

**QUARTERLY REPORT FOR
THE THREE MONTHS ENDED
MARCH 31, 2011**

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
33,151,981 Shares Issued and Outstanding

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

	<u>March 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
ASSETS		
Current assets		
Cash and cash equivalent	\$ 553	\$ 750
Accounts receivable, net	800	692
Prepaid expenses	74	79
Total current assets	1,427	1,521
Property and equipment, net	65	95
Investment in joint venture	808	815
Other assets	17	17
Total assets	\$ 2,318	\$ 2,448
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 149	\$ 61
Accrued employee expenses	368	333
Other accrued liabilities	23	26
Current portion of capital lease obligations	8	23
Current portion of note payable	37	44
Deferred revenue	564	578
Total current liabilities	1,148	1,065
Long-term capital lease obligation	8	15
Total liabilities	1,157	1,080
Stockholders' equity		
Common stock: \$0.001 par value, 100,000,000 shares authorized 33,151,981 issued and outstanding as of December 31, 2010 and March 31, 2011 respectively	33	33
Additional paid-in capital	141,013	140,981
Accumulated deficit	(139,885)	(139,646)
Total stockholders' equity	1,161	1,368
Total liabilities and stockholders' equity	\$ 2,318	\$ 2,448

See accompanying notes to the unaudited financial statements

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

	Three Months March 31,	
	2011	2010
Total revenues	\$ 1,697	\$ 2,014
Cost of revenues	650	759
Gross Margin	<u>1,047</u>	<u>1,255</u>
Operating Expense		
Product development	354	516
Sales and marketing	524	589
General and administrative	364	460
Stock based compensation	31	95
Total operating expense	<u>1,273</u>	<u>1,659</u>
Loss from operations	(226)	(404)
Interest Income (expense), net	(2)	(10)
Other income	1	0
Loss before tax	(227)	(414)
Provision for income taxes	(5)	(8)
Equity in net loss of unconsolidated affiliate	(7)	(5)
Net loss	<u>(238)</u>	<u>(427)</u>
Basic Loss per share	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Shares used in computing basic loss per share	33,151,981	33,151,981
Diluted net income (loss) per share	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Shares used in computing diluted income (loss) per share	33,151,981	33,151,981
Departmental allocation of stock-based compensation:		
Product development	\$ 16	\$ 47
Sales and marketing	10	22
General and administrative	6	26
Total stock-based compensation	<u>\$ 31</u>	<u>\$ 95</u>

See accompanying notes to the unaudited financial statements

UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months Ended	
	March 31,	
	2011	2010
	<u> </u>	<u> </u>
Cash flows from operating activities		
Net income (loss)	\$ (238)	\$ (427)
Adjustments to reconcile net income (loss) provided by (used in) operating activities:		
Depreciation of long-lived assets	31	59
Stock-based compensation	31	95
Equity in net loss of unconsolidated affiliate	7	5
Changes in operating assets and liabilities:		
Accounts receivable	(108)	412
Other assets	6	38
Accounts payable	87	96
Accrued liabilities	32	41
Deferred revenue	(14)	(396)
Net cash provided by (used in) operating activities	<u>(167)</u>	<u>(77)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(2)	(9)
Net cash provided by (used in) investing activities	<u>(2)</u>	<u>(9)</u>
Cash flows from financing activities:		
Capital lease financing	(15)	(33)
Note payable financing	(13)	-
Net cash provided by (used for) financing activities	<u>(28)</u>	<u>(33)</u>
Change in cash and cash equivalent	(197)	(119)
Cash and cash equivalents, beginning of period	750	1,586
Cash and cash equivalents, end of period	<u>\$ 553</u>	<u>\$ 1,467</u>

See accompanying notes to the unaudited financial statements

1. ORGANIZATION

LiveWorld Incorporated (the “Company”) was incorporated in California on April 10, 1996 and reincorporated in Delaware in July 1999. In April 1999 the Company changed its name from LiveWorld Productions to Talk City, Inc. On May 8, 2001, the Company changed its name from Talk City, Inc. to LiveWorld, Inc. The Company’s principal business is to provide private-label social network services for global brands enabling them to create and manage persistent, consistent brand engagement across the social media landscape. Our services and products include: strategy & management, moderation & insight services, and platforms (Facebook, distributed social networks, central community sites). Our clients use these services to generate dialogue and relationships with and among their customers and other constituencies, as well as for loyalty relationship marketing, customer support and business intelligence.

2. INTERIM FINANCIAL STATEMENTS

The unaudited condensed interim financial information furnished herein reflects all adjustments, consisting only of normal recurring items, which in the opinion of management are necessary to fairly state our financial position, results from operations and cash flows for the dates and periods presented and to make such information presented not misleading. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted; nevertheless, the Company believes that the disclosures herein are adequate to make the information presented not misleading. Operating results for the three months ended March 31, 2011 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 March 31, 2011, and December 31, 2010 were 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 March 31, 2011 there were 20,686,882 outstanding options and warrants to purchase shares of the Company's common stock; and as of March 31, 2010 there were 22,354,882 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:

In thousands, except per share amounts	Three Months Ended March 31,	
	2011	2010
Numerator:		
Net income (loss) attributable to common Stockholders	\$ (238)	\$ (427)
Denominator:		
Weighted-average shares used to compute basic EPS	33,152	33,152
Effect of dilutive securities:		
Diluted common shares	----	----
Weighted-average shares used to compute diluted EPS	33,152	33,152
Net earnings per share:		
Basic	\$ (0.01)	\$ (0.01)
Diluted	\$ (0.01)	\$ (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 March 31, 2011:

	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, 2010	11,278,631	18,350,744	\$ 0.14		
Granted	----	----	\$ 0.04		
Forfeited	225,000	(225,000)	\$ 0.15		
Exercised	----	----	\$ 0.00		
Balance as of March 31, 2011	<u>11,503,631</u>	<u>18,125,744</u>	<u>\$ 0.13</u>	<u>3.9</u>	<u>\$819</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, 2010.

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 11,503,631. As of March 31, 2010 there were a total of 18,125,744 outstanding options under the 1996 Plan and the 2007 Plan. As of March 31, 2011, there was approximately \$112,000 of total unrecognized compensation expense related to non-vested stock-based compensation arrangements granted under the 1996 Plan and the 2007 Plan, as well as, stand-alone option grants. The cost is expected to be recognized over the next 4 years.

5. PROPERTY AND EQUIPMENT

Property, furniture and equipment consisted of the following items:

(\$ in thousands)	March 31, 2011	December 31, 2010
Computer equipment	\$ 2,296	\$ 2,294
Software	1,198	1,198
Furniture and fixtures	37	37
Leasehold improvements	23	23
Leased equipment	418	418
Accumulated depreciation	(3,907)	(3,876)
Property, furniture and equipment, net	<u>\$ 65</u>	<u>\$ 95</u>

Depreciation expense was approximately \$30,000 and \$198,000 for the three months ended March 31, 2011 and the twelve months ended December 31, 2010, respectively.

6. SUBSEQUENT EVENTS

In May we signed a contract with a major company in the retail sector which will have a material impact on the company over the remainder of 2011.

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 March 31, 2010 and 2010 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 2011, and our current backlog for the remainder of the fiscal year is approximately \$4.1 million. Additionally, we have seen a material increase in our Facebook related moderation services with new orders of approximately \$795,000 in the first quarter of 2011, as compared to the new orders of approximately \$100,000 for the first quarter of 2010. 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 2011, however it is possible on a quarter-to-quarter basis we may see some variability.

Overview

We moderate, manage and create on-line communities for major brands. Our clients use these solutions across social channels for marketing, curation and insight. Our services and products include: moderation for Facebook and other social channels, actionable insight using our insight tagging tools, community programming and strategy, and conversational applications and tools. All deployed across multiple social channels such as Facebook, Twitter, YouTube, and branded community web sites. Our services consist of the following products delivered on a complete end-to-end or modular basis:

Moderation Services: We provide moderation services across multiple social channels including Facebook, Twitter, YouTube, and central branded communities enabling us to protect the brand across all channels. These services are human-based ensuring content is reviewed in context, and utilize our Advanced Power Moderation Tools. The tools enable us to moderate up to 1,000 posts/ hour/moderator and provide our clients with a scalable, flexible service which gives them meaningful insight to their customers. We use our Advanced Power Moderation Tools when we moderate the Facebook Wall, LiveWorld applications and platforms as well as integrate the tools with a client's custom websites or applications. We also provide moderate on 3rd party applications and platforms with any existing tools.

Moderation Services include Content Moderation, and Brand Response Moderation. Moderators are trained personnel that read and review user content for adherence to the brand's social media guidelines and take appropriate action when content violates those guidelines. Such action might include permitting, hiding (or deleting), or escalating such content to a supervisor. Moderation can also involve trained personnel posting and tuning brand content and responding to users in a conversational tone as well as escalating issues and monitoring social media channels. We have provided over 1.5 million hours of moderation in 70 country/language combinations.

Insight Services: Insight Services includes standard site and moderation metrics reporting, web listening, Insight Tagging and qualitative Community Tone/Insight Reports. Insight Tagging is a new LiveWorld solution that combines the human touch of our moderators with our advanced tools to individually tag user comments according to client designated criteria and then report on the results.

Community Programming Services: Community Programming focuses on the community cultural model, stimulating and managing deep consumer-to-consumer conversational interaction. Available services fall under Planning, Engagement, Analysis and Recommendations, and Training. We also provide strategic services to help clients define their desired community and these services are implemented with a cross-social channel roadmap.

Conversation Applications & Tools: LiveWorld offers a series of applications and platforms designed to stimulate more conversation and relationships among and with a brand's customers:

- **Facebook Forums:** A message board application for Facebook, LiveWorld Facebook Forums provides a rich conversational experience for consumers with features to allow the brand to focus and manage the conversation — resulting in more dialogue, deeper customer engagement, and, in turn, greater loyalty.
- **3rd Party Facebook CMS Platform:** A Facebook CMS enables the brand to construct a Facebook tab with compelling interactive content to attract users and run engaging promotions. We partner with leading Facebook CMS vendors to provide a solution for our clients. LiveWorld provides the client with the CMS license, while also setting up and managing the Facebook CMS solution.
- **Community Center 5.0 –API:** A richly featured central branded community site platform with an API-centric model for digital agencies and in-house web development groups to create custom community sites.

Total Revenues

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

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

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

Cost of Revenues

Cost of revenues is comprised of direct costs associated with the sales of on-line social network and community services to clients; the expense associated with the development, set-up and operation of communities, including expenses associated with server costs for hosting the communities, license fees for specified aspects of our platform used to develop the standard set-up for clients, as well expenses

associated with any custom development the client may desire; and the cost of providing moderators and any enhancements the client may request after the community has been set up. These expenses consist primarily of salaries, payroll taxes, benefits and related expenditures for development, set-up, additional add-ons, enhancements or upgrades, as well as, software license fees, hardware costs, and salary and related moderation expenses.

Operating Expenses

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

Sales and Marketing. Sales and marketing expenses consist primarily of salaries, payroll taxes, benefits and related expenditures for sales and marketing, as well as 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 March 31,	
	2011	2010
Total revenues	100%	100%
Cost of revenues	38	38
Gross Margin	62	62
Operating Expense		
Product development	20	26
Sales and marketing	31	29
General and administrative	21	23
Stock based compensation	2	5
Total operating expense	75	83
Income (loss) from operations	(13)	(21)

Three Months Ended March 31, 2011 and 2010

Total Revenues

Our revenues for the three months ended March 31, 2011 were approximately \$1.7 million, as compared to approximately \$2.0 million for the three months ended March 31, 2010. This was a reduction of approximately \$317,000 or 16% period-over-period. Revenues decreased primarily as a result of reduced spending and fewer projects from existing clients and fewer new client projects.

For the three months ended March 31, 2011, revenues from eBay comprised approximately 36% of our total revenues while all other clients represented approximately 64% of our total revenues. This compares to the three months ended March 31, 2010 where revenues from eBay comprised approximately 33% of our total revenues and all other clients represented approximately 67% of total revenues.

Revenues decreased primarily as a result of fewer projects from existing clients and fewer new client projects. Additionally we had delays in starting new projects for new clients.

Cost of Revenues

Cost of revenues were approximately \$650,000, or 38% of total revenues for the three months ended March 31, 2011, and approximately \$759,000 or 38% of total revenues for the three months ended March 31, 2010. This represented a decrease of approximately \$109,000 or 25% period-over-period.

The reductions in absolute dollars of cost of revenues were driven primarily by the reduction in licensing fees, the use of fewer outside consultants to complete projects for our clients, and overall cost reductions by the company.

Operating Expenses

Product Development. Expenditures for product development were approximately \$354,000, or 20% of total revenues for the three months ended March 31, 2011, and approximately \$516,000 or 26% of total revenues for the three months ended March 31, 2010. This represented a decrease in absolute dollars of approximately \$162,000, or 32% period-over-period. The decrease was driven by reducing our dependency on outside contractors, as well as reducing our overall employee cost.

The majority of product development costs are personnel related. Due to cost reduction initiatives in 2010, we believe product development expenditures will remain flat in absolute dollars for 2011. 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 \$524,000, or 31% of total revenues for the three months ended March 31, 2011, and approximately \$589,000, or 29% for the three months ended March 31, 2010 representing a decrease in absolute dollars of approximately \$65,000 or 11% period-over-period. The period-over-period decrease in sales and marketing activities was as a result of fewer marketing activities in the first quarter of 2011.

We anticipate increasing our sales and marketing expenditures as overall revenues increase and our operational cash flows improve.

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. In addition, if our product development efforts are successful and new products or services are created, we may incur increased sales and marketing expense to promote these products or services to new and existing clients.

General and Administrative. General and administrative expenses were approximately \$364,000, or 21% of total revenues for the three months ended March 31, 2011, and approximately \$460,000, or 23% of total revenues for the three months ended March 31, 2010. This represented a decrease in absolute dollars of approximately \$96,000, or 21% period-over-period. The decrease in general and administrative expenses period-over-period was related to a reduction in outside advisory costs and reductions in administrative expenses. We anticipate our current general and administrative expenses to remain flat for the foreseeable future.

Financial Condition, Liquidity and Capital Resources

Our total assets were approximately \$2.3 million as of March 31, 2011, and approximately \$2.4 million as of December 31, 2010. This represented a decrease of approximately \$100,000 or 5% of total assets. Our cash and cash equivalents were approximately \$553,000 as of March 31, 2011 which is a decrease of approximately \$197,000 or 27% from the cash and cash equivalents balances of approximately \$750,000 as of December 31, 2010. This decrease was a primarily the result of our reduced revenues.

Accounts receivable was approximately \$800,000 as of March 31, 2011 which is an increase of approximately \$108,000 or 16% from the accounts receivable balance of approximately \$692,000 as of December 31, 2010. Accounts receivable balances are expected to fluctuate with the levels of new client acquisition and enhancement activity and the timing of billings and collections.

Property and equipment decreased approximately \$30,000 to approximately \$65,000 as of March 31, 2011 from approximately \$95,000 as of December 31, 2010. For the foreseeable future we do not anticipate a material increase in capital spending, therefore we expect property and equipment will continue to decrease in the short term.

For the three months ended March 31, 2011 we had negative total cash flows of approximately \$197,000 while for the three months ended March 31, 2010 we had negative total cash flows of approximately \$119,000.

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 at least the next twelve months.

As of March 31, 2011, our current assets, which are made up of cash and cash equivalents, accounts receivable, and prepaid expenses were approximately \$1.4 million while our current liabilities, which are made up of our accounts payable, accrued liabilities and current portions of long-term liabilities were approximately \$1.1 million. This represented a positive working capital position of approximately \$279,000, which was a decrease of approximately \$177,000 from the period ended December 31, 2010.

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.

Our loss before interest, taxes, depreciation and amortization, and non-cash stock-based compensation (“Adjusted EBITDA”), was approximately \$169,000, or 10% of total revenues for the three months ended March 31, 2011 as compared to Adjusted EBITDA of approximately \$255,000, or 13% of total revenues for the three months ended March 31, 2010. The reduction in Adjusted EBITDA of approximately \$86,000 period-over-period was primarily due to the increased reported net loss and the reduction in depreciation and amortization expense.

We define Adjusted EBITDA as net income or (loss) excluding net interest income, income taxes, depreciation and amortization, and non-cash stock-based compensation expense. The following table reconciles Adjusted EBITDA to the reported net income or loss:

LIVEWORLD
RECONCILIATION OF ADJUSTED EBITDA TO NET LOSS
(In thousands)

\$ in 000's	Three Months Ended March 31,	
	2011	2010
Reported net (loss)	\$ (238)	\$ (427)
Depreciation and amortization	31	59
Stock-based compensation	31	95
Interest income, net	2	10
Provisions for income taxes	5	8
Adjusted EBITDA	\$ (169)	\$ (255)

Adjusted EBITDA does not represent funds available for management’s discretionary use and is not intended to represent cash flow from operations. Adjusted EBITDA has limitations and should not be construed as a substitute for net loss or as a better measure of liquidity than cash flows from operating activities, which are determined in accordance with United States generally accepted accounting principles (“GAAP”) and therefore Adjusted EBITDA should only be used as supplemental information. Adjusted EBITDA excludes components that are significant in understanding and assessing our results of operations and cash flows. In addition, Adjusted EBITDA is not a term defined by GAAP and as a result, our measure of Adjusted EBITDA might not be comparable to similarly titled measures used by other companies.

However, Adjusted EBITDA is used by management to evaluate, assess and benchmark our performance as a service provider. We believe understanding the costs directly related to the delivery of our services is beneficial to the management of the Company. Adjusted EBITDA is relevant and useful information, which is often reported and widely used by analysts, investors and other interested parties as a measurement of the delivery of a product or service. Accordingly, we are disclosing this information to permit a more comprehensive analysis of our operating performance, to provide an additional measure of performance and liquidity and to provide additional information with respect to our ability to meet future debt service, capital expenditure and working capital requirements.

Our Adjusted EBITDA financial information is also comparable to net cash provided by operating activities. The table below reconciles Adjusted EBITDA to the GAAP disclosure of net cash provided (used in) operating activities:

LIVEWORLD
RECONCILIATION OF ADJUSTED EBITDA TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES
(In thousands)

\$ in 000's	Three Months Ended March 31,	
	2011	2010
Net Cash Provided by (used in) operating activities	\$ (167)	\$ (77)
Interest income, net	2	10
Taxes	5	8
Equity in net loss of unconsolidated affiliate	(7)	(5)
Changes in accounts receivable	108	(412)
Changes in other assets	(6)	(38)
Changes in accounts payable	(87)	(96)
Changes in accrued liabilities	(32)	(41)
Changes in deferred revenues	14	396
Adjusted EBITDA	\$ (169)	\$ (255)

The reconciliation of Adjusted EBITDA to net cash provided by (used in) operating our Company should be viewed as supplemental information to our statement of cash flows and not as a substitute.

UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended March 31,	
	2011	2010
Cash flows from operating activities		
Net income (loss)	\$ (238)	\$ (427)
Adjustments to reconcile net income (loss) provided by (used in) operating activities:		
Depreciation of long-lived assets	31	59
Stock-based compensation	31	95
Equity in net loss of unconsolidated affiliate	7	5
Changes in operating assets and liabilities:		
Accounts receivable	(108)	412
Other assets	6	38
Accounts payable	87	96
Accrued liabilities	32	41
Deferred revenue	(14)	(396)
Net cash provided by (used in) operating activities	(167)	(77)
Cash flows from investing activities:		
Purchase of property and equipment	(2)	(9)
Net cash provided by (used in) investing activities	(2)	(9)
Cash flows from financing activities:		
Capital lease financing	(15)	(33)
Note payable financing	(13)	-
Net cash provided by (used for) financing activities	(28)	(33)
Change in cash and cash equivalent	(197)	(119)
Cash and cash equivalents, beginning of period	750	1,586
Cash and cash equivalents, end of period	\$ 553	\$ 1,467

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.