

**QUARTERLY REPORT FOR
THE THREE MONTHS ENDED
March 31, 2016**

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 May 12, 2016

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

	<u>March 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
ASSETS		
Current assets		
Cash and cash equivalent	\$ 3,071	\$ 3,538
Accounts receivable, net	719	427
Prepaid expenses	168	106
Total current assets	<u>3,958</u>	<u>4,071</u>
Property and equipment, net	53	38
Other assets	18	17
Total assets	<u>\$ 4,029</u>	<u>\$ 4,126</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 211	\$ 89
Accrued employee expenses	423	474
Other accrued liabilities	55	23
Deferred revenue	397	472
Total current liabilities	<u>1,086</u>	<u>1,058</u>
Total liabilities	1,086	1,058
Stockholders' equity		
Common stock: \$0.001 par value, 100,000,000 shares authorized 33,388,545 issued and outstanding as of March 31, 2016 and December 31, 2015 respectively.	34	34
Additional paid-in capital	142,310	142,200
Accumulated deficit	(139,401)	(139,166)
Total stockholders' equity	<u>2,943</u>	<u>3,068</u>
Total liabilities and stockholders' equity	<u>\$ 4,029</u>	<u>\$ 4,126</u>

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

	Three Months Ended March 31,	
	2016	2015
Total revenues	\$ 2,243	\$ 2,635
Cost of revenues	926	1,346
Gross Margin	1,317	1,289
Operating Expense		
Product development	554	868
Sales and marketing	395	522
General and administrative	603	740
Total operating expense	1,552	2,130
Loss from operations	(235)	(841)
Loss before tax	(235)	(841)
Provision for income taxes	1	3
Net loss	(236)	(844)
Basic loss per share	\$ (0.01)	\$ (0.03)
Shares used in computing basic loss per share	33,388,545	33,388,545
Diluted net loss per share	\$ (0.01)	\$ (0.03)
Shares used in computing diluted loss per share	33,388,545	33,388,545
Departmental allocation of stock-based compensation:		
Cost of revenues	\$ 20	\$ 19
Product development	27	21
Sales and marketing	9	16
General and administrative	55	49
Total stock-based compensation	\$ 111	\$ 105

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

	Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$ (236)	\$ (844)
Adjustments to reconcile net income (loss) provided by (used in) operating activities:		
Depreciation of long-lived assets	9	31
Stock-based compensation	111	105
Changes in operating assets and liabilities:		
Accounts receivable	(292)	(7)
Other assets	(63)	33
Accounts payable	122	261
Accrued liabilities	(19)	2
Deferred revenue	(75)	(1,197)
Net cash provided by (used in) operating activities	(443)	(1,616)
Cash flows from investing activities:		
Purchase of property and equipment	(24)	(2)
Net cash provided by (used in) investing activities	(24)	(2)
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	(467)	(1,618)
Cash and cash equivalents, beginning of period	3,538	4,386
Cash and cash equivalents, end of period	\$ 3,071	\$ 2,768
Supplemental disclosure of non-cash financing and investing activities:		
Income taxes paid	\$ 1	\$ 2

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 content marketing providing global brands with social media moderation, insight and engagement through a combination of technology and human services. 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. 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. These unaudited financial statements and related notes should be read in conjunction with our unaudited annual financial statements for the year ended December 31, 2015. Operating results for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for future periods.

3. 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.

Allowances for Doubtful Accounts – The Company did not record an allowance for doubtful accounts as of March 31, 2016 and December 31, 2015. 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 three months ended March 31, 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 three month periods ended March 31, 2016 and 2015, options and warrants aggregating 25,254,610 and 24,269,558 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:

In thousands, except per share amounts	Three Months Ended	
	March 31,	
	2016	2015
Numerator:		
Net income (loss) attributable to common Stockholders	\$ (236)	\$ (844)
Denominator:		
Weighted-average shares used to compute basic EPS	33,388	33,388
Effect of dilutive securities:		
Diluted common shares	-----	-----
Weighted-average shares used to compute diluted EPS	33,388	33,388
Net earnings per share:		
Basic	\$ (0.01)	\$ (0.03)
Diluted	\$ (0.01)	\$ (0.03)

4. 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 during the three months ended March 31, 2016:

	Stock Options
Dividend yield	0%
Expected volatility	79%
Risk-free interest rate	0.21%
Estimated term	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 December 31, 2015	8,132,911	21,254,247	\$ 0.17		
Granted	205,000	205,000	\$0.04		
Forfeited	----	----	----		
Exercised	----	----	----		
Balance as of March 31, 2016	<u>7,927,911</u>	<u>21,459,247</u>	<u>\$ 0.17</u>	<u>6.3</u>	<u>\$8</u>

The aggregate intrinsic value in the table above represents the difference between the exercise price of the underlying awards and the quoted price of our common stock for the options that were in-the-money as of March 31, 2016. As of March 31, 2016, total unrecognized compensation cost related to unvested stock options was approximately \$830,519. The cost is expected to be recognized over a weighted average period of 3.7 years.

PROPERTY AND EQUIPMENT

Property, furniture and equipment consisted of the following items:

(\$ in thousands)	March 31, 2016	December 31, 2015
Computer equipment	\$ 302	\$ 283
Software	1,212	1,212
Furniture and fixtures	36	31
Leasehold improvements	23	23
	<u>1,573</u>	<u>1,549</u>
Accumulated depreciation	(1,520)	(1,511)
Property and equipment, net	<u>\$ 53</u>	<u>\$ 38</u>

Depreciation expense was approximately \$9,000 and \$31,000 for the three months ended March 31, 2016 and 2015, respectively

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.

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.

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.

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. STATEMENT OF OPERATIONS

	Three Months Ended March 31,	
	2016	2015
Total revenues	100%	100%
Cost of revenues	41	51
Gross Margin	59	49
Operating Expense		
Product development	25	33
Sales and marketing	18	20
General and administrative	26	28
Total operating expense	69	81
Income from operations	(10%)	(32%)

Three Months Ended March 31, 2016 and 2015

Total Revenues

Our revenues for the three months ended March 31, 2016 were approximately \$2.2 million, as compared to approximately \$2.6 million for the three months ended March 31, 2015. This was a decrease of approximately \$392,000 or 15% period-over-period. The decrease in revenues were a result of smaller projects for existing clients.

For the three months ended March 31, 2016, revenues from our two largest clients comprised approximately 66% of our total revenues while all other clients represented approximately 34% of our total revenues. This compares to the three months ended March 31, 2015 where revenues from our two largest clients comprised approximately 60% of our total revenues and all other clients represented approximately 40% of total revenues.

Cost of Revenues

Cost of revenues were approximately \$926,000, or 41% of total revenues for the three months ended March 31, 2016, and \$1.3 million or 51% of total revenues for the three months ended March 31, 2015. This represented a decrease of approximately \$420,000 or 31% period-over-period.

Operating Expenses

Product Development. Expenditures for product development were approximately \$554,000, or 25% of total revenues for the three months ended March 31, 2016, and approximately \$868,000 or 33% of total revenues for the three months ended March 31, 2015. This represented a decrease in absolute dollars of approximately \$314,000, or 36% 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. Sales and marketing costs were approximately \$395,000, or 18% of total revenues for the three months ended March 31, 2016, and approximately \$522,000, or 20% for the three months ended March 31, 2015 representing a decrease in absolute dollars of approximately \$127,000 or 24% period-over-period.

General and Administrative. General and administrative expenses were approximately \$603,000, or 26% of total revenues for the three months ended March 31, 2016, and approximately \$740,000, or 28% of total revenues for the three months ended March 31, 2015. This represented a decrease in absolute dollars of approximately \$137,000, or 19% period-over-period.

Financial Condition, Liquidity and Capital Resources

Our total assets were approximately \$4.0 million as of March 31, 2016, and approximately \$4.1 million as of December 31, 2015. This represented a decrease of approximately \$97,000, or a 2% decrease in total assets. Our cash and cash equivalents were approximately \$3.1 million as of March 31, 2016 which was a decrease of approximately \$467,000 or 13% from the cash and cash equivalents balances of approximately \$3.5 million as of December 31, 2015. This decrease in the cash and cash equivalents was due primarily to the net losses of the Company for the three months ended March 31, 2016.

Accounts receivable was approximately \$719,000 as of March 31, 2016 which is an increase of approximately \$292,000, or 68% from the accounts receivable balance of approximately \$427,000 as of December 31, 2015. 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 March 31, 2016 we had negative cash flows of approximately \$467,000 while for the three months ended March 31, 2015 we had negative cash flows of approximately \$1.6 million.

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.

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.