

**QUARTERLY REPORT FOR
THE THREE MONTHS ENDED
September 30, 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
33,157,634 Shares Issued and Outstanding**

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

	September 30,	December 31,
	2011	2010
	<hr/>	<hr/>
ASSETS		
Current assets		
Cash and cash equivalent	\$ 776	\$ 750
Accounts receivable, net	1,523	692
Prepaid expenses	125	79
Total current assets	<hr/> 2,424	<hr/> 1,521
Property and equipment, net	90	95
Investment in joint venture	797	815
Other assets	17	17
Total assets	<hr/> \$ 3,328 <hr/>	<hr/> \$ 2,448 <hr/>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 201	\$ 61
Accrued employee expenses	347	333
Other accrued liabilities	50	26
Current portion of capital lease obligations	----	23
Current portion of note payable	21	44
Deferred revenue	1,189	578
Total current liabilities	<hr/> 1,808	<hr/> 1,065
Long-term capital lease obligation	<hr/> ----	<hr/> 15
Total liabilities	1,808	1,080
Stockholders' equity		
Common stock: \$0.001 par value, 100,000,000 shares authorized 33,151,981 and 33,157,634 issued and outstanding as of December 31, 2010 and September 30, 2011 respectively	33	33
Additional paid-in capital	141,069	140,981
Accumulated deficit	(139,582)	(139,646)
Total stockholders' equity	<hr/> 1,520	<hr/> 1,368
Total liabilities and stockholders' equity	<hr/> \$ 3,328 <hr/>	<hr/> \$ 2,448 <hr/>

See accompanying notes to the unaudited financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Total revenues	\$ 2,149	\$ 2,042	\$ 5,779	\$ 5,613
Cost of revenues	728	643	2,008	2,063
Gross margin	1,421	1,399	3,771	3,550
Operating expense				
Product development	341	391	1,023	1,416
Sales and marketing	496	537	1,507	1,753
General and administrative	332	452	1,065	1,390
Stock based compensation	27	51	87	216
Total operating expense	1,195	1,431	3,682	4,775
Income / (loss) from operations	225	(32)	89	(1,225)
Interest income / (expense), net	----	1	(2)	(8)
Other income	----	1	----	----
Income / (loss) before tax	225	(30)	87	(1,233)
Provision for income taxes	----	9	(5)	----
Equity in net income / (loss) of unconsolidated affiliate	5	(18)	(18)	(48)
Net income / (loss)	229	(39)	64	(1,281)
Basic net income / (loss) per share	\$ 0.01	\$ (0.00)	\$ 0.00	\$ (0.04)
Shares used in computing basic income / (loss) per share	33,157,634	33,151,981	33,154,631	33,151,981
Diluted net income / (loss) per share	\$ 0.01	\$ (0.00)	\$ 0.00	\$ (0.04)
Shares used in computing diluted income (loss) per share	37,556,908	33,151,981	38,601,482	33,151,981
Departmental allocation of stock-based compensation:				
Product development	\$ 14	\$ 26	\$ 43	\$ 109
Sales and marketing	8	12	28	49
General and administrative	5	13	16	58
Total stock-based compensation	\$ 27	\$ 51	\$ 87	\$ 216

See accompanying notes to the unaudited financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Cash flows from operating activities:				
Net income / (loss)	\$ 229	\$ (39)	\$ 64	\$ (1,281)
Adjustments to reconcile net income / (loss) provided by (used in) operating activities:				
Depreciation of long-lived assets	12	49	62	161
Stock-based compensation	27	51	87	216
Equity in net income / loss of unconsolidated affiliate	(4)	18	18	48
Changes in operating assets and liabilities:				
Accounts receivable	(418)	(228)	(831)	(161)
Other assets	(5)	49	(44)	35
Accounts payable	79	8	140	63
Accrued liabilities	12	(65)	38	(44)
Deferred revenue	333	169	611	(113)
Net cash provided by (used in) operating activities	<u>265</u>	<u>12</u>	<u>145</u>	<u>(1,076)</u>
Cash flows from investing activities:				
Purchase of property and equipment	(51)	(7)	(58)	(23)
Net cash provided by (used in) investing activities	<u>(51)</u>	<u>(7)</u>	<u>(58)</u>	<u>(23)</u>
Cash flows from financing activities:				
Capital lease financing	(2)	(31)	(23)	(95)
Note payable financing	(9)	74	(38)	74
Net cash provided by (used for) financing activities	<u>(11)</u>	<u>43</u>	<u>(61)</u>	<u>(21)</u>
Change in cash and cash equivalent	203	48	26	(1,120)
Cash and cash equivalents, beginning of period	<u>573</u>	<u>417</u>	<u>750</u>	<u>1,586</u>
Cash and cash equivalents, end of period	<u>\$ 776</u>	<u>\$ 466</u>	<u>\$ 776</u>	<u>\$ 466</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 September 30, 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 September 30, 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 September 30, 2011 there were 23,023,057 outstanding options and warrants to purchase shares of the Company's common stock; and as of September 30, 2010 there were 21,938,681 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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Numerator:				
Net income (loss) attributable to common Stockholders	\$ 229	\$ (39)	\$ 64	\$ (1,281)
Denominator:				
Weighted-average shares used to compute basic EPS	33,158	33,152	33,155	33,152
Effect of dilutive securities:				
Diluted common shares	4,399	----	5,446	----
Weighted-average shares used to compute diluted EPS	37,557	33,152	38,601	33,152
Net earnings per share:				
Basic	\$ 0.01	\$ (0.00)	\$ 0.00	\$ (0.04)
Diluted	\$ 0.01	\$ (0.00)	\$ 0.00	\$ (0.04)

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 September 30, 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	(1,685,000)	1,685,000	\$ 0.08		
Forfeited	644,971	(644,971)	\$ 0.14		
Exercised	(5,653)	(5,653)	\$ 0.04		
Balance as of September 30, 2011	<u>10,232,949</u>	<u>19,385,120</u>	<u>\$ 0.12</u>	<u>3.9</u>	<u>\$195</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 September 30, 2011.

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 10,232,949. As of September 30, 2010 there were a total of 19,385,120 outstanding options under the 1996 Plan and the 2007 Plan. As of September 30, 2011, there was approximately \$125,000 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)	September 30, 2011	December 31, 2010
Computer equipment	\$ 2,352	\$ 2,294
Software	1,198	1,198
Furniture and fixtures	37	37
Leasehold improvements	23	23
Leased equipment	418	418
Accumulated depreciation	(3,938)	(3,876)
Property, furniture and equipment, net	<u>\$ 90</u>	<u>\$ 95</u>

Depreciation expense was approximately \$62,000 and \$198,000 for the nine months ended September 30, 2011 and the twelve months ended December 31, 2010, 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 September 30, 2011 and 2010 were 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 \$2.2 million, with a backlog of approximately \$5.3 million for the next twelve months. Additionally, we have seen a material increase in our Facebook related moderation services with new orders of approximately \$1.8 million in the third quarter of 2011, as compared to the new orders of approximately \$620,000 for the third 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.

As we previously reported we signed a contract with a major retailer which will have a material impact on the company over the remainder of 2011. Walmart was approximately 13% of total revenues for the third quarter, and we anticipate they will continue to be a material client.

Overview

We moderate, manage and create on-line community and social network experiences for major brands. Our clients use these solutions across social channels for marketing, support, curation and insight. Our services and products include: moderation for Facebook and other social channels, actionable insight using our insight tagging tools and unique cultural engagement analysis framework, community programing and strategy, curation which aggregates and selects content from the social web and technology systems, applications and tools. All deployed across multiple social channels such as Facebook, Twitter, YouTube, and branded community web sites. We are distinguished by enabling our clients to scale their social media programs in volume and across social channels based on our unique Tech-Powered Human

Touch. The Human Touch provides the quality and consists of our people reviewing content in context and managing the community dynamic. Our proprietary technology scales that Human Touch, enabling the people to be better, faster and more cost effective.

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 user content at high speed generally averaging 500 posts/hour/moderator and as fast as up to 1,000 posts/ hour/moderator. All several times faster than native Facebook tools or other third party tools on the market. As a result our clients get 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 custom Facebook applications. We also provide moderation on 3rd party applications and platforms with their native 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 Strategic Cultural Model Development, 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.

Curation Services: Curation aggregates, moderates and selects targeted content from the social web such as Twitter then republishes it on a client's Internet venues such as a Facebook page or web site. This solution consistent of our Curator application combined with our moderation services and is used by clients to leverage the social web to obtain cost effective content by which to attract and acquire customers. Released in 2011, the product is already in use by a Fortune 100 travel and financial services brand.

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

- **Advanced Power Moderation Tools:** These tools enable our moderators to review and act on user content at a rate of up to 1,000 posts/hour, as well as escalate and track moderation.
- **Insight Tagging Tools:** Insight Tagging tags individual user posts with brand designated characteristics for a new and unique level of insight
- **Curator:** Curator aggregates social web content with an easy to setup wizard, runs that content through our moderation solution and then publishes the selected content to a client's Facebook Page, web site or other Internet venue
- **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.
- **Facebook Ask & Answer:** A message board based customer support application for Facebook. LiveWorld Ask & Answer provides a rich member to member support experience for consumers. This solution allows consumers to ask questions and get answers — resulting in higher quality, more responsive support and service for the consumers, while lowering customer support costs for the brand.
- **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 5.0x –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 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.

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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Total revenues	100%	100%	100%	100%
Cost of revenues	34	31	35	37
Gross Margin	66	69	65	63
Operating Expense				
Product development	16	19	18	25
Sales and marketing	23	26	26	31
General and administrative	15	22	18	25
Stock based compensation	1	3	2	4
Total operating expense	56	70	64	85
Income (loss) from operations	10	(1)	1	(22)

Three and Nine Months Ended September 30, 2011 and 2010

Total Revenues

Our revenues for the three months ended September 30, 2011 were approximately \$2.1 million, as compared to approximately \$2.0 million for the three months ended September 30, 2010. This was an increase of approximately \$107,000 or 5% period-over-period. Revenues increased primarily as a result of new client acquisitions and new projects with our existing clients.

For the three months ended September 30, 2011, revenues from eBay and Walmart comprised approximately 35% and 13% of our total revenues while all other clients represented approximately 52% of our total revenues. This compares to the three months ended September 30, 2010 where revenues from eBay comprised approximately 36% of our total revenues and all other clients represented approximately 64% of total revenues.

Our revenues for the nine months ended September 30, 2011 were approximately \$5.8 million, as compared to \$5.6 million for the nine months ended September 30, 2010. This was an increase of approximately \$166,000 or 3% period-over-period. Revenues increased primarily as a result of our client acquisitions in both the first and second quarters of 2011 and new projects with our existing clients in the second quarter of 2011.

For the nine months ended September 30, 2011, revenues from eBay comprised 36% of our total revenues while all other clients represented approximately 64% of our total revenues. This compares to the nine months ended September 30, 2010 where revenues from eBay comprised 36% of our total revenues and all other clients represented for 64% of total revenues.

Cost of Revenues

Cost of revenues were approximately \$728,000, or 34% of total revenues for the three months ended September 30, 2011, and \$643,000 or 31% of total revenues for the three months ended September 30, 2010. This represented an increase of approximately \$85,000 or 13% period-over-period. The increase in the cost of revenues was a result of increased moderation expense associated with additional hours of moderation services provide to our clients in the period. Cost of revenues for the nine months ended September 30, 2011 were approximately \$2 million as compared to \$2.1 million for the nine months ended September 30, 2010. This represented a decrease of approximately \$55,000, or 3% period-over-period. The reduction in cost of revenues was 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 \$341,000, or 16% of total revenues for the three months ended September 30, 2011, and approximately \$391,000 or 19% of total revenues for the three months ended September 30, 2010.

This represented a decrease in absolute dollars of approximately \$50,000, or 13% period-over-period. The decrease was driven by reducing our dependency on outside contractors, as well as reducing our overall employee cost. We anticipate our product development costs to remain relatively flat in the short term, but we could it increase in absolute dollars as we see increases in overall revenues for the Company.

For the nine months ended September 30, 2011, the expenditures for product development were approximately \$1 million or 18% of total revenues. This compares to \$1.4 million in product development costs for the nine months ended September 30, 2010 or 25% of total revenues. This represented a decrease in absolute dollars of approximately \$393,000 or 28% period-over-period. The decrease was driven by reducing our dependency on outside contractors, as well as, reducing our overall employee costs.

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 \$496,000, or 23% of total revenues for the three months ended September 30, 2011, and approximately \$537,000, or 26% for the three months ended September 30, 2010 representing a decrease in absolute dollars of approximately \$41,000 or 7% period-over-period. The period-over-period decrease in sales and marketing activities was as a result of fewer marketing activities in the second quarter of 2011.

For the nine months ended September 30, 2011 costs related to sales and marketing were approximately \$1.5 million or 26% of total revenues. This compares to \$1.8 million in sales and marketing costs for the nine months ended September 30, 2010 or 31% of total revenues. This represented a decrease in absolute dollars of approximately \$246,000 or 14% period-over-period.

We anticipate increasing our sales and marketing expenditures as overall revenues increase and our operational cash flows improve. In the immediate future we may see an increase in these costs that grows slightly faster than growth in our overall revenues.

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 \$332,000, or 15% of total revenues for the three months ended September 30, 2011, and approximately \$452,000, or 22% of total revenues for the three months ended September 30, 2010. This represented a decrease in absolute dollars of approximately \$120,000, or 27% 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.

For the nine months ended September 30, 2011 general and administrative expenses were approximately \$1.1 million or 18% of total revenues. This compares to the approximately \$1.4 million in general and administrative expenses for the nine months ended September 30, 2010 or 31% of total revenues. This represented a decrease in absolute dollars of approximately \$325,000 or 23% period-over-period. The vast majority of the cost savings was related to the reduction in outside advisory costs, reduced in employee related expenses 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 \$3.3 million as of September 30, 2011, and approximately \$2.4 million as of December 31, 2010. This represented an increase of approximately \$880,000 or 36% of total assets. Our cash and cash equivalents were approximately \$776,000 as of September 30, 2011 which was an increase of approximately \$26,000 or 3% from the cash and cash equivalents balances of approximately \$750,000 as of December 31, 2010.

Accounts receivable was approximately \$1.5 million as of September 30, 2011 which is an increase of approximately \$831,000 or 120% 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.

For the three months ended September 30, 2011 we had positive cash flows of approximately \$203,000 while for the three months ended September 30, 2010 we had positive cash flows of approximately \$48,000. For the nine months ended September 30, 2011 we had positive cash flows of approximately \$26,000 while for the nine months ended September 30, 2010 we had negative cash flows of approximately \$1.1 million. This represents an improvement of over \$1.1 million period-to-period.

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 September 30, 2011, our current assets, which are made up of cash and cash equivalents, accounts receivable, and prepaid expenses were approximately \$2.4 million while our current liabilities, which are made up of our accounts payable, accrued liabilities and current portions of long-term liabilities were approximately \$1.8 million. This represented a positive working capital position of approximately \$616,000, which was an increase of approximately \$161,000 from the period ended December 31, 2010.

Additionally we would like to note the cash and cash equivalents were approximately \$776,000 for the period ended September 30, 2011 as compared the \$573,000 for the period ended June 30, 2011. This represented an increase of \$203,000 or 35% for the three month period. The accounts receivable balance was \$1.5 million for the period ended September 30, 2011 as compared to the balance of \$1.1 million for the period ended June 30, 2011. This represented an increase of approximately \$418,000 or 38% for the three month period.

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 earnings before interest, taxes, depreciation and amortization, and non-cash stock-based compensation (“Adjusted EBITDA”), was approximately \$268,000, or 12% of total revenues for the three months ended September 30, 2011 as compared to an Adjusted EBITDA of approximately \$51,000, or 3% of total revenues for the three months ended September 30, 2010. The increase in Adjusted EBITDA of approximately \$217,000 period-over-period was primarily due to the improvement in net income of approximately \$268,000 which was partially off-set by the reduction in depreciation and amortization expense and stock-based compensation expense.

For the nine months ended September 30, 2011 our Adjusted EBITDA was approximately \$220,000 or 4% of total revenues. This compares to a negative Adjusted EBITDA of approximately \$896,000, or 16% of total revenues for the nine months ended September 30, 2010. The improvement in Adjusted EBITDA of approximately \$1.1 million period-over-period was primarily due to the improvement of the net income 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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Reported net income / (loss)	\$ 229	\$ (39)	\$ 64	\$ (1,281)
Depreciation and amortization	12	49	62	161
Stock-based compensation	27	51	87	216
Interest income, net	----	(1)	2	8
Provisions for income taxes	----	(9)	5	----
Adjusted EBITDA	<u>\$ 268</u>	<u>\$ 51</u>	<u>\$ 220</u>	<u>\$ (896)</u>

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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net Cash Provided by (used in) operating activities	\$ 264	\$ 12	\$ 145	\$ (1,076)
Interest income, net	---	(1)	2	8
Taxes	---	(9)	5	---
Equity in net loss of unconsolidated affiliate	4	(18)	(18)	(48)
Changes in accounts receivable	418	228	831	161
Changes in other assets	5	(49)	44	(35)
Changes in accounts payable	(79)	(8)	(140)	(63)
Changes in accrued liabilities	(12)	65	(38)	44
Changes in deferred revenues	(333)	(169)	(611)	113
Adjusted EBITDA	<u>268</u>	<u>51</u>	<u>220</u>	<u>(896)</u>

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.

LIVEWORLD, INC.
UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Cash flows from operating activities:				
Net income (loss)	\$ 229	\$ (39)	\$ 64	\$ (1,281)
Adjustments to reconcile net income (loss) provided by (used in) operating activities:				
Depreciation of long-lived assets	12	49	62	161
Stock-based compensation	27	51	87	216
Equity in net loss of unconsolidated affiliate	(4)	18	18	48
Changes in operating assets and liabilities:				
Accounts receivable	(418)	(228)	(831)	(161)
Other assets	(5)	49	(44)	35
Accounts payable	79	8	140	63
Accrued liabilities	12	(65)	38	(44)
Deferred revenue	333	169	611	(113)
Net cash provided by (used in) operating activities	<u>265</u>	<u>12</u>	<u>145</u>	<u>(1,076)</u>
Cash flows from investing activities:				
Purchase of property and equipment	(51)	(7)	(58)	(23)
Net cash provided by (used in) investing activities	<u>(51)</u>	<u>(7)</u>	<u>(58)</u>	<u>(23)</u>
Cash flows from financing activities:				
Capital lease financing	(2)	(31)	(23)	(95)
Note payable financing	(9)	74	(38)	74
Net cash provided by (used for) financing activities	<u>(11)</u>	<u>43</u>	<u>(61)</u>	<u>(21)</u>
Change in cash and cash equivalent	203	48	26	(1,120)
Cash and cash equivalents, beginning of period	<u>573</u>	<u>417</u>	<u>750</u>	<u>1,586</u>
Cash and cash equivalents, end of period	<u>\$ 776</u>	<u>\$ 466</u>	<u>\$ 776</u>	<u>\$ 466</u>

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.