

Quarterly Report

For the three months ended March 31, 2008

LIVEWORLD, INC.

Delaware
(State of Incorporation)

77-0426524
(IRS Employer Identification No.)

4340 Stevens Creek Blvd. Suite 101
San Jose, California 95129
(Address of principal executive offices)

(408) 871-5200
(Company's telephone number)

CONDENCED BALANCE SHEETS
(In thousands, except share data)

	UNAUDITED	
	March 31,	December 31,
	2008	2007
	<u> </u>	<u> </u>
ASSETS		
Current assets		
Cash and cash equivalent	\$ 1,923	\$ 2,020
Accounts receivable, net	1,462	1,394
Prepaid expenses	104	82
Other current assets	5	6
Total current assets	<u>3,494</u>	<u>3,503</u>
Property and equipment, net	838	908
Investment in joint venture	789	817
Other assets	5	5
Total assets	<u>\$ 5,125</u>	<u>\$ 5,233</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 765	\$ 555
Accrued employee expenses	483	459
Other accrued liabilities	135	130
Current portion of capital lease obligations	120	100
Deferred revenues	768	727
Total current liabilities	<u>2,271</u>	<u>1,971</u>
Long-term capital lease obligation	<u>164</u>	<u>150</u>
Total liabilities	2,435	2,121
Stockholders' equity		
Common stock: \$0.001 par value, 100,000,000 shares authorized 30,862,811 issued and outstanding at December 31, 2007 and March 31, 2008, respectively	31	31
Additional paid-in capital	140,012	139,932
Accumulated deficit	<u>(137,353)</u>	<u>(136,851)</u>
Total stockholders' equity	<u>2,690</u>	<u>3,112</u>
Total liabilities and stockholders' equity	<u>\$ 5,125</u>	<u>\$ 5,233</u>

See accompanying notes to the unaudited financial statements

LIVEWORLD, INC.
UNAUDITED CONDENSED STATEMENT OF OPERATIONS
(In thousands, except per share data)

	Three Months Ended March 31,	
	2008	2007
Total revenues	\$ 2,970	\$ 2,585
Cost of revenues	1,088	1,050
Gross Margin	1,882	1,535
Operating Expense		
Product development	871	596
Sales and marketing	670	589
General and administrative	745	908
Stock based compensation	80	67
Total operating expense	2,366	2,159
Income (loss) from operations	(484)	(625)
Interest Income (expense), net	11	46
Income (loss) before tax	(473)	(579)
Provision for income taxes	(1)	(14)
Equity in net loss of unconsolidated affiliate	(28)	(30)
Net income (loss)	(502)	(624)
Basic net income (loss) per share	\$ (0.02)	\$ (0.020)
Shares used in computing basic income (loss) per share	30,862,811	30,957,688
Diluted net income (loss) per share	\$ (0.02)	\$ (0.02)
Shares used in computing diluted income (loss) per share	30,862,811	30,957,688
Departmental allocation of stock-based compensation:		
Product development	\$ 40	\$ 30
Sales and marketing	18	15
General and administrative	23	22
Total stock-based compensation	\$ 80	\$ 67

See accompanying notes to the unaudited financial statements

LIVEWORLD, INC.
UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended March 31,	
	2008	2007
Cash flows from operating activities		
Net income (loss)	\$ (503)	\$ (623)
Adjustments to reconcile net income (loss) provided by (used in) operating activities:		
Depreciation of long-lived assets	164	151
Stock-based compensation	81	67
Equity in net loss of unconsolidated affiliate	28	30
Changes in operating assets and liabilities:		
Accounts receivable	(68)	493
Accrued development and setup	-	8
Other assets	(20)	(31)
Accounts payable	210	191
Accrued liabilities	30	5
Deferred revenues	41	(87)
Net cash provided by (used in) operating activities	<u>(37)</u>	<u>204</u>
Cash flows from investing activities:		
Purchase of property and equipment	(94)	(128)
Net cash provided by (used in) investing activities	<u>(94)</u>	<u>(128)</u>
Cash flows from financing activities:		
Payments on capital lease obligation	(24)	(13)
Increase in obligation under capital lease	58	---
Net cash provided by (used for) financing activities	<u>34</u>	<u>(13)</u>
Change in cash and cash equivalent	(97)	63
Cash and cash equivalents, beginning of period	2,020	3,217
Cash and cash equivalents, end of period	<u>\$ 1,923</u>	<u>\$ 3,280</u>
Supplemental disclosure of non-cash financing and investing activities:		
Income tax paid	<u>\$ 9</u>	<u>\$ 5</u>
Interest expense paid	<u>\$ 5</u>	<u>\$ 4</u>

See accompanying notes to the unaudited financial statements

1. ORGANIZATION

LiveWorld Incorporated (the “Company”) was incorporated in California on April 10, 1996 and reincorporated in Delaware in July 1999. In April 1999 the Company changed its name from LiveWorld Productions to Talk City, Inc. On May 8, 2001, the Company changed its name from Talk City, Inc. to LiveWorld, Inc. The Company’s principal business is to build, operate and moderate private label online social network and community services for clients who use these services to generate dialogue and relationships with and among their customers and other constituencies.

Clients use these services for loyalty relationship marketing, customer support and business intelligence. The Company’s clients are a diverse group and include, but are not limited to media, consumer packaged goods, technology, and automobile industries, and most but not all are located in the United States.

2. INTERIM FINANCIAL STATEMENTS

The unaudited condensed interim financial information furnished herein reflects all adjustments, consisting only of normal recurring items, which in the opinion of management are necessary to fairly state our financial position, results from operations and cash flows for the dates and periods presented and to make such information presented not misleading. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted; nevertheless, the Company believes that the disclosures herein are adequate to make the information presented not misleading. Operating results for the three months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008 or future periods. The condensed balance sheet as of December 31, 2007 was derived from the audited financial statements as of that date. The balance sheet, operating results, and statements of cash flows for the period ended March 31, 2008 were neither audited nor reviewed by an independent accounting firm and are subject to change upon such a review or audit being completed. These condensed financial statements and accompanying notes should be read in conjunction with the Company’s audited financial statements and the notes thereto for the fiscal year ended December 31, 2007, included in its Annual Report on Form 10-K (the “2007 Form 10-K”).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenues — The Company recognizes revenues in accordance with Staff Accounting Bulletin No. 104, “Revenue Recognition in Financial Statements” (“SAB 104”) when the following criteria have been met: persuasive evidence of an arrangement exists, the fees are fixed or determinable, no obligations remain, and collection of the related receivable is reasonably assured.

The Company has certain contracts which are multiple element arrangements and provide for several deliverables to the customer that may include service development, community set-up, on-line community hosting, on-line community management, moderation services, and consulting. Accordingly, these contracts are accounted for in accordance with Emerging Issues Task Force No. 00-21, “Revenue Arrangements with Multiple Deliverables” (“EITF 00-21”). EITF 00-21 requires that the Company assess whether the different elements qualify for separate accounting. Because the Company does not believe that service development and community set-up activities have value to the customer on a standalone basis, this element does not qualify for separate accounting. Accordingly, fees received from service development and set-up activities are combined with the amounts allocable to the relevant undelivered item(s) within the contract. All other elements qualify for separate accounting and have objective and reliable evidence of fair value.

Revenues from service development and community set-up activities are deferred and are recognized ratably over the related development and service portions of the contract. Revenues from on-line community hosting, on-line community management, moderation services, and consulting are recognized as the services are provided.

Cost of Revenues – Cost of revenues is comprised of direct costs associated with the sales of online social network and community services to clients; the expense associated with the development, set-up and operation of communities, including expenses associated with server costs for hosting the communities, license fees for specified aspects of our platform used to develop the standard set-up for clients, as well as expenses associated with any custom development the client may desire; and the cost of providing moderators and any enhancements the client may request after the community has been set up. These expenses consist primarily of salaries, payroll taxes, benefits and related expenditures for development, set-up, additional add-ons enhancements or upgrades, as well as, software license fees, hardware costs, and salary and related moderation expenses.

Deferred Revenues — Deferred revenues are the amount associated with the initial service development and set-up of the community for our clients. These service development and set-up revenues are paid upfront but recognized ratably as the development and operational service contract is recognized.

Product Development — Product development expenses consist primarily of salaries, payroll taxes, benefits and related expenditures for technology, software development, project management and support personnel. Costs related to the development of new products and enhancements to existing products are charged to operations as incurred. Software development costs are required to be capitalized when a product's technological feasibility has been established by completion of a working model of the product. To date, completion of a working model of the Company's products and general release have substantially coincided. As a result, the Company has not capitalized any software development costs because such costs have not been significant.

Sales and Marketing — Sales and marketing expenses consist primarily of salaries, payroll taxes, benefits and related expenditures for sales and marketing, as well as the community management which are costs associated with account management and client services.

General and Administrative — General and administrative expenses are the consolidated expenses of the operations, facilities, finance, human resources, legal and other administrative functions. The expenses associated with these functions consist primarily of salaries, payroll taxes, benefits, professional fees, and related expenditures for our overall management and administration.

Earnings Per Share — Basic income or loss per share is computed using the net income or loss and the weighted average number of common shares outstanding during the period. Diluted income per share is computed using the net income and the weighted average number of common shares and dilutive potential common shares outstanding during the period. Potential dilutive common shares include, for some or all of the periods presented, outstanding stock options and warrants. The computation of diluted income per share does not assume conversion, or exercise of securities that would have an anti-dilutive effect on earnings. The dilutive effect of outstanding stock options and warrants is computed using the treasury stock method. For the three months ended March 31, 2007 there were 23,401,777 outstanding options and warrants to purchase shares of the Company's common stock and for the three months ended March 31, 2008 there were 25,914,052 outstanding options and warrants to purchase shares of the Company's common stock. The outstanding options and warrants were excluded from the determination of diluted net loss per share as their effect was anti-dilutive.

4. STOCK-BASED COMPENSATION

Effective January 1, 2006, the Company adopted the fair value recognition provisions of FAS 123(R) "Share-Based Payment," which is a revision of Statement of Financial Accounting Standards No. 123. FAS 123(R) supersedes Accounting Principles Board Opinion No. 25, "Accounting for Compensation Arrangements" and amends Statement of Financial Accounting Standards No. 95, "Statement of Cash Flow." FAS 123(R) generally requires share-based payments to employees, including grants of employee stock options and other equity awards, to be recognized in the statement of operations based on their fair values. In addition, FAS 123(R) requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow, rather than as an operating cash flow as prescribed under previous accounting rules.

Determining Fair Value

Valuation Method — The Company estimates the fair value of stock options granted using the Black-Scholes option-pricing model and a single option award approach.

Expected Term — The expected term represents the period the Company's stock-based awards are expected to be outstanding and was determined based on historical experience with similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior as influenced by changes to the terms of its stock-based awards.

Expected Volatility — a volatility of 69% was used as an estimate of the expected future volatility of the Company.

Risk-Free Interest Rate — The risk-free interest rate used in the Black-Scholes valuation method is based on the implied yield currently available on U.S. Treasury securities with an equivalent remaining term.

Expected Dividend — No dividends are expected to be paid.

Estimated Forfeitures — When estimating forfeitures, the Company considers voluntary termination behavior as well as analysis of actual option forfeitures.

For the three months ended December 31, 2008 we issued a total of 2,277,000 options with an approximate fair value of \$275,000 for the option grants, and total expense for the period was approximately \$11,000.

The Company estimated the fair value of its stock options using the Black-Scholes option-pricing model, by using the following assumptions for the options granted during the three months ended March 31, 2008:

	Stock options
Dividend yield	0%
Expected volatility	69%
Risk-free interest rate	3.79%
Estimated term	4 Years
Forfeiture rate	19%

A summary of the stock option activity is as follows:

	Shares Available for Grant	Options Outstanding	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Balance as of December 31, 2007	10,229,268	21,689,277	\$ 0.12		
Granted	(2,277,000)	2,277,000	\$ 0.23		
Forfeited	52,225	(52,225)	\$ 0.28		
Exercised	----	----	\$ 0.00		
Balance as of June 30, 2007	<u>8,004,493</u>	<u>23,914,052</u>	<u>\$ 0.13</u>	<u>5.9</u>	<u>\$2,398</u>

The aggregate intrinsic value in the table above represents the difference between the exercise price of the underlying awards and the quoted price of our common stock for the options that were in-the-money as of March 31, 2008.

The 1996 Stock Option Plan ("1996 Plan") provides for stock options to be granted to employees, independent contractors, officers, and directors. Prior to 2004, options were generally granted at an exercise price which approximates eighty-five percent (85%) to one hundred percent (100%) of the estimated fair market value per share at the date of grant, as determined by our Board of Directors. Since 2004, options have generally been granted at one hundred percent (100%) of their estimated fair market value per share at the date of grant, as determined by our Board of Directors. All options issued under the 1996 Plan and the 2007 Stock Option Plan ("2007 Plan") have a term of ten (10) years, and generally have a vesting schedule such that they vest ratably over four (4) years, twenty-five percent (25%) one (1) year after the grant date and the remainder at a rate of 1/36 per month thereafter. As of December 31, 2005, all outstanding stock options were exercisable. The 1996 Plan expired in October of 2006 and was replaced by our 2007 Plan. Under the 2007 Plan, the number of shares authorized for grant is 10,696,768. As of March 31, 2008 there were a total of 23,914,052 outstanding options under the 1996 Plan and the 2007 Plan. As of March 31, 2008, there was approximately \$1,019,000 of total unrecognized compensation expense related to non-vested stock based compensation arrangements granted under the 1996 Plan and the 2007 Plan, as well as, stand alone option grants. The cost is expected to be recognized over the next 4 years.

5. PROPERTY AND EQUIPMENT

Property, furniture and equipment consisted of the following items:

(\$ in thousands)	March 31, 2008	December 31, 2007
Computer equipment	\$ 2,214	\$ 2,198
Software	1,119	1,119
Furniture and fixtures	24	24
Leasehold improvements	19	----
Leased equipment	344	285
Accumulated depreciation	(2,883)	(2,718)
Property, furniture and equipment, net	<u>\$ 837</u>	<u>\$ 908</u>

The depreciation expense was approximately \$619,000 and \$164,000 for the periods ended December 31, 2007 and March 31, 2008, respectively.

6. SUBSEQUENT EVENTS

On April 11, 2008 the Company filed a Form 15 with the SEC to voluntarily deregister its Common Stock under Section 12(g) of the Securities Exchange Act of 1934, as amended. The Board of Directors determined this was the best course of action after carefully considering the high costs of remaining the OTC Bulletin Board, especially those associated with being a public reporting company including the additional costs of being complaint with the Sarbanes-Oxley Act by the end of 2008.

Upon the filing of the Form 15, LiveWorld became a non-reporting public company. Although the Company is no longer required to file financial statements and other information with the SEC, it plans to continue its rigorous financial management and publish financial information on its website, as well as, on the Pink Sheets website (www.pinksheets.com).

On May 13, 2008 the Company appointed Barry Weinman and Bill Cleary to its Board of Directors.

Management's Discussion and Analysis of Financial Condition and Results of Operation.

Special Note Regarding Forward-Looking Statements

This report contains forward-looking statements. All statements other than statements of historical fact contained in this document are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only current predictions and are subject to known and unknown risks, uncertainties, and other factors that may cause our or our industry's actual results, levels of activity, performance, or achievements to be materially different from those anticipated by the forward-looking statements.

The following discussion and analysis should be read in conjunction with our financial statements and the notes to those statements included elsewhere in this form 10Q-SB. This discussion contains forward-looking statements reflecting our current expectations that involve risks and uncertainties. Actual results may differ materially from those discussed in these forward-looking statements due to a number of factors, including those set forth in the section entitled "Risk Factors" contained in our 2007 Form 10-K.

The balance sheet, operating results, and statements of cash flows for the period ended March 31, 2008 were neither audited nor reviewed by an independent accounting firm and are subject to change upon such a review or audit being completed.

Overview

We build, operate (application hosting), and moderate private label online social network and community services for clients who use these services to generate dialogue and relationships with and among their customers and other constituencies. Clients use these services for loyalty relationship marketing, customer support and business intelligence. Our services consist of the following products delivered on a complete end-to-end or modular basis:

Professional Services: Professional Services include development and set-up of standard systems; customization of the standard system and internationalization and localization. Professional Services also include brand strategy and community consulting and design services that provide expertise in developing social networking/community brand definition, web site design focusing on community architecture, and online community management.

Application Hosting: Application Hosting includes operating applications on our system infrastructure on behalf of our clients. These applications include:

- The LiveWorld Community Center, which is an integrated social network/online community that includes expressive profiles (user name, photo, interests, blog, user video, photo albums, guestbooks and friends lists), message forums, polls, community galleries, and community calendars.
- Standalone services such as blogs, user videos, message forums, groups, chats and live events (interactive webcasts).

Community Management Services: Community Management Services include creative, community programming and client management services to help design, organize, manage, oversee and evolve the feature, content, and user participation aspects of an online community.

Moderation Services: Moderation Services include standard policing, topical and editorial moderation. Moderators are trained personnel that read and view user content for adherence to web site guidelines, and take appropriate action when content violates those guidelines. Such action might include permitting, hiding (or deleting), or escalating such content to a supervisor. Moderation can also involve trained personnel leading topical discussions, or selecting or editing site content for featured display.

Reporting Services: Reporting Services provide clients with metrics and analysis of the online community.

For a majority of our clients we provide our services through our flagship product, the LiveWorld Community Center, which combines a full range of social networking and community services into an integrated branded community. Our services include working with our clients to develop their basic social networking/community brand definition, their overall site design with an emphasis on the community architecture, development and setup of the social network/community site, ongoing application hosting operations, moderation, community management and reporting.

For other clients, we provide only the specific modules they request. For example, we may provide moderation services deployed on a client's in-house or third party platform or alternatively we may simply provide application hosting with the client using our tools to moderate the service themselves. For some clients we only provide message forums and for others we only provide support for live events such as online interactive webcasts.

We offer our services to end user clients as well as advertising agencies. In 2006 we entered into a non-exclusive joint venture with WPP to market our products and services to WPP clients. Pursuant to this joint venture, WPP has the opportunity to earn warrants to purchase our common stock based on the joint venture's contribution to our total revenue. Although WPP is under no contractual obligation to introduce us to WPP clients, we believe our relationship with WPP provides us access to companies that need and embrace online social networks and community services. We further believe that this relationship enhances our overall market visibility and credibility. Our relationship with WPP is non-exclusive and we enjoy close working partnerships with other agencies such as Digitas.

Total Revenues

Our business is primarily based on building recurring revenue streams through the operations of private label online social network and communities for our clients. Our revenues are derived principally from two sources: (i) service development and set-up revenues, and (ii) operations revenues.

We define service development and set-up revenues work as follows: Service development revenues are fees we charge for customizing the standard service we provide to our clients. Set-up revenues are fees we charge for setting up the services based on our standard menu of services provided; and we charge add-ons, or enhancements fees for any additional customized work the client requests after we have begun to provide services to our client. Development and set-up revenues are paid upfront but recognized ratably as the development and operational services are provided.

We define operation revenues as follows: Application hosting revenues are fees we charge for hosting their community on our servers and these fees are generally based on pageviews per month; community management revenues are fees derived from services provided to the client on a monthly basis to manage the community and the community needs of the customer, generally involving a monthly minimum fee for a specified minimum volume of hours with any additional time being charged on an hourly rate; and moderation revenues are fees we charge our clients for moderating their community. These revenues are recognized monthly as the services are delivered.

Cost of Revenues

Cost of revenues is comprised of direct costs associated with the sales of online social network and community services to clients; the expense associated with the development, set-up and operation of communities, including expenses associated with server costs for hosting the communities, license fees for specified aspects of our platform used to develop the standard set-up for clients, as well as expenses associated with any custom development the client may desire; and the cost of providing moderators and any enhancements the client may request after the community has been set up. These expenses consist primarily of salaries, payroll taxes, benefits and related expenditures for development, set-up, additional add-ons enhancements or upgrades, as well as, software license fees, hardware costs, and salary and related moderation expenses.

Operating Expenses

Product Development. Product development expenses consist primarily of salaries, payroll taxes, benefits and related expenditures for technology, software development, project management and support personnel. Costs related to the development of new products and enhancements to existing products are charged to operations as incurred.

Sales and Marketing. Sales and marketing expenses consist primarily of salaries, payroll taxes, benefits and related expenditures for sales and marketing, as well as the community management, which are costs associated with account management and client services.

General and Administrative. General and administrative expenses are the consolidated expenses of the operations, facilities, finance, human resources, legal and other administrative functions. The expenses associated with these functions consist primarily of salaries, payroll taxes, benefits, professional fees, and related expenditures for our overall management and administration.

Stock Based Compensation. Stock based compensation expenses include amounts related to the grant of options and warrants to employees and non-employee service providers.

Results From Operations

The following table sets forth our historical operating results as a percentage of total revenues for the periods indicated:

LIVEWORLD, INC. STATEMENT OF OPERATIONS

	March 31,	
	2007	2008
Total revenues	100%	100%
Cost of revenues	41	37
Gross Margin	59	63
Operating Expense		
Product development	23	29
Sales and marketing	23	23
General and administrative	35	25
Stock based compensation	3	3
Total operating expense	84	80
Income (loss) from operations	(25)	(17)
Other income (expense)	2	1
Income (loss) before tax	(23)%	(16)%

Backlog

We maintain a positive outlook for 2008, and our current backlog for the remainder of the fiscal year is approximately \$5.8 million.

Three Months Ended March 31, 2007 and 2008

Total Revenues

Our revenues increased from approximately \$2.6 million for the three months ended March 31, 2007 to \$3.0 million for the three months ended March 31, 2008, representing an increase of approximately 15%. Revenues increased primarily as a result of increased sales of services to our non-AOL US clients, which represented growth of approximately 53% period-over-period, or approximately \$1 million for \$1.9 million to \$2.9 million which was offset in part by the decrease in AOL US revenues which dropped from approximately \$647,000 for the three months ended March 31, 2007 to \$0 for the three months ended March 31, 2008.

For the three months ended March 31, 2007, revenues from AOL US comprised approximately 25% of our total revenues and eBay accounted for approximately 30% of our total revenues while all other clients represented approximately 45% of our total revenues. For the three months ended March 31, 2008, revenues from AOL US comprised 0% of our total revenues and eBay accounted for approximately 25% of our total revenues while all other clients represented approximately 75% of our total revenues.

Revenues from clients excluding AOL US and eBay were approximately \$1.2 million for the three months ended March 31, 2007 and were approximately \$2.2 million for the three months ended March 31, 2008. This represented a 92% growth rate period-over-period.

Cost of Revenues

Cost of revenues were approximately \$1.1 million, or 41% of total revenues for the three months ended March 31, 2007, and \$1.1 million or 37% of total revenues for the three months ended March 31, 2008. The decrease as percentage of sales was primarily the result of our reductions in costs associated with the end of our relationship with AOL US, and the growth of higher margin revenues from new and existing clients.

Operating Expenses

Product Development. Expenditures for product development increased approximately 46% or \$275,000 to \$871,000 for the three months ended March 31, 2008, or approximately 29% of total revenues, compared to \$596,000 for the three months ended March 31, 2007, or 23% of total revenues.

The period-over-period increases in spending were related to our increased development efforts increased to continue improving our product offerings. The majority of these costs were personnel related, including salary costs, as we hired employees in connection with the ongoing development and enhancement of our products and services. We are committed to our product development efforts and expect product development expense will remain flat in absolute dollar terms for the near future. Such efforts may not result in additional new products and any new products may not generate sufficient revenues, if any, to offset the expenses. We anticipate our product development costs to stabilize in absolute dollars and to decrease as a percentage of revenues in the near future, as our use of outside consultants to augment our staffing needs will be reduced in future periods.

Sales and Marketing. Sales and marketing costs were approximately \$589,000, or 23% of total revenues for the three months ended March 31, 2007, and \$670,000, or 23% of total revenues for the three months ended March 31, 2008, representing an increase of approximately 14%. The period-over-period increase in sales and marketing expenses were a result of our efforts to provide additional services (and associated community management services) to existing and new clients, as well as increased sales and marketing program efforts to develop new revenues with existing and new clients.

The substantial majority of the sales and marketing expenses were associated with our ongoing community management services, which are the costs associated with the servicing of existing clients, as opposed to those costs derived from new business development. Expenses in sales activity and marketing activities to attract new clients were minimal. We expect sales and marketing costs to increase as we further develop our sales efforts of private label online social network and community services to new clients. In addition, if our product development efforts are successful and new products or services are created, we may incur increased sales and marketing expense to promote these products or services to new and existing clients.

General and Administrative. General and administrative expenses were approximately \$908,000, or 35% of total revenues for the three months ended March 31, 2007, and \$745,000, or 25% of total revenues for the three months ended March 31, 2008, which represented a decrease of approximately 18%. The higher than normal general and administrative expenses for the three months ended March 31, 2007 were related to outside advisory costs associated with the filing of the Form10-SB.

The general and administrative expenses for the three months ended March 31, 2007 included outside advisory costs related to the filing of a Form 10-SB with the SEC, while the three months ended March 31, 2008 included the outside advisory costs related to the filing of our 2007 10-K. On April 11, 2008 we filed our Form 15 with the SEC which results in our no longer being obligated to meet the various requirements of a public reporting company. We expect in the near future for the general and administrative expenses to decrease in absolute dollar terms and as a percentage of total revenues as a result of this action. We anticipate decreases in our legal and accounting fees for preparing the quarterly and annual reports as required to be filed with the SEC. Additionally, the expenses associated with meeting the requirements of the Sarbanes-Oxley Act will be eliminated in future periods, as we are no longer burdened with meeting obligations by the end of 2008.

Financial Condition, Liquidity and Capital Resources

Our total assets were approximately \$5.2 million as of December 31, 2007, and \$5.1 million as of March 31, 2008. This represented a decrease of approximately \$100,000 or 2% of total assets. Our cash decreased by approximately \$97,000 as of March 31, 2008 from \$2.0 million as of December 31, 2007. This decrease is a result of our continued personnel expansion over the past fiscal year. The investment in the joint venture with WPP has decreased from approximately \$817,000 as of December 31, 2007 to approximately \$789,000 as of March 31, 2008. This represented a decrease of approximately \$28,000 or 4% of the initial investment in the joint venture, as we absorb our portion of the losses associated with the operations of the joint venture. Our property and equipment also decreased approximately \$71,000 to \$838,000 as of March 31, 2008 from \$908,000 as of December 31, 2007. Our accounts receivable balance as of December 31, 2007 was approximately \$1.4 million which increased approximately \$67,000 to \$1.5 million as of March 31, 2008.

Our current liabilities were approximately \$2.0 million as of December 31, 2007 and \$2.3 million as of March 31, 2008. This represented an increase of approximately \$300,000 or 15% period-to-period. This increase was due to the increase in accounts payable from approximately \$555,000 as of December 31, 2007 to \$765,000 as of March 31, 2008, or an increase of approximately \$210,000. Additionally, our deferred revenues were approximately \$727,000 as of December 31, 2007, and \$768,000 as of March 31, 2008, or an increase of approximately \$41,000 period-to-period. We anticipate our accounts payable and our deferred revenues will continue to increase both as a percentage of liabilities and in absolute dollars as we continue to grow our revenues.

For the three months ended March 31, 2008 our net cash used in operating activities was approximately \$37,000 this was a decreased by approximately \$241,000 from the net cash provided in operating activities of \$204,000 for the three months ended March 31, 2007. For the three months ended March 31, 2007 the accounts receivables were a source of cash of approximately \$493,000 where as accounts receivables were a use of cash of approximately \$68,000 for the three months ended March 31, 2008. We anticipate the accounts receivables to continue to be a use of cash as we growth our revenues. For the three months ended December 31, 2007 net cash used in operating activities was approximately \$284,000 as compared to the three months ended March 31, 2008 this is an improvement of approximately \$247,000. Our primary uses of cash are the operating costs related to the delivery of the private label online social network and community services. These costs included but are not limited to salaries, payroll taxes, benefits, related expenditures and professional fees. The decrease in net cash used in operating activities for the three months ended December 31, 2007 compared to the three months ended March 31, 2008 was attributable to the decrease in accounts receivables as a use of cash and the increase in the accounts payable as a source of cash. We have demonstrated historically over multiple years that we can manage our business to be net cash positive from operating activities. Given the current state of the economy and stock market we intend to more conservatively manage our cash flow in 2008. Cash flow from operating activities for 2008 may or may not be net positive and will vary from quarter to quarter. However we intend to manage the cash flow such that cash flow from operating activities and from our current cash balance is more than enough to sustain the business. Our net cash used in operating activities of approximately \$37,000 differed materially from the loss from operations of approximately \$503,000 for the three months ended March 31, 2008. The differences were due to stock-based compensation expense, depreciation expense, and various changes for operating assets and liabilities.

We believe that the combination of cash balances, cash flow from operations, and available credit facilities will be sufficient to satisfy cash needs for the current level of operations and planned operations for the rest of 2008.

In the future, we may strategically seek to take advantage of opportunities in the equity and capital markets to raise additional funds in order to take advantage of opportunities that may become available to us, including expansion of operating activities and acquisition of businesses, products or technologies, or otherwise to respond to competitive pressures. There can be no assurance that we will be able to raise additional capital on favorable terms or at all.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, investments in special purpose entities or undisclosed borrowings or debt. Additionally, we are not a party to any derivative contracts or synthetic leases.