

**ANNUAL REPORT FOR  
THE YEAR ENDED  
December 31, 2017**

**LIVEWORLD, INC.**

*(Exact Name of issuer as specified in its charter)*

**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)*

**ISSUER'S EQUITY SECURITIES**

**COMMON STOCK**

**\$0.001 Par Value**  
**100,000,000 Common Shares Authorized**  
**33,388,545 Shares Issued and Outstanding as of March 9, 2018**

**LIVEWORLD, INC.**  
**UNAUDITED CONDENSED BALANCE SHEETS**  
(In thousands, except share data)

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalent	\$ 2,270	\$ 2,555
Accounts receivable, net	304	805
Prepaid expenses	148	102
Total current assets	2,722	3,462
Property and equipment, net	48	55
Other assets	19	20
Total assets	\$ 2,789	\$ 3,537
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 190	\$ 254
Accrued employee expenses	516	497
Other accrued liabilities	205	71
Deferred revenue	651	517
Total current liabilities	1,562	1,339
Total liabilities	1,562	1,339
Stockholders' equity		
Common stock: \$0.001 par value, 100,000,000 shares authorized 33,388,545 issued and outstanding as of December 31, 2017 and December 31, 2016 respectively	34	34
Additional paid-in capital	142,968	142,600
Accumulated deficit	(141,775)	(140,436)
Total stockholders' equity	1,227	2,198
Total liabilities and stockholders' equity	\$ 2,789	\$ 3,537

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

	<b>Twelve Months Ended</b>	
	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Total revenues	\$ 9,949	\$ 9,730
Cost of revenues	3,945	3,863
Gross Margin	6,004	5,867
Operating Expense		
Product development	2,229	2,506
Sales and marketing	2,383	2,138
General and administrative	2,733	2,507
Total operating expense	7,345	7,151
Income / (loss) from operations	(1,341)	(1,284)
Income / (loss) before tax	(1,341)	(1,284)
Other Income / Expense	17	24
Provision for income taxes	14	1
Net income / (loss)	(1,338)	(1,261)
Basic income / (loss) per share	\$ (0.04)	\$ (0.04)
Shares used in computing basic loss per share	33,388,545	33,388,545
Diluted net income (loss) per share	\$ (0.04)	\$ (0.04)
Shares used in computing diluted income (loss) per share	33,388,545	33,388,545
Departmental allocation of stock-based compensation:		
Cost of revenues	\$ 53	\$ 69
Product development	68	103
Sales and marketing	60	25
General and administrative	187	203
Total stock-based compensation	\$ 368	\$ 400

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

	<b>Twelve Months Ended</b>	
	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Cash flows from operating activities:		
Net income (loss)	\$ (1,338)	\$ (1,261)
Adjustments to reconcile net income (loss) provided by (used in) operating activities:		
Depreciation of long-lived assets	29	40
Stock-based compensation	368	400
Loss on sale of assets	-----	-----
Changes in operating assets and liabilities:		
Accounts receivable	501	(389)
Other assets	(47)	2
Accounts payable	(64)	165
Accrued liabilities	153	72
Deferred revenue	134	45
Net cash provided by (used in) operating activities	(264)	(926)
Cash flows from investing activities:		
Purchase of property and equipment	(21)	(57)
Net cash provided by (used in) investing activities	(21)	(57)
Cash flows from financing activities:		
Proceeds from exercise of stock options	-----	-----
Net cash provided by (used for) financing activities	-----	-----
Change in cash and cash equivalent	(285)	(983)
Cash and cash equivalents, beginning of period	2,555	3,538
Cash and cash equivalents, end of period	\$ 2,270	\$ 2,555
Supplemental disclosure of non-cash financing and investing activities:		
Income tax paid	\$ 14	\$ 1

**LIVEWORLD, INC.**  
**STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2017 and 2016**  
(In thousands, except share data)

	<u>Common Stock</u> <u>Shares</u>	<u>Amount</u>	<u>Additional</u> <u>Paid-in</u> <u>Capital</u>	<u>Accumulated</u> <u>Deficit</u>	<u>Stockholders'</u> <u>Equity</u>
Balance - January 1, 2015 2016	33,388,545	\$ 34	\$ 142,200	\$ (139,175)	\$ 3,059
Common stock options exercised					----
Stock-based compensation			400		400
Net loss				(1,261)	(1,261)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance - December 31, 2015 2016	33,388,545	34	142,600	(140,436)	2,198
Common stock options exercised					----
Stock-based compensation			368		368
Net loss				(1,338)	(1,338)
Balance - December 31, 2016 2017	<u>33,388,545</u>	<u>\$ 34</u>	<u>\$ 142,968</u>	<u>\$ (141,775)</u>	<u>\$ 1,227</u>

## 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 social customer experience which through a combination of software and human services enable brands to deepen customer relationships through conversations that support their marketing, service, and insight goals. The Company’s services and software products include: Conversation Management SaaS platform, adverse events management for the pharma industry, moderation & engagement services to protect and enhance brands, social customer service to increase customer satisfaction, social listening and analytics, strategy, and media.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Basis of Presentation and Use of Estimates* – The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The preparation of the accompanying financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and Cash Equivalents* – The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

*Fair Value Measurements* – Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value should maximize the use of observable inputs and minimize the use of unobservable inputs. The accounting guidance for fair value establishes a three-level hierarchy for disclosure of fair value measurements, as follows:

Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 – Inputs (other than quoted market prices included in Level 1) that are either directly or indirectly observable, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the instrument’s anticipated life.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The carrying values of certain financial instruments of the Company, such as cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their relatively short maturities.

*Concentrations of Credit Risk* – Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents. Bank deposits are held with two financial institutions having strong credit ratings and these deposits may at times be in excess of insured limits. The Company is exposed to credit risk in the event of a default by the financial institutions holding its cash and cash equivalents.

The Company’s accounts receivable are derived primarily from customers who have signed contracts with the Company, for the Company to provide services to the customer. The Company performs ongoing credit evaluations of its customers, does not require collateral and maintains allowances for potential credit losses when deemed necessary. In 2017 Walmart accounted for 47% and Pfizer represented 11% of total revenues; in 2016 Walmart accounted for 50% of total revenues and Pfizer represented 13% of total revenues. As of December 31, 2017 Pfizer represented 32% of total outstanding accounts receivable; as of December 31, 2016, Walmart and Pfizer represented 18% and 38% all of which was subsequently collected by the Company.

*Allowances for Doubtful Accounts* – The Company did not record an allowance for doubtful accounts as of December 31, 2017 and December 31, 2016. The Company maintains an allowance for doubtful accounts for estimated losses that may arise if any of its customers are unlikely to make required payments. Management specifically analyzes the age of customer balances, historical bad debt experience, customer credit-worthiness, and changes in customer payment terms when making estimates of the uncollectibility of the Company’s accounts receivable balances. If the Company determines that the financial condition of any of its customers deteriorated, whether due to customer specific or general economic issues, an increase in the allowance will be made. Accounts receivable are written off when all collection attempts have failed.

*Property and Equipment* – Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets of three years for computer equipment, software, and for furniture and office equipment. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the respective assets.

*Revenues* – The Company recognizes revenues 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.

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 our Strategy, Engagement, Moderation and Insight software and services to clients; the expenses associated with the development, set-up and operation of our services, including expenses associated with server costs for managing the software tools, license fees for our platform; and the cost of providing moderators and any strategic consulting services the client may request from us. These expenses consist primarily of salaries, payroll taxes, benefits and related expenditures for moderation and consulting services, as well as, software license fees, hardware costs.

*Deferred Revenues* – Deferred revenues are the amounts associated with the initial service development and set-up of a community for our clients and/or prepayments by customers. 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.

*General and Administrative* – General and administrative expenses are the combined 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* – The Company accounts for its stock-based compensation expense based on the fair value of the stock-based awards that are ultimately expected to vest. The fair value of an employee stock option grant is estimated on the date of grant using the Black-Scholes option pricing model, and is recognized as expense on a straight-line basis over the employee's requisite service period (generally the vesting period), net of estimated forfeitures. Forfeitures are estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from the prior estimates.

The Company records the expense attributed to non-employee services paid with stock-based awards based on the estimated fair value of the awards determined using the Black-Scholes option pricing model. The measurement of stock-based compensation for non-employees is subject to re-measurement as the options vest, and the expense is recognized over the period during which services are received.

*Income Taxes* – The Company uses the liability method to account for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases. Deferred tax assets and liabilities are measured using enacted tax rates applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized. Financial statement effects of uncertain tax positions are recognized when it is more-likely-than-not, based on the technical merits of the position, that it will be sustained upon examination. Interest and penalties related to unrecognized tax benefits are included within the provision for income tax.

*Comprehensive Income (Loss)* – Comprehensive income (loss) is defined as a change in equity of a business enterprise during a period, resulting from transactions from non-owner sources. There have been no items qualifying as comprehensive income (loss) and, therefore, for all periods presented, the Company's comprehensive income (loss) was the same as its reported net income (loss).

*Earnings Per Share (EPS)* – Basic income (loss) per share is computed using the net income (loss) and the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is computed using the net income (loss) and the weighted

average number of common shares and dilutive potential common shares outstanding during the period. Potential dilutive common shares include outstanding stock options and warrants. The dilutive effect of outstanding stock options and warrants is computed using the treasury stock method. For the twelve month periods ended December 31, 2017 and 2016, diluted net loss per common share was the same as basic net loss per common share since the effect of inclusion of potentially dilutive common stock equivalents would have an antidilutive impact due to the loss reported. For the twelve month periods ended December 31, 2017 and 2016, options and warrants aggregating 30,637,354 and 29,921,035 common share equivalents, respectively, prior to the application of the treasury stock method are not included in the calculation of diluted net income (loss) per share as they are anti-dilutive.

The following table sets forth the computation of basic and diluted net income or loss attributable to common stockholders:

<b>In thousands, except per share amounts</b>	<b>Twelve Months Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Numerator:		
Net income (loss) attributable to common Stockholders	\$ (1,338)	\$ (1,261)
Denominator:		
Weighted-average shares used to compute basic EPS	33,389	33,389
Effect of dilutive securities:		
Diluted common shares	-----	-----
Weighted-average shares used to compute diluted EPS	33,389	33,389
Net earnings per share:		
Basic	\$ (0.04)	\$ (0.04)
Diluted	\$ (0.04)	\$ (0.04)

### 3. STOCK-BASED COMPENSATION

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 approximated eighty-five percent (85%) to one hundred percent (100%) of the estimated fair 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. The 1996 Plan expired in October of 2006 and was replaced by the 2007 Plan.

#### *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 of our stock options has been determined utilizing the “simplified” method for awards that qualify as “plain vanilla” options. The expected term of stock options granted to non-employees is equal to the contractual term of the option award.

*Expected Volatility* — A volatility rate was used as an estimate of the expected future volatility of the Company’s common stock. The Company estimated the expected stock volatility based on the historical volatility of publicly traded peer companies for periods that are commensurate with the expected term (in years).

*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.

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:

	Year Ended December 31,	
	2017	2016
Dividend yield	0%	0%
Expected volatility	79%	79%
Risk-free interest rate	1.4%	2.1%
Estimated term	7 years	7 Years

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 January 1, 2017	10,321,911	19,065,247	\$0.10		
Granted	(10,061,606)	10,061,606	\$0.05		
Forfeited	333,681	(333,681)	\$0.23		
Exercised	----	----	----		
Balance as of December 31, 2017	593,986	28,793,172	\$0.10	6.8	\$10

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 December 31, 2016.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2017:

Exercise Price	Options Outstanding			Options Exercisable and Vested		
	Number of Shares Outstanding	Weighted- Average Remaining Contractual Life (in years)	Weighted Average Exercise Price per Share	Number of Shares Exercisable	Weighted- Average Remaining Contractual Life (in years)	Weighted Average Exercise Price per Share
\$0.01 - \$0.017	300,000	0.9	\$ 0.015	300,000	0.9	\$ 0.015
\$0.02 - \$0.05	12,281,606	8.7	\$ 0.047	7,885,989	8.7	\$ 0.046
\$0.06 - \$0.17	13,569,566	6.0	\$ 0.114	5,683,246	6.0	\$ 0.056
\$0.23 - \$0.29	2,642,000	3.2	\$ 0.255	2,570,229	3.2	\$ 0.256
	28,793,172	6.8	\$ 0.100	16,439,465	6.8	\$ 0.083

As of December 31, 2017, there was approximately \$502,000 of total unrecognized compensation expense related to non-vested stock-based compensation arrangements granted under the 1996 Plan and the 2007 Plan. The cost is expected to be recognized over the next 3.8 years.

Compensation costs of approximately \$368,000 thousand was recognized for the issuance of employee related stock options during the year ended December 31, 2017.

## 5. WARRANTS

In July 2006, the Company entered into a joint venture with WPP, creating LiveWorld-WPP L.L.C. where upon each party contributed \$250,000 to fund the joint venture's operations. In addition, the Company entered into an agreement that provided for the granting of a substantial number of warrants to WPP to purchase the Company's common stock.

Specifically, at the formation of the joint venture WPP was granted a warrant to purchase 1,000,000 shares of common stock at a per share exercise price of \$1.00 and an additional warrant to purchase 1,000,000 shares of Common Stock at a per share exercise price of \$1.10. Subsequent grants were made in 2009 and 2010 for 1,809,324 shares of Common Stock at a per share exercise price of \$1.20 and 34,858 shares of Common Stock at a per share exercise price of \$1.30, respectively.

These warrants were issued as an incentive for WPP to enter into the joint venture with the Company, which was later dissolved in 2011. All of these warrants, have a term of 10 years. As of December 31, 2017 1,844,182 warrants were still outstanding.

## 6. PROPERTY AND EQUIPMENT

Property, furniture and equipment consisted of the following items:

(\$ in thousands)	December 31, 2017	December 31, 2016
Computer equipment	\$ 356	\$ 335
Software	1,212	1,212
Furniture and fixtures	36	36
Leasehold improvements	23	23
	<u>1,627</u>	<u>1,606</u>
Accumulated depreciation	(1,579)	(1,551)
Property, furniture and equipment, net	<u>\$ 48</u>	<u>\$ 55</u>

Depreciation expense was approximately \$29,000 and \$40,000 for the twelve months ended December 31, 2017 and 2016, respectively.

## 7. COMMITMENTS AND CONTINGENCIES

*Leases* – The Company leases its facilities under operating leases which expire in January 2019, July 2019, or are month-to-month payments. Rent expense related to operating leases is recognized ratably over the entire lease term. The Company is required to pay property tax, insurance and normal maintenance costs. As of December 31, 2017, future minimum lease payments required under the operating leases are approximately \$78,456 for 2018, and \$76,792 for 2019.

Rent expense of approximately \$183,000 and \$185,000 was recognized in 2017 and 2016 respectively.

*Contingencies* – The Company is not currently subject to any legal proceedings. The Company may from time to time, however become a party to various legal proceedings, arising in the ordinary course of business.

## 8. RELATED PARTY TRANSACTIONS

Except as disclosed below, none of our directors or executive officers, nor any person who beneficially owns, directly or indirectly, shares carrying more than five percent (5%) of the voting rights attached to all of our outstanding shares, nor any member of the immediate family (including spouse, parents, children, siblings, and in-laws) of any of the foregoing persons has any material interest, direct or indirect, in any transaction over 2016 or in any presently proposed transaction which, in either case, has or will materially affect us.

In June of 2012 we entered in a consulting agreement with TallGrass Public Relations, an entity affiliated with Jeffery Hayzlett. Mr. Hayzlett subsequently became a member of the Board of Directors on October 5, 2014. Pursuant to the current consulting agreement, we agreed to pay a monthly retainer of \$7,500 for public relations support. This agreement was renewed on January 1, 2017 and will expire on December 31, 2017.

## 9. SUBSEQUENT EVENTS

In February of 2018 we learned our largest client intends to transition its efforts in social media and no longer utilize our services or SaaS software. We anticipate this transition to be completed at some point in the second quarter of 2018. The current estimated revenue impact will be \$3.2 million when compared to the 2017 total revenues for this client. This reduction in revenues is being partially offset by revenue increases from other current clients and new clients in 2018. Additionally, we have undergone a restructuring which will reduce our total operating costs and continue our flexibility to make strategic investments in our solutions for healthcare and our target growth in that market

We believe that the combination of cash balances, and cash flow from operations will be sufficient to satisfy cash needs for the current level of operations and planned operations for foreseeable future.

## **Management’s Discussion and Analysis of Financial Condition and Results of Operation (unaudited)**

### **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.*

### **Overview**

LiveWorld is a services and software company that enables brands to enhance the customer experience in social media. Our software and services solutions empower the largest brands in the world, allowing them to develop deeper relationships with their customers in the areas of marketing, customer service, and insights. LiveWorld clients foster social media environments that are natural continuations of the experiences customers have with brands—and with each other—in the real world.

LiveWorld uses the power of content and conversation to help companies achieve business goals, measureable through marketing and operational KPIs. Our services include strategy, campaign management, content moderation, customer engagement, customer service, and social analytics and listening. Our software has been designed to empower human beings to be more effective and allow companies to efficiently address the demands of social at global scale. LiveWorld clients include the #1 brands in consumer packaged goods, retail, pharmaceutical, financial, and travel services.

In 2017 the Company continued to make concerted efforts to increase its presence in the healthcare market by growing current client revenue, expanding its client base in pharmaceuticals and gaining its first clients in insurance and hospital care. Revenues associated with the Company’s healthcare initiatives expanded on a net basis from approximately \$3.0 million in 2016 to almost \$3.6 million in 2017, or nearly 20% year-to-year. Our new revenue in healthcare grew by 24%. LiveWorld will continue to make strategic investments in healthcare where it sees an opportunity to expand our position and grow revenues.

### **Total Revenues**

The Company recognizes revenues 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.

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 our Strategy, Engagement, Moderation and Insight software and services to clients; the expenses associated with the development, set-up and operation of our services, including expenses associated with server costs for managing the software tools, license fees for our platform; and the cost of providing moderators and any strategic consulting services the client may request from us. These expenses consist primarily of salaries, payroll taxes, benefits and related expenditures for moderation and consulting services, as well as, software license fees, hardware costs.

### **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.

*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. STATEMENTS OF OPERATIONS

	Twelve Months Ended Dec 31,	
	2017	2016
Total revenues	100%	100%
Cost of revenues	40	40
Gross Margin	60	60
Operating Expense		
Product development	22	26
Sales and marketing	24	22
General and administrative	27	26
Total operating expense	73	74
Income (loss) from operations	(13%)	(14%)

## Twelve Months Ended December 31, 2017 and 2016

### Total Revenues

Our revenues for the twelve months ended December 31, 2017 were approximately \$9.9 million, as compared to \$9.7 million for the twelve months ended December 31, 2016. This was an increase of approximately \$219,000 or 2% period-over-period.

For the twelve months ended December 31, 2017, revenues from our two largest clients comprised 58% of our total revenues while all other clients represented approximately 42% of our total revenues. This compares to the twelve months ended December 31, 2016 where revenues from our two largest clients comprised 63% of our total revenues and all other clients represented 37% of total revenues.

### Cost of Revenues

Cost of revenues for the twelve months ended December 31, 2017 were approximately \$3.9 million as compared to \$3.9 million for the twelve months ended December 31, 2016. This represented an increase of approximately \$82,000, or 2% period-over-period.

### Operating Expenses

*Product Development.* For the twelve months ended December 31, 2017, the expenditures for product development were approximately \$2.2 million or 22% of total revenues. This compares to \$2.5 million in product development costs for the twelve months ended December 31, 2016 or 26% of total revenues. This represented a decrease in absolute dollars of approximately \$277,000 or 11% period-over-period.

The majority of product development costs are personnel related. We are committed to our product development efforts and will continue to invest in product development programs. Such efforts may not result in additional new services and any new services may not generate sufficient revenues, if any, to offset expenses.

*Sales and Marketing.* For the twelve months ended December 31, 2017 costs related to sales and marketing were approximately \$2.4 million or 24% of total revenues. This compares to \$2.1 million in sales and marketing costs for the twelve months ended December 31, 2016 or 22% of total revenues. This represented an increase in absolute dollars of approximately \$245,000 or 11% period-over-period.

*General and Administrative.* For the twelve months ended December 31, 2017 general and administrative expenses were approximately \$2.7 million or 27% of total revenues. This compares to the approximately \$2.5 million in general and administrative expenses for the twelve months ended December 31, 2016 or 26% of total revenues. This represented an increase in absolute dollars of approximately \$226,000 or 9% period-over-period.

### **Financial Condition, Liquidity and Capital Resources**

Our total assets were approximately \$2.8 million as of December 31, 2017, and approximately \$3.5 million as of December 31, 2016. This represented a decrease of approximately \$747,000, or 21% decrease in total assets. Our cash and cash equivalents were approximately \$2.3 million as of December 31, 2017 which was a decrease of approximately \$285,000 or 11% from the cash and cash equivalents balances of approximately \$2.6 million as of December 31, 2016. These reductions in cash and cash equivalents were a result of the operating losses for the Company.

Our net accounts receivable was approximately \$304,000 as of December 31, 2017 which is a decrease of approximately \$501,000, or 62% from the accounts receivable balance of approximately \$805,000 as of December 31, 2016. Accounts receivable balances are expected to fluctuate with the levels of new client acquisition and enhancement activity and the timing of billings and collections.

For the twelve months ended December 31, 2017 we had negative cash flows of approximately \$285,000 while for the twelve months ended December 31, 2016 we had negative cash flows of approximately \$983,000.

We believe that the combination of cash balances, and cash flow from operations will be sufficient to satisfy cash needs for the current level of operations and planned operations for foreseeable future.

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. Capital scenarios may include but are not limited to public stock issuance, private investment rounds, merger or acquisition and/or privatization. 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.