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

# FORM 10-Q

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

**For the quarterly period ended September 30, 2011**

☐ **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**<br>**(State or other jurisdiction of Incorporation or Organization)** | **20-4988129**<br>**(I.R.S. Employer Identification No.)** |
| **44 W. 28th Street New York, New York**<br>**j(Address of Principal Executive Offices)** | **10001**<br>**(Zip Code)** |

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

**18 East 16th Street, 7th Floor, New York, New York 10003**
**(Former name or former address, if changed since last report)**

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 x 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 x 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 definitions 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 | x |

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

As of November 14, 2011, 6,229,362 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)**

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| | U.S.$ | U.S.$ |
| **Current assets** | | |
| Cash and cash equivalents | **1,713** | 5,407 |
| Short-term deposit (restricted) | — | 20 |
| Accounts receivable | **279** | 80 |
| Prepaid expenses and other current assets | **92** | 168 |
| **Total current assets** | **2,084** | 5,675 |
| **Long-term deposit** | **8** | 9 |
| **Property and equipment**, at cost, net of $449 and $393 accumulated depreciation and amortization, as of September 30, 2011 and December 31, 2010, respectively | **154** | 178 |
| **Deferred tax assets—long-term** | **26** | 27 |
| **Total assets** | **2,272** | 5,889 |

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 | September 30, 2011 U.S.$ | December 31, 2010 U.S.$ |
|---|---|---|---|
| **Current liabilities** | | | |
| Deferred short-term tax liabilities, net | | **55** | 50 |
| Accounts payable and accrued expenses* | | **567** | 421 |
| Accrued employee compensation | | **270** | 358 |
| Convertible notes | 4 | **2,447** | — |
| Accrued short-term severance pay | | — | 178 |
| Current maturities of venture loan | 5 | — | 1,262 |
| **Total current liabilities** | | **3,339** | 2,269 |
| **Long-term liabilities** | | | |
| Accrued severance pay | | **170** | 178 |
| Venture loan | 5 | — | 1,911 |
| Derivative liabilities on account of warrants | 3 | **2,156** | 1,770 |
| **Total long-term liabilities** | | **2,326** | 3,859 |
| **Commitments and contingencies** | 7 | | |
| **Deficit in stockholders' equity** | 6 | | |
| Preferred stock, $0.01 par value per share; 5,000,000 authorized; none issued and outstanding as of September 30, 2011 and December 31, 2010 | | — | — |
| Common stock, $0.01 par value per share 28,000,000 authorized; 6,163,196 and 5,405,080 issued and outstanding as of September 30, 2011 and December 31, 2010 respectively | | **62** | 54 |
| Additional paid-in capital | | **31,275** | 29,774 |
| Deficit accumulated during the development stage | | **(34,730)** | (30,067) |
| **Total deficit in stockholders' equity** | | **(3,393)** | (239) |
| **Total liabilities and deficit in stockholders' equity** | | **2,272** | 5,889 |

* Amounts recorded as of September 30, 2011 and December 31, 2010, include $2 and $20 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)**

| | Three months ended September 30, | | Nine months ended September 30, | | Cumulative from inception to September 30, |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 |
| | U.S.$ | U.S.$ | U.S.$ | U.S.$ | U.S.$ |
| **Revenue** | **182** | 54 | **556** | 128 | 787 |
| **Costs and Expenses*** | | | | | |
| Cost of revenue | **35** | 64 | **105** | 131 | 316 |
| Research and development | **480** | 668 | **1,459** | 1,848 | 12,825 |
| Marketing | **463** | 517 | **1,769** | 1,624 | 11,079 |
| General and administrative | **721** | 478 | **2,076** | 1,192 | 7,264 |
| **Total operating expenses** | **1,699** | 1, 727 | **5,409** | 4,795 | 31,484 |
| **Operating loss** | **(1,517)** | (1, 673) | **(4,853)** | (4,667) | (30,697) |
| Non-operating income | **4** | 3 | **8** | 12 | 475 |
| Non-operating expenses | **(26)** | (27) | **(44)** | (52) | (204) |
| Interest and amortization of debt discount expense | **(40)** | (155) | **(267)** | (4,164) | (5,399) |
| Gain (loss) on revaluation of warrants | **(431)** | (966) | **(386)** | (518) | 566 |
| Gain on restructuring of venture loan | — | — | **963** | — | 963 |
| Loss on extinguishment of debt | **—** | — | **—** | — | (321) |
| **Loss before taxes on income** | **(2,010)** | (2,818) | **(4,579)** | (9,389) | (34,617) |
| Income tax expense | **(40)** | (14) | **(84)** | (52) | (113) |
| **Net loss** | **(2,050)** | (2,832) | **(4,663)** | (9,441) | (34,730) |
| Basic and diluted net loss per common share | **(0.32)** | (0.51) | **(0.78)** | (4.15) | (25.27) |
| Weighted average number of shares used in computing basic and dilutive net loss per common share | 6,362,046 | 5,574,992 | 5,969,225 | 2,276,447 | 1,374,461 |

* The amount recorded for the three and nine months ending September 30, 2011 and 2010 and the cumulative period from inception include $49, $211, $154, $325 and $1,262, 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)**
**(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) |

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)**
**(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 |
| Cashless exercise of warrants to charity | *— | — | *— | | *— |
| 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 | **—** | **—** | **1,042** | **—** | **1,042** |
| Grants of stock options, net of forfeitures—non employees | **—** | **—** | **47** | **—** | **47** |
| Exercise of warrants | **3** | **—** | **—** | **—** | **3** |
| Issuance of shares to a consultant | ***—** | **—** | **70** | **—** | **70** |
| Issuance of shares in connection with restructuring of venture loan | **3** | **—** | **210** | **—** | **213** |
| Grants of warrants to charity | ***—** | **—** | **43** | **—** | **43** |
| Exercise of stock options | **2** | **—** | **—** | **—** | **2** |
| Beneficial conversion feature recorded in connection with convertible notes payable | **—** | **—** | **89** | **—** | **89** |
| Net loss for the period | **—** | **—** | **—** | **(4,663)** | **(4,663)** |
| **Balance as of September 30, 2011 (Unaudited)** | **62** | **—** | **31,275** | **(34,730)** | **(3,393)** |

* 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)**

| | Nine months ended September 30, | | Cumulative from inception to September 30, |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| | U.S.$ | U.S.$ | U.S.$ |
| **Cash flows from operating activities** | | | |
| Net loss | **(4,663)** | (9,441) | (34,730) |
| Adjustments to reconcile net cash flows used in operating activities: | | | |
| **Items not affecting cash flows** | | | |
| Depreciation and amortization | **56** | 66 | 449 |
| Change in deferred tax assets and liabilities | **6** | (3) | 34 |
| Increase (decrease) in accrued severance pay | **(179)** | — | 148 |
| Share-based payment expenses | **1,202** | 2,108 | 3,895 |
| Accrued interest expense | **98** | 2,457 | 2,855 |
| Loss (gain) on revaluation of warrants | **386** | 518 | (566) |
| Gain on restructuring of venture loan | **(963)** | — | (963) |
| Loss on extinguishment of debt | — | — | 321 |
| Amortization of discount in connection with convertible notes | **36** | — | 36 |
| Exchange rate (gains) losses | **6** | (26) | 58 |
| **Changes in current assets and liabilities** | | | |
| Increase in receivables, prepaid expenses and other current assets | **(122)** | (116) | (371) |
| Increase (decrease) in payables and accruals | **43** | (297) | 817 |
| Net cash used in operating activities | **(4,094)** | (4,734) | (28,017) |
| **Cash flows from investing activities** | | | |
| Acquisition of property and equipment | **(32)** | (68) | (603) |
| Decrease (increase) in lease deposits | **1** | 3 | (8) |
| Proceeds from (investment in) restricted short-term deposits | — | 2,582 | (20) |
| Net cash provided by (used in) investing activities | **(31)** | 2,517 | (631) |

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)**

| | Nine months ended September 30, | | Cumulative from inception to September 30, |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| | U.S.$ | U.S.$ | U.S.$ |
| **Cash flows from financing activities** | | | |
| Receipt of venture loan | — | — | 5,000 |
| Receipt of convertible notes | **2,500** | — | 2,500 |
| Repayment on account of venture loan | **(2,085)** | (418) | (3,641) |
| Issuance of common stock and warrants, net | — | 9,263 | 9,263 |
| 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 | **5** | 11 | 19 |
| **Net cash provided by financing activities** | **420** | 8,856 | 30,382 |
| Effect of exchange rate changes on cash and cash equivalents | **11** | 11 | (21) |
| Increase (decrease) in cash and cash equivalents | **(3,694)** | 6,650 | 1,713 |
| Cash and cash equivalents at beginning of period | **5,407** | 744 | — |
| Cash and cash equivalents at end of period | **1,713** | 7,394 | 1,713 |
| **Supplemental disclosure of cash flows information** | | | |
| Interest paid | **151** | 348 | 1,137 |
| **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 | 1,564 |
| Exchange of series B convertible preferred stock for common stock | — | 11,971 | 11,971 |
| Exchange of series A convertible preferred stock for common stock | — | 24 | 24 |
| Conversion of bridge notes into common stock | — | 2,545 | 2,545 |
| Amortization of discounts to temporary equity | — | 3 | 21 |
| Issuance of shares in consideration of restructuring of venture loan | **213** | — | 213 |
| Beneficial conversion feature recorded in connection with convertible notes | **89** | — | 89 |

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

**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 provides a 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.

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. 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.

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 and nine month periods ended September 30, 2011 and for the cumulative period from inception until September 30, 2011, the Company incurred net losses of $2.0 million, $4.7 million and $34.7 million, respectively. The Company's deficit in stockholders' equity as of September 30, 2011 was $3.4 million.

In July 2011, the Company raised an aggregate amount of $2.5 million through the issuance of convertible notes ("Convertible Notes") in a private placement and intends to seek additional financing (see Note 4). In November 2011, the Company filed a preliminary proxy statement to obtain stockholder approval of the shares issuable in the private placement and the additional financing pursuant to section 713 of the NYSE Amex rules, since such shares in the aggregate are in excess of 19.99% of the Company's outstanding common stock (see Note 9b). There is no assurance that the subsequent financing will be consummated. Should the subsequent financing be consummated and the Convertible Notes be converted, the Company believes it would have sufficient funds to meet planned operating needs at least into the second quarter of 2012. Should the subsequent financing not be consummated by January 1, 2012 and the Convertible Notes are voluntarily converted before such date, the Company believes it would then have sufficient funds to meet planned operating needs only into the first quarter of 2012. Should the subsequent financing not be consummated by January 1, 2012 and the Convertible Notes have not been voluntarily converted before such date, the Convertible Notes and the accrued interest thereon will become due and payable. The Company does not currently have sufficient funds to repay the Convertible Notes and the accrued interest due upon maturity. The Company is exploring further opportunities, including acquisitions, to raise funds necessary to ensure that the Company is a going concern. There can be no assurance, however, that any such opportunities will materialize.

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.

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.

As of September 30, 2011, approximately $397 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. These financial statements should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2010. The results of operations for the three and nine month period ended September 30, 2011 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 September 30, 2011, the exchange rate was U.S. $1 = NIS 3.712 (December 31, 2010—U.S. $1 = NIS 3.549). The average exchange rate for the three and nine months ended September 30, 2011 was U.S. $1 = 3.548 NIS and U.S. $1 = 3.530 NIS, respectively (three and nine months ended September 30, 2010—U.S. $1 = NIS 3.794 and U.S. $1 = NIS 3.778, respectively).

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

***(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 useful lives of property and equipment, 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) Accounting for share-based compensation***

Share-based compensation is recognized as an expense in the financial statements and such cost is measured at the grant-date fair value of the equity-settled award. The expense is recognized using the straight-line method, over the requisite service period, and is reduced for estimated forfeitures.

The fair value of stock options granted to management, employees and directors (except for the $5.50 options granted in 2010 and in 2011) is estimated at the date of grant using the Black-Scholes-Merton option-pricing model, which takes into consideration the share price at the date of grant, the exercise price of the option, the expected life of the option, risk-free interest rate, expected dividend and the expected volatility. The fair value of the stock options granted to management, employees and directors at an exercise price of $5.50 was valued using the Lattice model, which takes into consideration the share price at the date of grant, the exercise price of the option, the expected life of the option, risk free interest rate, expected dividend, and the expected volatility. The Company uses the Lattice option pricing model for the valuation of options that are not plain vanilla that are issued to management, employees and directors.

The fair value of stock options granted to consultants is estimated at the date of grant using the Black-Scholes-Merton option-pricing model. In cases where no measurement date has been reached nor is there a counter-party performance commitment, the options are revalued at the reporting date. The options are valued using the share price, the exercise price of the option, the expected life of the option, risk-free interest rates and the expected volatility, at the reporting period date.

***(f) Impact of new accounting standards not yet adopted***

In May 2011, the FASB issued guidance to amend the accounting and disclosure requirements on fair value measurements (ASU 2011-04). The new guidance limits the highest-and-best-use measure to nonfinancial assets, permits certain financial assets and liabilities with offsetting positions in market or counterparty credit risks to be measured at a net basis, and provides guidance on the applicability of premiums and discounts. Additionally, the new guidance expands the disclosures on Level 3 inputs by requiring quantitative disclosure of the unobservable inputs and assumptions, as well as description of the valuation processes and the sensitivity of the fair value to changes in unobservable inputs. The new guidance will be effective beginning January 1, 2012. The Company does not anticipate a material impact on its financial statements upon adoption of the new requirements.

***(g) 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 September 30, | | Nine months ended September 30, | | Cumulative from inception to September 30, |
|---|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** | **2011** |
| **Numerator:** | **(in thousands, except share and per share data)** | | | | |
| Net loss attributable to common stock shares (basic and diluted) | **(2,050)** | (2,832) | **(4,663)** | (9,441) | (34,730) |
| **Denominator:** | | | | | |
| Weighted average number of common stock shares outstanding during the period (basic and diluted) | **6,133,530** | 5,092,278 | **5,816,215** | 2,099,464 | 1,319,796 |
| Weighted average number of penny stock options and warrants (basic and diluted) | **228,516** | 482,714 | **153,010** | 176,983 | 54,665 |
| **Basic and diluted common stock share outstanding** | **6,362,046** | 5,574,992 | **5,969,225** | 2,276,447 | 1,374,461 |
| **Basic and diluted net losses per common stock share** | **(0.32)** | (0.51) | **(0.78)** | (4.15) | (25.27) |

***(h) Reclassification***

Certain balances have been reclassified to conform to current year presentation.

**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. 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.

The Company measures its cash equivalents, Special Bridge Warrants and Conversion Warrants at fair value. Cash equivalents are classified within Level 1 because they are valued using quoted active market prices. The Special Bridge Warrants and Conversion Warrants 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, see Note 4) which utilize significant inputs that are unobservable in the market such as the expected stock price volatility, dividend yield, probability and timing of the down-round being triggered 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 September 30, 2011 and December 31, 2010, aggregated by the level in the fair-value hierarchy within which those measurements fall:

| | | Fair value measurement at reporting date using | | |
|---|---|---|---|---|
| **Description** | **September 30, 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 | **2,156** | — | — | 2,156 |
| **Total liabilities** | **2,156** | — | — | 2,156 |

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

| | | Fair value measurement at reporting date using | | |
|---|---|---|---|---|
| Description | December 31, 2010 | 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 | **4,542** | 4,542 | — | — |
| **Total assets** | **4,542** | 4,542 | — | — |
| **Liabilities** | | | | |
| Derivative liability on account of warrants | **1,770** | — | — | 1,770 |
| **Total liabilities** | **1,770** | — | — | 1,770 |

In addition to the above, the Company's financial instruments at September 30, 2011 and December 31, 2010, consisted of cash, accounts receivable, long-term deposits, accrued expenses, Convertible Notes (September 30, 2011, only) and the venture loan (December 31, 2010, only). The carrying amounts of all the aforementioned financial instruments, approximate fair value, except the venture loan (see below).

The following table summarizes the changes in the Company's liabilities measured at fair value using significant unobservable inputs (Level 3) during the nine months ended September 30, 2011:

| | Level 3 | | |
|---|---|---|---|
| | Special Bridge Warrants | Conversion 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 | 556 | (170) | 386 |
| **Balance at September 30, 2011** | **1,332** | **824** | **2,156** |

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

Carrying amounts and the related estimated fair value of the venture loan are as follows (see also Note 5):

| | September 30, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | U.S.$ thousands | | U.S.$ thousands | |
| Venture loan | — | — | 3,173 | 3,317 |

**Note 4—Convertible Notes**

In July, 2011, the Company entered into agreements ("Securities Purchase Agreements") with selected accredited investors (the "Purchasers") to sell and issue Convertible Notes in the aggregate amount of $2.5 million. The Convertible Notes mature on January 1, 2012 (the "Maturity Date") unless earlier converted, and bear interest at a rate of 1.25% per annum. Interest on the Convertible Notes is due on the Maturity Date unless earlier converted. The Company's obligations under the Convertible Notes are secured by a security interest in all of the Company's assets, including a pledge over the shares of its wholly-owned subsidiary, pursuant to the Security Purchase Agreements.

The Convertible Notes are convertible into shares of common stock at a conversion price equal to the lower of (i) the closing price of the Company's common stock on the announcement date of the note offering, (ii) the closing price of the Company's common stock on the closing date of the note offering and (iii) a ten percent (10%) discount to the price at which the securities are sold in the new stock offering (see Note 9b).

Should the Company consummate a future stock offering, such as the one described in Note 9b, the Convertible Notes and any accrued interest would automatically convert into the same securities and contain the same terms (other than the conversion price, which is set forth above) as in the subsequent stock offering. In addition, the holders of the Convertible Notes may voluntarily convert the Convertible Notes and any accrued interest into shares of our common stock at any time at a conversion price equal to the lower of (i) and (ii) above.

The conversion of the Convertible Notes would trigger anti-dilution provisions in certain of our outstanding warrants, which would decrease the exercise price of these warrants to the conversion price of the Convertible Notes and require that the Company increase the number of shares issuable under certain of the warrants. Specifically, the exercise prices of the outstanding Special Bridge Warrants to purchase 864,332 shares of common stock at an exercise price of $2.75 per share and Conversion Warrants to purchase 1,728,664 shares of common stock at an exercise price of $5.06 per share would be reduced to the conversion price of the Convertible Notes. In addition, the Company would be required to issue additional Special Bridge Warrants at the reduced exercise price. The issuances would have a dilutive impact on the Company's earnings (losses) per share in future periods and could result in a decline in the market price of the Company's common stock.

The Convertible Notes contain certain covenants and restrictions, including, among others, that, for so long as the Convertible Notes are outstanding, the Company will not pay any dividends or distributions, permit any liens on its property or assets or enter into merger or acquisition or sell all or substantially all of its assets, subject to certain exceptions. Events of default under the Convertible Notes include, among others, payment defaults, transfer of a substantial portion of the Company's assets and certain bankruptcy-type events involving the Company or its subsidiary. Upon an event of default, all obligations under the Convertible Notes would become due and payable and the interest rate would increase to 4.25%.

As of the date of the issuance of the Convertible Notes, an amount of $89 thousand was allocated to additional paid-in capital in respect of the beneficial conversion feature, with a corresponding discount to the Convertible Notes, to be amortized as interest expense over the repayment period of the Convertible Notes. Amortization expenses for the three and nine months ended September 30, 2011 amounted to $36 thousand.

| | Convertible Notes | Discount | Total |
|---|---|---|---|
| | U.S.$ thousands | | |
| Original allocated amount | 2,500 | (89) | 2,411 |
| Amortization of discount, included in statement of operations | — | 36 | 36 |
| **Balance at September 30, 2011** | **2,500** | **(53)** | **2,447** |

**Note 5—Venture Loan**

On June 8, 2011, the Company entered into a Settlement Agreement (the "Agreement") with the lenders of the venture loan (the "Lenders"), pursuant to which the Lenders agreed to accept less than the full amount owed to them by the Company. As part of the Agreement, the Company immediately repaid $331 thousand, and placed an additional $1,051 thousand as collateral into a restricted account. In addition, the Company issued the Lenders 250,000 shares of its common stock, in exchange for 250,000 Senior Lender Warrants, which were cancelled. In July 2011, the Company repaid the outstanding $1,051 thousand balance of its venture loan, using the funds set aside in the restricted account.

On the date of the Agreement, subsequent to the repayment of the $331 thousand, the loan balance was recorded down to $1,051 thousand. The difference between the fair market value of the shares of common stock issued and the fair market value of the cancelled Senior Lender Warrants, amounting to $231 thousand, was recorded in the statement of stockholders' equity. In addition, the difference between the carrying value of the loan and the total sum of future payments on the loan, including the above mentioned $231 thousand, net of legal fees, resulted in a gain on restructuring of debt, in the total amount of $963 thousand, recorded in the statements of operations. Basic and diluted per share gain on restructuring of venture loan is $0.16.

**Note 6—Stockholders' Equity**

***Stock Options***

On January 31, 2011, the Company granted 480 thousand options to purchase shares of common stock to its employees, management and consultants (see below).

During the three and nine month period ended September 30, 2011, 78 thousand and 314 thousand stock options were forfeited and 200 thousand and 220 thousand stock options were exercised, respectively. In addition, during the three and nine month period ended September 30, 2011, the Company issued 24 thousand and 51 thousand shares of common stock to its consultants, respectively, as a result, compensation expense in the total amount of approximately $24 and $70 thousand was recorded.

In January 2011, the Company granted warrants to purchase 40 thousand shares of common stock as a charitable donation. 20 thousand of these warrants were granted at an exercise price of $5.50 per share and the remaining 20 thousand at an exercise price of $0.01 per share. The total fair value of approximately $43 thousand was calculated using the Black-Scholes-Merton model, using the following assumptions: stock price of $1.68, expected life of 6 years, risk-free interest rate of 2.38%, expected volatility of 56.41% and no dividend yield. The total fair value of the grant was recorded as an additional share-based payment expense in the nine month period ended September 30, 2011. In April 2011, the Company issued 19,862 shares of common stock upon exercise of 20 thousand charitable warrants with an exercise price of $0.01 per share.

As of September 30, 2011, there was approximately $2.1 million of total unrecognized share-based payment costs related to non-vested share-based compensation arrangements granted under the Company’s incentive plans. That cost is expected to be recognized over an estimated 3 years period.

**Note 6—Stockholders' Equity—(cont'd)**

On January 31, 2011, the Company's Board of Directors (the "Board") approved the granting of 216 thousand options to management, employees and consultants at an exercise price of $0.01 per share. These options will vest yearly over three and four year periods (according to the applicable schedule of each optionee). The Board also approved the granting of 264 thousand options at an exercise price of $5.50 to its management, employees and consultants. These options will vest over three and four years (according to the applicable schedule of each optionee).

As of September 30, 2011, there were approximately 11 million shares of common stock available for future grants.

The following table summarizes the option activity for the year 2011 to balance sheet date, by grant date:

| | No. of options granted to Employees | No. of options granted to Non-Employees | Exercise price | Average fair value of granted option |
|---|---|---|---|---|
| | | | U.S.$ | U.S.$ |
| January 31, 2011 | 194,000 | 22,000 | 0.01 | 1.67 |
| January 31, 2011 | 252,500 | 12,000 | 5.50 | 0.42 |
| June 16, 2011 | — | 14,000 | 0.01 | 1.53 |
| September 1, 2011 | — | 10,000 | 0.01 | 1.38 |

The fair value of the $0.01 options granted January 31, 2011, to management employees and directors was calculated using the Black-Scholes-Merton model with an expected life of 4-4.25 years, a risk-free interest rate of 1.44%-1.55% and an expected volatility of 47.9%-52.2% and no dividend yield. The fair value of the common stock used for this calculation was $1.68.

The fair value of the $5.50 options granted January 31, 2011, to employees and directors was calculated using the Lattice model with an expected life of 6 years, a risk-free interest rate of 2.38% and an expected volatility of 56.41% and no dividend yield. The fair value of the common stock used for this calculation was $1.68.

The total fair value of all options granted to non-employees, is calculated using the Black-Scholes-Merton model with an expected life of 2.25-6.00 years, stock price of $1.42, a risk free interest rate of 0.31%-1.94% and an expected volatility of 49.73%-57.38% and no dividend yield.

**Note 7—Commitments and Contingencies**

Future minimum lease payments under non-cancelable operating leases for office space and cars, as of September 30, 2011, are as follows:

| | U.S.$ thousands |
|---|---|
| **Year ending December 31,** | |
| 2011 (three months ending December 31, 2011) | 26 |
| 2012 | 55 |
| 2013 | 8 |
| | 89 |

Rental expense for operating leases for both office space and cars for the nine months ended September 30, 2011 and 2010 was $128 thousand, and $122 thousand, respectively. Rental expense for operating leases for both office space and cars for the three months ended September 30, 2011 and 2010 was $38 thousand, and $37 thousand, respectively.

**Note 8—Risks and Uncertainties**

(a) In order to continue operating as a going concern, the Company needs to raise capital through further debt or equity transactions. The Company is thus exposed to a market risk that it will not be able to raise this capital, as disclosed in Note 1.

(b) In order for the Company to raise capital through equity or equity-linked transactions, stockholder approval is required to enable the Company to issue more than 19.99% of its outstanding shares of common stock pursuant to the rules and regulations of the NYSE Amex. Should stockholders not approve such issuances, the Company's sole means to raise capital would be through debt, which could have a material adverse effect on the Company's balance sheet and overall financial condition. The Company's inability to issue adequate shares for full conversion of the Convertible Notes (see Note 4) may require the Company to utilize cash to repay the $2.5 million of principal and accrued interest due under the note offering by January 1, 2012, which would reduce the amount of cash available to the Company to operate its business. The Company does not currently have sufficient funds in cash to repay the Convertible Notes. In addition, without stockholder's approval, the Company would not be able to consummate the new stock offering (see Note 9b) and will be required to return all related funds deposited by investors.

(c) 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.

(d) 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.

(e) The Company's Facetones™ application creates 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.

(f) 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.

**Note 9—Subsequent Events**

(a) On October 4, 2011, the Company announced a Cooperation Agreement with Zlango Ltd., a mobile messaging company ("Zlango"). Under the terms of the Cooperation Agreement, the parties agreed to cooperate on projects while retaining their respective intellectual property and independent operations. The Cooperation Agreement supersedes prior arrangements and proposed transactions between the companies, including the non-binding Letter of Intent ("LOI") entered into between the parties announced on July 25, 2011, pursuant to which the Company agreed to acquire and merge operations with Zlango, subject to certain conditions, which the parties have agreed to terminate.

(b) On November 1, 2011, the Company filed a preliminary proxy statement with the SEC to commence a new stock offering with selected accredited investors to purchase shares of the Company's common stock at an offering price equal to 80% of the price of the Company's common stock on the date offering amounts are funded. The funds for the new stock offering will remain in an escrow account, pending stockholder approval (see Note 8b) to issue shares of common stock in excess of 19.99% of current shares outstanding in connection with this new stock offering and in connection with the conversion of the Convertible Notes (see Note 4). In the event stockholders fail to approve the issuance of common stock, the funds will be returned to their owners.

(c) On November 11, 2011 the Company announced an agreement with ZTE Corporation, the largest handset maker in China and fourth-largest globally, to preload Facetones™ application on Android handsets, manufactured by ZTE. These handsets will be sold via mobile phone operators and through various OEM contracts to brand name handset manufacturers.

**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 herein and in our Annual Report on Form 10-K filed on March 31, 2011. 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 allows 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. We believe that our services represent the next stage in the evolution of the mobile content and mobile social applications market. We anticipate that the mobile content and service market will begin to migrate from standard audio ringtones and content to high-quality video services, with social networking capability and integration with web systems. We also 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 encompasses a suite of mobile and PC-based tools, enables users to create, download and share video and other social content with ease as part of the normal communication process, and provides our business partners with a consumer-friendly and easy-to-integrate monetization platform.

To date, we have developed four different mobile video, personalization and mobile social application platforms:

- **Video Ringtones** - our original product platform that allows users to create, download and share mobile entertainment content in the form of video ringtones for mobile phones;

- **Facetones™** - a visual ringtone experience based on social network pictures from a user's friends;

- **Video ReMix** - an application that allows a user to create his or her own music video by tapping on a smartphone or tablet, in partnership with music artists and brands; and

- **Fan Loyalty** - a platform that allows users to obtain video and video ringtones, view information on certain reality television series and stars and vote for contestants.

Over the past year, Vringo developed the three new product platforms in addition to our core Video Ringtone platform. To develop these new platforms, we have leveraged our existing technology, intellectual property and our extensive experience with mobile video, personalization and social applications. We believe that these new platforms will represent a major component of our business going forward.

We were incorporated in January 2006 and are still a development stage company. Our principal executive offices are located in New York, New York and we have a subsidiary, Vringo (Israel) Ltd., located in Bet-Shemesh, Israel.

On July 21, 2011, the NYSE Amex (the "Exchange") accepted our plan for regaining compliance with the Exchange's listing standards (the "Plan"). The Plan was submitted on September 23, 2011, in response to a notice received on May 24, 2011 from the Exchange regarding our non-compliance with certain continued listing standards. While we are not yet in compliance with the Exchange's listing standards, with the Exchange's acceptance of the Plan, our listing is now continued under an extension with a target completion date of December 31, 2011. We continue to provide the Exchange staff with updates relating to the initiatives detailed in the Plan. While the NYSE has not initiated delisting proceedings, there is no assurance that it will not do so in the future.

The continuation of our business is dependent upon us raising additional funding. We believe that current cash levels will be sufficient to support our activity into the first quarter of 2012. Should the planned subsequent financing be consummated, we believe cash levels will be sufficient to support our activities at least into the second quarter of 2012. However, if we are required to repay our Convertible Notes in full on January 1, 2012, we do not currently have sufficient funds to repay the Convertible Notes. We are exploring further opportunities, including acquisitions, to raise funds necessary to ensure that we are a going concern. There can be no assurance, however, that any such opportunities will materialize. The issuance of additional equity securities by us could result in a substantial dilution to our current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase our liabilities and future cash commitments.

**Business Overview**

Since inception through the close of the third quarter 2011, we have generated only $787 thousand in revenues, which includes: $497 thousand from revenue-share subscription services, $109 thousand from one-time setup fees, $98 thousand from Facetones™, $45 thousand from Fan Loyalty application formats, and $30 thousand from Video ReMix platform. From inception and until September 30, 2011, we recorded losses of $34.7 million and net cash outflow from operations of $28 million. We believe that current cash levels will be sufficient to support our activities into the first quarter of 2012. Should the planned subsequent financing be consummated, we believe cash levels will be sufficient to support our activities at least into the second quarter of 2012. Should the subsequent financing not be consummated by January 1, 2012 and the Convertible Notes have not been voluntarily converted before such date, the Convertible Notes and the accrued interest thereon will become due and payable. We do not currently have sufficient funds to repay the Convertible Notes and the accrued interest due upon maturity (see Liquidity and Capital Resources section below). We are exploring further opportunities, including acquisitions, to raise funds necessary to ensure that we are a going concern. There can be no assurance, however, that any such opportunities will materialize. The continuation of our business is dependent upon us raising additional financing. The issuance of additional equity securities by us is subject to shareholder approval, and could result in a substantial dilution to our current stockholders. All of our audited consolidated financial statements since inception have contained a going concern reference by our auditors, which means that our auditors have substantial doubt about our ability to continue as a going concern.

Our video ringtone platform was our initial product focus since inception. 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. Our solution, furthermore, 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 VringFoward™ 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. We have been moving to a paid service model together with mobile carriers and other partners around the world. The initial 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 to date, and we continue to create new intellectual property.

As of November 14, 2011, we have commercial video ringtone services with the following seven partners:

- Celcom Axiata Berhad, 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. 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 272 thousand subscribers to our paid service and an additional 15 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, where we have launched our products and services and have 23 thousand subscribers to our paid service, and which has more than 94.0 million subscribers worldwide (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 15 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 anticipated to be relaunched in the fourth quarter 2011);

- 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); and

- 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, and we have 23 thousand subscribers to our paid service. Our paid service is on temporary hold pending clarification of regional legalities in India.

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.

According to a recent study by the United Nations, there were 5 billion global mobile subscribers in 2010. As of November 14, 2011, our partners have an aggregate of approximately 700 million subscribers, of which 340 thousand are paid subscribers to our service, and another 25 thousand subscribers have enrolled on a free-trial basis. This compares to 86 thousand paid subscribers across all of our launches as of September 30, 2010, an increase of over 295%.

We have recently launched our new Facetones™ social ringtone platform. This platform generates social visual ringtone content automatically by aggregating and displaying your 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 mobile phones with Android and the Symbian S3 operating systems. We are working on an iPhone version of this product as well as planning for other versions for other operating systems such as Windows Phone and feature phones such as the S40 Nokia platform.

Facetones™ is experiencing fast 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 November 4, 2011, the Facetones™ free ad-supported version had more than 200 thousand downloads and is generating 15.3 million requests in mobile ad inventory on a weekly basis. These results have been achieved in approximately ten weeks of active promotion of the product.

Facetones™ is offered direct to consumers via leading mobile application stores and download sites where both for purchase versions (at prices ranging from a few to several dollars) as well as ad-supported free versions are available. We have announced placement deals for the app with GetJar, the world’s largest independent app store, and with Mobango. In July 2011, we launched Facetones™ with BlueVia, the new global software developer platform of Telefonica, the largest mobile operator in the Spanish speaking world and fourth largest globally. Facetones™ will be initially available on Telefonica's application store (Mstore) in several global markets. 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 US, 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. A preliminary deal with Nokia was concluded to support development services of the Facetones™ application for the S3 platform and was recently launched on the Ovi Store.

In the first quarter of 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 “Booty Symphony” 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. Vringo continues to seek new business for this platform with other recording artists and sponsored by additional major brands.

In the second quarter of 2011, we launched our Fan Loyalty platform 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 features exclusive content and fully integrated live voting capabilities for the blockbuster "Star Academy" reality music show, which reaches over 300 million viewers and is available in over 10 countries in the region.

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. Vringo is in discussions with several other entertainment groups regarding potential deals for this Fan Loyalty platform.

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.  These handsets will be sold via mobile phone operators and through various OEM contracts to brand name handset manufacturers.

***Finance Overview***

We are a development stage company. From inception through September 30, 2011, we have raised approximately $28.5 million. These amounts have been used to finance our operations, as until now, we have not yet generated any significant revenues. From inception and until September 30, 2011, we recorded losses of $34.7 million and net cash outflow from operations of $28 million.

During July 2011, we raised an aggregate amount of $2.5 million through the issuance of Convertible Notes in a private placement and intend to seek additional financing. On November 1, 2011, we filed a preliminary proxy statement to obtain stockholder approval of the shares issuable in the private placement and the additional financing pursuant to section 713 of the NYSE Amex rules, since such shares in the aggregate are in excess of 19.99% of our outstanding common stock. There is no assurance that the subsequent financing will be consummated. Should the subsequent financing be consummated and the Convertible Notes be converted, we believe we would have sufficient funds to meet planned operating needs at least into the second quarter of 2012. Should the subsequent financing not be consummated by January 1, 2012 and the Convertible Notes are voluntarily converted before such date, we believe we would then have sufficient funds to meet planned operating needs only into the first quarter of 2012. Should the subsequent financing not be consummated by January 1, 2012 and the Convertible Notes have not been voluntarily converted before such date, the Covertible Notes and the accrued interest thereon will become due and payable. We do not currently have sufficient funds to repay the Convertible Notes and the accrued interest due upon maturity. We are exploring further opportunities, including acquisitions, to raise funds necessary to ensure that we are a going concern. There can be no assurance, however, that any such opportunities will materialize.

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. As of September 30, 2011, we had approximately $1.7 million in cash and cash equivalents. Our average monthly burn rate from operations for the nine month period ended September 30, 2011, was approximately $0.45 million. In order to conserve funds we underwent resource reductions in the first half of 2011.

A substantial portion of our revenues and anticipated revenues are in dollars and euros, while a significant portion of our expenses, principally salaries and related personnel expenses, are paid in Israeli currency by our subsidiary. As a result, we are exposed to an exchange rate risk if the value of the dollar or euro significantly depreciates vis-à-vis the value of the New Israeli Shekel.

***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 expenses directly related to providing our service in launched markets. These expenses include the costs associated with production servers serving the end-users, royalty fees for content sales, amortization of prepaid content licenses, the direct costs of billing services and text messaging providers. In addition, cost of revenue includes certain set-up and other direct costs incurred in connection with adjustments made to our products for each individual client.

***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, and 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 tradeshows, as well as public relations, advertising and customer acquisition expenses. As we increase our sales, certain commissions to agents will also be included in sales and marketing expenses.

***General and administrative expenses***

General and administrative expenses 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. Following the consummation of our IPO, general and administrative expenses increased significantly as we incurred additional costs of being a public company. These costs include increased legal and accounting costs, additional insurance costs, director compensation and increased share based compensation expenses.

***Non-operating income (expenses)***

Non-operating income (expenses) includes transaction gains (losses) from foreign exchange rate differences, interest on deposits, bank charges and interest and discount amortization expenses on venture loan and Convertible Notes. In addition, non-operating income (expenses) includes a gain on restructuring of venture loan in light of the settlement agreement signed June 8, 2011. Fair value adjustments of derivative liabilities on account of the Special Bridge Warrants and the Conversion Warrants, which are highly influenced by our stock price at the period end (revaluation date), are recorded in non-operating income (expenses).

**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 September 30, 2011, 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 realized. The deferred tax assets and liabilities generated from our subsidiary's operations are not offset by an allowance, as in our estimation, it is 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 and development and certain management services provided to us, plus a profit margin on such costs, which is currently 8%. 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 and 2008. In January 2011, new legislation amending the Investment Law was enacted. According to the amendment, the uniform tax rate applicable to 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 new legislation, the subsidiary irrevocably implemented the new law while waiving benefits provided under the current law.

During February 2011, the Israeli tax authorities commenced an audit of the subsidiary's Israeli tax returns for the 2007 through 2009 tax years. To date, the subsidiary has not yet received any findings from the audit by the Israeli tax authorities.

**Results of Operations**

***Three and Nine months ended September 30, 2011 and 2010 and the development stage period (cumulative from inception through September 30, 2011)***

***Revenue***

| | Three months Ended September 30, | | | Nine months Ended September 30, | | | Cumulative from inception to September 30, |
|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | Change | 2011 | 2010 | Change | 2011 |
| | | ($ - in thousands) | | | ($ - in thousands) | | ($ - in thousands) |
| Revenue | 182 | 54 | 128 | 556 | 128 | 428 | 787 |

***Three Months Ended September 30, 2011, Compared to Three Months Ended September 30, 2010***

During the three month period ended September 30, 2011, we recorded revenues of $182 thousand, which represents an increase of $128 thousand (or 237%) from revenues recorded for the three month period ended September 30, 2010. The increase was mainly due to increased revenue in Malaysia ($84 thousand in the third quarter of 2011, compared to the $26 thousand recorded in the third quarter of 2010) and completion of Facetones™ development projects ($45 thousand recognized in the third quarter of 2011).

***Nine Months Ended September 30, 2011, Compared to Nine Months Ended September 30, 2010***

During the nine month period ended September 30, 2011, we recorded revenues of $556 thousand, which represents an increase of $428 thousand (or 334%) from revenues recorded for the nine month period ended September 30, 2010. The increase was mainly due to increased revenue in Malaysia ($239 thousand in the first nine months of 2011, compared to the $52 thousand in the first nine months of 2010), development of Facetones™ ($95 thousand recognized in the first nine months of 2011), development of Fan Loyalty application ($45 thousand recognized in the first nine months of 2011), delivery of Video ReMix platform ($30 thousand recognized in the first nine months of 2011), and revenue recorded in connection with set-up fees for the agreement in Singapore ($28 thousand recognized in the first nine months of 2011).

***From Inception Through September 30, 2011***

From inception through September 30, 2011, we recorded revenues of $787 thousand, which includes $497 thousand from revenue share subscription services, $109 thousand from one-time setup fees, $98 thousand from Facetones™, $45 thousand from Fan Loyalty application formats, $30 thousand from Video ReMix platform and $8 thousand from applications sold.

We expect to continue to generate a substantial portion of our revenues for the remainder of the year from: (i) Facetones™, Video Remix, and Fan Loyalty application platforms, (ii) revenue-sharing agreements in Malaysia, (iii) services provided in the United Arab Emirates, (iv) agreement with Everything Everywhere Limited in the UK.

***Cost of Revenue***

| | Three months Ended September 30, | | | Nine months Ended September 30, | | | Cumulative from inception to September 30, |
|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | Change | 2011 | 2010 | Change | 2011 |
| | | ($ - in thousands) | | | ($ - in thousands) | | ($ - in thousands) |
| Cost of revenue | 35 | 64 | (29) | 105 | 131 | (26) | 316 |

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 decrease in cost of revenue recorded during three and nine month period ended September 30, 2011, compared with three and nine month period ended September 30, 2010, is mainly related to a decrease in content purchases and related amortization expenses.

We expect that cost of revenue will increase, 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. From inception through September 30, 2011, our total cost of revenue was $316 thousand.

***Research and Development***

| | Three months Ended September 30, | | | Nine months Ended September 30, | | | Cumulative from inception to September 30, |
|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | Change | 2011 | 2010 | Change | 2011 |
| | | ($ - in thousands) | | | ($ - in thousands) | | ($ - in thousands) |
| Research and development | 480 | 668 | (188) | 1,459 | 1,848 | (389) | 12,825 |

***Three Months Ended September 30, 2011, Compared to Three Months Ended September 30, 2010***

Research and development expenses decreased from $668 thousand to $480 thousand (-28%) during the three month period ended September 30, 2011, compared to the three month period ended September 30, 2010. The decrease was mainly due to lower salary and compensation expenses (a decrease of $106 thousand compared to the third quarter of 2010), and a decrease in development services provided by subcontractors (a decrease of $70 thousand compared to the third quarter of 2010), all as part of the cost saving plan implemented by us earlier in the year.

***Nine Months Ended September 30, 2011, Compared to Nine Months Ended September 30, 2010***

Research and development expenses decreased from $1,848 thousand to $1,459 thousand (-21%) during the nine month period ended September 30, 2011, compared to the nine month period ended September 30, 2010. The decrease is mainly due to lower salary and compensation expenses (a decrease of $276 thousand compared to the first nine months of 2010) in connection with a separation agreement signed with one of our officers, as part of the cost saving plan implemented by us.

***From Inception Through September 30, 2011***

From inception through September 30, 2011, research and development expenses amounted to approximately $12.8 million. Of this amount, approximately $8.7 million was attributed to salaries and related expenses, $1.9 million was attributed to sub-contracting and consulting services, $0.8 million was attributed to operating expenses, $0.6 was attributed to overhead and $0.8 million was attributed to patent expenses.

*Marketing*

| | Three months Ended September 30, | | | Nine months Ended September 30, | | | Cumulative from inception to September 30, |
|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | Change | 2011 | 2010 | Change | 2011 |
| | | ($ - in thousands) | | | ($ - in thousands) | | ($ - in thousands) |
| Marketing | 463 | 517 | (54) | 1,769 | 1,624 | 145 | 11,079 |

***Three Months Ended September 30, 2011, Compared to Three Months Ended September 30, 2010***

Marketing expenses decreased from $517 thousand to $463 thousand (-10%) during the three month period ended September 30, 2011, compared to the three month period ended September 30, 2010. The decrease was mainly due to lower salary and compensation expenses (a decrease of $118 thousand compared to the third quarter 2010), due to reduction in workforce, all as part of cost saving plan implemented by us. In addition, we incurred higher advertising costs in connection with Facetones™ launch ($62 thousand compared to the third quarter 2010).

***Nine Months Ended September 30, 2011, Compared to Nine Months Ended September 30, 2010***

Marketing expenses increased from $1,624 thousand to $1,769 thousand (9%) during the nine month period ended September 30, 2011, compared to the nine month period ended September 30, 2010. The increase is mainly due to higher share based compensation expenses (an increase of $119 thousand compared to the first nine months of 2010), which was offset by lower salary expenses ($42 thousand compared to the first nine months of 2010), due to reduction in workforce (offset by an increase in salary related to hiring of our President in the US), all as part of the cost saving plan implemented by us. In addition, we incurred higher advertising costs in connection with Facetones™ launch ($62 thousand compared to the first nine months of 2010).

***From Inception Through September 30, 2011***

From inception through September 30, 2011, marketing expenses amounted to approximately $11.1 million. Of this amount, approximately $5.7 million was attributed to salaries and related expenses, $2.2 million was attributed to travel and tradeshows, $1.5 million was attributed to sub-contracting and consulting services, $1.0 million was attributed to public relations services and customer acquisition expenses and $0.7 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 months Ended September 30, | | | Nine months Ended September 30, | | | Cumulative from inception to September 30, |
|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | Change | 2011 | 2010 | Change | 2011 |
| | | ($ - in thousands) | | | ($ - in thousands) | | ($ - in thousands) |
| General and administrative | 721 | 478 | 243 | 2,076 | 1,192 | 884 | 7,264 |

***Three Months Ended September 30, 2011, Compared to Three Months Ended September 30, 2010***

General and administrative expenses increased from $478 thousand to $721 thousand (51%) during the three month period ended September 30, 2011, compared to the three month period ended September 30, 2010. The increase was mainly due to higher professional fees connected to merger, acquisition (which did not materialize) and financing activities, (an increase of $190 thousand compared to the third quarter of 2010).

***Nine Months Ended September 30, 2011, Compared to Nine Months Ended September 30, 2010***

General and administrative expenses increased from $1,192 thousand to $2,076 thousand (74%) during the nine month period ended September 30, 2011, compared to the nine month period ended September 30, 2010. The increase was mainly due to higher professional fees connected to being a public company and to merger, acquisition and financing activities (an increase of $528 thousand compared to the first nine months of 2010), due to increased share-based compensation (an increase of $183 thousand compared to the first nine months of 2010), and increased cost of labor and expenses incurred in connection with being a public company (an increase of $190 thousand compared to the first nine months of 2010).

***From Inception Through September 30, 2011***

From inception through September 30, 2011, general and administrative expenses totaled approximately $7.3 million. Of this amount, approximately $3.5 million was attributed to salaries and related expenses, $1.1 was attributed to various office expenses, $2.1 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 stable in the near future as they reflect the costs of being a public company and costs incurred in connection with merger, acquisition and financing activities.

*Non-operating income (expense), Net*

| | Three months Ended September 30, | | | Nine months Ended September 30, | | | Cumulative from inception to September 30, |
|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | Change | 2011 | 2010 | Change | 2011 |
| | | ($ - in thousands) | | | ($ - in thousands) | | ($ - in thousands) |
| Non-operating income (expense), net | (493) | (1,145) | 652 | 274 | (4,722) | 4,996 | (3,920) |

***Three Months Ended September 30, 2011, Compared to Three Months Ended September 30, 2010***

During the three month period ended September 30, 2011, we recorded net non-operating expense in the amount of $0.5 million, compared to net non-operating expense in the amount of $ 1.1 million recorded in the three month period ended September 30, 2010.

During the three month period ended September 30, 2011, we recorded net non-operating expenses related to the valuation of the Special Bridge Warrants and the Conversion Warrants, in the amount of $0.4 million. In addition, we recorded non-operating expense in the total amount of approximately $0.1 million, in connection with interest and discount amortization on the Convertible Notes.

During the three month period ended September 30, 2010, we recorded net non-operating expense, net, in the amount of $1.1 million, of which $0.96 million was recorded in connection with the quarterly revaluation of the Special Bridge Warrants and the Conversion Warrants derivative liabilities.

***Nine Months Ended September 30, 2011, Compared to Nine Months Ended September 30, 2010***

During the nine month period ended September 30, 2011, we recorded net non-operating income in the amount of $0.3 million, compared to a net non-operating expense, in the total amount of $ 4.7 million, recorded in the nine month period ended September 30, 2010.

During the nine month period ended September 30, 2011, we recorded $0.96 million income in connection with the settlement of the venture loan. This income was offset by non-operating expense in the total amount of approximately $0.4 million recorded in connection with the revaluation of the Special Bridge Warrants and the Conversion Warrants and $0.3 million recorded in connection with interest on venture loan and amortization of discount on Convertible Notes.

During the first nine months of 2010, we recorded non-operating expense, net in the amount of $4.7 million, primarily due to the recording of the bridge notes, issued on December 29, 2009, at their residual value at the closing of bridge financing, pursuant to which we recorded additional interest costs for the bridge notes of $1.1 million. In addition, as a result of the conversion of the bridge notes we recorded an additional interest expense of approximately $1.1 million on account of the beneficial conversion feature from the loan and an additional $0.1 million on account of the additional Special Bridge Warrants that were issued to investors in the bridge financing, in addition to the original 795,200 such warrants issued upon the closing of bridge financing. Additional interest expense on account of the loan amortization of $0.1 million in addition to the interest expense recorded for the venture loan was also recorded in this period. In connection with the granting of the lead investor warrants we recorded additional interest expense of $1.3 million. We also recorded approximately $0.1 million of interest expense for bridge notes and approximately $0.4 million of interest expense for the venture loan. In addition, we recorded $0.5 million expense in connection with the adjustment of the fair value of the Special Bridge Warrants and Conversion Warrants.

***From Inception Through September 30, 2011***

From inception through September 30, 2011, non-operating expenses totaled approximately $3.9 million. This amount included: income from interest on deposits of $0.2 million and interest expense on the 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 non-operating income of $0.5 million for the adjustment of the fair value of the Special Bridge Warrants and the Conversion Warrants.

We expect that our non-operating expenses in the future will be mainly affected by the adjustments to fair value of the derivative instruments.

***Taxes on Income***

| | Three months Ended September 30, | | | Nine months Ended September 30, | | | Cumulative from inception to September 30, |
|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | Change | 2011 | 2010 | Change | 2011 |
| | | ($ - in thousands) | | | ($ - in thousands) | | ($ - in thousands) |
| Taxes on income | 40 | 14 | 26 | 84 | 52 | 32 | 113 |

During the three month period ended September 30, 2011, we recorded income tax expense in the total amount of $40 thousand, which reflects an increase of $26 thousand compared to tax expense of $14 thousand recorded in the three month period ended September 30, 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 services for us and is reimbursed for its expenses plus 8%. In addition, during the three and nine month period ended September 30, 2011, we recorded income tax expense of $16 thousand and $28 thousand, respectively, in connection with tax withheld at source by our partner in Malaysia.

We expect tax expenses will increase as our subsidiary will continue to profit from the cost plus agreement. However, in the future, under the new legislation, a uniform rate of corporate tax would apply to all qualified income of certain industrial companies, as opposed to the current law's incentives that are limited to income from a "Benefited Enterprise" during their benefits period. According to the amendment, the uniform tax rate applicable to 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.

**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 September 30, 2011, we had a cash balance of $1.7 million and $1.2 million negative net working capital. The decrease of $3.7 million in our cash balance from December 31, 2010, was mainly due to cash used by us in our business operations ($ 4.1 million) and venture loan repayment ($2.1 million), offset by the receipt of the funds from issuance of the Convertible Notes ($2.5 million). As of September 30, 2011, our total deficit in stockholders' equity was $3.4 million, mainly due to continued operating deficits from inception to date, and partially due to the classification of the Special Bridge Warrants and the Conversion Warrants as derivative liabilities rather than equity securities.

In July 2011, we issued Convertible Notes in a private placement, in the aggregate amount of $2.5 million, primarily to two venture capital firms: Benchmark Capital and DAG Ventures. The Convertible Notes are convertible into shares of common stock at a conversion price equal to the lower of (i) the closing price of our common stock on the announcement date of the note offering, (ii) the closing price of our common stock on the closing date of the note offering and (iii) a ten percent (10%) discount to the price at which the securities are sold in a subsequent stock offering. Should consummation of a subsequent stock offering occur, the Convertible Notes and any accrued interest will automatically convert into the same securities and contain the same terms (other than the conversion price, which is set forth above) as in the subsequent stock offering. In the absence of stockholder approval, we may not issue shares of common stock upon conversion of the Convertible Notes in excess of 19.99% of our outstanding shares. Should the subsequent financing not occur by January 1, 2012, the principal and all accrued but unpaid interest thereon shall be repayable in full to the holders of the convertible note, unless the notes are converted prior to such time.

On November 1, 2011, we filed a preliminary proxy statement to obtain stockholder approval of the shares issuable in the private placement and the additional financing pursuant to section 713 of the NYSE Amex rules, since such shares in the aggregate are in excess of 19.99% of our outstanding common stock. There is no assurance that the subsequent financing will be consummated. Should the subsequent financing be consummated and the Convertible Notes be converted, we believe we would have sufficient funds to meet planned operating needs at least into the second quarter of 2012. Should the subsequent financing not be consummated by January 1, 2012 and the Convertible Notes are voluntarily converted before such date, we believe we would then have sufficient funds to meet planned operating needs only into the first quarter of 2012. Should the subsequent financing not be consummated by January 1, 2012 and the Convertible Notes have not been voluntarily converted before such date, the Convertible Notes and the accrued interest thereon will become due and payable. We do not currently have sufficient funds to repay the Convertible Notes and the accrued interest due upon maturity. We are exploring further opportunities, including acquisitions, to raise funds necessary to ensure that we are a going concern. 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 requires stockholder approval and will dilute existing stockholders' ownership. We cannot guarantee when or if we will ever generate positive cash flow.

***Cash flows for the Nine Months ended September 30, 2011 and 2010***

| | Nine month period ended September 30, | | | Cumulative from inception to September 30, |
|---|---|---|---|---|
| | **2011** | **2010** | **Change** | **2011** |
| | | **($ - in thousands)** | | |
| Net cash used in operating activities | (4,094) | (4,734) | 640 | (28,017) |
| Net cash provided by (used in) investing activities | (31) | 2,517 | (2,548) | (631) |
| Net cash provided by financing activities | 420 | 8,856 | (8,436) | 30,382 |

***Operating activities***

During the nine month period ended September 30, 2011, net cash used in operating activities totaled $4.1 million. During the nine month period ended September 30, 2010, net cash used in operating activities totaled $4.7 million. The $0.6 million decrease in net cash used in operating activities was primarily due to increase in revenue and reduction in workforce related costs (in connection with the cost reduction plan implemented in the earlier in 2011).

We expect our net cash used in operating activities to remain steady in light of costs related to being a public company and our current level operations. As we move towards greater revenue generation, we expect a further decrease in cash used in operations. 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 nine month period ended September 30, 2011, net cash used in investing activities totaled $31 thousand. During the nine month period ended September 30, 2010, net cash provided by investing activities totaled $2.5 million, primarily due to $2.6 million received from Bridge Financing.

We expect that net cash used in investing activities will mildly increase as we intend to continue to upgrade our computers and software in 2011. 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 nine month period ended September 30, 2011, net cash provided by financing activities totaled $0.4 million, which relates to the repayment and settlement of the venture loan on the one hand, and receipt of proceeds from issuance of Convertible Notes, on the other. During the nine months ended September 30, 2010, net cash provided by financing activities totaled $9.2 million, which relates to the net proceeds received as a result of our Initial Public Offering, partially offset by the one-time payment of principal on the venture loan.

***Future operations***

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 considering acquisition opportunities, however, there can be no assurance that any such opportunities may arise, or that any such acquisitions will be consummated.

On October 4, 2011, we announced a Cooperation Agreement with Zlango Ltd., a mobile messaging company ("Zlango"). Under the terms of the Cooperation Agreement, the parties agree to cooperate on projects while retaining their respective intellectual property and independent operations. The Cooperation Agreement supersedes prior arrangements and proposed transactions between the companies, including the non-binding Letter of Intent ("LOI") entered into between the parties announced in July 2011, pursuant to which we agreed to acquire and merge operations with Zlango, subject to certain conditions, which the parties have agreed to terminate. Similar Cooperation Agreements are being pursued however, there can be no assurance that any such opportunities may arise.

On November 11, 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. As part of the commercial terms of the agreement, these handsets will be sold via mobile phone operators and through various OEM contracts to brand name handset manufacturers. Similar arrangement are being pursued with other handset manufacturers, although there can be no assurance that any such opportunities may arise.

***Contractual Obligations and Commercial Commitments***

The following table sets forth our future contractual obligations and commercial commitments as of September 30, 2011, for each of the next five years and thereafter:

| | Payments due by period (in thousands of dollars) | | | | |
|---|---|---|---|---|---|
| | **Total** | **Less than 1 year** | **1- 3 years** | **3- 5 years** | **More than 5 years** |
| **Contractual obligations** | | | | | |
| Real estate leases (1) | 43 | 19 | 24 | — | — |
| Auto leases (2) | 47 | 8 | 31 | 8 | — |
| **Total** | **90** | **27** | **55** | **8** | **—** |

(1) We have a non-cancellable operating lease for our subsidiary's offices in Israel for which we pay approximately $6 thousand monthly. This commitment is for the period ending May 31, 2012. We have a non-cancellable operating lease for our offices in New York for which we pay approximately $3 thousand monthly. This commitment is for the period ending November 30, 2011.

(2) The subsidiary leases three motor vehicles for certain employees with variable commencement and expiration dates. All leases are for a total of 36 months whereby the final three months of the contract have been prepaid. Total monthly expenses for these leases amount to approximately $3 thousand. Expiration dates for the leases are on various dates from November 2013 through December 2013.

In addition, our long term GAAP liabilities include the derivative liabilities on account of warrants, in the total amount of $2,156 thousand and long term provision for severance pay, in the total amount of $170 thousand, made in connection with extended contractual compensation to be paid to our Chief Executive Officer upon the termination of his employment (dependent on certain circumstances), as described in Note 8 to our consolidated financial statements for the year ended December 31, 2010.

**Critical Accounting Estimates**

While our significant accounting policies are more fully described in the notes to our audited consolidated financial statements for the year ended December 31, 2010, 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 Compensatio*n" (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 and the Lattice (for out-of-money option grants) 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.

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 13 in our consolidated financial statements for the year ended December 31, 2010.

***Valuation of Instruments in Bridge Financing***

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") (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. The Special Bridge Warrants have down-round protection clauses and their fair value is calculated using the Black-Scholes-Merton model at every reporting period. The assumptions used in the initial calculation were 53% expected volatility, a risk-free interest rate of 1.6%, estimated life of 4.5 years and no dividend yield. The fair value of the common stock was estimated at $2.57. Upon the consummation of the IPO, we issued a further 69,132 Special Bridge Warrants to the holders of the Bridge Notes to reflect the final offering price of the IPO units. These warrants were valued on the date of the IPO by using the Black-Scholes-Merton model. The assumptions used in this calculation were 53% expected volatility, a risk-free interest rate of 1.9%, estimated life of 4.5 years and no dividend yield. The fair value of the common stock was estimated at $2.79. The additional warrants are then adjusted according to the fair value above at the end of each reporting period.

As of September 30, 2011, 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 exercise amount remains as under the original terms (approximately 2.4 million). We estimate 85% probability of such protection being activated in December, 2011. We have estimated the value of the down-round protection using a Monte-Carlo simulation. The following assumptions were used: 52.37% expected volatility, a risk-free interest rate of 0.50%, estimated life of 3.25 years and no dividend yield. The fair value of the common stock was $1.42. Refer to Note 4 to these financial statements.

Upon the consummation of the IPO, the Bridge Notes were automatically converted into 864,332 shares of common stock and 1,728,664 warrants (the "Conversion Warrants"). The Conversion Warrants granted to the Bridge Note holders were classified as a derivative long-term liability. The Conversion Warrants have down-round protection clauses, which are not expected to have a material impact, and their fair value is calculated using the Black-Scholes-Merton model at every reporting period. The assumptions used in this calculation for the date of the IPO were 54% expected volatility, a risk-free interest rate of 2.1%, estimated life of 5 years and no dividend yield. The fair value of the common stock was estimated at $2.79. Refer to Note 4 to these financial statements.

As of September 30, 2011, the Conversion Warrants were revalued using the Black-Scholes-Merton and the Monte-Carlo models. As the terms of these warrants include a down-round protection clause, 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. We estimate 85% probability of such protection being activated in December, 2011. We have estimated the value of the down-round protection using a Monte-Carlo simulation. The following assumptions were used: 51.23% expected volatility, a risk-free interest rate of 0.64%, estimated life of 3.73 years and no dividend yield. The fair value of the common stock was $1.42.

The 55,664 warrants granted to the placement agent in the Bridge Financing have been recorded at fair market value and calculated using the Black-Scholes-Merton model. Their fair value was calculated using the Black-Scholes-Merton model. The assumptions used in this calculation were 60.6% expected volatility, risk-free interest rate of 2.87%, estimated life of 5 years and no dividend yield. The fair value of the common stock was estimated at $2.58.

The 482,346 warrants granted to the lead investors in the Bridge Financing have been recorded as a non-operating expense at fair market value at the time of the IPO and calculated using the Black-Scholes-Merton model. The assumptions used in this calculation were 52.6% expected volatility, risk-free interest rate of 1.68%, estimated life of 4 years and no dividend yield. The fair value of the common stock was estimated at $2.79. The total non-operating expense recorded was approximately $1.3 million. All of these warrants were exercised during the fourth quarter of 2010 and the first quarter of 2011.

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 abovementioned 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 September 30, 2011, 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 15 of our consolidated financial statements for the year ended December 31, 2010.

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 May 2011, the FASB issued guidance to amend the accounting and disclosure requirements on fair value measurements. The new guidance limits the highest-and-best-use measure to nonfinancial assets, permits certain financial assets and liabilities with offsetting positions in market or counterparty credit risks to be measured at a net basis, and provides guidance on the applicability of premiums and discounts. Additionally, the new guidance expands the disclosures on Level 3 inputs by requiring quantitative disclosure of the unobservable inputs and assumptions, as well as description of the valuation processes and the sensitivity of the fair value to changes in unobservable inputs. The new guidance will be effective for us beginning January 1, 2012. Other than requiring additional disclosures, we do not anticipate material impacts on our financial statements upon adoption.

**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 3 of Form 10-Q.

**Item 4T. 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 September 30, 2011. 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 September 30, 2011, our Principal Executive Officer and Principal Financial Officer concluded that, as of such date, our disclosure controls and procedures were not effective for the reasons set forth below.

Our management has identified material weaknesses in our disclosure controls and procedures relating to insufficient controls in connection with financial reporting and segregation of duties. We are progressing with enhancements to our policies and purchasing system in order to remediate the foregoing material weaknesses.

***Changes in Internal Controls***

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Part II

## OTHER INFORMATION

### Item 1. 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, 2010. 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 have a limited operating history upon which to base an investment decision.**

We were formed in January 2006 and have a limited operating history. As a result, there is very limited historical performance upon which to evaluate our prospects for achieving our business objectives. Our prospects must be considered in light of the risks, difficulties and uncertainties frequently encountered by development stage entities.

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

As of September 30, 2011, we had a cash balance of $1.7 million and $1.2 million negative net working capital. 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 and nine month periods ended September 30, 2011 and for the cumulative period from inception until September 30, 2011, the Company incurred net losses of $2.0 million, $4.7 million and $34.7 million, respectively. The Company's deficit in stockholders' equity as of September 30, 2011 was $3.4 million.

We expect our net losses and negative cash flow to continue for 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 independent auditors have expressed doubt about our ability to continue our activities as a going concern and the continuation of our business is dependent on us raising additional capital.**

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 auditors that raises substantial 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.

The continuation of our business is dependent upon us raising additional funding. We believe that current cash levels will be sufficient to support our activity into the first quarter of 2012. Should the planned subsequent financing be consummated, we believe cash levels will be sufficient to support our activities at least into the second quarter of 2012. However, if we are required to repay our Convertible Notes in full, we do not currently have sufficient funds to repay the Convertible Notes. We are exploring further opportunities, including acquisitions, to raise funds necessary to ensure that we are a going concern. There can be no assurance, however, that any such opportunities will materialize. The issuance of additional equity securities by us could result in a substantial dilution to our current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase our liabilities and future cash commitments. If we should fail to continue as a going concern, you may lose the value of your investment in our securities.

**Our expected future growth will place a significant strain on our management, systems and resources.**

Our business was formed in January 2006 and has grown quickly. In order to execute our business strategy, we will need to continue to experience growth, which will place a significant strain on our systems, processes, resources, management and other infrastructure and support mechanisms. To manage the anticipated growth of our operations, we will be required to:

- Improve existing and implement new operational, financial and management information controls, reporting systems and procedures;
- Establish relationships with additional vendors and strategic partners and maintain existing relationships (including possible growth by acquisition); and
- Hire, train, manage and retain additional personnel.

To the extent we are unable to assemble the personnel, controls, systems, procedures and relationships necessary to manage our future growth, if any, management resources may be diverted, and our opportunity for success may be limited.

**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 pursuing a significant share of the video ringtone market is dependent upon establishing distribution arrangements with major mobile carriers and other partners. We need to develop and maintain strategic relationships with these entities in order for them to market our service to their end users. While we have entered into agreements with certain partners 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 we 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 identify or consummate any additional acquisitions.**

We intend to consider acquisition opportunities to enable us to grow. However, there is no assurance that any such opportunities may arise, or that any we will be able to consummate any opportunities we identify. Furthermore, we may not have, and may be unable to obtain, sufficient financing for certain opportunities. If we are unable to identify or consummate additional acquisitions, we may be unable to grow our business.

**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.**

Our application is compatible with various mobile operating systems including the Symbian, Sony Ericsson, Java, Windows Mobile, Android and Blackberry operating systems. While Windows Mobile, Blackberry and Android do not support video ringtones natively, our development team has enabled our application to work on many devices which utilize these operating systems. Since these operating systems do not support video ringtones 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.

**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 business model has recently shifted towards our Facetones™ application, which creates 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 our application to access photos on its site, our business, financial condition, operating results and projected growth could be harmed.

**If the trademark application for our Facetones™ trademark application is not granted, our revenue from this application may be adversely affected.**

We have submitted a trademark application for our Facetones™ application to the U.S. Patent and Trademark Office (USPTO). Facebook® was recently granted an extension from the USPTO to oppose the trademark application. If Facebook® or any other party successfully opposes our Facetones™ trademark application, or if our trademark application is rejected for any other reason, we will need to re-brand our application, which may have a negative impact on our revenue from this application.

**Our inability to identify, hire and retain qualified personnel would adversely affect our business.**

Our continued success will depend, to a significant extent, upon the performance and contributions of our senior management and upon our ability to attract, motivate and retain highly qualified management personnel and employees. We depend on our key senior management to effectively manage our business in a highly competitive environment. If one or more of our key officers forms a competing company, we may experience interruptions in product development, delays in bringing products to market, difficulties in our relationships with customers and loss of additional personnel, which could significantly harm our business, financial condition, operating results and projected growth.

**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.

**Consumer avoidance of services which collect, store or use personally-identifiable data could adversely affect our business.**

Consumer sentiment regarding privacy issues is constantly evolving. Such consumer sentiment may affect the buying public's interest in our current or future service offerings. In some areas, consumer groups and individual consumers have already begun to vigorously lobby against, or otherwise express significant concern over, the collection, storage and/or use of personally-identifiable information. Accordingly, privacy concerns of consumers may influence mobile carriers to refrain from offering products that could harm the overall mobile telephone industry. Moreover, strong consumer attitudes often precipitate new regulations like the ones described above. If we fail to successfully monitor and consider the privacy concerns of consumers, our business and prospects would be harmed.

**We have not been subject to Sarbanes-Oxley regulations and we, therefore, may lack the financial controls and safeguards now required of public companies.**

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 and the related rules and regulations of the SEC, or the Sarbanes-Oxley Act, we will be required, beginning with our fiscal year ending December 31, 2011, to include in our annual report our assessment of the effectiveness of our internal control over financial reporting as of the end of the fiscal year ending December 31, 2011. While we are building the necessary infrastructure for compliance with the foregoing rules and regulations, we do not presently have the internal infrastructure necessary to complete an attestation about our financial controls that would be required under Section 404 of the Sarbanes-Oxley Act. We expect to incur additional expenses and expend management's time as a result of performing the system and process evaluation, testing and remediation required in order to comply with the management certification and auditor attestation requirements. For our fiscal year ended December 31, 2010, we identified a material weakness relating to our internal controls primarily as a result of our failing to maintain sufficient policies in connection with financial reporting and segregation of duties. While we are in the process of remediating these weaknesses, there is no assurance that we will be able to remediate these weaknesses or that we will not identify any additional weaknesses in our internal controls.

**If we are not able 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.

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

Should our outstanding warrants be exercised, there will be an additional 7,452,660 shares of common stock eligible for trading in the public market. In addition, we have options to purchase 2,355,220 shares of common stock, granted as of the reporting date, to our management, employees, directors and consultants. 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 September 30, 2011, is $4.35 per share.

**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 have 6,229,362 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, 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.

**Our ability to raise capital through equity or equity-linked transactions may be subject to stockholder approval.**

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

**If we are unable to make progress with respect to our plan to regain compliance with the minimum stockholders' equity requirements imposed by the NYSE Amex within the required timeframes, our common stock could be delisted from trading, which could limit investors' ability to make transactions in our common stock and subject us to additional trading restrictions.**

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. In May 2011, we received a letter from the NYSE Amex, stating that we are not in compliance with Section 1003(a)(iv) of the NYSE Amex Company Guide because we have sustained losses which are so substantial in relation to its overall operations or our existing financial resources, or our financial condition has become so impaired that it appears questionable, in the opinion of the NYSE Amex, as to whether we will be able to continue operations and/or meet its obligations as they mature.

On June 23, 2011, we submitted a plan to the NYSE Amex addressing how we intend to regain compliance with the continued listing standards by September 30, 2011. Based on the information in our compliance plan and related discussions with exchange staff, the NYSE Amex determined that we had made a reasonable demonstration of our ability to regain compliance with Section 1003(a)(iv) of the NYSE Amex Company Guide by September 30, 2011 (subsequently extended to December 31, 2011) and that it would continue the listing of our common stock subject to conditions. The conditions include providing updates to the NYSE Amex staff as appropriate or upon request, but no later than at each quarter completion concurrent with our filing with the Securities and Exchange Commission. If we do not show progress consistent with our compliance plan, or we do not meet the continued listing standards by December 31, 2011, the NYSE Amex could initiate delisting proceedings. While the NYSE has not initiated delisting proceedings, 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 that might result in added competition for our products.**

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.

**Our operations could be disrupted as a result of the obligation of certain of our personnel residing in Israel to perform military service.**

Some of our executive officers and key employees reside in Israel and may be required to perform annual military reserve duty. Currently, all adult permanent residents of Israel under the age of 50, depending on military rank, unless exempt, are obligated to perform up to an average of 18-28 days of military reserve duty annually and are subject to being called to active duty at any time under emergency circumstances. Our operations could be disrupted by the absence for a significant period of one or more of our officers or key employees due to military service. Any such disruption could adversely affect our business, results of operations and financial condition.

**Because we expect a substantial portion of our revenues will be 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.**

We expect a substantial portion of our revenues will be 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 5. Other Information.**

None.

**Item 6. Exhibits.**

| Exhibit No. | Description |
|---|---|
| 10.1 | Securities Purchase Agreement by and between the Company and the Purchasers identified on the signature pages thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 27, 2011). |
| 10.2 | Form of Secured Convertible Note (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on July 27, 2011). |
| 10.3 | Form of Security Agreement (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on July 27, 2011). |
| 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. |

## SIGNATURE

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 14th day of November, 2011.

**VRINGO, INC.**

By: /s/ Ellen Cohl

**Ellen Cohl**
**Chief Financial Officer**
**(Principal Financial Officer)**

**Exhibit 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**

I, Jonathan Medved, 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) [Omitted pursuant to the transition period exemption for newly public companies]

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: November 14, 2011

/s/ Jonathan Medved

**Chief Executive Officer
(Principal Executive Officer)**

**Exhibit 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**

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) [Omitted pursuant to the transition period exemption for newly public companies]

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: November 14, 2011

/s/ Ellen Cohl

**Chief Financial Officer
(Principal Financial Officer)**

**Exhibit 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**

In connection with the Quarterly Report on Form 10-Q of Vringo, Inc. (the "Company") for the quarter ended September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report") I, Jonathan Medved, 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: November 14, 2011

/s/ JONATHAN MEDVED

**Jonathan Medved**
**Chief Executive Officer**
**(Principal Executive Officer)**

**Exhibit 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**

In connection with the Quarterly Report on Form 10-Q of Vringo, Inc. (the "Company") for the quarter ended September 30, 2011 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: November 14, 2011

/s/ Ellen Cohl

**Ellen Cohl**
**Chief Financial Officer**
**(Principal Financial Officer)**