

**QUARTERLY REPORT FOR  
THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2021**

**LIVEWORLD, INC.**

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

**Delaware**  
*(State of Incorporation)*

**77-0426524**  
*(IRS Employer Identification No.)*

**2105 S Bascom Ave. Suite 159  
Campbell, California 95008**  
*(Address of principal executive offices)*

**(800) 301-9507**  
*(Company's telephone number)*

**ISSUER'S EQUITY SECURITIES**

**COMMON STOCK**

**\$0.001 Par Value**  
**100,000,000 Common Shares Authorized**  
**45,633,442 Shares Issued and Outstanding as of November 10, 2021**

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

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalent	\$ 4,082	\$ 2,552
Accounts receivable, net	1,541	1,179
Prepaid expenses	149	96
Total current assets	5,772	3,827
Property and equipment, net	41	43
Other assets	25	25
Total assets	\$ 5,838	\$ 3,895
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 175	\$ 139
Accrued employee expenses	1,226	680
Other accrued liabilities	29	68
Loan	1,026	921
Deferred revenue	1,643	897
Total current liabilities	4,099	2,705
Total liabilities	4,099	2,705
Stockholders' equity		
Common stock: \$0.001 par value, 100,000,000 shares authorized 45,633,442 issued and outstanding as of September 30, 2021 and December 31, 2020 respectively	34	34
Additional paid-in capital	143,686	143,651
Accumulated deficit	(141,981)	(142,495)
Total stockholders' equity	1,739	1,190
Total liabilities and stockholders' equity	\$ 5,838	\$ 3,895

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

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2021	2020	2021	2020
Total revenues	\$ 2,686	\$ 2,010	\$ 7,409	\$ 6,019
Cost of revenues	1,193	942	3,695	2,960
Gross Margin	1,493	1,068	3,714	3,059
Operating Expense				
Product development	208	188	643	652
Sales and marketing	409	237	967	773
General and administrative	608	487	1,567	1,472
Total operating expense	1,225	912	3,177	2,897
Income from operations	268	156	537	162
Income before tax	268	156	537	162
Other Income / Expense	-----	(2)	-----	(67)
Provision for income taxes	5	18	23	20
Net income	263	136	514	75
Basic income per share	\$ 0.01	\$ 0.00	\$ 0.01	\$ 0.00
Shares used in computing basic loss per share	45,633,442	45,633,442	45,633,442	45,633,442
Diluted net income per share	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.00
Shares used in computing diluted income per share	62,730,038	48,127,443	62,730,038	48,127,443
Departmental allocation of stock-based compensation:				
Cost of revenues	\$ 4	\$ 2	\$ 8	\$ 6
Product development	1	3	4	9
Sales and marketing	1	2	4	8
General and administrative	7	4	19	12
Total stock-based compensation	\$ 13	\$ 11	\$ 35	\$ 35

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

	<b>Three Months Ended Sept 30,</b>		<b>Nine Months Ended Sept 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Cash flows from operating activities:				
Net income (loss)	\$ 263	\$ 136	\$ 514	\$ 75
Adjustments to reconcile net income (loss) provided by (used in) operating activities:				
Depreciation of long-lived assets	5	3	14	8
Stock-based compensation	13	11	35	35
Changes in operating assets and liabilities:				
Accounts receivable	703	(282)	(362)	(927)
Other assets	22	(4)	(55)	77
Accounts payable	27	27	36	(93)
Accrued liabilities	49	280	507	484
Deferred revenue	(270)	174	747	969
Net cash provided by (used in) operating activities	812	345	1,436	628
Cash flows from investing activities:				
Purchase of property and equipment	(3)	(8)	(12)	(15)
Net cash provided by (used in) investing activities	(3)	(8)	(12)	(15)
Cash flows from financing activities:				
Loan	-----	(54)	106	973
Proceeds from exercise of stock options	-----	-----	-----	-----
Net cash provided by (used for) financing activities	-----	(54)	106	973
Change in cash and cash equivalent	809	283	1,530	1,586
Cash and cash equivalents, beginning of period	3,273	2,033	2,552	730
Cash and cash equivalents, end of period	\$ 4,082	\$ 2,316	\$ 4,082	\$ 2,316
Supplemental disclosure of non-cash financing and investing activities:				
Income tax paid	\$ 5	\$ 18	\$ 23	\$ 20

**LIVEWORLD, INC.**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE QUARTER ENDED September 30, 2021**  
(In thousands, except share data)

	<b>Common Stock</b>		<b>Additional</b>	<b>Accumulated</b>	<b>Stockholders'</b>
	<b>Shares</b>	<b>Amount</b>	<b>Paid-in</b>	<b>Deficit</b>	<b>Equity</b>
	<u>          </u>	<u>          </u>	<u>  Capital  </u>	<u>          </u>	<u>          </u>
Balance – June 30, 2021	45,633,442	\$ 34	\$ 143,672	\$ (142,244)	\$ 1,462
Stock-based compensation			13		13
Net income				263	263
Balance – September 30, 2021	<u>45,633,442</u>	<u>\$ 34</u>	<u>\$ 143,686</u>	<u>\$ (141,981)</u>	<u>\$ 1,739</u>

## 1. ORGANIZATION

LiveWorld Incorporated (the “Company”) was incorporated in California on April 10, 1996 and reincorporated in Delaware in July 1999. In April 1999 the Company changed its name from LiveWorld Productions to Talk City, Inc. On May 8, 2001, the Company changed its name from Talk City, Inc. to LiveWorld, Inc. The Company’s principal business is a combination of digital agency services and software that empower companies to deepen customer relationships with emotion driven behavior change through campaigns with a human touch. We provide consulting, strategy, and creative along with human agents for moderation, engagement, customer care, and adverse events management, as well as conversation management software, and chatbots for digital campaigns and social media programs.

## 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, 2020. Operating results for the three and nine months ended September 30, 2021 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 September 30, 2021 and December 31, 2020. 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, any creative services, and strategic consulting services the client may request from us. These expenses consist of freelancer costs, salaries, payroll taxes, benefits and related expenditures for moderation, creative services, consulting services, as well as, software license fees, cloud computing cost.

*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 and nine month periods ended September 30, 2021, 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 and nine month periods ended September 30, 2021 and 2020, options aggregating 26,078,595 and 23,520,595 common share equivalents, respectively, prior to the application of the treasury stock method are not included in the calculation of diluted net income (loss) per share as they are anti-dilutive.

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

<b>In thousands, except per share amounts</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Numerator:				
Net income (loss) attributable to common Stockholders	\$ 263	\$ 136	\$ 514	\$ 75
Denominator:				
Weighted-average shares used to compute basic EPS	45,633	45,633	45,633	45,633
Effect of dilutive securities:				
Diluted common shares	17,097	2,494	17,097	2,494
Weighted-average shares used to compute diluted EPS	62,730	48,088	62,730	48,088
Net earnings per share:				
Basic	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.00
Diluted	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.00

#### 4. STOCK-BASED COMPENSATION

All options have 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 2007 Plan and the 2018 Stock Option Plan (“2018 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.

##### *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 nine months ended September 30, 2021:

	<b>Stock Options</b>
Dividend yield	0%
Expected volatility	79%
Risk-free interest rate	0.01%
Estimated term	7 Years

	<b>Shares Available for Grant</b>	<b>Options Outstanding</b>	<b>Weighted Average Exercise Price Per Share</b>	<b>Weighted Average Remaining Contractual Life (in years)</b>	<b>Aggregate Intrinsic Value (in thousands)</b>
Balance as of December 31, 2020	14,920,563	24,451,595			
Granted	(1,627,000)	1,627,000			
Forfeited	----	----			
Exercised	----	----			
Balance as of September 30, 2021	<u>13,293,563</u>	<u>26,078,595</u>	<u>\$0.08</u>	<u>4.7</u>	<u>548</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, 2021. As of September 30, 2021, total unrecognized compensation cost related to unvested stock options was approximately \$297,247. The cost is expected to be recognized over a weighted average period of 3.6 years.

## 5. PROPERTY AND EQUIPMENT

Property, furniture and equipment consisted of the following items:

<b>(\$ in thousands)</b>	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Computer equipment	\$ 420	\$ 408
Software	1,212	1,212
Furniture and fixtures	36	36
Leasehold improvements	23	23
	<u>1,691</u>	<u>1,679</u>
Accumulated depreciation	(1,650)	(1,636)
Property, furniture and equipment, net	<u>\$ 41</u>	<u>\$ 43</u>

Depreciation expense was approximately \$14,000 and \$8,000 for the nine months ended September 30, 2021 and 2020, 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.*

### **Overview**

LiveWorld is a digital agency and software company specializing in social media solutions that empower companies to deepen customer relationships with emotion driven behavior change through campaigns with a human touch. The Company provides consulting, strategy, and creative along with human agents for moderation, engagement, customer care, and adverse events management, as well as conversation management software, and chatbots for digital campaigns and social media programs. LiveWorld clients include the number one brands in healthcare, consumer packaged goods, and financial-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 of salaries, payroll taxes, benefits, and freelance creative services related expenditures for moderation, consulting, creative services, as well as, software license fees, cloud computing 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.		LIVEWORLD, INC.	
	STATEMENTS OF OPERATIONS		STATEMENTS OF OPERATIONS	
	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2021	2020	2021	2020
Total revenues	100%	100%	100%	100%
Cost of revenues	44	47	50	49
Gross Margin	56	53	50	51
Operating Expense				
Product development	8	9	9	11
Sales and marketing	15	12	13	13
General and administrative	23	24	21	24
Total operating expense	46	45	43	48
Income (loss) from operations	10%	8%	7%	3%

### Three and Nine Months Ended September 30, 2021 and 2020

#### Total Revenues

Our revenues for the three months ended September 30, 2021 were approximately \$2.7 million, as compared to approximately \$2.0 million for the three months ended September 30, 2020. This was an increase of approximately \$676,000 or 34% period-over-period.

For the three months ended September 30, 2021, revenues from our two largest clients comprised approximately 45% of our total revenues while all other clients represented approximately 55% of our total revenues. This compares to the three months ended September 30, 2020 where revenues from our two largest clients comprised approximately 38% of our total revenues and all other clients represented approximately 62% of total revenues.

Our revenues for the nine months ended September 30, 2021 were approximately \$7.4 million, as compared to approximately \$6.0 million for the nine months ended September 30, 2020. This was an increase of approximately \$1.4 million or 23% period-over-period.

For the nine months ended September 30, 2021, revenues from our two largest clients comprised approximately 43% of our total revenues while all other clients represented approximately 57% of our total revenues. This compares to the nine months ended September 30, 2020 where revenues from our two largest clients comprised approximately 41% of our total revenues and all other clients represented approximately 59% of total revenues.

#### Cost of Revenues

Cost of revenues were approximately \$1.2 million, or 44% of total revenues for the three months ended September 30, 2021, and \$942,000 or 47% of total revenues for the three months ended September 30, 2020. This represented an increase of approximately \$251,000 or 27% period-over-period. Cost of revenues were approximately \$3.7 million, or 50% of total revenues for the nine months ended September 30, 2021, and \$3.0 million or 49% of total revenues for the nine months ended September 30, 2020. This represented an increase of approximately \$735,000 or 25% period-over-period.

## **Operating Expenses**

*Product Development.* Expenditures for product development were approximately \$208,000, or 8% of total revenues for the three months ended September 30, 2021, and approximately \$188,000 or 9% of total revenues for the three months ended September 30, 2020. This represented an increase in absolute dollars of approximately \$20,000, or 11% period-over-period.

For the nine months ended September 30, 2021, the expenditures for product development were approximately \$643,000 or 9% of total revenues. This compares to \$652,000 in product development costs for the nine months ended September 30, 2020 or 11% of total revenues. This represented a decrease in absolute dollars of approximately \$9,000 or 1% 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 \$409,000, or 15% of total revenues for the three months ended September 30, 2021, and approximately \$237,000, or 12% for the three months ended September 30, 2020 representing an increase in absolute dollars of approximately \$172,000 or 72% period-over-period.

For the nine months ended September 30, 2021 costs related to sales and marketing were approximately \$967,000 or 13% of total revenues. This compares to \$773,000 in sales and marketing costs for the nine months ended September 30, 2020 or 13% of total revenues. This represented an increase in absolute dollars of approximately \$194,000 or 25% period-over-period.

*General and Administrative.* General and administrative expenses were approximately \$608,000, or 23% of total revenues for the three months ended September 30, 2021, and approximately \$487,000, or 24% of total revenues for the three months ended September 30, 2020. This represented an increase in absolute dollars of approximately \$121,000, or 25% period-over-period.

For the nine months ended September 30, 2021 general and administrative expenses were approximately \$1.6 million or 21% of total revenues. This compares to the approximately \$1.5 million in general and administrative expenses for the nine months ended September 30, 2020 or 24% of total revenues. This represented an increase in absolute dollars of approximately \$95,000 or 6% period-over-period.

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

Our total assets were approximately \$5.8 million as of September 30, 2021, and approximately \$3.9 million as of December 31, 2020. This represented an increase of approximately \$1.9 million, or a 50% increase in total assets. Our cash and cash equivalents were approximately \$4.1 million as of September 30, 2021 which was an increase of approximately \$1.5 million or 60% from the cash and cash equivalents balances of approximately \$2.6 million as of December 31, 2020.

Accounts receivable was approximately \$1.5 million as of September 30, 2021 which is an increase of approximately \$362,000, or 31% from the accounts receivable balance of approximately \$1.2 million as of December 31, 2020. 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, 2021 we had positive cash flows of approximately \$809,000 while for the three months ended September 30, 2020 we had positive cash flows of approximately \$283,000. For the nine months ended September 30, 2021 we had positive cash flows of approximately \$1.5 million while for the nine months ended September 30, 2020 we had positive cash flows of approximately \$1.6 million.

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.