with and into our wholly owned subsidiary, Merger Sub, with Merger Sub being the surviving corporation through an exchange of capital stock of Innovate/Protect for our capital stock. The consummation of the transaction with Innovate/Protect is subject to stockholders approval and other closing conditions. We have expended significant effort and management attention on the proposed transaction. There is no assurance that the transaction will be approved. For example, our stockholders may not approve the transaction. If the transaction is not consummated for any reason, our business and operations, as well as the market price of our stock and warrants may be adversely affected.

The issuance of our shares of common stock to Innovate/Protect stockholders in connection with the Merger will substantially dilute the voting power of our current stockholders.

Pursuant to the terms of the Merger Agreement, it is anticipated that we will issue equity instruments to Innovate/Protect stockholders representing approximately 67.55% of the outstanding equity instruments of the combined company calculated on a fully diluted basis as of immediately following the completion of the Merger. After such issuance, our equity instruments outstanding immediately prior to the completion of the Merger will represent approximately 32.45% of the outstanding equity instruments of the combined company, calculated on a fully diluted basis as of immediately following the completion of the Merger. Accordingly, the issuance of our equity instruments Innovate/Protect stockholders in connection with the Merger will significantly reduce the relative voting power of each share of our common stock held by our current stockholders.

To date, we have generated only losses, which are expected to continue for the foreseeable future.

As of March 31, 2012, we had a cash balance of $3.6 million and $2.7 million of net working capital. For the three month period ended March 31, 2012 and 2011 and for the cumulative period from inception until March 31, 2012, we incurred net losses of $5.6 million, $1.1 million and $43.2 million, respectively. As of March 31, 2012, our stockholders' equity was $1.0 million.

We expect our net losses to continue in the foreseeable future, as we continue to grow our user base through carrier partnerships, continue to ensure we have broad handset reach, enhance our viral and social tools, maintain and grow our product and technology portfolio, build a strong revenue base of recurring monthly subscription revenue, find new forms of distribution, and explore monetization through advertising and revenue through content sales.

We are a development stage company with no significant source of income and our there is a significant doubt about our ability to continue our activities as a going concern.

We are still a development stage company. Our operations are subject to all of the risks inherent in development stage companies which do not have significant revenues or operating income. Our potential for success must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with a new business, especially technology start-up companies. We cannot provide any assurance that our business objectives will be accomplished. All of our audited consolidated financial statements since inception have contained a statement by our management that raises significant doubt about us being able to continue as a going concern unless we are able to raise additional capital. Our financial statements do not include any adjustment relating to the recovery and classification of recorded asset amounts or the amount and classification of liabilities that might be necessary should our operations cease.

We believe that its current cash levels will be sufficient to support our activity into the first quarter of 2013. The continuation of our business is dependent upon the successful consummation of our Merger with Innovate/Protect, or similar merger or acquisition, financing and upon the further development of our products. Since it is impossible to predict the timing and amount of any recovery, if any, resulting from the Innovate/Protect litigation, we anticipate that we will need to raise additional funds through equity offerings in order to meet our liquidity requirements in the second half of 2012. After taking into effect the Merger with Innovate/Protect, additional resources that may be required for the continuation of our combined operations approximates $4.3 million and $11.8 million, for the twelve month periods ending March 31, 2013 and March 31, 2014, respectively. Any such financing that we undertake will likely be dilutive to our current stockholders.

The exercise of a substantial number of warrants or options by our security holders may have an adverse effect on the market price of our common stock.

Should our currently outstanding warrants be exercised, there will be an additional 7,706,591 shares of common stock eligible for trading in the public market. In addition, we currently have options outstanding to purchase 4,623,863 shares of common stock, granted as of the reporting date, to our management, employees, directors and consultants. In March 2012, our board of directors approved participation of outstanding options in future dividends. In addition, the vesting of all outstanding options will accelerate if our common stock reaches certain price or market capitalization targets for 20 of 30 consecutive trading dates, as follows: (i) 50% acceleration if either the price of our common stock is at least $5 or our market capitalization is at least $250,000,000; (ii) 75% acceleration if either the price of our common stock is at least $10 or our market capitalization is $500,000,000 or more; and (iii) 100% acceleration if either the price of our common stock is at least $20 or our market capitalization is at least $1,000,000,000. Furthermore, all outstanding options granted to members of the board of directors shall fully vest if a member of the board of directors ceases to be a director at any time during the six-month period immediately following a change of control. Certain options which are outstanding have exercise prices that are below, and in some cases significantly below, recent market price. Such securities, if exercised, will increase the number of issued and outstanding shares of common stock. Therefore, the sale, or even the possibility of sale, of the shares of common stock underlying the warrants and options could have an adverse effect on the market price for our securities or on our ability to obtain future financing. The average weighted exercise price of all currently outstanding warrants and options, as of May 15, 2012, is $3.19 per share

Under the terms of the Merger Agreement, we will issue Innovate/Protect shareholders warrants to purchase 15,959,838 shares of our common stock at an exercise price of $1.76 per share. In addition, all outstanding warrants to purchase Innovate/Protect’s common stock that are outstanding and unexercised immediately prior to the Merger agreement, shall be exchanged for 250,000 shares of our common stock and 850,000 warrants to purchase 850,000 shares of our common stock with an exercise price of $1.76 per share. Finally, additional 41,178 options at an exercise price of $0.994 will be issued. As a result of an approval of our proposed Merger with Innovate/Protect, the total number of warrants and options held by our security holders will be increased by 16,851,016.

Future sales of our shares of common stock by our stockholders could cause the market price of our common stock to drop significantly, even if our business is performing well.

We currently have 14,060,424 shares of common stock issued and outstanding, excluding shares of common stock issuable upon exercise of warrants or options. As shares saleable under Rule 144 are sold or as restrictions on resale need, the market price of our stock could drop significantly, if the holders of restricted shares sell them, or are perceived by the market as intending to sell them. This decline in our stock price could occur even if our business is otherwise performing well. We anticipate filing Registration Statements in the near term for the common stock shares underlying (a) the 2,672,756 new warrants issued in February 2012 (including 11,834 warrants issued to our placement agent) and (b) 4,623,863 options currently outstanding under our 2006 Stock Option Plan.

Under the terms of the Merger Agreement, we will issue Innovate/Protect shareholders 17,425,617 of our common stock shares and Series A Convertible Preferred stock, convertible into 20,573,997 of our common stock shares. In addition, all outstanding warrants to purchase Innovate/Protect’s common stock that are outstanding and unexercised immediately prior to the Merger agreement, shall be exchanged for 250,000 shares of our common stock and 850,000 warrants to purchase 850,000 shares of our common stock with an exercise price of $1.76 per share. Upon the consummation of the Merger, if consummated, the number of outstanding shares of common stock (calculated on a fully diluted basis) held by our security holders will significantly increase.

If we are unable to adequately protect our intellectual property, we may not be able to compete effectively.

Our ability to compete depends in part upon the strength of our proprietary rights in our technologies, brands and content. We rely on a combination of U.S. and foreign patents, copyrights, trademark, trade secret laws and license agreements to establish and protect our intellectual property and proprietary rights. The efforts we have taken to protect our intellectual property and proprietary rights may not be sufficient or effective at stopping unauthorized use of our intellectual property and proprietary rights. In addition, effective trademark, patent, copyright and trade secret protection may not be available or cost-effective in every country in which our services are made available through the Internet. There may be instances where we are not able to fully protect or utilize our intellectual property in a manner that maximizes competitive advantage. If we are unable to protect our intellectual property and proprietary rights from unauthorized use, the value of our products may be reduced, which could negatively impact our business. Our inability to obtain appropriate protections for our intellectual property may also allow competitors to enter our markets and produce or sell the same or similar products. In addition, protecting our intellectual property and other proprietary rights is expensive and diverts critical managerial resources. If any of the foregoing were to occur, or if we are otherwise unable to protect our intellectual property and proprietary rights, our business and financial results could be adversely affected.

If we are forced to resort to legal proceedings to enforce our intellectual property rights, the proceedings could be burdensome and expensive. In addition, our proprietary rights could be at risk if we are unsuccessful in, or cannot afford to pursue, those proceedings. We also rely on trade secrets and contract law to protect some of our proprietary technology. We have entered into confidentiality and invention agreements with our employees and consultants. Nevertheless, these agreements may not be honored and they may not effectively protect our right to our un-patented trade secrets and know-how. Moreover, others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets and know-how.

The possibility of extensive delays in the patent issuance process could effectively reduce the term during which a marketed product is protected by patents.

We may need to obtain licenses to patents or other proprietary rights from third parties. We may not be able to obtain the licenses required under any patents or proprietary rights or they may not be available on acceptable terms. If we do not obtain required licenses, we may encounter delays in product development or find that the development, manufacture or sale of products requiring licenses could be foreclosed. We may, from time to time, support and collaborate in research conducted by universities and governmental research organizations. We may not be able to acquire exclusive rights to the inventions or technical information derived from these collaborations, and disputes may arise over rights in derivative or related research programs conducted by us or our collaborators.

If we or our users infringe on the intellectual property rights of third parties, we may have to defend against litigation and pay damages and our business and prospects may be adversely affected.

If a third party were to assert that our products infringe on its patent, copyright, trademark, right of publicity, right of privacy, trade secret or other intellectual property rights, we could incur substantial litigation costs and be forced to pay substantial damages. Third-party infringement claims, regardless of their outcome, would not only consume significant financial resources, but would also divert our management's time and attention. Such claims or the lack of available access to certain sites or content could also cause our customers or potential customers to purchase competitors' products if such competitors have access to the sites or contents that we are lacking or defer or limit their purchase or use of our affected products or services until resolution of the claim. In connection with any such claim or litigation, our mobile carriers and other partners may decide to re-assess their relationships with us, especially if they perceive that they may have potential liability or if such claimed infringement is a possible breach of our agreement with such mobile carrier. If any of our products are found to violate third-party intellectual property rights, we may have to re-engineer one or more of our products, or we may have to obtain licenses from third parties to continue offering our products without substantial re-engineering. Our efforts to re-engineer or obtain licenses could require significant expenditures of time and money and may not be successful. Accordingly, any claims or litigation regarding our infringement of intellectual property of a third party by us or our users could have a material adverse effect on our business and prospects.

Third party infringement claims could also significantly limit our Vringo Studio product and the content available in our content library. Our Vringo Studio tool allows users to access video from multiple sites on the web or from their computer and then edit and send these video clips to their mobile phones as customized video ringtones. These websites could choose to block us from accessing their content for violating their terms of service by allowing users to download clips or for any other reason, which could significantly limit the availability of content in the Vringo Studio. Additionally, while we employ special software that seeks to determine whether a clip is copyrighted or otherwise restricted, it is not feasible for us to determine whether users of Vringo Studio own or acquire appropriate intellectual property permissions to use each clip before it is downloaded. Therefore, we require users of the Vringo Studio to certify that they have the rights to use the content which they desire to send to their phone. Additionally, while the majority of the clips in our content library are either licensed by us directly or are public domain or creative commons, our content library contains certain clips which we have not licensed from the content owner. As a result, we may receive cease-and-desist letters, or other threats of litigation, from website hosts and content owners asserting that we are infringing on their intellectual property or violating the terms and conditions of their websites. In such a case, we will remove or attempt to obtain licenses for such content or obtain additional content from other websites. However, there is no assurance that we will be able to enter into license agreements with content owners. Consequently, we may be forced to remove a portion of our content from our library and significantly limit the availability of content in the Vringo Studio. This would negatively impact our user experience and may cause users to cancel our service and make our service less attractive to our partners.

If we are unable to enter into or maintain distribution arrangements with major mobile carriers and/or other partners and develop and maintain strategic relationships with such mobile carriers and/or other partners, we will be unable to distribute our products effectively or generate significant revenue.

Our strategy for distributing our applications and services is dependent upon establishing distribution arrangements with major mobile carriers and other partners. We currently have distribution arrangements with Etisalat (Emirates Telecom), Orange (Everything Everywhere), Vodafone, Verizon, Maxis, Celcom (Axiata Berhard), Hungama Mobile and Du. We need to develop and maintain strategic relationships with these entities in order for them to market its service to their end users. While we have entered into agreements with the aforementioned mobile carriers pursuant to which our service may be made available to their end-users, such agreements are not exclusive and generally do not obligate the partner to market or distribute our service. In addition, a number of our distribution agreements allow the mobile carrier to terminate its rights under the agreement at any time and for any reason upon 30 days' notice. We are dependent upon the subsequent success of these partners in performing their responsibilities and sufficiently marketing our service. We cannot provide you any assurance that it will be able to negotiate, execute and maintain favorable agreements and relationships with any additional partners, that the partners with whom we have a contractual relationship will choose to promote our service or that such partners will be successful and/or will not pursue alternative technologies.

If we are unsuccessful in entering into and maintaining content license agreements, our revenues will be negatively affected.

The success of our service is dependent upon our providing end-users with content they desire. An important aspect of this strategy is establishing licensing relationships with third party content providers that have desirable content. Content license agreements generally have a fixed term, may or may not include provisions for exclusivity and may require us to make significant minimum payments. We have entered into approximately 35 content license agreements with various content providers. While our business is not dependent on any particular content license agreement, there is no assurance that we will enter into a sufficient number of content license agreements or that the ones that we enter into will be profitable and will not be terminated early.

We may not be able to generate revenues from certain of our prepaid mobile customers.

We currently operate in markets that have a high percentage of prepaid mobile customers. Many of these users may not have a sufficient balance in their prepaid account when their free trial ends and we bill them to cover the charges for subscribing to our service. As a result, the subscriber numbers that we periodically disclose may not generate revenues at the expected level.

We are dependent on mobile carriers and other partners to make timely payments to us.

We will receive our revenue from mobile carriers and other distribution partners who may delay payment to us, dispute amounts owed to us, or in some cases refuse to pay us at all. Many of these partners are in markets where we may have limited legal recourse to collect payments from these partners. Our failure to collect payments owed to us from our partners will have an adverse effect on our business and our results of operations.

We may not be able to continue to maintain our application on all of the operating systems which we currently support.

Some of our applications are compatible with various mobile operating systems including Android, Blackberry, Sony Ericsson, Symbian, Apple's iOS, Java, and Windows Mobile operating systems. While Windows Mobile, Blackberry and Android do not support video ringtones natively, our development team has enabled its application to work on many devices which utilize these operating systems. While the user base for the video ringtone service is spread out amongst a number of smartphone and feature phone operating systems, with applications on each aforementioned operating system representing less than 5% of the total subscribers to our video ringtone platform. Our FacetonesTM platform is heavily reliant upon our user base on Android devices. Currently, over 96% of our FacetonesTM users utilize the Android operating system. In addition, our commercial agreement with ZTE is solely reliant on our ability to maintain its support for the Android operating system. Since these operating systems do not support our applications natively, any significant changes to these operating systems by their respective developers may prevent our application from working properly or at all on these systems. If we are unable to maintain our application on these operating systems or on any other operating systems, users of these operating systems will not be able to use our application, which could adversely affect our business and results of operations.

We operate in the digital content market where piracy of content is widespread.

Our business strategy is partially based upon users paying us for access to our content. If users believe they can obtain the same or similar content for free via other means including piracy, they may be unwilling to pay for our service. Additionally, since our own clips do not have any copy protection, they can theoretically be distributed by a paying user to a non-paying user without any additional payment to us. If users or potential users obtain our content or similar content without payment to us, our business and results of operations will be adversely affected.

Major network failures could have an adverse effect on our business.

Major equipment failures, natural disasters, including severe weather, terrorist acts, acts of war, cyber-attacks or other breaches of network or information technology security that affect third-party networks, transport facilities, communications switches, routers, microwave links, cell sites or other third-party equipment on which we rely, could cause major network failures and/or unusually high network traffic demands that could have a material adverse effect on our operations or our ability to provide service to our customers. These events could disrupt our operations, require significant resources to resolve, result in a loss of customers or impair our ability to attract new customers, which in turn could have a material adverse effect on our business, results of operations and financial condition.

Our data is hosted at a remote location. Although we have full alternative site data backed up, we do not have data hosting redundancy. Accordingly, we may experience significant service interruptions, which could require significant resources to resolve, result in a loss of customers or impair our ability to attract new customers, which in turn could have a material adverse effect on our business, results of operations and financial condition.

In addition, with the growth of wireless data services, enterprise data interfaces and Internet-based or Internet Protocol-enabled applications, wireless networks and devices are exposed to a greater degree to third-party data or applications over which we have less direct control. As a result, the network infrastructure and information systems on which we rely, as well as our customers' wireless devices, may be subject to a wider array of potential security risks, including viruses and other types of computer-based attacks, which could cause lapses in our service or adversely affect the ability of our customers to access our service. Such lapses could have a material adverse effect on our business and our results of operations.

Regulation may impair our ability to generate revenue via our video ringtone product

Our video ringtone product operates under a paid-for premium subscription business model. Mobile subscription services have been the subject of regulatory changes in recent years in Europe and Asia. In the fourth quarter of 2012, we were informed by Maxis, our operator partner in Malaysia that we would have to change the manner by which we allowed users to opt-out and the period of time that we could continue to bill users who did not interact with our service. This adversely affected our subscriber numbers. While we are not currently aware of other pending regulatory actions in other markets in which we operate, there cannot be any assurance that such regulatory changes, if occur, will not adversely affect our business.

Our business depends upon our ability to keep pace with the latest technological changes, and our failure to do so could make us less competitive in our industry.

The market for our products and services is characterized by rapid change and technological change, frequent new product innovations, changes in customer requirements and expectations and evolving industry standards. Products using new technologies or emerging industry standards could make our products and services less attractive. Furthermore, our competitors may have access to technology not available to us, which may enable them to produce products of greater interest to consumers or at a more competitive cost. Failure to respond in a timely and cost-effective way to these technological developments may result in serious harm to our business and operating results. As a result, our success will depend, in part, on our ability to develop and market product and service offerings that respond in a timely manner to the technological advances available to our customers, evolving industry standards and changing preferences.

Our Facetones™ application depends upon our continued access to Facebook® photos.

Our Facetones™ application creates automated video slideshow using friends' photos from social media web sites, primarily from Facebook®, the world's leading social media site. Facetones™ represented less than 5% of our revenue for the three months ended March 31, 2012, however, we believe that the rapid growth of its user base is critical to the value of its mobile application business. In the event Facebook® prohibits or restricts our application ability to access photos on its site, our business, financial condition, operating results and projected growth could be harmed. In February 2012, we entered into an agreement with Facebook®, which clarifies Vringo's permitted use of the Facetones™ mark and domain name.

The majority of Facetones users experience the product through a free-to-user ad-supported model. The mobile advertising market is nascent and there can be no assurance that it will be able to generate substantial revenue.

The mobile advertising market is still small. Mobile advertising generates a small portion of the marketing dollars that advertiser spend on digital marketing. The ability to generate significant revenue from our Facetones product is largely dependent on the mobile advertising market maturing, as well as on our ability to increase our user base.

If our Facetones™ trademark is challenged by another party, our revenue from this application may be adversely affected.

On February 9, 2012, we entered into an agreement with Facebook, Inc. an online social network, relating to the use of our Facetones™ mark and domain name (collectively, the "Facetones Mark"). The Agreement resolved a potential dispute between the parties regarding the Facetones Mark. Nonetheless, Facebook reserves the right to challenge the Facetones Mark in the future if we violate certain limitations on our use of the Facetones Mark and/or certain conditions are not met. If Facebook or any other party successfully challenges our Facetones Mark, we will need to rebrand our application, which may have a negative impact on our revenue from this application.

Regulation concerning consumer privacy may adversely affect our business.

Certain technologies that we currently support, or may in the future support, are capable of collecting personally-identifiable information. We anticipate that as mobile telephone software continues to develop, it will be possible to collect or monitor substantially more of this type of information. A growing body of laws designed to protect the privacy of personally-identifiable information, as well as to protect against its misuse, and the judicial interpretations of such laws, may adversely affect the growth of our business. In the United States, these laws could include the Federal Trade Commission Act, the Electronic Communications Privacy Act, the Fair Credit Reporting Act and the Gramm-Leach Bliley Act, as well as various state laws and related regulations. In addition, certain governmental agencies, like the Federal Trade Commission, have the authority to protect against the misuse of consumer information by targeting companies that collect, disseminate or maintain personal information in an unfair or deceptive manner. In particular, such laws could limit our ability to collect information related to users or our services, to store or process that information in what would otherwise be the most efficient manner, or to commercialize new products based on new technologies. The evolving nature of all of these laws and regulations, as well as the evolving nature of various governmental bodies' enforcement efforts, and the possibility of new laws in this area, may adversely affect our ability to collect and disseminate or share certain information about consumers and may negatively affect our ability to make use of that information. If we fail to successfully comply with applicable regulations in this area, our business and prospects could be harmed.

Our ability to raise capital through equity or equity-linked transactions may be limited.

In order for us to raise capital through equity or equity-linked transactions, stockholder approval is required to enable us to issue more than 19.99% of our outstanding shares of common stock pursuant to the rules and regulations of the NYSE Amex. Should stockholders not approve such issuances, our sole means to raise capital would be through debt, which could have a material adverse effect on our balance sheet and overall financial condition.

Our liquidity is largely dependent on our common stock being traded on a major exchange

Our common stock and warrants are listed on the NYSE Amex, a national securities exchange, which imposes continued listing requirements with respect to listed shares. On April 26, 2012, the NYSE Amex notified us that it had resolved the continued listing deficiency referenced in the NYSE Amex's letter dated May 24, 2011, which stated that we were not in compliance with Section 1003(a) (iv) of the NYSE Amex's continued listing standards. The NYSE Amex's conclusion was based on a review of available information, including our filings with the Securities and Exchange Commission. Our continued listing eligibility will be assessed on an ongoing basis. While the NYSE Amex has not initiated delisting proceedings in the past, there is no assurance that it will not do so in the future.

If the NYSE Amex delists our securities from trading, we could face significant consequences, including:

- a limited availability for market quotations for our securities;
- reduced liquidity with respect to our securities;
- a determination that our common stock is a "penny stock," which will require brokers trading in our common stock to adhere to more stringent rules and possibly result in a reduced level of trading activity in the secondary trading market for our common stock;
- limited amount of news and analyst coverage; and

- a decreased ability to issue additional securities or obtain additional financing in the future.

In addition, we would no longer be subject to the NYSE Amex rules, including rules requiring us to have a certain number of independent directors and to meet other corporate governance standards.

If there are significant shifts in the political, economic and military conditions in Israel and its neighbors, it could have a material adverse effect on our business relationships and profitability.

Our research and development facility is located in Israel and many of our key personnel reside in Israel. Our business is directly affected by the political, economic and military conditions in Israel and its neighbors. Major hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could have a material adverse effect on our existing business relationships and on our operating results and financial condition. Furthermore, several countries restrict business with Israeli companies, which may impair our ability to create new business relationships or to be, or become, profitable.

We may not be able to enforce covenants not-to-compete under current Israeli law, which may result in added competition.

We have non-competition agreements with all of our employees, almost all of which are governed by Israeli law. These agreements generally prohibit our employees from competing with or working for our competitors, during their term of employment and for up to 12 months after termination of their employment. However, Israeli courts are reluctant to enforce non-compete undertakings of former employees and tend, if at all, to enforce those provisions for relatively brief periods of time in restricted geographical areas and only when the employee has unique value specific to that employer's business and not just regarding the professional development of the employee. If we are not able to enforce non-compete covenants, we may be faced with added competition.

Because a substantial portion of our revenues is generated in dollars and euros, while a significant portion of our expenses is incurred in Israeli currency, our revenue may be reduced due to inflation in Israel and currency exchange rate fluctuations.

A substantial portion of our revenues is generated in dollars and euros, while a significant portion of our expenses, principally salaries and related personnel expenses, is paid in Israeli currency. As a result, we are exposed to the risk that the rate of inflation in Israel will exceed the rate of devaluation of Israeli currency in relation to the dollar or the euro, or that the timing of this devaluation will lag behind inflation in Israel. Because inflation has the effect of increasing the dollar and euro costs of our operations, it would therefore have an adverse effect on our dollar-measured results of operations. The value of the New Israeli Shekel, or NIS, against the United States Dollar, the Euro and other currencies may fluctuate and is affected by, among other things, changes in Israel's political and economic conditions. Any significant revaluation of the NIS may materially and adversely affect our cash flows, revenues and financial condition. Fluctuations in the NIS exchange rate, or even the appearance of instability in such exchange rate, could adversely affect our ability to operate our business.

The termination or reduction of tax and other incentives that the Israeli government provides to domestic companies, such as our wholly-owned subsidiary, may increase the costs involved in operating a company in Israel.

The Israeli government currently provides tax and capital investment incentives to domestic companies, as well as grant and loan programs relating to research and development and marketing and export activities. Our wholly-owned Israeli subsidiary currently takes advantage of some of these programs. We cannot provide you with any assurance that such benefits and programs will continue to be available in the future to our Israeli subsidiary. In addition, it is possible that our subsidiary will fail to meet the criteria required for eligibility of future benefits. If such benefits and programs were terminated or further reduced, it could have an adverse effect on our business, operating results and financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit No.	Description
2.1	Agreement and Plan of Merger by and among Vringo, Inc., VIP Merger Sub, Inc. and Innovate/Protect, Inc., dated as of March 12, 2012 (incorporated by reference from Exhibit 2.1 to Vringo's Current Report on form 8-K filed on March 14, 2012)
4.1	Form of Preferential Reload Warrant
4.2	Form of Reload Warrants
10.1	Separation Agreement between Jonathan Medved and Vringo (Israel) Ltd., dated as of March 8, 2012 (incorporated by reference from Exhibit 99.5 to Vringo's Current Report on Form 8-K filed on March 14, 2012)
10.2	Agreement dated February 9, 2012, by and between the Company and Facebook, Inc.
31.1	Certification of Principal Executive Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1	The following information from Vringo's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 formatted in XBRL: (i) Unaudited Consolidated Statements of Operations for the three months ended March 31, 2012 and 2011; (ii) Consolidated Balance Sheets as of March 31, 2012 (Unaudited) and December 31, 2011; (iii) Unaudited Consolidated Statements of Stockholders' Equity as of March 31, 2012; (iv) Unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and 2011; and (v) Notes to Unaudited Consolidated Financial Statements tagged as blocks of text.*
*	Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on the 15th day of May, 2012.

VRINGO, INC.

By:	/S/ ELLEN COHL
	Ellen Cohl
	Chief Financial Officer
	(Principal Financial Officer)

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (“SECURITIES ACT”), AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED OR HYPOTHECATED UNLESS THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT COVERING SUCH SECURITIES, THE SALE IS MADE IN ACCORDANCE WITH RULE 144 UNDER THE ACT, OR THE COMPANY RECEIVES AN OPINION OF COUNSEL FOR THE COMPANY STATING THAT SUCH SALE, TRANSFER, ASSIGNMENT OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SUCH ACT.

Warrant No. W-___ Number of Shares: ____________

Date of Issuance: February 6, 2012 (“Issuance Date”)

VRINGO, INC.

Common Stock Warrant

Vringo, Inc. (the “Company”), for value received, hereby certifies that ________, or its registered assigns (the “Registered Holder”), is entitled, subject to the terms of this Common Stock Warrant (the “Warrant”) set forth below, to purchase from the Company, at any time after the date hereof and on or before February 6, 2017 (the “Expiration Date”), up to ________ (_______) shares of common stock of the Company (the “Warrant Stock”), par value $0.01 per share (the “Common Stock”), at a per share exercise price (the “Exercise Price”) equal to One Dollar and Seventy-Six Cents ($1.76) per share (subject to adjustment as set forth in Section 2).

1. **Exercise**.

(a) **Method of Exercise.** This Warrant may be exercised by the Registered Holder, in whole or in part, by delivering the form appended hereto as Exhibit A duly executed by such Registered Holder (the “Exercise Notice”), at the principal office of the Company, or at such other office or agency as the Company may designate in writing prior to the date of such exercise, accompanied by payment in full of the Exercise Price payable with respect to the number of shares of Warrant Stock purchased upon such exercise. The Exercise Price must be paid by cash, check or wire transfer in immediately available funds for the Warrant Stock being purchased by the Registered Holder, except as provided in Section 1(c).

(b) **Effective Time of Exercise.** Each exercise of this Warrant shall be deemed to have been effected immediately prior to the close of business on the day on which the Exercise Notice has been delivered to the Company (the “Exercise Date”) as provided in this Section 1. At such time, the person or persons in whose name or names any certificates for Warrant Stock shall be issuable upon such exercise as provided in Section 1(d) below shall be deemed to have become the holder or holders of record of the Warrant Stock represented by such certificates.

(c) **Cashless Exercise.** Notwithstanding any provisions herein to the contrary, if at any time between the three (3) month anniversary of the Issuance Date and the Expiration Date, there is no effective Registration Statement under the Securities Act registering the resale of the Warrant Stock by the Registered Holder, then the Registered Holder may elect to exercise this Warrant, or a portion hereof, and to pay for the Warrant Stock by way of cashless exercise (a “Cashless Exercise”). If the Registered Holder wishes to effect a cashless exercise, the Registered Holder shall deliver the Exercise Notice duly executed by such Registered Holder or by such Registered Holder’s duly authorized attorney, at the principal office of the Company, or at such other office or agency as the Company may designate in writing prior to the date of such exercise, in which event the Company shall issue to the Registered Holder the number of shares of Warrant Stock computed according to the following equation:

$$X = \frac{Y * (A - B)}{A}$$

; where

X = the number of shares of Warrant Stock to be issued to the Registered Holder.

Y = the Warrant Stock purchasable under this Warrant or, if only a portion of the Warrant is being exercised, the portion of the Warrant Stock being exercised.

A = the Fair Market Value (defined below) of one share of Common Stock on the Exercise Date.

B = the Exercise Price (as adjusted pursuant to the provisions of this Warrant).

For purposes of this Section 1(c), the “Fair Market Value” of one share of Common Stock on the Exercise Date shall have one of the following meanings:

(1) if the Common Stock is traded on a national securities exchange, the Fair Market Value shall be deemed to be the average of the Closing Prices over a five trading day period ending on the Exercise Date. For the purposes of this Warrant, “Closing Price” means the final price at which one share of Common Stock is traded during any trading day; or

(2) if the Common Stock is traded over-the-counter, the Fair Market Value shall be deemed to be the average of the closing sales price over the thirty (30) day period ending three (3) days before the Exercise Date; or

(3) if neither (1) nor (2) is applicable, the Fair Market Value shall be at the commercially reasonable price per share which the Company could obtain on the Exercise Date from a willing buyer (not a current employee or director) for shares of Common Stock sold by the Company, from authorized but unissued shares, as determined in good faith by the Company’s Board of Directors.

For illustration purposes only, if this Warrant entitles the Registered Holder the right to purchase 100,000 shares of Warrant Stock and the Holder were to exercise this Warrant for 50,000 shares of Warrant Stock at a time when the Exercise Price was reduced to \$1.00 and the Fair Market Value of each share of Common Stock was \$2.00 on the Exercise Date, as applicable, the cashless exercise calculation would be as follows:

$$X = \frac{50{,}000\ (\$2.00-\$1.00)}{\$2.00}$$

X = 25,000

Therefore, the number of shares of Warrant Stock to be issued to the Holder after giving effect to the cashless exercise would be 25,000 shares of Warrant Stock and the Company would issue the Holder a new Warrant to purchase 50,000 shares of Warrant Stock, reflecting the portion of this Warrant not exercised by the Holder. For purposes of Rule 144 promulgated under the Securities Act of 1933, as amended (the "Securities Act"), it is intended, understood and acknowledged that the Warrant Stock issued in the cashless exercise transaction described pursuant to Section 1(c) shall be deemed to have been acquired by the Holder, and the holding period for the shares of Warrant Stock shall be deemed to have commenced, on the date of the Registered Holder's acquisition of the Warrant.

(d) **Delivery to Holder.** As soon as practicable after the exercise of this Warrant in whole or in part, and in any event within three (3) business days thereafter (the "Warrant Stock Delivery Date"), the Company will cause to be issued in the name of, and delivered to, the Registered Holder, or as such Registered Holder (upon payment by such Registered Holder of any applicable transfer taxes) may direct:

(i) a certificate or certificates for the number of shares of Warrant Stock to which such Registered Holder shall be entitled, and

(ii) in case such exercise is in part only, a new warrant or warrants (dated the date hereof) of like tenor, calling in the aggregate on the face or faces thereof for the number of shares of Warrant Stock equal (giving effect to any adjustment therein) to the number of such shares called for on the face of this Warrant minus the number of such shares purchased by the Registered Holder upon such exercise as provided in Section 1(a).

(e) **Compensation for Buy-In on Failure to Timely Deliver Certificates Upon Exercise**. In addition to any other rights available to the Registered Holder, if the Company fails to transmit to the Registered Holder a certificate or the certificates representing the Warrant Stock pursuant to an exercise on or before the Warrant Stock Delivery Date, and if after such date the Registered Holder is required by its broker to purchase (in an open market transaction or otherwise) or the Registered Holder's brokerage firm otherwise purchases, shares of Common Stock to deliver in satisfaction of a sale by the Registered Holder of the Warrant Stock which the Registered Holder anticipated receiving upon such exercise (a "Buy-In"), then the Company shall (A) pay in cash to the Holder the amount by which (x) the Registered Holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (y) the amount obtained by multiplying (1) the number of shares of Warrant Stock that the Company was required to deliver to the Registered Holder in connection with the exercise at issue times (2) the price at which the sell order giving rise to such purchase obligation was executed, and (B) at the option of the Registered Holder, either reinstate the portion of the Warrant and equivalent number of shares of Warrant Stock for which such exercise was not honored or deliver to the Registered Holder the number of shares of Common Stock that would have been issued had the Company timely complied with its exercise and delivery obligations hereunder. For example, if the Registered Holder purchases Common Stock having a total purchase price of $11,000 to cover a Buy-In with respect to an attempted exercise of shares of Common Stock with an aggregate sale price giving rise to such purchase obligation of $10,000, under clause (A) of the immediately preceding sentence the Company shall be required to pay the Registered Holder $1,000. The Registered Holder shall provide the Company written notice indicating the amounts payable to the Registered Holder in respect of the Buy-In and, upon request of the Company, evidence of the amount of such loss.

(f) **Registered Holder's Exercise Limitations**. The Company shall not effect any exercise of this Warrant, and a Registered Holder shall not have the right to exercise any portion of this Warrant, pursuant to Section 2 or otherwise, to the extent (but only to the extent) that the Registered Holder or any of the Registered Holder's affiliates, would beneficially own in excess of the Beneficial Ownership Limitation (as defined below). For purposes of this Section 1(e), beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act (as defined herein) and the rules and regulations promulgated thereunder, it being acknowledged by the Registered Holder that the Company is not representing to the Registered Holder that such calculation is in compliance with Section 13(d) of the Exchange Act and the Registered Holder is solely responsible for any schedules required to be filed in accordance therewith. To the extent that the limitation contained in this Section 1(f) applies, the determination of whether this Warrant is exercisable (in relation to other securities owned by the Registered Holder together with any Affiliates) and of which portion of this Warrant is exercisable shall be in the sole discretion of the Registered Holder, and the submission of an Exercise Notice shall be deemed to be the Registered Holder's determination of whether this Warrant is exercisable (in relation to other securities owned by the Registered Holder together with any Affiliates) and of which portion of this Warrant is exercisable, in each case subject to the Beneficial Ownership Limitation, and the Company shall have no obligation to verify or confirm the accuracy of such determination. Upon the written or oral request of a Registered Holder, the Company shall within two business days confirm orally and in writing to the Registered Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company, including this Warrant, by the Registered Holder or its Affiliates since the date as of which such number of outstanding shares of Common Stock was reported. The "Beneficial Ownership Limitation" shall be 4.99% of the number of shares of Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock issuable upon exercise of this Warrant. The Registered Holder, upon not less than 61 days' prior notice to the Company, may increase or decrease the Beneficial Ownership Limitation provisions of this Section 1(f), provided that the Beneficial Ownership Limitation shall in no event exceed 9.99% of the number of shares of Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock upon exercise of this Warrant held by the Registered Holder and the provisions of this Section 1(f) shall continue to apply. Any such increase or decrease will not be effective until the 61st day after such notice is delivered to the Company. The provisions of this paragraph shall be construed and implemented in a manner otherwise than in strict conformity with the terms of this Section 1(f) to correct this paragraph (or any portion hereof) which may be defective or inconsistent with the intended Beneficial Ownership Limitation herein contained or to make changes or supplements necessary or desirable to properly give effect to such limitation. The limitations contained in this paragraph shall apply to a successor holder of this Warrant.

2. **Adjustments**.

(a) **Stock Splits and Dividends.** If the outstanding shares of the Company's Common Stock shall be subdivided into a greater number of shares or a dividend in Common Stock shall be paid in respect of Common Stock, the Exercise Price in effect immediately prior to such subdivision or at the record date of such dividend shall, simultaneously with the effectiveness of such subdivision or immediately after the record date of such dividend, be proportionately reduced and the number of Warrant Stock issuable upon exercise of the Warrant shall be proportionately increased. If the outstanding shares of Common Stock shall be combined into a smaller number of shares, the Exercise Price in effect immediately prior to such combination shall, simultaneously with the effectiveness of such combination, be proportionately increased and the number of shares of Warrant Stock issuable upon exercise of the Warrant shall be proportionately decreased.

(b) **Fundamental Transaction.** If, at any time while this Warrant is outstanding, (i) the Company effects any merger or consolidation of the Company with or into another person, (ii) the Company effects any sale of all or substantially all of its assets in one or a series of related transactions, (iii) any tender offer or exchange offer (whether by the Company or another person) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property or (iv) the Company effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (each, a "Fundamental Transaction"), then, upon any subsequent exercise of this Warrant, the Registered Holder shall have the right to receive, for each share of Warrant Stock that would have been issuable upon such exercise immediately prior to the occurrence of such Fundamental Transaction, the number of shares of Common Stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and any additional consideration (the "Alternate Consideration") receivable as a result of such merger, consolidation or disposition of assets by a holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such event. For purposes of any such exercise, the determination of the Exercise Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Registered Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. To the extent necessary to effectuate the foregoing provisions, any successor to the Company or surviving entity in such Fundamental Transaction shall issue to the Registered Holder a new warrant consistent with the foregoing provisions and evidencing the Registered Holder's right to exercise such warrant into Alternate Consideration. The terms of any agreement pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this Section 2(b) and insuring that this Warrant (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction.

(c) **Adjustment Certificate.** When any adjustment is required to be made in the Exercise Price pursuant to this Section 2, the Company shall promptly mail to the Registered Holder a certificate setting forth (i) a brief statement of the facts requiring such adjustment, (ii) the Exercise Price after such adjustment and (iii) the kind and amount of stock or other securities or property into which this Warrant shall be exercisable after such adjustment.

3. **Transfers.**

(a) **Unregistered Security.** The holder of this Warrant acknowledges that this Warrant has not been registered under the Securities Act and agrees not to sell, pledge, distribute, offer for sale, transfer or otherwise dispose of this Warrant or any Warrant Stock issued upon its exercise in the absence of (i) an effective registration statement under the Securities Act as to this Warrant or such Warrant Stock and registration or qualification of this Warrant or such Warrant Stock under any applicable U.S. federal or state securities law then in effect or (ii) an opinion of counsel, reasonably satisfactory to the Company, that such registration and qualification are not required.

(b) **Transferability.** Subject to the provisions of Section 3(a) hereof, this Warrant and all rights hereunder are transferable, in whole or in part, to (i) any entity controlling, controlled by or under common control of the Registered Holder, or (ii) to any other proposed transferee by surrendering the Warrant with a properly executed assignment (in the form of Exhibit B hereto) at the principal office of the Company.

(c) **Warrant Register.** The Company will maintain a register containing the names and addresses of the Registered Holders of this Warrant. Until any transfer of this Warrant is made in the warrant register, the Company may treat the Registered Holder of this Warrant as the absolute owner hereof for all purposes; provided, however, that if this Warrant is properly assigned in blank, the Company may (but shall not be required to) treat the bearer hereof as the absolute owner hereof for all purposes, notwithstanding any notice to the contrary. Any Registered Holder may change such Registered Holder's address as shown on the warrant register by written notice to the Company requesting such change.

4. **Redemption**.

(a) **Redemption of Warrant.** This Warrant may be redeemed, at the option of the Company, at any time after it becomes exercisable and prior to its expiration, at the office of the Company or, if appointed, the Company's warrant agent, upon the notice referred to in Section 4(b) hereof, at the price of $0.01 per share underlying the Warrant (the "Redemption Price"), in the event that (i) the last closing sale price of the Common Stock has been equal to or greater than $5.00 per share (subject to adjustments for splits, dividends, recapitalizations and similar events) on each of twenty (20) trading days within any thirty (30) day trading period ending on the third business day prior to the date on which notice of redemption is given to the holder and (ii) during each day of the foregoing twenty (20) day trading period and through the date the Company exercises its redemption rights it must have an effective registration statement with a current prospectus in compliance with Sections 5 and 10 of the Securities Act on file with the Securities and Exchange Commission pursuant to which the underlying Common Stock may be sold.

(b) **Date Fixed for, and Notice of, Redemption**. In the event the Company shall elect to redeem the Warrant, the Company shall fix a date for the redemption. Notice of redemption shall be mailed by first class mail, postage prepaid, by the Company not less than thirty (30) days prior to the date fixed for redemption to the Registered Holders of the Warrant to be redeemed at their last addresses as they shall appear on the registration books. Any notice mailed in the manner herein provided shall be conclusively presumed to have been duly given whether or not the Registered Holder received such notice.

(c) **Exercise After Notice of Redemption**. The Warrants may be exercised in accordance with this Warrant at any time after notice of redemption shall have been given by the Company and prior to the time and date fixed for redemption. On and after the redemption date, the Registered Holder shall have no further rights except to receive, upon surrender of the Warrants, the Redemption Price.

5. **Termination.** This Warrant (and the right to purchase securities upon exercise hereof) shall terminate at 5:00 p.m., Eastern time, on the Expiration Date.

6. **Notices of Certain Transactions.** In case:

(a) the Company shall take a record of the holders of its Common Stock (or other stock or securities at the time deliverable upon the exercise of this Warrant) for the purpose of entitling or enabling them to receive any dividend or other distribution, or to receive any right to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right, to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right, or

(b) of any capital reorganization of the Company, any reclassification of the capital stock of the Company, any consolidation or merger of the Company, any consolidation or merger of the Company with or into another corporation (other than a consolidation or merger in which the Company is the surviving entity), or any transfer of all or substantially all of the assets of the Company, or

(c) of the voluntary or involuntary dissolution, liquidation or winding-up of the Company, or

(d) of any Fundamental Transaction,

then, and in each such case, the Company will mail or cause to be mailed to the Registered Holder of this Warrant a notice specifying, as the case may be, (i) the date on which a record is to be taken for the purpose of such dividend, distribution or right, and stating the amount and character of such dividend, distribution or right, or (ii) the effective date on which such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation, winding-up or Fundamental Transaction is to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock (or such other stock or securities at the time deliverable upon such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up) are to be determined. Failure to send such notice shall not act to invalidate any such transaction.

7. **Reservation of Stock.** The Company covenants that at all times it will have authorized, reserve and keep available, solely for the issuance and delivery upon the exercise of this Warrant, such shares of Warrant Stock and other stock, securities and property, as from time to time shall be issuable upon the exercise of this Warrant. The Company covenants that all Warrant Stock that may be issued upon the exercise of the purchase rights represented by this Warrant will, upon exercise of the purchase rights represented by this Warrant, be duly authorized, validly issued, fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue). The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for the shares of Warrant Stock upon the exercise of the purchase rights under this Warrant by the Registered Holder. The Company will take all such reasonable action as may be necessary to assure that such Warrant Stock may be issued as provided herein without violation of any applicable law or regulation.

8. **Replacement of Warrants.** Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and (in the case of loss, theft or destruction) upon delivery of an indemnity agreement (with surety if reasonably required) in an amount reasonably satisfactory to the Company, or (in the case of mutilation) upon surrender and cancellation of this Warrant, the Company will issue, in lieu thereof, a new Warrant of like tenor.

9. **Notices.** Any notice required or permitted by this Warrant shall be in writing and shall be deemed duly given upon receipt, when delivered personally or by courier, overnight delivery service or confirmed facsimile, or 48 hours after being deposited in the regular mail as certified or registered mail (airmail if sent internationally) with postage prepaid, addressed (a) if to the Registered Holder, to the address of the Registered Holder most recently furnished in writing to the Company and (b) if to the Company, to the address set forth on the signature page of this Warrant or as subsequently modified by written notice to the Registered Holder.

10. **No Rights as Stockholder.** Until the exercise of this Warrant, the Registered Holder of this Warrant shall not have or exercise any rights by virtue hereof as a stockholder of the Company.

11. **No Fractional Shares.** No fractional shares of Common Stock will be issued in connection with any exercise hereunder. In lieu of any fractional shares which would otherwise be issuable, the Company shall round the amount of Warrant Stock issuable to the nearest whole share.

12. **Amendment or Waiver.** Any term of this Warrant may be amended or waived upon written consent of the Company and the Registered Holder.

13. **Headings.** The headings in this Warrant are for purposes of reference only and shall not limit or otherwise affect the meaning of any provision of this Warrant.

14. **Governing Law.** This Warrant and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of New York, without giving effect to principles of conflicts of law.

15. **Representations and Covenants of the Registered Holder.** This Warrant has been entered into by the Company in reliance upon the following representations and covenants of the Registered Holder:

(a) **Investment Purpose.** The Registered Holder is acquiring the Warrant and the Warrant Stock issuable upon exercise of the Warrant for its own account, not as a nominee or agent and with no present intention of selling or otherwise distributing any part thereof.

(b) **Private Issue.** The Registered Holder understands: (i) that the Warrant is not registered under the Securities Act or qualified under applicable state securities laws on the ground that the issuance contemplated by this Warrant will be exempt from the registration and qualifications requirements thereof pursuant to Section 4(2) of the Securities Act and any applicable state securities laws, and (ii) that the Company's reliance on such exemption is predicated on the representations set forth in this Section 15.

(c) **Disposition of Registered Holder's Rights.** In no event will the Registered Holder make a disposition of the Warrant or the Warrant Stock issuable upon exercise of the Warrant in the absence of (i) an effective registration statement under the Securities Act as to this Warrant or such Warrant Stock and registration or qualification of this Warrant or such Warrant Stock under any applicable U.S. federal or state securities law then in effect or (ii) an opinion of counsel, reasonably satisfactory to the Company, that such registration and qualification are not required. Whenever the restrictions imposed hereunder shall terminate, as hereinabove provided, the Registered Holder or holder of a share of Common Stock then outstanding as to which such restrictions have terminated shall be entitled to receive from the Company, without expense to such holder, one or more new certificates for the Warrant or for such shares of Common Stock not bearing any restrictive legend.

(d) **Financial Risk.** The Registered Holder has such business and financial experience as is required to give it the capacity to protect its own interests in connection with its investment.

(e) **Accredited Investor.** The Registered Holder is an "accredited investor" as defined by Rule 501 of Regulation D promulgated under the Securities Act.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties have executed this Warrant as of the date first above written.

VRINGO, INC.

By: ______________________________

Name: Jonathan Medved

Title: Chief Executive Officer

Exhibit A

WARRANT EXERCISE FORM

The undersigned hereby irrevocably elects to exercise the within Warrant to the extent of purchasing ______ shares of Common Stock of Vringo, Inc., a Delaware corporation, and hereby makes payment of $___________ in payment therefore (if a cashless exercise, insert "cashless"), all in accordance with the terms and conditions of the Warrant dated ________, 2012.

Name: ______________________________________

Signature: ___________________________________

Signature of joint holder (if applicable): ____

Date: ___________________

INSTRUCTIONS FOR ISSUANCE OF STOCK

(if other than to the registered holder of the within Warrant)

Name: ______________________________________

Address: ____

Social Security or Taxpayer Identification Number of Recipient: _________________________

Exhibit B

ASSIGNMENT FORM

FOR VALUE RECEIVED, ______________________ hereby sells, assigns and transfers unto ________________________ the right to purchase Common Stock of Vringo, Inc., a Delaware corporation, represented by this Warrant to the extent of shares as to which such right is exercisable and does hereby irrevocably constitute and appoint _______________________, Attorney, to transfer the same on the books of the Company with full power of substitution in the premises.

Date: ____

Signature: ____

Signature of joint holder (if applicable):

____

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED ("SECURITIES ACT"), AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED OR HYPOTHECATED UNLESS THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT COVERING SUCH SECURITIES, THE SALE IS MADE IN ACCORDANCE WITH RULE 144 UNDER THE ACT, OR THE COMPANY RECEIVES AN OPINION OF COUNSEL FOR THE COMPANY STATING THAT SUCH SALE, TRANSFER, ASSIGNMENT OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SUCH ACT.

Warrant No. W-___ Number of Shares: ____________

Date of Issuance: February 6, 2012 ("Issuance Date")

VRINGO, INC.

Common Stock Warrant

Vringo, Inc. (the "Company"), for value received, hereby certifies that ________, or its registered assigns (the "Registered Holder"), is entitled, subject to the terms of this Common Stock Warrant (the "Warrant") set forth below, to purchase from the Company, at any time after the date hereof and on or before February 6, 2017 (the "Expiration Date"), up to ________ (_______) shares of common stock of the Company (the "Warrant Stock"), par value $0.01 per share (the "Common Stock"), at a per share exercise price (the "Exercise Price") equal to One Dollar and Seventy-Six Cents ($1.76) per share (subject to adjustment as set forth in Section 2).

1. **Exercise**.

(a) **Method of Exercise.** This Warrant may be exercised by the Registered Holder, in whole or in part, by delivering the form appended hereto as Exhibit A duly executed by such Registered Holder (the "Exercise Notice"), at the principal office of the Company, or at such other office or agency as the Company may designate in writing prior to the date of such exercise, accompanied by payment in full of the Exercise Price payable with respect to the number of shares of Warrant Stock purchased upon such exercise. The Exercise Price must be paid by cash, check or wire transfer in immediately available funds for the Warrant Stock being purchased by the Registered Holder.

(b) **Effective Time of Exercise.** Each exercise of this Warrant shall be deemed to have been effected immediately prior to the close of business on the day on which the Exercise Notice has been delivered to the Company (the "Exercise Date") as provided in this Section 1. At such time, the person or persons in whose name or names any certificates for Warrant Stock shall be issuable upon such exercise as provided in Section 1(c) below shall be deemed to have become the holder or holders of record of the Warrant Stock represented by such certificates.

(c) **Delivery to Holder.** As soon as practicable after the exercise of this Warrant in whole or in part, and in any event within three (3) business days thereafter (the "Warrant Stock Delivery Date"), the Company will cause to be issued in the name of, and delivered to, the Registered Holder, or as such Registered Holder (upon payment by such Registered Holder of any applicable transfer taxes) may direct:

(i) a certificate or certificates for the number of shares of Warrant Stock to which such Registered Holder shall be entitled, and

(ii) in case such exercise is in part only, a new warrant or warrants (dated the date hereof) of like tenor, calling in the aggregate on the face or faces thereof for the number of shares of Warrant Stock equal (giving effect to any adjustment therein) to the number of such shares called for on the face of this Warrant minus the number of such shares purchased by the Registered Holder upon such exercise as provided in Section 1(a).

(d) **Compensation for Buy-In on Failure to Timely Deliver Certificates Upon Exercise**. In addition to any other rights available to the Registered Holder, if the Company fails to transmit to the Registered Holder a certificate or the certificates representing the Warrant Stock pursuant to an exercise on or before the Warrant Stock Delivery Date, and if after such date the Registered Holder is required by its broker to purchase (in an open market transaction or otherwise) or the Registered Holder's brokerage firm otherwise purchases, shares of Common Stock to deliver in satisfaction of a sale by the Registered Holder of the Warrant Stock which the Registered Holder anticipated receiving upon such exercise (a "Buy-In"), then the Company shall (A) pay in cash to the Holder the amount by which (x) the Registered Holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (y) the amount obtained by multiplying (1) the number of shares of Warrant Stock that the Company was required to deliver to the Registered Holder in connection with the exercise at issue times (2) the price at which the sell order giving rise to such purchase obligation was executed, and (B) at the option of the Registered Holder, either reinstate the portion of the Warrant and equivalent number of shares of Warrant Stock for which such exercise was not honored or deliver to the Registered Holder the number of shares of Common Stock that would have been issued had the Company timely complied with its exercise and delivery obligations hereunder. For example, if the Registered Holder purchases Common Stock having a total purchase price of $11,000 to cover a Buy-In with respect to an attempted exercise of shares of Common Stock with an aggregate sale price giving rise to such purchase obligation of $10,000, under clause (A) of the immediately preceding sentence the Company shall be required to pay the Registered Holder $1,000. The Registered Holder shall provide the Company written notice indicating the amounts payable to the Registered Holder in respect of the Buy-In and, upon request of the Company, evidence of the amount of such loss.

(e) **Registered Holder's Exercise Limitations**. The Company shall not effect any exercise of this Warrant, and a Registered Holder shall not have the right to exercise any portion of this Warrant, pursuant to Section 2 or otherwise, to the extent (but only to the extent) that the Registered Holder or any of the Registered Holder's affiliates, would beneficially own in excess of the Beneficial Ownership Limitation (as defined below). For purposes of this Section 1(e), beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act (as defined herein) and the rules and regulations promulgated thereunder, it being acknowledged by the Registered Holder that the Company is not representing to the Registered Holder that such calculation is in compliance with Section 13(d) of the Exchange Act and the Registered Holder is solely responsible for any schedules required to be filed in accordance therewith. To the extent that the limitation contained in this Section 1(e) applies, the determination of whether this Warrant is exercisable (in relation to other securities owned by the Registered Holder together with any Affiliates) and of which portion of this Warrant is exercisable shall be in the sole discretion of the Registered Holder, and the submission of an Exercise Notice shall be deemed to be the Registered Holder's determination of whether this Warrant is exercisable (in relation to other securities owned by the Registered Holder together with any Affiliates) and of which portion of this Warrant is exercisable, in each case subject to the Beneficial Ownership Limitation, and the Company shall have no obligation to verify or confirm the accuracy of such determination. Upon the written or oral request of a Registered Holder, the Company shall within two business days confirm orally and in writing to the Registered Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company, including this Warrant, by the Registered Holder or its Affiliates since the date as of which such number of outstanding shares of Common Stock was reported. The "Beneficial Ownership Limitation" shall be 4.99% of the number of shares of Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock issuable upon exercise of this Warrant. The Registered Holder, upon not less than 61 days' prior notice to the Company, may increase or decrease the Beneficial Ownership Limitation provisions of this Section 1(e), provided that the Beneficial Ownership Limitation shall in no event exceed 9.99% of the number of shares of Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock upon exercise of this Warrant held by the Registered Holder and the provisions of this Section 1(e) shall continue to apply. Any such increase or decrease will not be effective until the 61st day after such notice is delivered to the Company. The provisions of this paragraph shall be construed and implemented in a manner otherwise than in strict conformity with the terms of this Section 1(e) to correct this paragraph (or any portion hereof) which may be defective or inconsistent with the intended Beneficial Ownership Limitation herein contained or to make changes or supplements necessary or desirable to properly give effect to such limitation. The limitations contained in this paragraph shall apply to a successor holder of this Warrant.

2. **Adjustments**.

(a) **Stock Splits and Dividends.** If the outstanding shares of the Company's Common Stock shall be subdivided into a greater number of shares or a dividend in Common Stock shall be paid in respect of Common Stock, the Exercise Price in effect immediately prior to such subdivision or at the record date of such dividend shall, simultaneously with the effectiveness of such subdivision or immediately after the record date of such dividend, be proportionately reduced and the number of Warrant Stock issuable upon exercise of the Warrant shall be proportionately increased. If the outstanding shares of Common Stock shall be combined into a smaller number of shares, the Exercise Price in effect immediately prior to such combination shall, simultaneously with the effectiveness of such combination, be proportionately increased and the number of shares of Warrant Stock issuable upon exercise of the Warrant shall be proportionately decreased.

(b) **Fundamental Transaction**. If, at any time while this Warrant is outstanding, (i) the Company effects any merger or consolidation of the Company with or into another person, (ii) the Company effects any sale of all or substantially all of its assets in one or a series of related transactions, (iii) any tender offer or exchange offer (whether by the Company or another person) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property or (iv) the Company effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (each, a "Fundamental Transaction"), then, upon any subsequent exercise of this Warrant, the Registered Holder shall have the right to receive, for each share of Warrant Stock that would have been issuable upon such exercise immediately prior to the occurrence of such Fundamental Transaction, the number of shares of Common Stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and any additional consideration (the "Alternate Consideration") receivable as a result of such merger, consolidation or disposition of assets by a holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such event. For purposes of any such exercise, the determination of the Exercise Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Registered Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. To the extent necessary to effectuate the foregoing provisions, any successor to the Company or surviving entity in such Fundamental Transaction shall issue to the Registered Holder a new warrant consistent with the foregoing provisions and evidencing the Registered Holder's right to exercise such warrant into Alternate Consideration. The terms of any agreement pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this Section 2(b) and insuring that this Warrant (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction.

(c) **Adjustment Certificate.** When any adjustment is required to be made in the Exercise Price pursuant to this Section 2, the Company shall promptly mail to the Registered Holder a certificate setting forth (i) a brief statement of the facts requiring such adjustment, (ii) the Exercise Price after such adjustment and (iii) the kind and amount of stock or other securities or property into which this Warrant shall be exercisable after such adjustment.

3. **Transfers.**

(a) **Unregistered Security.** The holder of this Warrant acknowledges that this Warrant has not been registered under the Securities Act and agrees not to sell, pledge, distribute, offer for sale, transfer or otherwise dispose of this Warrant or any Warrant Stock issued upon its exercise in the absence of (i) an effective registration statement under the Securities Act as to this Warrant or such Warrant Stock and registration or qualification of this Warrant or such Warrant Stock under any applicable U.S. federal or state securities law then in effect or (ii) an opinion of counsel, reasonably satisfactory to the Company, that such registration and qualification are not required.

(b) **Transferability.** Subject to the provisions of Section 3(a) hereof, this Warrant and all rights hereunder are transferable, in whole or in part, to (i) any entity controlling, controlled by or under common control of the Registered Holder, or (ii) to any other proposed transferee by surrendering the Warrant with a properly executed assignment (in the form of Exhibit B hereto) at the principal office of the Company.

(c) **Warrant Register.** The Company will maintain a register containing the names and addresses of the Registered Holders of this Warrant. Until any transfer of this Warrant is made in the warrant register, the Company may treat the Registered Holder of this Warrant as the absolute owner hereof for all purposes; provided, however, that if this Warrant is properly assigned in blank, the Company may (but shall not be required to) treat the bearer hereof as the absolute owner hereof for all purposes, notwithstanding any notice to the contrary. Any Registered Holder may change such Registered Holder’s address as shown on the warrant register by written notice to the Company requesting such change.

4. **Redemption.**

(a) **Redemption of Warrant.** This Warrant may be redeemed, at the option of the Company, at any time after it becomes exercisable and prior to its expiration, at the office of the Company or, if appointed, the Company’s warrant agent, upon the notice referred to in Section 4(b) hereof, at the price of $0.01 per share underlying the Warrant (the “Redemption Price”), in the event that (i) the last closing sale price of the Common Stock has been equal to or greater than $5.00 per share (subject to adjustments for splits, dividends, recapitalizations and similar events) on each of twenty (20) trading days within any thirty (30) day trading period ending on the third business day prior to the date on which notice of redemption is given to the holder and (ii) during each day of the foregoing twenty (20) day trading period and through the date the Company exercises its redemption rights it must have an effective registration statement with a current prospectus in compliance with Sections 5 and 10 of the Securities Act on file with the Securities and Exchange Commission pursuant to which the underlying Common Stock may be sold.

(b) **Date Fixed for, and Notice of, Redemption**. In the event the Company shall elect to redeem the Warrant, the Company shall fix a date for the redemption. Notice of redemption shall be mailed by first class mail, postage prepaid, by the Company not less than thirty (30) days prior to the date fixed for redemption to the Registered Holders of the Warrant to be redeemed at their last addresses as they shall appear on the registration books. Any notice mailed in the manner herein provided shall be conclusively presumed to have been duly given whether or not the Registered Holder received such notice.

(c) **Exercise After Notice of Redemption**. The Warrants may be exercised in accordance with this Warrant at any time after notice of redemption shall have been given by the Company and prior to the time and date fixed for redemption. On and after the redemption date, the Registered Holder shall have no further rights except to receive, upon surrender of the Warrants, the Redemption Price.

5. **Termination.** This Warrant (and the right to purchase securities upon exercise hereof) shall terminate at 5:00 p.m., Eastern time, on the Expiration Date.

6. **Notices of Certain Transactions.** In case:

(a) the Company shall take a record of the holders of its Common Stock (or other stock or securities at the time deliverable upon the exercise of this Warrant) for the purpose of entitling or enabling them to receive any dividend or other distribution, or to receive any right to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right, to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right, or

(b) of any capital reorganization of the Company, any reclassification of the capital stock of the Company, any consolidation or merger of the Company, any consolidation or merger of the Company with or into another corporation (other than a consolidation or merger in which the Company is the surviving entity), or any transfer of all or substantially all of the assets of the Company, or

(c) of the voluntary or involuntary dissolution, liquidation or winding-up of the Company, or

(d) of any Fundamental Transaction,

then, and in each such case, the Company will mail or cause to be mailed to the Registered Holder of this Warrant a notice specifying, as the case may be, (i) the date on which a record is to be taken for the purpose of such dividend, distribution or right, and stating the amount and character of such dividend, distribution or right, or (ii) the effective date on which such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation, winding-up or Fundamental Transaction is to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock (or such other stock or securities at the time deliverable upon such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up) are to be determined. Failure to send such notice shall not act to invalidate any such transaction.

7. **Reservation of Stock.** The Company covenants that at all times it will have authorized, reserve and keep available, solely for the issuance and delivery upon the exercise of this Warrant, such shares of Warrant Stock and other stock, securities and property, as from time to time shall be issuable upon the exercise of this Warrant. The Company covenants that all Warrant Stock that may be issued upon the exercise of the purchase rights represented by this Warrant will, upon exercise of the purchase rights represented by this Warrant, be duly authorized, validly issued, fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue). The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for the shares of Warrant Stock upon the exercise of the purchase rights under this Warrant by the Registered Holder. The Company will take all such reasonable action as may be necessary to assure that such Warrant Stock may be issued as provided herein without violation of any applicable law or regulation.

8. **Replacement of Warrants.** Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and (in the case of loss, theft or destruction) upon delivery of an indemnity agreement (with surety if reasonably required) in an amount reasonably satisfactory to the Company, or (in the case of mutilation) upon surrender and cancellation of this Warrant, the Company will issue, in lieu thereof, a new Warrant of like tenor.

9. **Notices.** Any notice required or permitted by this Warrant shall be in writing and shall be deemed duly given upon receipt, when delivered personally or by courier, overnight delivery service or confirmed facsimile, or 48 hours after being deposited in the regular mail as certified or registered mail (airmail if sent internationally) with postage prepaid, addressed (a) if to the Registered Holder, to the address of the Registered Holder most recently furnished in writing to the Company and (b) if to the Company, to the address set forth on the signature page of this Warrant or as subsequently modified by written notice to the Registered Holder.

10. **No Rights as Stockholder.** Until the exercise of this Warrant, the Registered Holder of this Warrant shall not have or exercise any rights by virtue hereof as a stockholder of the Company.

11. **No Fractional Shares.** No fractional shares of Common Stock will be issued in connection with any exercise hereunder. In lieu of any fractional shares which would otherwise be issuable, the Company shall round the amount of Warrant Stock issuable to the nearest whole share.

12. **Amendment or Waiver.** Any term of this Warrant may be amended or waived upon written consent of the Company and the Registered Holder.

13. **Headings.** The headings in this Warrant are for purposes of reference only and shall not limit or otherwise affect the meaning of any provision of this Warrant.

14. **Governing Law.** This Warrant and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of New York, without giving effect to principles of conflicts of law.

15. **Representations and Covenants of the Registered Holder.** This Warrant has been entered into by the Company in reliance upon the following representations and covenants of the Registered Holder:

(a) **Investment Purpose.** The Registered Holder is acquiring the Warrant and the Warrant Stock issuable upon exercise of the Warrant for its own account, not as a nominee or agent and with no present intention of selling or otherwise distributing any part thereof.

(b) **<u>Private Issue</u>.** The Registered Holder understands: (i) that the Warrant is not registered under the Securities Act or qualified under applicable state securities laws on the ground that the issuance contemplated by this Warrant will be exempt from the registration and qualifications requirements thereof pursuant to Section 4(2) of the Securities Act and any applicable state securities laws, and (ii) that the Company's reliance on such exemption is predicated on the representations set forth in this Section 15.

(c) **<u>Disposition of Registered Holder's Rights</u>.** In no event will the Registered Holder make a disposition of the Warrant or the Warrant Stock issuable upon exercise of the Warrant in the absence of (i) an effective registration statement under the Securities Act as to this Warrant or such Warrant Stock and registration or qualification of this Warrant or such Warrant Stock under any applicable U.S. federal or state securities law then in effect or (ii) an opinion of counsel, reasonably satisfactory to the Company, that such registration and qualification are not required. Whenever the restrictions imposed hereunder shall terminate, as hereinabove provided, the Registered Holder or holder of a share of Common Stock then outstanding as to which such restrictions have terminated shall be entitled to receive from the Company, without expense to such holder, one or more new certificates for the Warrant or for such shares of Common Stock not bearing any restrictive legend.

(d) **<u>Financial Risk</u>.** The Registered Holder has such business and financial experience as is required to give it the capacity to protect its own interests in connection with its investment.

(e) **<u>Accredited Investor</u>.** The Registered Holder is an "accredited investor" as defined by Rule 501 of Regulation D promulgated under the Securities Act.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties have executed this Warrant as of the date first above written.

VRINGO, INC.

By: ____

Name: Jonathan Medved
Title: Chief Executive Officer

Exhibit A

WARRANT EXERCISE FORM

The undersigned hereby irrevocably elects to exercise the within Warrant to the extent of purchasing ______ shares of Common Stock of Vringo, Inc., a Delaware corporation, and hereby makes payment of $___________ in payment therefore (if a cashless exercise, insert “cashless”), all in accordance with the terms and conditions of the Warrant dated ________, 2012.

Name: _______________________________________

Signature: ____________________________________

Signature of joint holder (if applicable): ____

Date: ___________________

INSTRUCTIONS FOR ISSUANCE OF STOCK

(if other than to the registered holder of the within Warrant)

Name: _______________________________________

Address: ____

Social Security or Taxpayer Identification Number of Recipient: _________________________

Exhibit B

ASSIGNMENT FORM

FOR VALUE RECEIVED, ______________________ hereby sells, assigns and transfers unto ________________________ the right to purchase Common Stock of Vringo, Inc., a Delaware corporation, represented by this Warrant to the extent of shares as to which such right is exercisable and does hereby irrevocably constitute and appoint _______________________, Attorney, to transfer the same on the books of the Company with full power of substitution in the premises.

Date: ___________

Signature: _______________________________________

Signature of joint holder (if applicable):

____

SETTLEMENT AGREEMENT

This Settlement Agreement (“Agreement”), effective as of the last date set forth below (“Effective Date”), is made by and between Facebook, Inc., a Delaware corporation, having a place of business at 1601 Willow Road, Menlo Park, California 94025 (“Facebook”), and Vringo, Inc., a Delaware corporation, having a place of business at 44 West 28th Street, Suite 1414, New York, NY 10001 (“Vringo”), referred to collectively as the “Parties” or individually as a “Party.”

Factual Background

A. Facebook is the owner of the name and mark FACEBOOK appearing alone and in conjunction with other words and designs (the “FACEBOOK Marks”), as used on its website, www.facebook.com, and in connection with the goods and services set forth in its numerous trademark registrations and applications for FACEBOOK worldwide, including but not limited to United States Registrations Nos. 30413791, 3122052, 3734637, 3814888, 3801147, 3881770 and United States Serial Nos. 85/121,339, 85/147,879, 85/147,898, 85/147,910, 85/147,930, 85/147,937, 85/147,950 and 85/147,955.

B. Vringo has applied for the trademark FACETONES (U.S. Serial No. 85/267,738) in the United States for coverage in International Classes 09 and 38:

- Computer application software for mobile devices, namely, software for importing a user's digital images from social networking and other sites, automatically creating a slideshow, and using the slide show as a video ringtone in Class 09;

- Telecommunication services, namely, transmission of voice, data, graphics, images, audio and video by means of telecommunications networks, wireless communication networks, and the Internet in Class 38; and

C. Vringo owns the domain name <facetones.com>.

D. Vringo uses the FACETONES mark and domain name <facetones.com> in connection with goods and services that cause photographs of the faces corresponding to a mobile device user’s contacts to appear on the user’s mobile device, for purposes of alerting the user to an incoming call or message from a particular contact and/or identifying the caller or messager (hereinafter the “FACETONES Mark”).

E. The Parties wish to clarify the extent of use of Vringo’s FACETONES Mark, and the Parties desire to resolve the pending dispute and avoid future disputes between the Parties regarding Vringo’s FACETONES Mark, and to avoid any likelihood of confusion as to the source of the Parties’ goods and services and any perception of authorization by, or affiliation between the Parties.

Now, Therefore, in exchange for the valuable consideration, promises, mutual covenants and agreements contained herein, the receipt and sufficiency of which are hereby acknowledged, and in order amicably to resolve this dispute and prevent any possibility of confusion between the Parties' respective marks and trade names, and intending to be legally bound hereby, the Parties agree as follows:

1. Vringo acknowledges Facebook's ownership rights in the trademark FACEBOOK and agrees not to object, oppose, cancel or otherwise interfere with any existing or future applications or registrations owned by Facebook for its FACEBOOK Marks, *except that* Vringo reserves all rights with respect to any existing or future applications or registrations owned by Facebook that include the word "Facebook" together with the word "tone" or "tones".

2. Within five (5) days of the Effective Date of this Agreement, Vringo shall amend its Class 09 description for its FACETONES U.S. trademark application, Serial Number 85/267,738, to "Computer application software for mobile devices, namely, software for importing a user's digital images including images of a user's face or a user's friends' faces from websites, automatically creating a slideshow, and using the slide show as a video ringtone."

3. Within sixty (60) days of the Effective Date of this Agreement, Vringo shall remove from all promotional, marketing, and advertising materials for Vringo or its goods or services all use of the term "social ringtone" and/or references to FACEBOOK as the exclusive online platform or website that integrates with FACETONES.

4. Except as set forth in paragraph B above, Vringo warrants and represents that it does not own and has not filed or caused to be filed any applications for registration of the FACETONES mark or any mark incorporating the word FACE and TONES or any similar mark.

5. Vringo agrees that all future filing for the FACETONES mark or any mark incorporating the word FACE and TONES will be limited to:

   (i) "Computer application software for mobile devices, namely, software for importing a user's digital images including images of a user's face or a user's friends' faces from websites, automatically creating a slideshow, and using the slide show as a video ringtone" in Class 09;

   (ii) "Telecommunication services for mobile devices for importing a user's digital images including images of a user's face or a user's friends' faces from websites, automatically creating a slideshow, and using the slide show as a video ringtone" in class 38; or

   (iii) such other recitation as is approved in writing by Facebook's counsel listed in Paragraph 26 below, which approval shall not be unreasonably withheld, delayed or denied.

6. Vringo agrees to the following limitations on its use of the FACETONES Mark:

   (i) Vringo's use of the FACETONES Mark will be limited to video ringtone goods and services, and any promotional merchandise and advertisements directly related thereto;

(ii) The goods and services offered under the FACETONES will always be promoted and described so that it is clear that "face" is being used descriptively to describe pictures of a user's and a user's friends' faces and not to refer to Facebook;

(iii) The FACETONES mark shall not be displayed using the stylization and/or any likeliness of the Facebook brand, including but not limited to lower-case, or in blue, or in a white and blue combination.

(iv) The FACETONES Mark shall not be used as a name for an online network. For the avoidance of doubt, the FACETONES Mark may be integrated with other online networks, platforms and/or websites as described in Paragraph 7 below.

7. Vringo may describe the FACETONES goods and services as integrated with Facebook provided that such description is fair and accurate, and complies with Facebook's Terms of Use, and provided that, within sixty (60) days of the Effective Date of this Agreement, all such descriptions do not suggest the goods and services are exclusively integrated with Facebook. For example, within sixty (60) days of the Effective Date of this Agreement, any reference by Vringo to FACEBOOK in describing Vringo's goods and services must also identify other online platforms or websites with which FACETONES is integrated so that it is clear to the consumers that FACETONES is not exclusively integrated with Facebook. Nothing in this Agreement modifies or supersedes the terms that govern Vringo's use of the Facebook service, including the Facebook Platform.

8. So long as there is no actual consumer confusion between Facebook and Vringo or the goods or services provided under the FACETONES Mark, Facebook agrees not to challenge Vringo's use or registration of the FACETONES Mark in connection with video ringtone goods and services provided that Vringo complies with the restrictions set forth in this Agreement. Facebook specifically reserves the right to oppose, or challenge in any way, any other marks which Vringo may adopt or seek to secure, including any other mark incorporating the term FACE.

9. Facebook acknowledges that, as of the Effective Date of this Agreement, Facebook's counsel has not learned of any instances of actual confusion of consumers as to perceptions of connection, association or affiliation between Facebook and Vringo or the video ringtone goods and services offered under the FACETONES mark. Facebook has not performed a search of its business records for any such instances of confusion. In the event that either Party learns of any instances of actual confusion of consumers as to perceptions of connection, association or affiliation between Facebook and Vringo or the video ringtone goods and services offered under the FACETONES mark, it shall notify the other Party thereof promptly and in writing. With respect to the first, second, third, and fourth instance of actual confusion or association, Vringo shall have ten (10) days to take corrective and mitigating efforts to Facebook's reasonable satisfaction.

10. In the event that Vringo does not cure an instance of confusion or association to Facebook's reasonable satisfaction, or in the event of a fifth instance of actual confusion or association, this Agreement shall be no bar to any trademark enforcement efforts deemed appropriate by Facebook at its sole discretion, including, but not limited to, cancellation proceedings before the TTAB, and court action for infringement and/or dilution, including injunctive relief.

11. The provisions of this Agreement are confidential, and the Parties agree not to disseminate or disclose to any other person or entity any of the terms and conditions of the Agreement. Notwithstanding the foregoing, (1) the Parties may publicly disclose (including, without limitation, in an 8K or other disclosure document) that there was a dispute regarding the FACETONES Mark, that the dispute has been resolved to the satisfaction of all the Parties, and that there is an agreement in place between the Parties regarding Vringo's use of the FACETONES Mark and (2) the Parties shall be permitted to disclose confidentially the terms and conditions of this Agreement to their respective officers, directors, employees, attorneys, auditors and insurers, or as otherwise required by law in the conduct of their respective businesses.

12. Each Party hereto shall be solely responsible for its own legal expenses and costs in connection with this Agreement, including the negotiation, execution, and performance of this Agreement.

13. Both Parties have participated in the negotiation and preparation of this Agreement. Therefore this Agreement shall be construed in a fair and objective manner, and not strictly for or against either Party.

14. This Agreement shall be construed under the laws of the State of California without respect to choice of law principles. The Parties further agree that jurisdiction and venue shall be in the jurisdiction and venue of the non-moving party (i.e., Northern District of California if Facebook is the non-moving party and New York if Vringo is the non-moving party). The Parties waive any objection to such jurisdiction or venue.

15. Nothing in this Agreement will be construed so as to impair any legal or equitable right of any Party hereto to enforce any of the terms of the Agreement by any means, including without limitation, an action for damages or a suit to obtain specific performance of any or all of the terms of the Agreement. The Parties acknowledge that a breach hereof will cause such injury as U.S. federal law and the laws of the State of California recognize as immediate and irreparable and that preliminary and permanent injunctive relief would be appropriate in the event such a breach is established.

16. The Parties to this Agreement acknowledge that they have had the opportunity to seek legal counsel and are represented by counsel concerning the matters resolved by the Agreement and the Agreement itself.

17. The Agreement is binding upon and shall inure to the benefit of each Party to this Agreement and their respective officers, directors, investors, employees, agents, subsidiaries, parent corporations, affiliated companies, licensees, predecessors, successors, assigns, and heirs.

18. This Agreement is not assignable without Facebook’s written approval and consent which shall not be unreasonably withheld.

19. Each person signing this Agreement represents and warrants that he or she has full legal authority to sign this Agreement on behalf of the Party for which he or she purports to act.

20. The provisions of this Agreement shall be effective worldwide.

21. There shall be no amendments, modifications or supplements to this Agreement unless any such amendments, modifications or supplements are in writing and signed by both Parties to this Agreement. This provision cannot be waived or otherwise rendered unenforceable except by a written document signed by both Parties to this Agreement.

22. This Agreement constitutes the entire agreement between the Parties with regard to the subject matter set forth herein and supersedes all prior and contemporaneous agreements, understandings, and representations between the Parties, oral or written, concerning the subject matter hereof. No representation, promise, condition, inducement or statement of intention, express or implied, that is not set forth in this Agreement has been made by any Party concerning such subject matter. No Party has relied upon any representation, promise, condition, inducement or statement of intention, express or implied, that is not set forth in this Agreement concerning such subject matter, and no Party shall be bound by any purported representation, promise, condition, inducement or statement of intention, express or implied, that is not set forth in this Agreement concerning such subject matter.

23. The invalidity of any paragraph herein, or any part hereof, shall not render the balance of the Agreement invalid. Any paragraph, or part thereof, which is determined to be invalid shall be severed from the Agreement and the remainder of the Agreement shall continue in full force and effect.

24. The failure of any Party at any time or times to demand strict performance by the other Parties of any of the terms or conditions of the Agreement shall not be construed as a continuing waiver or relinquishment thereof and each may at any time demand strict and complete performance by the other of such terms and conditions.

25. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Any signature delivered by a party by facsimile or other form of electronic transmission shall be deemed to be an original signature hereto.

26. All notices and other written communications relating to this Agreement shall be in writing and shall be deemed to be fully given and received if sent by Federal Express or registered mail, postage prepaid, to the respective Parties' attorneys at the following addresses:

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to Vringo, Inc.:

Andrew Perlman
Vringo, Inc.
44 West 28th Street
Suite 1414 New York
New York 10001
andrew.perlman@vringo.com

With a copy to:

Oliver Herzfeld
Joseph, Herzfeld, Hester & Kirschenbaum
233 Broadway Fl 5
New York, NY 10279-0599
Phone: 917-940-5399
E-mail: oherzfeld@gmail.com

to Facebook:

Anne H. Peck
Cooley LLP
Five Palo Alto Square
3000 El Camino Real
Palo Alto, CA 94306-2155
Phone: (650) 843-5096
E-mail: peckah@cooley.com

If sent by registered mail, the notice shall also be sent by e-mail. Either Party hereto may change its address for the purposes of this Agreement by giving the other Party written notice of its new address.

WHEREFORE, the Parties hereto have caused this Agreement to be executed.

FACEBOOK, INC.

By: /s/ Kathleen E. Johnston

Name: Kathleen E. Johnston
Title: IP Counsel
Date: February 9, 2012

VRINGO, INC.

By: /s/ Andrew Perlman

Name: Andrew Perlman
Title: President
Date: February 9, 2012

Exhibit 31.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Andrew Perlman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vringo, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)):

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 15, 2012

/S/ ANDREW PERLMAN

Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Ellen Cohl, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vringo, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)):

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 15, 2012

/S/ ELLEN COHL

Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q of Vringo, Inc. (the "Company") for the quarter ended March 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report") I, Andrew Perlman, Chief Executive Officer of the Company, certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002,18 U.S.C. § 1350, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or Section 15 (d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2012

/S/ ANDREW PERLMAN

Andrew Perlman
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q of Vringo, Inc. (the "Company") for the quarter ended March 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report") I, Ellen Cohl, Chief Financial Officer of the Company, certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. § 1350, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2012

/S/ ELLEN COHL

Ellen Cohl
Chief Financial Officer
(Principal Financial Officer)