

LIVEWORLD INC  
Form 10SB12G/A  
July 13, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Amendment No. 2**  
**To**  
**FORM 10-SB**  
**GENERAL FORM FOR REGISTRATION OF SECURITIES**  
**OF SMALL BUSINESS ISSUERS**  
**Under Section 12(b) or (g) of the**  
**Securities Exchange Act of 1934**  
**LIVEWORLD, INC.**

*(Name of Small Business Issuer in its charter)*

**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*

**77-0426524**  
*(I.R.S. Employer  
Identification No.)*

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

**95129**  
*(Zip Code)*

**(408) 871-5200**

*(Issuer's telephone number)*

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

**Title of Each Class  
to be so Registered**

**Name of Each Exchange on Which  
Each Class is to be Registered**

None

None

**Securities to be registered pursuant to Section 12(g) of the Act:**

Common Stock, par value \$0.001 per share  
*(Title of Class)*

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**Part I**

**Item 1. Description of Business**

*This section and other parts of this Form 10-SB contain forward-looking statements that involve risk and uncertainties. Our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the section entitled Risk Factors commencing on page 9.*

**Overview**

We are an interactive agency specializing in the provision of private label online social networks and community services for companies, many of which are in the Fortune 1000, to engage and build loyalty with, provide support to and gather intelligence from their customers. We develop and operate online social networks and communities for our clients. These communities are designed to build lasting relationships with and among our client's customers and other constituencies—it is the difference between simply operating community applications and creating solutions that meet our client's fundamental business goals.

We create value by enabling and managing dialogue based relationships on the Internet. This in turn addresses the burgeoning market for Internet based relationship marketing, customer support and business intelligence services. Although online communities have existed for over 20 years, only in the past few years has the genre come in to its own, and we believe it will become one of the dominant venues by which brands market to and manage relationships with their customers. We provide not only the technology and infrastructure to create an online community and the moderation services to oversee it, but also expertise to consult with our clients on the best way to integrate their community with their brand. Our community management and moderation services help to define the environment, provide leadership, and direct the content of the community to reflect that of the client's focus. Our features and tools enable members of the community to express themselves and interact with each other, and our client. Our reporting tools, combined with our insight, reveal to the client what is happening and what it means, factors critical to community management, as well as to our clients to help them achieve their business objectives.

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 includes development and set-up of standard systems; customization of the standard system (features, design, data feeds, integrated registration) and internationalization and localization. Professional Services also includes 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:

LiveWorld Community Center, which is an integrated social network/online community that includes:

Expressive profiles, which are user profile pages allowing community members to describe themselves and share information about themselves. Such information can include a screen name, list of interests, photos, an icon or avatar. Profiles can additionally include blogs,

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photo albums, guest books, favorites list, and a list of friends in the community (displaying their screen names and photo), with connection links to friends' profiles.

Blogs - allowing users to write and display essays in journal or diary format, and optionally to permit other users to post comments on the essays. Blogs also feature the ability to link to other blogs and web sites.

User video hosting - allowing users to upload, display, comment on and share videos.

Message forums - allowing users to post comments to a web page, followed by other posts from the same and/or other users.

Polls - allowing a content provider and/or members of an Internet community to publish a simple poll or survey, giving users the opportunity to answer the published questions and providing the poll results.

Community galleries - featuring user content and community calendars for organizing and displaying online and offline events of interest to the community.

Other application hosting services provided by LiveWorld include:

Blogs (on a standalone basis) - allowing users to write and display essays in journal or diary format, and optionally to permit other users to post comments on the essays. Blogs are also characterized by the ability to link to other blogs and web sites.

User videos (on a standalone basis) - allowing users to upload, display, comment on and share videos.

Message forums (on a standalone basis) - allowing users to post comments to a web page, followed by other posts from the same and/or other users.

Groups - allowing community members to create their own sub-communities, usually with message forum, email list, photo album and other such applications specific to that sub-community.

Chats - allowing users to text chat with each other in real time.

Live events (interactive webcasts) - broadcasting an interview or presentation in real time to attending users, who can submit questions to the presenter and participate in polls.

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

**Moderation Services:** Moderation services includes 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 to a supervisor such content. Moderation can also involve trained personnel leading topical discussions, or selecting or editing site content for featured display.

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**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 (interactive webcasts).

We were incorporated in California on April 10, 1996 as LiveWorld Productions and reincorporated in Delaware in July 1999. In April 1999 we changed our name from LiveWorld Productions to Talk City, Inc. On May 8, 2001, when we sold our Talk City consumer site, we changed our name from Talk City, Inc. to LiveWorld, Inc. Our principal office is located at 4340 Stevens Creek Blvd., Suite 101, San Jose, California, 95129. Our telephone number is (408) 871-5200. Our Internet address is <http://www.liveworld.com>. No information on our website is deemed to be incorporated into this registration statement.

We intend to furnish our stockholders with annual reports containing audited financial statements and an opinion thereon expressed by independent certified public accountants and with quarterly reports for the first three fiscal quarters of each fiscal year containing unaudited interim financial information.

### **Industry Background**

Online communities first appeared during the 1980s when companies and governments set up proprietary networks that enabled their constituencies to communicate with and build relationships with each other. Notable examples from the mid-1980s include Apple Computer's AppleLink, France Telecom's MiniTel, and small consumer services such as The Well. In the late 1980s and early 1990's, a series of proprietary consumer online services became popular. Examples include Apple's eWorld, America Online, CompuServe, Genie and Prodigy in the United States and NiftyServe in Japan. In the mid to late 1990's, as the Internet developed into a popular consumer, business and education venue, the volume of online users and the economy around them grew substantially. Online community usage grew as a major area of Internet usage. In the years 2000 through 2003, the economy experienced national recession and the Internet industry experienced a downturn in which many Internet companies went out of business. In the last few years online social networks have grown in popularity. We believe the primary factors contributing to this growth are:

**General recovery of the economy and the business sector in particular resumed growth.** As businesses have recovered from the economic downturn, they have begun looking for more efficient ways to market and support their products, as well as to better understand their customers, which has created interest in the high leverage afforded by marketing through consumers such as via social networks and online communities.

**The Internet resumed its growth.** As the economy recovered in years 2004 to 2006, growth of the Internet and Internet online communities resumed in the United States and markets

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worldwide. The number of Internet users in North America reached 232 million by the end of 2006, representing a 69.4% market penetration. Worldwide the total number of Internet users reached over one billion people. (source: [www.internetworldstats.com](http://www.internetworldstats.com), January 11, 2007)

**Generation C (Connected Community) has become an economic force.** During the last few years a new generation, dubbed Generation C, has come of age. Generation C is characterized by high level of social networking, via cell phone text messaging, and online community venues such as profiles, message forums, blogs, and instant messaging. We believe this generation uses social networks and online community as a central point of activity, for the formation of impressions and purchase decisions in every aspect of their lives and will continue to do so as they grow older. As this generation has matured and their purchasing power has grown, marketers are turning to social networks and online communities as the venue to reach them. MySpace tripled its volume from 17 million unique monthly visitors in 2005 to more than 54 million in July 2006 (source: Business Week, July 25, 2006, quoting comScore Media Metrix). By the end of 2006, users on YouTube were uploading 65,000 new videos each day. At the end of 2005, YouTube users watched 10 million videos a day. At the end of 2006 they watched 100 million videos a day (source: Time Magazine, December 25, 2006).

**Mobile phone usage grew and market penetration increased.** As mobile phone technology has been adopted people are becoming more used to and more eager to communicate on the go via voice, text messaging, and Internet applications. We believe this pattern is similar to, overlaps with and makes use of Internet social networking thus bringing more people into the market and growing it further. The global mobile phone population grew from approximately 200 million people in year 1998 to over 1.8 billion people in year 2005 with hundreds of millions of these devices used to access the Internet. Approximately, 600 million mobile phones are sold every year. (source: Tomi T. Ahonen and Alan Moore, Communities Dominate Brands).

**Acquisition of MySpace, a leading consumer destination social network, by Rupert Murdoch's NewsCorp in July 2005.** This single acquisition caused many companies across the media and marketing industries to consider the implications of social networking and begin designing marketing strategies with online communities in mind. We believe this dynamic has intensified as Google announced its acquisition of YouTube, a user video site in October 2006.

**Successful online marketing has intensified interest in the sector.** As some companies have been successful marketing through online community venues we believe others have become more interested in following. Successful examples of online community marketing from our own client list include: The Campbell Soup Company, the Dove Campaign For Real Beauty, eBay, HBO, MINI Cooper USA and TV Guide, among others.

**Our Vision**

We create value for clients and their customers through online dialogue venues managed to enable, grow, and cultivate relationships with and among people.

**Our Mission**

To be the #1 provider of online social network and community marketing services helping companies build better relationships through services that reduce costs, increase revenue and build customer loyalty.

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### **Our Business Goals**

We adopted the following goals at our start in 1996, and since that time up to the present, we have held to these same goals:

- 1) To make a lot of money for everyone, i.e. generate a positive returns on investment for our clients, employees and shareholders;
- 2) Having a blast, i.e. maintain a fun, positive working environment where employees morale is high;
- 3) While creating and managing quality online community venues.

We are a highly ethical company and we care about the people we work with and for.

### **Our History**

From the time of our initial public offering in July 1999 through 2000, we experienced substantial revenue growth. Starting in the first quarter of 2000 our revenue growth began to slow and later declined due to declines in the general economic conditions, the collapse of the Internet market and the economic impact of the 9/11 terrorist attack.

We took a number of steps to address the reduction in revenues. First, we shifted our primary focus to fee-based private label online social networks and community services, and away from advertising-based consumer site services. As a result the private label business grew to be a majority of our revenues in 2000. In May 2001, we sold the assets of the business associated with the consumer site, Talk City, and from that point in time to the present date we have concentrated all of our efforts on the private label online social networks and community services.

We also restructured and downsized the business to survive the severe decline of companies relying upon the Internet, as well as the general economic downturn. These actions involved cutting our expenditures dramatically including phasing out lines of business such as our consumer site, www.talkcity.com, reducing our employee headcount from approximately 235 people to 15 people, reducing salaries across the board in the range of approximately 25% to 80%, negotiating the end of our former long-term 65,000 square foot lease, closing multiple offices, downsizing our board of directors and eliminating our directors and officers insurance.

In May 2001, our common stock was delisted from the Nasdaq National Market because it was trading at below \$1.00 per share for an extended period. In December 2002, we elected to deregister our common stock with the Securities and Exchange Commission. We took this action as a means to further reduce our expenses, including eliminating the cost of preparing periodic reports and suspending external financial auditing.

As a result of these actions, we survived and became cash flow positive from operations.

### **Our Core Strengths**

Our focus is to consistently deliver the various combinations of online social networking and community services that enable our clients to build better relationships with and among their customers and other constituencies such as their employees and business partners. We believe that certain core strengths have been, and will continue to be, key to our success. These core strengths include the following:

Strategic community model that maps the culture of the community to the ethos of the client's brand;

Complete solution approach with a return-on-investment focus;

Wide range of user functionality;

Proprietary moderation tools;

Seamless integration into our clients' systems;



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Customization of systems;

Portfolio of moderation services and proprietary moderation tools;

Network of trained community leaders and moderators;

Global-local services and experience having deployed in over 30 country/language combinations;

Technology, including platform, features and flexible implementation;

24x7 mission-critical and scalable infrastructure;

Experience of the team, which includes senior executives each with over 20 years of online social network and community experience; and

Marquee clients who are the leaders in their market segments.

In addition to considering our strengths, investors are cautioned to consider the significant risks we face. For example, our revenues are highly concentrated with two clients, AOL LLC and eBay Inc., which account for approximately 67% of our revenues in fiscal year 2006. Additionally, we have seen an erosion of our revenues from AOL LLC from a high of 51% of total revenues for fiscal year 2005 down to 25% of revenues for the three months ended March 31, 2007. We are also highly dependent upon our management team, many members of which have served us since our inception in 1996. Investors are encouraged to carefully consider all the risks and weakness identified in this document, including those risks appearing under Risk Factors below, as well as the transactions described under Item 7. Certain Relationships and Related Transactions .

**Our Strategy**

We intend to expand upon our core strengths to further enhance our ability to provide high quality private label online social networks and community services for companies quickly and efficiently. Our strategy also includes the following key elements:

Extend the range of methods by which online social network and community services can be deployed for relationship marketing, customer support and business intelligence for major brands, and monetization for Internet sites;

Expand scope of services including end-user features, feature and design customizability, moderation services, and reporting services;

Leverage our relationship with marketing agencies, including our WPP Group plc relationship, to close new business with programs that are deeply integrated into our clients main marketing strategies and programs; and

Expand internationally in Europe and Asia.

**Our Clients**

Our current largest clients (based on fiscal year 2006 revenue) are (listed in alphabetical order):

AOL LLC	AOL (UK) Limited	A&E Television	Aramark	BEA Systems
Blog Safety	BreastCancer.org	Coca Cola Company	The Campbell Soup Company	Discovery Communications Inc.
eBay Inc.	Expedia Travel	HBO	Hotels.com	IDG

Intel Corporation	Intuit	Kraft Foods Inc.	Match.com	Mini Cooper
MTV Latin America	NBA.com	QVC	Tulane	TV Guide
Verizon Wireless				

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With the exception of AOL LLC ( AOL or AOL US ) and eBay, none of our clients accounted for more than 4% of our revenue in fiscal year 2006. AOL US represented 36% for fiscal year 2006, 51% for fiscal year 2005 and 42% for fiscal 2004. eBay represented 31% for fiscal year 2006, 26% for fiscal year 2005 and 38% for fiscal year 2004.

AOL US represented 25% of revenue for the three months ended March 31, 2007 compared to 49% of revenue for the three months ended March 31, 2006. eBay represented 30% for the three months ended March 31, 2007 and 29% of revenue for the three months ended March 31, 2006.

Both AOL US and eBay are market leaders and valued clients. Our current contract with AOL US can not be cancelled without incurring a penalty through March 31, 2008. We have recently signed a three-year renewal contract with eBay that runs to the end of 2009. While the term of the contract is three years, different parts of the contract can, with six months notice, be cancelled by eBay after one year, and/or cancelled with cancellation penalties.

We are increasingly working with our client s advertising and marketing agencies to form relationship marketing strategies and create social network and community solutions integrated into the overall marketing strategy. We have delivered programs with agencies such as, AKQA (Coca-Cola), AOL Media (Dove, Target, media clients), Beamland (MINI), Digit (media client), Euro RSCG (Campbells, MINI), Hill Holiday, Connors & Cosmopolis (financial services client), Ogilvy & Mather (Dove), and Wunderman UK (Land Rover).

In July 2006, we entered into a non-exclusive joint venture with WPP Group plc (through its subsidiary, J. Walter Thompson U.S.A., Inc., or WPP ). Pursuant to the joint venture we formed an LLC, LiveWorld-WPP, L.L.C., to market and sell our products and services to WPP Group plc. WPP Group plc is one of the world s leading marketing and communications firms and includes in its company portfolio JWT, Ogilvy & Mather Worldwide, Y&R, The Voluntarily United Group, Grey Worldwide, MindShare, MediaCom, Mediaedge:cia, Millward Brown, Research International, KMR Group, OgilvyOne Worldwide, Wunderman, 141 Worldwide, Hill & Knowlton, Ogilvy Public Relations Worldwide, Burson-Marsteller, Cohn & Wolfe, CommonHealth, Sudler & Hennessey, Ogilvy Healthworld, Enterprise IG, Landor and Fitch among others. Please see Item 7. Certain Relationships and Related Transactions for more information on our relationship with WPP.

**Competition**

The market for private label online social networking and community services is new, rapidly evolving, highly competitive, and is characterized by typical market pressures such as pricing, new capabilities and time to market.

We believe the primary competitive factors are:

Quality of the community offering a positive user experience, an effective and lasting brand impression, and the ability to create and manage the community s culture such that it maps to and from the client s brand;

Solutions approach and quality of client service with a return-on-investment focus;

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Brand recognition with corporate clients;

User affinity and loyalty;

Full range of value-added service including moderation, reporting, design and customization, as well as application hosting;

Global and local capabilities;

Quality, reliability and scalability of the systems; and

Functionality, technology and system infrastructure.

We compete with established online community services companies including:

Lithium Systems; and

Prospero.

We also compete with numerous new entrants from a wide range of sectors, including marketing services, software technology and Internet services. In addition to third party providers, we also compete with companies potential in-house capabilities.

We believe we distinguish ourselves from our competitors by:

Our position as a full solution interactive agency rather than the more narrow focus of being only an application service provider or only a moderation services provider;

Fully integrated solutions in which the components interoperate and the overall system is integrated with the client's system;

Structured community environments that engage and build loyalty with our clients' constituencies;

Large scale infrastructure, and proprietary technology including applications, moderation tools and reporting tools;

Leadership in the moderation space and community management space;

Global capabilities with years of experience providing solutions in dozens of countries and languages;

Marquee list of current clients including some of the world's leading brands; and

Sales and marketing relationships, including our joint venture with WPP.

**Employees**

As of March 31, 2007, we had a total of 63 corporate employees, all of whom were located in the United States. Of the total, 28 were engaged in product development and systems deployment, 24 in producing and managing the services, 2 in sales and marketing, and 9 in general and administrative. In addition, we had 210 moderator employees along with 13 international contract moderators. These moderators are paid on an hourly basis. The number of moderators can vary substantially depending on the volume and scope of our moderation services business.

None of our employees is represented by a labor union. We have never experienced any work stoppages and we consider our relations with our employees to be good.

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We believe that stock options are an important element of our employee compensation that is needed to be competitive in hiring new employees or retaining existing employees. As such we intend to continue to use equity compensation to motivate employees. In June 2007, our stockholders approved a new stock option plan (the 2007 Option Plan ) that reserve 10,000,000 shares of common stock for future issuance, plus any shares that remained ungranted under our prior plan or that are forfeited after the adoption of the 2007 Option Plan. The 2007 Option Plan does not include an annual evergreen increase, so any future increase of options available under the plan would require approval of our Board of Directors and stockholders.

### **Intellectual Property, Proprietary Rights And Domain Names**

We regard our copyrights, service marks, trademarks, trade secrets, proprietary technology and similar intellectual property as critical to our success and we rely on trademark and copyright law, trade secret protection and confidentiality and license agreements with our employees, clients, independent contractors, network participants and others to protect our proprietary rights. We strategically pursue the registration of trademarks and service marks in the United States, and have applied for and obtained registration in the United States for LiveWorld . Effective trademark, service mark, copyright and trade secret protection may not be available in every country in which we offer our services.

As part of our operating contracts with clients, we cross-license proprietary rights, such as trademarks, or copyrighted material and intellectual property for the purpose of use in the deployment of the contracted services. Although we attempt to ensure that the quality of our brand and our other proprietary rights are maintained in these deployments, the steps we take to protect these proprietary rights may not be adequate and third parties may infringe or misappropriate our copyrights, trademarks and similar proprietary rights. In addition, other parties may assert claims of infringement of intellectual property or other proprietary rights against us.

### **RISK FACTORS**

*We operate in a rapidly changing environment that involves numerous uncertainties and risks. The risks and uncertainties that may have a material and adverse effect on our business, financial condition or results of operations are listed below. You should consider these risks and uncertainties carefully, together with all of the other information included or incorporated by reference in this Registration Statement on Form 10-SB before you decide whether to purchase any of our securities. If any of the risks or uncertainties we face were to occur, the trading price of our securities could decline, and you may lose all of part of your investment.*

#### **Fluctuations in quarterly operating results may cause our stock price to decline.**

Our operating results may fluctuate from quarter to quarter, and in the event our operating results in one or more future quarters were to be below the expectations of our investors the price of our common stock would likely decline. We expect that our quarterly operating results may continue to fluctuate significantly. For example, our net revenues might fluctuate in the event we were to win or lose a major client, or if one of our major clients increased or decreased its business with us. Our operating results may be affected by many other factors, the more important of which include:

Our dependence on increased online community services revenues;

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General economic conditions;

The length of our sales cycle;

Our ability to increase our base of clients;

Our management of any growth;

Potential technical difficulties or system down time affecting the Internet generally or our company specifically; and

The success of our strategy to invest in growth, product development and sales and marketing efforts.

These factors are described in more detail in the risk factors described below. Many of these factors are beyond our control.

**Our revenue is highly concentrated in two clients, the loss of part or all this business could severely damage our company and cause our stock price to decline.**

Our revenues are concentrated between our two largest clients, AOL US and eBay. For the three months ended March 31, 2007 revenue from AOL US comprised approximately 25% of our revenue and eBay accounted for approximately 30% of our revenue, or combined these two clients accounted for 55% of the revenue for the period. For the fiscal year ended December 31, 2006, revenue from AOL US comprised approximately 36% of our revenue and eBay accounted for approximately 31% of our revenue, or combined these two clients accounted for 67% of the revenue for 2006. For the years ended December 31, 2005 and 2004, AOL US revenues accounted for 51% and 42% of our revenues and eBay revenues accounted for 26% and 38% of our revenues or combined these two clients accounted for 77% of the revenue for 2005 and 80% of the revenue for 2004. Our revenue from these clients can change rapidly with little notice, and our revenue from AOL US has declined in recent years and is expected to continue to decline in fiscal year 2007. For example, we expect our revenue from AOL US to decline from approximately \$3.6 million in fiscal year 2006 to approximately \$1.5 million in fiscal year 2007 as a result of changes in AOL US's business, which has reduced the volume of services AOL US intends to purchase from us.

Because our largest clients account for a substantial portion of our revenue, and because they have significant leverage in the markets in which we compete, we may determine to waive or amend provisions of our agreements, or enter into new agreements on terms less favorable than would otherwise prevail. The continued concentration of revenue among these clients may create additional volatility in our stock price. The loss of a significant portion of business from either of these clients would materially harm our operating results, and could result in a significant decline in our stock price.

**We are highly dependent upon the services of our key personnel, and if we were unable to timely replace any key employee, our business would be severely harmed.**

Our future success will depend, to a significant extent, on the continued services of Peter Friedman, our Chairman and, Chief Executive Officer, Jenna Woodul, our EVP and Chief Community Officer and Chris Christensen, our EVP of Engineering and Operations. Mr. Friedman has been our Chairman and Chief Executive Officer since the start of the company in 1996 and also served as our Chief Financial Officer from 2002 to 2006, and Mr. Friedman, Ms. Woodul and Mr. Christensen have been the primary members of our executive team since our inception in 1996. Although the loss of any key employee can be damaging, the loss

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of the services of Mr. Friedman, Ms. Woodul, or Mr. Christensen could be especially damaging to us because of their extended history of service and the concentration of management responsibility among these executives. The loss of any one of these executives, or any other key employee could cause us to incur increased operating expenses and divert other senior management time in searching for their replacements. The loss of their services could also harm our reputation with clients. We do not have long-term employment agreements with Mr. Friedman, Ms. Woodul, Mr. Christensen or any other employee. We maintain a \$5 million key person life insurance policy on Mr. Friedman but do not have any such insurance on any other personnel.

**The market in which we compete is highly competitive, and if we are unable to compete effectively, our business will not succeed and our stock price will decline.**

The market in which we compete is highly competitive and is characterized by pressure to reduce prices, rapidly incorporate new technologies, frequently introduce new products and services, and accelerate community venue launches. Historically, the competitive landscape in which we compete has been fragmented, with a variety of small companies competing with us. There are relatively low barriers to entry into our business and we expect to face additional competition in the future. Also, many companies attempt to implement services similar to those we provide internally, requiring us to compete with these in-house implementations.

There can be no assurance that existing or future competitors will not develop or offer services that provide significant advantages over those services offered by us, which could have a material adverse affect on the business, financial condition, and operating results. Increases in the number of companies competing for the attention and spending of businesses could result in price reductions, reduced margins or loss of market share, any of which could decrease our revenues and contribute to our not achieving our objectives.

**We may need to raise capital in the future, and we may not be able to do so on attractive terms, or at all.**

We may desire or be required to raise additional capital in the future to operate or grow our business including to:

Fund ongoing operations including adding personnel and equipment;

Increase our client base;

Increase our sales activities;

Adequately inform the market about our product positioning and new products.

If we do not have resources to achieve these objectives, our stock price could decline. If we are required to raise capital, but are unable to do so on attractive terms, our existing investor's ownership could be significantly diluted and if we are unable to raise capital to continue operations, our common stock would have no value.

**Our sales cycle varies and at times is difficult to predict, which may result in greater variation in quarterly results than would otherwise prevail.**

Our sales cycle varies in length of time. During the sales cycle, we may expend substantial funds and management resources without generating corresponding revenues. The time between our initial contact with

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a potential client and the execution of a contract with that client typically ranges from a few weeks to several months. The sales cycle is also subject to delays as a result of factors over which we have little or no control, including the following:

Client budgetary constraints;

Client internal acceptance reviews;

The success and continued internal support of clients' own development efforts; and

The possibility of cancellation or delay of projects by business clients.

The length and uncertainty of the sales cycle also may harm our billing and collection efforts. The length of the sales cycle might prevent us from rendering services on a more accelerated basis, which slows cash flow and reduces our ability to fund our expenditures during the sales cycle. Companies with unpredictable revenue and sale cycles may experience higher volatility in stock price than companies with more predictable operating results.

**Private label online social network and community services are relatively new and our future success is dependent upon the growth of this market.**

We have derived, and expect to continue to derive, our revenues from the sale of private label online social network and community services. The market for private label online social network and community services has only recently begun to see substantial growth, is rapidly evolving and is characterized by an increasing number of market entrants who have introduced or developed products or services for the online community services market. Demand and market acceptance for recently introduced services are subject to a high level of uncertainty. There can be no assurance the market for online community development will continue to grow. Our growth and future success will depend on our ability to increase the number of clients, expand our service offerings, effectively implement these services and increase the average revenue per contract and per client. Our ability to generate significant revenues will also be dependent, in part, on our ability to create new online social network and community service offerings without diluting the value of our existing programs. Increasing these services may also prove to be more expensive and time consuming than anticipated and therefore having a material adverse effect on our business, financial condition and operating results.

**Our success will be limited if we are unable to attract, retain and motivate highly skilled personnel.**

Our future success also will depend on our ability to attract, retain and motivate highly skilled engineering, community management, sales, and other key personnel. Competition for such personnel is, at times, intense in the Internet industry, and we may be unable to successfully attract, integrate or retain sufficiently qualified personnel. In addition, our ability to generate revenues relates directly to our personnel both in terms of numbers and expertise of the personnel we have available to work on the projects. Recent changes in the law, including recent regulations regarding stock options, including the accounting treatment of stock options, may hinder our ability to grant stock options and in turn hinder our ability to attract and retain personnel. Moreover, competition for qualified employees may require us to increase our cash or equity compensation, which may have an adverse effect on earnings.



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We depend on our network of trained community leaders and moderators for our services, to deploy and moderate our services. In addition, our ability to generate revenues relates directly to the availability of these moderators and community leaders to keep up with the work associated with the communities we develop and run for our clients. As a result any failure to retain existing moderators and community leaders, or hire new moderators and community leaders when necessary could have a material adverse effect on the business, financial condition, and operating results.

Many companies are facing increasing globalization cost pressures in the labor market ranging from service jobs similar to our moderation workforce to high technology jobs similar to our engineering workforce. If we find ourselves competing with companies that have lower cost service or engineering personnel, we may see a reduction in our operating profits and/or the need to offshore such service and engineering jobs.

**We are parties to a joint venture agreement that may result in warrants to acquire a substantial portion of our capital stock being issued, which would dilute our existing investors.**

We have entered into a complex joint venture relationship to provide our products and services to the clients of WPP Group plc (or WPP Group plc's affiliates). Pursuant to the terms of the joint venture and associated agreements, we have issued warrants to purchase our common stock to WPP and may be required to issue additional warrants based on the future performance of the joint venture. In the event the joint venture were to be successful, the number of warrants issued could be substantial. The ability of WPP to receive the right to purchase a substantial portion of our capital stock could discourage third parties from attempting to acquire us, which could depress our stock price. In addition, in the event the dilution caused to our stockholders by this relationship is not outweighed by the addition of LiveWorld revenue resulting from the joint venture our stock price could fall. Finally, the maximum total number of warrants that may be required to be issued under this relationship is 53% of the fully diluted share count of the company in 2010. However, the exact number of warrants that may be issued over the term of the agreement cannot currently be calculated, as it depends on a number of factors, including the amount of LiveWorld revenue resulting from the joint venture, and the number of shares of our capital stock that are issued or issuable upon the exercise or conversion of options, warrants or convertibles securities over the next four years. Specifically, the number of warrants WPP would earn would increase if the percentage of our overall net revenue attributable to our joint venture increases or if the number of our shares outstanding (or issuable upon exercise or conversion of our convertible securities) increases. As an example if the percentage of our net revenue contributed by the joint venture remained constant, but the number of shares of our common stock issued or issuable increased by 10% the number of warrants WPP could be entitled to would increase by approximately 6.7%. The inability to determine with certainty the exact number of warrants to be issued in the future may make it more difficult for investors to determine the value our common stock.

**Peter Friedman is currently our Chairman, Chief Executive Officer and sole director, and if he were to be unable or unwilling to continue in these roles, we would need to find a replacement, which could be difficult, costly and distracting to our business.**

Peter Friedman, our Chairman and Chief Executive Officer, also serves as our sole board member. We do not have plans to expand our board of directors. Because we have no independent directors, we do not have an independent audit, compensation or corporate governance committee. We are not required to have independent committees under applicable law or the listing requirements of the market on which our stock trades or on the OTC Bulletin Board, where we intend to apply to have our shares listed in the future. In the event Mr. Friedman were to be unable or unwilling to continue to serve as a director, which could occur with little or no advanced warning, we would need to find a replacement, which could cause a material disruption to our business. In addition, certain investors may be unwilling to invest in us because we do not have independent board members or independent committees, which could depress the price of our common stock.

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**A significant portion of our capital stock or rights to acquire capital stock are held by a small group of people and entities whose interests may be different than other investors.**

A significant portion of our capital stock and rights to acquire capital stock are held by a small group of people and entities. For example, as of March 31, 2007, Peter Friedman, our Chief Executive Officer, Jenna Woodul, our EVP Chief Community Officer and Chris Christensen, our EVP of Engineering and Operations together owned or had rights to acquire in excess of 25% of our outstanding capital stock, while Jay Friedman owned or had rights to acquire 7.3% of our outstanding capital stock. Funds affiliated with Allegis Capital owned approximately 7.7% of our outstanding stock and Jeffrey Easton owned approximately 10.1%.

The significant ownership of the people and entities may allow them to exert significant influence over many, if not all, of the Company's major decisions for the foreseeable future. In addition, the possibility that WPP might acquire substantial warrants and in turn possibly substantial stock in LiveWorld may discourage third parties from attempting to acquire significant ownership stakes. This may have the effect of depressing the price of our equity securities.

**We may make strategic acquisitions or investments, which involves numerous risks, including the risk that we might pay too much for an acquisition or investment, that any transaction could distract management and that the failure to successfully integrated an acquired business could harm us and our stock price.**

As part of our strategy to expand our services and revenues, we may acquire or make investments in businesses, joint ventures, technologies, services or products we view as complementary. Identifying suitable acquisition or investment candidates at reasonable prices or on reasonable terms may be difficult, and the failure to do so could harm our growth strategy. If we do acquire a company or make other types of acquisitions, we could have difficulty integrating the acquired services, personnel or technologies. These difficulties could disrupt our ongoing business, distract our management and employees, and increase our expenses. As a result the failure to consummate potential acquisitions or investments, or to integrate them into the business properly could have a material adverse effect on our business, financial condition, and operating results.

**Any system failure or slow down could significantly harm our reputation and damage our business.**

System failures would harm our reputation and reduce our attractiveness to clients. Our ability to attract potential clients will depend significantly on the performance of our network infrastructure. In addition, a key element of our strategy is to effectively perform services for clients in order to increase their usage of our services. Usage of our online services could strain the capacity of our infrastructure, resulting in a slowing or outage of services and reduced traffic to clients' web sites. We may be unable to improve our technical infrastructure in relation to increased usage of our services. In addition, the users of the systems we deploy for our clients depend on Internet service providers, online service providers and other web site operators for access to our web sites. Many of these providers and operators have also experienced significant outages in the past, and they could experience outages, delays and other difficulties due to system failures unrelated to our systems. We provide our clients with a service level agreement guarantees which, in some cases, if not met result in financial penalties that could have a material adverse effect on our business, financial condition, and operating results.

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**We depend on third-party software to deliver specified aspects of our services.**

Our flagship product the LiveWorld Community Center, as well as, the Live Forum product have a significant reliance on third party software. If software purchased from third parties to perform aspects of our services does not function properly or is not updated, or the contractual relationships were to end, we would need to purchase new software from other third-party providers or develop replacement software on our own. Even though the third-party software we currently use would likely be replaceable through other third-party providers or developed internally, doing so would likely require increases in operating expenses and could cause a disruption in our business. This could have a material adverse effect on our business, financial condition, and operating results.

**If our business becomes more highly regulated, we may not be able to pursue our business model and our business could be substantially harmed.**

Although few laws or regulations exist that specifically regulate communications on the Internet, the government might implement laws that result in more significant or different types of regulation. Any new legislation or regulations or the application of existing laws and regulations to the Internet could limit user volume and increase operating expenses. In addition, the application of existing laws to the Internet is uncertain and may take years to resolve and could expose us to substantial liability for which we might not be indemnified by the content providers or other third parties. This could have a material adverse effect on our business, financial condition, and operating results. Existing laws and regulations currently, and new laws and regulations are likely to address a variety of issues, including the following:

User privacy and expression;

The rights and safety of children;

Information security;

The convergence of traditional channels with Internet commerce; and

Taxation and pricing.

If Internet growth slows due to proposals to regulate Internet service providers in a way similar to long distance telephone carriers, the demand for our services could decline. The use of the Internet has burdened the existing telecommunications infrastructure and led to interruptions in phone service in areas with high Internet use. Several telecommunications companies and local telephone carriers have petitioned the Federal Communications Commission to regulate Internet service providers and online service providers in a manner similar to long distance telephone carriers and to impose access fees. If this were to occur, the costs of communicating on the Internet could increase substantially, potentially slowing the growth in use of the Internet.

**We may be exposed to liability for publishing or distributing content over the Internet.**

We may be subject to claims relating to content that is published on or downloaded from our web site or the web sites we operate for our clients. We also could be subject to liability for content that is accessible from our web site through links to other web sites. Although we carry general liability, multimedia liability and errors and omissions insurance, our insurance may not cover potential claims of this type or may not be adequate to cover all costs incurred in defense of potential claims or to indemnify us for all liability that may be imposed. In addition, any claims like this, with or without merit, could have a material adverse effect on our business, financial condition, and operating results.

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**The disclosure or misuse of data we collect could harm our business.**

If third parties were able to penetrate our network security or otherwise misappropriate our users' personal information, we might be subject to liability. These could include claims for impersonation or other similar fraud claims.

In addition, we currently use personal information we collect about the users of the services we provide to clients for internal information and to share with those clients to determine how to improve our services, applications and features, and to provide clients with feedback. These practices are limited by each client's privacy policies. We could be subject to liability claims by clients' users for misuses of personal information by the clients, such as for unauthorized marketing purposes. In addition, the Federal Trade Commission has previously investigated various Internet companies regarding their use of personal information. We could incur additional expenses if new regulations regarding the use of personal information are introduced or if our privacy practices are investigated. This could have a material adverse effect on our business, financial condition, and operating results.

**We may be subject to litigation over intellectual property rights, and any such litigation could be costly, involve significant distraction of management, and have an uncertain outcome.**

Other parties may assert claims of infringement of intellectual property or other proprietary rights against us. These claims, even if without merit, could require us to expend significant financial and managerial resources. Furthermore, if claims like this were successful, we might be required to change our trademarks, alter our content or pay financial damages, any of which could substantially increase our operating expenses. We also may be required to obtain licenses from others to refine, develop, market and deliver new services. We may be unable to obtain any needed license on commercially reasonable terms or at all, and rights granted under any licenses may not be valid and enforceable. In the future we could be subject to legal proceedings and claims from time to time in the ordinary course of our business, including claims of alleged infringement of trademarks and other intellectual property rights of third parties by us and our licensees. Any such claims could have a material adverse effect on our business, financial condition and operating results.

**Item 2. Management's Discussion and Analysis**

**Special Note Regarding Forward-Looking Statements**

This registration statement on Form 10-SB 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, 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. These factors include, among other things, those listed under Risk Factors and elsewhere in this registration statement.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we do not guarantee future results, levels of activity, performance or achievements. Except as required by law, we are under no duty to update or revise any of the forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this registration statement.

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This registration statement on Form 10-SB contains statistical data that we obtained from industry publications and reports generated by third parties. Although we believe that the publications and reports are reliable, we have not independently verified this statistical data.

*The following discussion and analysis should be read in conjunction with our consolidated financial statements and the notes to those statements included elsewhere in this registration statement. 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 and elsewhere in this registration statement.*

### **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 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 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.

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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 (For a detailed description of this product please see the Section Application Hosting mentioned above). 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. We recently entered into a non-exclusive joint venture with WPP pursuant to which we formed Live World-WPP, L.L.C. we also entered into a sales representative agreement in connection with the joint venture to market our products and services to WPP clients. Pursuant to this joint venture, WPP has the opportunity to earn warrants to purchase our capital 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.

From July of 1999 through May 2001, our common stock was listed on the Nasdaq national market. In December 2002, we elected to deregister our common stock with the Securities and Exchange Commission. The decision to de-list our common stock was primarily based on our attempts to reduce costs during the unfavorable economic climate at the time.

***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 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 charged for setting up the services based on our standard menu of services provided; and add-ons, or enhancements fees we charges for any additional customized work the client requests after we have begun to provide the services to our client. Development and set-up revenues are paid upfront but recognized ratably as the operational service is provided.

We define operation fees 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 expenses associated

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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.

*Other Income (Expense).* Other income consists primarily of interest earned on cash and cash equivalent balances, net of interest expense, the gain or loss on the sale of equipment, and any settlement income.

***Provision for Income Taxes***

Our effective tax rate was approximately (1.6%), 1.5%, and (5.3%) for fiscal year 2004, fiscal year 2005, and fiscal year 2006. The provision for income taxes reflects the credit for the net operating loss in 2004, the minimal state income taxes on earnings in 2005, and the income taxes due to states where we did not have any operating loss carryforwards available in 2006. We are able to reduce our current federal tax liability with net operating loss carryforwards. Due to uncertainties surrounding the timing of realizing the benefits of the net operating loss carryforwards in the future, we have established a full valuation allowance against our net deferred tax assets.

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**Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent liabilities.

On an on-going basis, we evaluate our estimates, including those related to our revenue recognition. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

We have identified the accounting policies below as the policies critical to our business operations and the understanding of our results of operations. We belie