ANNUAL REPORT FOR
THE TWELVE MONTHS ENDED
December 31, 2012

LIVEWORLD, INC.

(Exact Name of issuer as specified in its charter)

Delaware	**77-0426524**
(State of Incorporation)	*(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
33,257,634 Shares Issued and Outstanding

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

	December 31, 2012	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalent	$ 3,382	$ 1,323
Accounts receivable, net	1,415	857
Prepaid expenses	268	135
Total current assets	5,065	2,315
Property and equipment, net	234	132
Other assets	17	17
Total assets	$ 5,316	$ 2,464
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 235	$ 12
Accrued employee expenses	504	348
Other accrued liabilities	17	10
Current portion of note payable	----	15
Deferred revenue	1,478	889
Total current liabilities	2,234	1,274
Total liabilities	2,234	1,274
Stockholders' equity		
Common stock: $0.001 par value, 100,000,000 shares authorized 33,257,634 and 33,157,634 issued and outstanding as of December 31, 2012 and December 31, 2011 respectively	33	33
Additional paid-in capital	141,178	141,094
Accumulated deficit	(138,129)	(139,938)
Total stockholders' equity	3,082	1,190
Total liabilities and stockholders' equity	$ 5,316	$ 2,464

See accompanying notes to the unaudited financial statements

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

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2012	**2011**	**2012**	**2011**
Total revenues	$ 4,350	$ 2,491	$ 13,557	$ 8,271
Cost of revenues	1,447	832	4,419	2,840
Gross Margin	2,903	1,659	9,138	5,431
Operating Expense				
Product development	556	374	1,898	1,398
Sales and marketing	1,042	534	3,250	2,041
General and administrative	524	362	2,068	1,427
Stock based compensation	23	26	81	114
Total operating expense	2,145	1,297	7,297	4,979
Income from operations	758	363	1,841	451
Interest expense, net	----	----	----	(2)
Other income	----	----	12	----
Income before tax	758	363	1,853	449
Provision for income taxes/(benefit)	44	----	44	(5)
Equity in net loss of unconsolidated affiliate	----	(719)	----	(736)
Net income /(loss)	714	(356)	1,809	(292)
Basic net income /(loss) per share	$ 0.02	$ (0.01)	$ 0.05	$ (0.01)
Shares used in computing basic net income/(loss) per share	33,257,634	33,157,634	33,197,981	33,157,634
Diluted net income/(loss) per share	$ 0.02	$ (0.01)	$ 0.04	$ (0.01)
Shares used in computing diluted net income/(loss) per share	44,085,483	33,157,634	42,148,213	33,157,634
Departmental allocation of stock-based compensation:				
Product development	$ 5	$ 11	$ 30	$ 56
Sales and marketing	10	10	29	37
General and administrative	8	5	23	21
Total stock-based compensation	$ 23	$ 26	$ 81	$ 114

See accompanying notes to the unaudited financial statements

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

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Twelve Months Ended December 31, 2012	Twelve Months Ended December 31, 2011
Cash flows from operating activities:				
Net income (loss)	$ 714	$ (356)	$ 1,809	$ (292)
Adjustments to reconcile net income (loss) provided by (used in) operating activities:				
Depreciation of long-lived assets	26	17	87	80
Stock-based compensation	23	26	81	114
Loss on sale of assets				
Equity in net loss of unconsolidated affiliate	----	797	----	815
Changes in operating assets and liabilities:				
Accounts receivable	992	666	(558)	(165)
Other assets	(122)	(9)	(134)	(56)
Accounts payable	33	(189)	223	(49)
Accrued liabilities	(123)	(39)	163	(1)
Deferred revenue	(1,612)	(300)	588	311
Net cash provided by (used in) operating activities	(70)	614	2,260	756
Cash flows from investing activities:				
Purchase of property and equipment	(41)	(60)	(189)	(117)
Net cash provided by (used in) investing activities	(41)	(60)	(189)	(117)
Cash flows from financing activities:				
Capital lease financing	----	----	----	(38)
Note payable financing	----	(6)	---	(29)
Net cash provided by (used for) financing activities	----	(6)	----	(67)
Change in cash and cash equivalent	(110)	547	2,059	573
Cash and cash equivalents, beginning of period	3,492	776	1,323	750
Cash and cash equivalents, end of period	$ 3,382	$ 1,323	$ 3,382	$ 1,323

See accompanying notes to the unaudited financial statements

1. ORGANIZATION

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 the management of user content in social media for global brands. Our products include out Content Review System (CRS) platform and associated services for: 1) Protecting brands with moderation, 2) Actionable business insights and 3) Engagement for marketing, service & support. Our clients use these solutions to create, deliver and scale their marketing, insight, service and support social media programs across social channels.

2. INTERIM FINANCIAL STATEMENTS

The unaudited condensed interim financial information furnished herein reflects all adjustments, consisting only of normal recurring items, which in the opinion of management are necessary to fairly state our financial position, results from operations and cash flows for the dates and periods presented and to make such information presented not misleading. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted; nevertheless, the Company believes that the disclosures herein are adequate to make the information presented not misleading. Operating results for the three months ended December 31, 2012 are not necessarily indicative of the results that may be expected for future periods. The balance sheet, operating results, and statements of cash flows for the periods ended December 31, 2012, and December 31, 2011 where neither audited nor reviewed by an independent accounting firm and are subject to change upon such a review or audit being completed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

Earnings Per Share — Basic income or loss per share is computed using the net income or loss and the weighted average number of common shares outstanding during the period. Diluted income per share is computed using the net income and the weighted average number of common shares and dilutive potential common shares outstanding during the period. Potential dilutive common shares include, for some or all of the periods presented, outstanding stock options and warrants. The computation of diluted income per share does not assume conversion, or exercise of securities that would have an anti-dilutive effect on earnings. The dilutive effect of outstanding stock options and warrants is computed using the treasury stock method. As of December 31, 2012 there were 23,935,433 outstanding options and warrants to purchase shares of the Company's common stock; and as of December 31, 2011 there were 23,083,057 outstanding options and warrants to purchase shares of the Company's common stock.

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

	Three Months Ended December 31,		Twelve Months Ended December 31,	
In thousands, except per share amounts	**2012**	**2011**	**2012**	**2011**
Numerator:				
Net income (loss) attributable to common Stockholders	$ 714	$ (356)	$ 1,809	$ (292)
Denominator:				
Weighted-average shares used to compute basic EPS	33,258	33,158	33,198	33,158
Effect of dilutive securities:				
Diluted common shares	10,827	----	8,950	----
Weighted-average shares used to compute diluted EPS	44,085	33,158	42,148	33,158
Net earnings per share:				
Basic	$ 0.02	$ (0.01)	$ 0.05	$ (0.01)
Diluted	$ 0.02	$ (0.01)	$ 0.04	$ (0.01)

4. STOCK-BASED COMPENSATION

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

Determining Fair Value

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

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

Expected Volatility — A volatility of 69% was used as an estimate of the expected future volatility of the Company's common stock.

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 during the three months ended December 31, 2012:

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

A summary of the stock option activity is as follows:

	Shares Available for Grant	**Options Outstanding**	**Weighted Average Exercise Price Per Share**	**Weighted Average Remaining Contractual Life (in years)**	**Aggregate Intrinsic Value (in thousands)**
Balance as of December 31, 2011	10,172,949	19,445,120	$ 0.13		
Granted	(6,196,167)	6,196,167	$ 0.09		
Forfeited	6,243,791	(6,243,791)	$ 0.02		
Exercised	(100,00)	(100,000)	$ 0.02		
Balance as of December 31, 2012	10,120,573	19,297,496	$ 0.15	6.3	$2,730

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, 2012.

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 market value per share at the date of grant, as determined by our Board of Directors. Since 2004, options have generally been granted at one hundred percent (100%) of their estimated fair market value per share at the date of grant, as determined by our Board of Directors. All options issued under the 1996 Plan and the 2007 Stock Option Plan ("2007 Plan") have a term of ten (10) years, and generally have a vesting schedule such that they vest ratably over four (4) years, twenty-five percent (25%) one (1) year after the grant date and the remainder at a rate of 1/36 per month thereafter. As of December 31, 2005, all outstanding stock options were exercisable. The 1996 Plan expired in October of 2006 and was replaced by our 2007 Plan. Under the 2007 Plan, the number of shares authorized for grant is 8,141,199. As of December 31, 2011 there were a total of 19,445,120 outstanding options under the 1996 Plan and the 2007 Plan. As of December 31, 2012, there was approximately $827,000 of total unrecognized compensation expense related to non-vested stock-based compensation arrangements granted under the 1996 Plan and the 2007 Plan, as well as, stand-alone option grants. The cost is expected to be recognized over the next 4 years.

5. PROPERTY AND EQUIPMENT

Property, furniture and equipment consisted of the following items:

($ in thousands)	December 31, 2012	December 31, 2011
Computer equipment	$ 2,592	$ 2,404
Software	1,198	1,198
Furniture and fixtures	44	44
Leasehold improvements	23	23
Leased equipment	418	418
Accumulated depreciation	(4,042)	(3,955)
Property, furniture and equipment, net	$ 234	$ 132

Depreciation expense was approximately $87,000 and $80,000 for the Twelve months ended December 31, 2012 and the twelve months ended December 31, 2011, respectively.

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

Special Note Regarding Forward-Looking Statements

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

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

The balance sheet, operating results, and statements of cash flows for the periods ended December 31, 2012 and 2011 where neither audited nor reviewed by an independent accounting firm and are subject to change upon such a review or audit being completed.

Backlog

We maintain a positive outlook for 2013, our current backlog is approximately $4.5 million with an additional $9.0 million in renewals. Additionally, we have seen a material increase in our Facebook and Twitter related moderation and management services with new orders of approximately $1.8 million in the fourth quarter of 2012, as compared to the new orders of approximately $1.0 million for the fourth quarter of 2011. New orders are typically contracts where we provide services over a time period ranging from 90 to 365 days per client order. We anticipate seeing improved new orders for 2013, however it is possible on a quarter-to-quarter basis we may see some variability.

Overview

LiveWorld, a user content management company, protects the world's largest brands and provides them with real actionable insights and relationship engagement by using cutting edge technology that scales human management of user content:

- **Social Content Management System (SCMS) Technology Platform**: The LiveWorld SCMS aggregates user content across social channels and enables high scale, high quality cost efficient review and management by human moderators and community managers. The SCMS is directly integrated with the Facebook Wall, other Facebook native applications, Twitter, custom applications built for Facebook as well as other social networks and community platforms such as LiveWorld and Jive.

- **Protecting Brands With Moderation**: The combination of our SCMS LiveMod Application Suite and moderation services protects brands by reviewing, removing, escalating and responding at a rate of up to 1,000 actions/hr./moderator The SCMS connects to 1 social web page or can integrate thousands of Facebook pages, Twitter pages and community web sites into a common, consistent workflow. Coverage ranges from a few hours/day to 24×7 to thousands of hours/day.

- **Actionable Business Insight**: The combination of our SCMS LiveInsight Application Suite which enables high speed human tagging of all user content reviewed, basic and advanced reporting and qualitative analysis based on LiveWorld's unique culture-tone-engagement framework. Enables brands to know what their customers actually think and what to do about it.

- **Engagement for Marketing and Customer Service & Support:** The combination of our SCMS platform and social strategy and content programming services including social architecture, social content plans and management, social storytelling, social outreach and social crisis management .

- **Global**: Solutions available in up to 70 country-language combinations.

LiveWorld is a Facebook ® Preferred Marketing Developer (PMD) in the Pages category.

Total Revenues

Our business is primarily based on building recurring revenue streams through the provision of private-label social media moderation, insight and engagement solutions for our clients. Our revenues are derived principally from two sources: (i) solution development and set-up revenues, and (ii) operations revenues.

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

We define operation revenues as follows: Application hosting revenues are fees we charge for hosting client communities and social media tools on our servers and these fees are generally based on page views or transactions per month; moderation and community management revenues are fees derived from services provided to a client on a monthly basis to moderate and manage the client's social media venues, generally involving a monthly minimum fee for a specified minimum volume of hours with any additional time being charged at an hourly rate; 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 on-line social network and community solutions to clients; the expense associated with the development, set-up and operation of the social network or online community solutions, including expenses associated with server costs for hosting the communities, license fees for specified aspects of our platform and tools used to develop the standard set-up for clients, as well expenses associated with any custom development the client may desire; and the cost of providing moderators and any enhancements the client may request after the solution 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 community management, which include costs associated with account management and client services.

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

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

Results From Operations

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

LIVEWORLD, INC.
STATEMENT OF OPERATIONS

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2012	**2011**	**2012**	**2011**
Total revenues	100%	100%	100%	100%
Cost of revenues	33	33	33	34
Gross Margin	67	67	67	66
Operating Expense				
Product development	13	15	14	17
Sales and marketing	24	21	24	25
General and administrative	12	15	15	17
Stock based compensation	1	1	----	1
Total operating expense	50	52	53	60
Income from operations	17%	15%	14%	6%

Three and Twelve Months Ended December 31, 2012 and 2011

Total Revenues

Our revenues for the three months ended December 31, 2012 were approximately $4.3 million, as compared to approximately $2.5 million for the three months ended December 31, 2011. This was an increase of approximately $1.9 million or 75% period-over-period. Revenues increased primarily as a result of new projects with our existing clients and new client acquisitions.

For the three months ended December 31, 2012, revenues from eBay and Walmart together comprised approximately 63% of our total revenues while all other clients represented approximately 37% of our total revenues. This compares to the three months ended December 31, 2011 where revenues from eBay and Walmart together comprised approximately 43% of our total revenues and all other clients represented approximately 57% of total revenues.

Our revenues for the twelve months ended December 31, 2012 were approximately $13.6 million, as compared to $8.3 million for the twelve months ended December 31, 2011. This was an increase of approximately $5.3 million or 64% period-over-period. Revenues increased primarily as a result of our client acquisitions in the twelve months of 2012 and new projects with our existing clients.

For the Twelve months ended December 31, 2012, revenues from eBay and Walmart together comprised 56% of our total revenues while all other clients represented approximately 44% of our total revenues. This compares to the Twelve months ended December 31, 2011 where revenues from eBay and Walmart together comprised 43% of our total revenues and all other clients represented for 57% of total revenues.

Cost of Revenues

Cost of revenues were approximately $1.4 million, or 33% of total revenues for the three months ended December 31, 2012, and $832,000 or 33% of total revenues for the three months ended December 31, 2011. This represented an increase of approximately $615,000 or 74% period-over-period. Cost of revenues for the Twelve months ended December 31, 2012 were approximately $4.4 million as compared to $2.8 million for the Twelve months ended December 31, 2011. This represented an increase of approximately $1.6 million, or 56% period-over-period. The increase in cost of revenues was driven primarily by the increase in new client acquisitions and new projects with our existing clients.

Operating Expenses

Product Development. Expenditures for product development were approximately $556,000, or 13% of total revenues for the three months ended December 31, 2012, and approximately $374,000 or 15% of total revenues for the three months ended December 31, 2011. This represented an increase in absolute dollars of approximately $182,000, or 49% period-over-period. The increase was a result of increased hiring for our product development team.

For the Twelve months ended December 31, 2012, the expenditures for product development were approximately $1.9 million or 14% of total revenues. This compares to $1.4 million in product development costs for the Twelve months ended December 31, 2011 or 17% of total revenues. This represented an increase in absolute dollars of approximately $500,000 or 36% period-over-period. The increase was driven by additional headcount for our product development team.

The majority of product development costs are personnel related. We believe our product development costs will increase at a rate relatively close to the increases in revenues for the remainder of 2012. 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. Sales and marketing costs were approximately $1.0 million, or 24% of total revenues for the three months ended December 31, 2012, and approximately $534,000, or 21% for the three months ended December 31, 2011 representing an increase in absolute dollars of approximately $508,000 or 95% period-over-period. The period-over-period increase in sales and marketing activities was as a result of increased headcount in our sales team.

For the Twelve months ended December 31, 2012 costs related to sales and marketing were approximately $3.3 million or 24% of total revenues. This compares to $2.1 million in sales and marketing costs for the Twelve months ended December 31, 2011 or 25% of total revenues. This represented an increase in absolute dollars of approximately $1.2 million or 59% period-over-period.

We anticipate increasing our sales and marketing expenditures as overall revenues increase.

The substantial majority of our sales and marketing expenses are associated with our ongoing community management services, which are the costs associated with the servicing of existing clients, as opposed to those costs derived from new business development.

General and Administrative. General and administrative expenses were approximately $524,000, or 12% of total revenues for the three months ended December 31, 2012, and approximately $362,000, or 15% of total revenues for the three months ended December 31, 2011. This represented an increase in absolute dollars of approximately $162,000, or 45% period-over-period. The increase in general and administrative expenses period-over-period was related to additional costs for outside advisory services and recruiting expenses.

For the twelve months ended December 31, 2012 general and administrative expenses were approximately $2.1 million or 15% of total revenues. This compares to the approximately $1.4 million in general and administrative expenses for the twelve months ended December 31, 2011 or 17% of total revenues. This represented an increase in absolute dollars of approximately 641,000 or 45% period-over-period. The increase in general and administrative expenses period-over-period was related to additional costs for outside advisory services and recruiting expenses.

Financial Condition, Liquidity and Capital Resources

Our total assets were approximately $5.3 million as of December 31, 2012, and approximately $2.5 million as of December 31, 2011. This represented an increase of approximately $2.9 million, or a 116% increase of total assets. Our cash and cash equivalents were approximately $3.4 million as of December 31, 2012 which was an increase of approximately $2.1 million or 156% from the cash and cash equivalents balances of approximately $1.3 million as of December 31, 2011. This increase in the cash and cash equivalents was due to the increased revenues for both the first and second quarters of 2012 and collections on deferred revenues.

Accounts receivable was approximately $1.4 million as of December 31, 2012 which is an increase of approximately $558,000, or 65% from the accounts receivable balance of approximately $857,000 as of December 31, 2011. 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 three months ended December 31, 2012 we had negative cash flows of approximately $110,000 while for the three months ended December 31, 2011 we had positive cash flows of approximately $547,000. For the twelve months ended December 31, 2012 we had positive cash flows of approximately $2.1 million while for the twelve months ended December 31, 2011 we had positive cash flows of approximately $573,000. We anticipate our cash flows for the first quarter of 2013 to negative, however for the full year 2013 our cash flows will be neutral.

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

As of December 31, 2012, our current assets, which are made up of cash and cash equivalents, accounts receivable, and prepaid expenses were approximately $5.1 million while our current liabilities, which are made up of our accounts payable, accrued liabilities and current portions of long-term liabilities were approximately $2.2 million. This represented a positive working capital position of approximately $2.9 million, which was an increase of approximately $1.8 million from the period ended December 31, 2011.

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.