

PLANETOUT INC  
Form 10-Q  
August 06, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**  
**FORM 10-Q**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the quarterly period ended: June 30, 2008**

**or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 000-50879**

**PLANETOUT INC.**

(Exact Name of Registrant as Specified in Its Charter)

**DELAWARE**

(State or Other Jurisdiction of Incorporation or  
Organization)

**94-3391368**

(I.R.S. Employer Identification No.)

**1355 SANSOME STREET, SAN FRANCISCO,  
CALIFORNIA**

(Address of Principal Executive Offices)

**94111**

(Zip Code)

**(415) 834-6500**

(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes

☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller Reporting Company ☒  
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

The number of shares outstanding of the registrant's Common Stock, \$0.001 par value, as of August 1, 2008 was 4,088,206.

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**PART I**  
**FINANCIAL INFORMATION**  
**PlanetOut Inc.**

**Item 1. Financial Statements****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except per share amounts)**

	<b>December 31, 2007</b>	<b>June 30, 2008</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 8,534	\$ 7,875
Restricted cash	167	1,142
Accounts receivable, net	3,679	1,624
Prepaid expenses and other current assets	937	985
Current assets of discontinued operations	7,348	5,739
 Total current assets	 20,665	 17,365
Property and equipment, net	7,821	6,255
Goodwill	2,988	2,988
Other assets	523	469
Long-term assets of discontinued operations	9,355	3,418
 Total assets	 \$ 41,352	 \$ 30,495
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 845	\$ 437
Accrued expenses and other liabilities	1,888	1,375
Deferred revenue, current portion	4,042	5,920
Capital lease obligations, current portion	815	771
Deferred rent, current portion	264	283
Current liabilities of discontinued operations	4,513	4,912
 Total current liabilities	 12,367	 13,698
Capital lease obligations, less current portion	880	414
Deferred rent, less current portion	1,066	1,124
Long-term liabilities of discontinued operations	2,130	1,914
 Total liabilities	 16,443	 17,150
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Common stock: \$0.001 par value, 100,000 shares authorized, 4,096 and 4,093 shares issued and outstanding at December 31, 2007 and June 30, 2008, respectively	40	40
Additional paid-in capital	114,406	114,810

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Accumulated other comprehensive loss	(85)	(82)
Accumulated deficit	(89,452)	(101,423)
Total stockholders' equity	24,909	13,345
Total liabilities and stockholders' equity	\$41,352	\$ 30,495

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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**PlanetOut Inc.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2007	2008	2007	2008
Revenue:				
Advertising services	\$ 2,540	\$ 1,829	\$ 4,446	\$ 2,896
Subscription services	4,151	3,571	8,333	7,265
Transaction services	106	59	285	136
Total revenue	6,797	5,459	13,064	10,297
Operating costs and expenses: (*)				
Cost of revenue	3,473	2,130	6,187	4,574
Sales and marketing	2,392	1,548	4,868	3,145
General and administrative	2,877	1,681	6,136	3,719
Depreciation and amortization	1,384	1,032	2,620	2,147
Total operating costs and expenses	10,126	6,391	19,811	13,585
Loss from operations	(3,329)	(932)	(6,747)	(3,288)
Interest expense	(445)	(37)	(814)	(80)
Other income, net	94	44	254	111
Loss from continuing operations before income taxes	(3,680)	(925)	(7,307)	(3,257)
Provision for income taxes				
Loss from continuing operations	(3,680)	(925)	(7,307)	(3,257)
Loss from discontinued operations, net of taxes	(27,321)	(668)	(30,568)	(8,714)
Net loss	\$ (31,001)	\$ (1,593)	\$ (37,875)	\$ (11,971)
Loss per share from continuing operations:				
Basic and diluted	\$ (2.10)	\$ (0.23)	\$ (4.18)	\$ (0.80)
Loss per share from discontinued operations:				
Basic and diluted	\$ (15.60)	\$ (0.16)	\$ (17.49)	\$ (2.15)
Net loss per share:				
Basic and diluted	\$ (17.70)	\$ (0.39)	\$ (21.67)	\$ (2.96)
Weighted-average shares used to compute net loss per share basic and diluted	1,751	4,051	1,748	4,050

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(\*) Includes stock-based compensation as follows

(see Note 1):

Cost of revenue	\$	51	\$	32	\$	116	\$	65
Sales and marketing		2		2		28		4
General and administrative		101		86		260		178
Total stock-based compensation	\$	154	\$	120	\$	404	\$	247

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.



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**PlanetOut Inc.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

	<b>Six months ended June 30,</b>	
	<b>2007</b>	<b>2008</b>
Cash flows from operating activities:		
Net loss	\$ (37,875)	\$ (11,971)
Net loss from discontinued operations, net of tax	30,568	8,714
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,620	2,147
Non-cash services expense	69	165
Provision for (reversal of) doubtful accounts	(28)	26
Stock-based compensation	404	247
Amortization of debt discount	171	
Amortization of deferred rent	(101)	(132)
Loss on disposal or write-off of property and equipment	375	
Changes in operating assets and liabilities, net of acquisition effects:		
Accounts receivable	1,697	2,316
Prepaid expenses and other assets	(411)	74
Accounts payable	798	(408)
Accrued expenses and other liabilities	188	(519)
Deferred revenue	(325)	1,878
Net cash provided by (used in) operating activities of continuing operations	(1,850)	2,537
Net cash used in operating activities of discontinued operations	(2,553)	(826)
Net cash provided by (used in) operating activities	(4,403)	1,711
Cash flows from investing activities:		
Purchases of property and equipment	(1,479)	(981)
Sales of short-term investments	2,050	
Changes in restricted cash	2,688	(975)
Net cash provided by (used in) investing activities of continuing operations	3,259	(1,956)
Net cash used in investing activities of discontinued operations	(205)	
Net cash provided by (used in) investing activities	3,054	(1,956)
Cash flows from financing activities:		
Proceeds from exercise of common stock and warrants	17	
Tax withholding payments reimbursed by restricted stock		(8)
Principal payments under capital lease obligations and notes payable	(1,350)	(409)
Net cash used in financing activities	(1,333)	(417)

Effect of exchange rate on cash and cash equivalents	24	3
Net decrease in cash and cash equivalents	(2,658)	(659)
Cash and cash equivalents, beginning of period	9,674	8,534
Cash and cash equivalents, end of period	\$ 7,016	\$ 7,875
Supplemental disclosure of noncash investing and financing activities:		
Property and equipment and related maintenance acquired under capital leases	\$ 369	\$ 80

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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**PlanetOut Inc.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 The Company and Summary of Significant Accounting Policies**

***The Company***

PlanetOut Inc. (the Company) was incorporated in Delaware in December 2000. The Company, together with its subsidiaries, is a leading online media company exclusively serving the worldwide lesbian, gay, bisexual and transgender, or LGBT, community. The Company serves this audience through its websites Gay.com and PlanetOut.com.

In November 2005, the Company acquired substantially all of the assets of LPI Media Inc. and related entities (LPI), which includes the operations of the SpecPub asset group, and which the Company operates as wholly-owned subsidiaries. In April 2008, the Company entered into an agreement to sell substantially all the assets of LPI. As a result of this agreement and the Company's decision to exit the Publishing business, the results of operations and financial position of LPI are reported in discontinued operations within the condensed consolidated financial statements. See Note 7, Discontinued Operations.

In March 2006, the Company acquired substantially all of the assets of RSVP Productions, Inc. (RSVP), which the Company operated as a wholly-owned subsidiary. On December 14, 2007, the Company completed the sale of substantially all the assets of RSVP. As a result of this sale and the Company's decision to exit the Travel and Events business, the results of operations and financial position of RSVP are reported in discontinued operations within the condensed consolidated financial statements. See Note 7, Discontinued Operations.

***Unaudited Interim Financial Information***

The accompanying unaudited condensed consolidated financial statements have been prepared and reflect all adjustments, consisting only of normal recurring adjustments, which in the opinion of management are necessary to state fairly the financial position and the results of operations for the interim periods. The balance sheet at December 31, 2007 has been derived from audited financial statements at that date. The unaudited condensed consolidated financial statements have been prepared in accordance with the regulations of the Securities and Exchange Commission (SEC), but omit certain information and footnote disclosures necessary to present the statements in accordance with generally accepted accounting principles. Results of interim periods are not necessarily indicative of results for the entire year. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

***Principles of Consolidation and Basis of Presentation***

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

***Reclassifications***

Certain reclassifications have been made in the prior consolidated financial statements to conform to the current year presentation. These reclassifications did not change the previously reported net income (loss) or net income (loss) per share of the Company.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Significant estimates and assumptions made by management include, among others, the assessment of collectibility of accounts receivable, the determination of the allowance for doubtful accounts, the determination of the fair market value of its common stock, the valuation and useful life of its capitalized software and long-lived assets, impairment of goodwill and intangible assets and the valuation of deferred tax asset balances. Actual results could differ from those estimates.

**Table of Contents*****Cash Equivalents***

The Company considers all highly liquid investments purchased with original or remaining maturities of three months or less to be cash equivalents. The Company's investments are primarily comprised of money market funds and certificates of deposit, the fair market value of which approximates cost.

***Restricted Cash***

Restricted cash as of December 31, 2007 consists of \$167,000 of cash that is restricted as to future use by contractual agreements associated with irrevocable letters of credit relating to a lease agreement for the Company's New York office. Restricted cash as of June 30, 2008 consists of \$168,000 of cash that is restricted as to future use by contractual agreements associated with irrevocable letters of credit relating to a lease agreement for the Company's New York office and \$974,000 of reserves required by the Company's credit card processors in order to cover any exposure that they may have as the Company collects revenue in advance of providing services to its customers.

***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 related assets generally ranging from three to five years. Leasehold improvements are amortized over the shorter of their economic lives or lease term, generally ranging from two to seven years. Maintenance and repairs are charged to expense as incurred. When assets are retired or otherwise disposed of, the cost and accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected in the consolidated statement of operations in the period realized.

***Internal Use Software and Website Development Costs***

The Company capitalizes internally developed software and website development costs in accordance with the provisions of American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 98-1, *Accounting for Costs of Computer Software Developed or Obtained for Internal Use* (SOP 98-1) and Emerging Issues Task Force (EITF) Abstract No. 00-02, *Accounting for Web Site Development Costs* (EITF 00-02). SOP 98-1 requires that costs incurred in the preliminary project and post-implementation stages of an internal-use software project be expensed as incurred and that certain costs incurred in the application development stage of a project be capitalized. The Company begins to capitalize costs when the preliminary project stage has been completed and technological and economical feasibility has been determined. The Company exercises judgment in determining which stage of development a software project is in at any point in time. Capitalized costs are amortized on a straight-line basis over the estimated useful life of the software, generally three years, once it is available for its intended use.

***Goodwill***

The Company accounts for goodwill using the provisions of Statement of Financial Accounting Standards (SFAS) No. 142 (FAS 142), *Goodwill and Other Intangible Assets*. FAS 142 requires that goodwill be tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis and between annual tests in certain circumstances. The Company performs its annual impairment test as of December 1 of each year. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair value of the Company's reporting unit with the reporting unit's carrying amount, including goodwill. The Company generally determines the fair value of its reporting unit using the expected present value of future cash flows, giving consideration to the market comparable approach. If the carrying amount of the Company's reporting unit exceeds the reporting unit's fair value, the Company performs the second step of the goodwill impairment test. The second step of the goodwill impairment test involves comparing the implied fair value of the Company's reporting unit's goodwill with the carrying amount of the unit's goodwill. If the carrying amount of the reporting unit's goodwill is greater than the implied fair value of its goodwill, an impairment charge is recognized for the excess in operating expenses.

The Company determined that it had one reporting unit through December 31, 2006. On January 1, 2007, the Company determined that it had four reporting units and began operating in three segments. During the fourth quarter of 2007, the Company divested itself of its Travel and Events business. In April 2008, the Company agreed to sell substantially all of the assets of its Publishing business. The Company is currently operating in one segment, with one reporting unit.

The Company performed its annual test as of December 1, 2007. The results of Step 1 of the annual goodwill impairment analysis on December 1, 2007 showed that goodwill was not impaired as the estimated market value of its reporting unit exceeded its carrying

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value, including goodwill. Accordingly, Step 2 was not performed. The Company will continue to test for impairment on an annual basis and on an interim basis if a triggering event occurs or circumstances change that would more likely than not reduce the fair value of the Company's reporting unit below its carrying amount.

Goodwill impairment charges of \$21.1 million and zero related to the Company's Publishing business are reflected under discontinued operations during the three months ended June 30, 2007 and 2008, respectively. Goodwill impairment charges of \$21.1 million and \$4.1 million related to the Company's Publishing business are reflected under discontinued operations during the six months ended June 30, 2007 and 2008, respectively. Goodwill impairment charges of zero and \$3.8 million related to the Company's Travel and Events Business are reflected under discontinued operations during the three and six months ended June 30, 2007. See Note 7, Discontinued Operations.

***Intangible Assets and Other Long-Lived Assets***

The Company accounts for identifiable intangible assets and other long-lived assets in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which addresses financial accounting and reporting for the impairment and disposition of identifiable intangible assets and other long-lived assets. The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. The Company records an impairment charge on intangibles or long-lived assets to be held and used when it determines that the carrying value of these assets may not be recoverable and/or exceed their carrying value. Based on the existence of one or more indicators of impairment, the Company measures any impairment based on a projected discounted cash flow method using a discount rate that it determines to be commensurate with the risk inherent in its business model. These estimates of cash flow require significant judgment based on the Company's historical results and anticipated results and are subject to many factors.

***Revenue Recognition***

The Company's revenue is derived principally from banner and sponsorship advertisements and the sale of premium online subscription services.

To date, the duration of the Company's banner advertising commitments has ranged from one week to one year. Sponsorship advertising contracts have terms ranging from three months to two years and also involve more integration with the Company's services, such as the placement of buttons that provide users with direct links to the advertiser's website. Advertising revenue on both banner and sponsorship contracts is recognized ratably over the term of the contract, provided that no significant Company obligations remain at the end of a period and collection of the resulting receivables is reasonably assured, at the lesser of the ratio of impressions delivered over the total number of undertaken impressions or the straight-line basis. The Company's obligations typically include undertakings to deliver a minimum number of impressions, or times that an advertisement appears in pages viewed by users of the Company's online properties. To the extent that these minimums are not met, the Company defers recognition of the corresponding revenue until the minimums are achieved.

Premium online subscription services are generally for a period of one to twelve months. Premium online subscription services are generally paid for upfront by credit card, subject to cancellations by subscribers or charge backs from transaction processors. Revenue, net of estimated cancellations and charge backs, is recognized ratably over the service term. To date, cancellations and charge backs have not been significant and have been within management's expectations.

***Advertising***

Costs related to advertising and promotion are charged to sales and marketing expense as incurred. Total advertising costs in the three months ended June 30, 2007 and 2008 were \$613,000 and \$393,000, respectively. Total advertising costs in the six months ended June 30, 2007 and 2008 were \$1,098,000 and \$745,000, respectively.

***Stock-Based Compensation***

The Company accounts for stock-based awards under SFAS No. 123 (revised 2004), *Share-Based Payment* (FAS 123R) using the modified prospective method, which requires measurement of compensation cost for all stock-based awards at fair value on date of grant and recognition of compensation over the service period for awards expected to vest. The fair value of restricted stock is determined based on the number of shares granted and the quoted price of the Company's common stock, and the fair value of stock options is determined using the Black-Scholes valuation model. Such value is recognized as expense over the service period, net of estimated forfeitures, using the straight-line

method under FAS 123R. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from the Company's current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. The Company considers many factors when estimating

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expected forfeitures, including types of awards, employee class, and historical experience. Actual results, and future changes in estimates, may differ substantially from the Company's current estimates.

***Segment Reporting***

As a result of further integrating the Company's various businesses, its executive management team, and its financial and management reporting systems during fiscal 2006, the Company began to operate as three segments effective January 1, 2007: Online, Publishing and Travel and Events. The Travel and Events segment consisted of travel and events marketed through the Company's RSVP brand and by the Company's consolidated affiliate, PNO DSW Events, LLC (DSW). In March 2007, the Company sold its membership interest in DSW, a joint venture, to the minority interest partner. In December 2007, the Company sold substantially all the assets of RSVP. As a result of the sale of the Company's interest in DSW, its sale of substantially all the assets of RSVP and the Company's decision to exit its Travel and Events business, the Company has reported the results of operations and financial position of RSVP and DSW as discontinued operations within the consolidated financial statements as described more fully in Note 7,

Discontinued Operations. The Publishing segment consisted of the Company's print properties obtained in the acquisition of LPI, primarily magazines and its book publishing businesses. As a result of the Company's agreement to sell substantially all the assets of LPI and the Company's decision to exit its Publishing business, the Company has reported the results of operations and financial position of LPI as discontinued operations within the consolidated financial statements as described more fully in Note 7, Discontinued Operations.

As a result of the Company's decision to exit its Travel and Events and Publishing businesses, the Company currently operates in one segment in accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* (FAS 131). Although the chief operating decision maker reviews revenue results across the three revenue streams of advertising, subscription and transaction services, financial reporting is consistent with the Company's method of internal reporting where the chief operating decision maker evaluates, assesses performance and makes decisions on the allocation of resources at a consolidated results of operations level. The Company has no operating managers reporting to the chief operating decision maker over components of the enterprise for which the separate financial information of revenue, results of operations, and assets is available. Additionally, all business units that meet the quantitative thresholds of a reporting unit in FAS 131 also meet the aggregation criteria of FAS 131 and are therefore accounted for as a single reporting unit.

***Income Taxes***

The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48) on January 1, 2007. The Company did not have any unrecognized tax benefits and there was no effect on its financial condition or results of operations as a result of implementing FIN 48.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company is no longer subject to U.S. federal tax assessment for years before 2004. State jurisdictions that remain subject to assessment range from 2003 to 2007. The Company does not believe there will be any material changes in its unrecognized tax positions over the next 12 months. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material adverse effect on the Company's financial condition, results of operations, or cash flow. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48. In addition, the Company did not record a cumulative effect adjustment related to the adoption of FIN 48.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption of FIN 48, the Company did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor was any interest expense recognized during 2007 or the six months ended June 30, 2008. The Company's effective tax rate differs from the federal statutory rate primarily due to increases in its deferred income tax valuation allowance.

***Net Income (Loss) Per Share***

Basic net income (loss) per share (Basic EPS) is computed by dividing net income (loss) by the sum of the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share (Diluted EPS) gives effect to all dilutive potential common shares outstanding during the period. The computation of



Diluted EPS does not assume conversion, exercise or contingent 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.

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The following table sets forth the computation of basic and diluted net loss per share (in thousands, except per share amounts):

	Three months ended June 30,		Six months ended June 30,	
	2007	2008	2007	2008
Numerator:				
Net loss	\$ (31,001)	\$ (1,593)	\$ (37,875)	\$ (11,971)
Denominator for basic and diluted net loss per share:				
Weighted-average shares	1,751	4,051	1,748	4,050
Net loss per share:				
Basic and diluted	\$ (17.70)	\$ (0.39)	\$ (21.67)	\$ (2.96)

The potential shares, which are excluded from the determination of basic and diluted net loss per share as their effect is anti-dilutive, are as follows (in thousands):

	Six months ended June 30,	
	2007	2008
Common stock options and warrants	250	206

**Recent Accounting Pronouncements**

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ( FAS 162 ). FAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. FAS 162 is effective 60 days following the SEC's approval of Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present fairly in conformity with generally accepted accounting principles* . FAS 162 is not expected to have a material impact on the Company's financial statements.

In April 2008, the FASB issued FASB Staff Position ( FSP ) No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*, ( FSP FAS 142-3 ). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FAS 142 in order to improve the consistency between the useful life of a recognized intangible asset under FAS 142 and the period of expected cash flows used to measure the fair value of the asset under FAS 141R and other generally accepted accounting principles. FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The Company has not yet determined the effect on its consolidated financial statements, if any, upon adoption of FSP FAS 142-3.

In February 2008, the FASB issued FSP No. FAS 157-2, *Effective Date of FASB Statement No. 157* ( FSP 157-2 ), to partially defer SFAS 157, *Fair Value Measurements* ( FAS 157 ). FSP 157-2 defers the effective date of FAS 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008. The Company is currently evaluating the impact of adopting the provisions of FAS 157 as it relates to non-financial assets and liabilities.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ( FAS 141R ). FAS 141R requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. FAS 141R is effective for financial statements issued for fiscal years beginning after December 15,

2008. Early adoption is prohibited. The Company has not yet determined the effect on its consolidated financial statements, if any, upon adoption of FAS 141R.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* ( FAS 160 ). FAS 160 clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. FAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The Company has not yet determined the effect on its consolidated financial statements, if any, upon adoption of FAS 160.

**Table of Contents****Note 2 Goodwill and Intangible Assets***Goodwill*

The Company records as goodwill the excess of the purchase price of net tangible and intangible assets acquired over their estimated fair value. Goodwill is not amortized. In accordance with FAS 142, goodwill is subject to at least an annual assessment for impairment, and between annual tests in certain circumstances, applying a fair-value based test. The Company conducts its annual impairment test as of December 1 of each year, and between annual tests if a triggering event occurs.

The Company performed its annual test as of December 1, 2007. The results of Step 1 of the annual goodwill impairment analysis on December 1, 2007 showed that goodwill was not impaired as the estimated market value of its reporting unit exceeded its carrying value, including goodwill. Accordingly, Step 2 was not performed. The Company will continue to test for impairment on an annual basis and on an interim basis if a triggering event occurs or circumstances change that would more likely than not reduce the fair value of the Company's reporting unit below its carrying amount.

During the fourth quarter of 2007, the Company divested itself of its Travel and Events business. In April 2008, the Company agreed to sell substantially all of the assets of its Publishing business. The Company is currently operating in one segment, with one reporting unit. There were no changes in the Company's goodwill related to continuing operations during the six months ended June 30, 2008.

Goodwill impairment charges of \$21.1 million and zero related to the Company's Publishing business are reflected under discontinued operations during the three months ended June 30, 2007 and 2008, respectively. Goodwill impairment charges of \$21.1 million and \$4.1 million related to the Company's Publishing business are reflected under discontinued operations during the six months ended June 30, 2007 and 2008, respectively. Goodwill impairment charges of zero and \$3.8 million related to the Company's Travel and Events Business are reflected under discontinued operations during the three and six months ended June 30, 2007. See Note 7, Discontinued Operations.

*Intangible Assets*

The components of acquired intangible assets are as follows (in thousands):

	December 31, 2007			June 30, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer lists and user bases	\$ 3,278	\$ 3,278	\$	\$ 3,278	\$ 3,278	\$
Tradenames	2,340	2,340		2,340	2,340	
Other intangible assets	726	726		726	726	
	\$ 6,344	\$ 6,344	\$	\$ 6,344	\$ 6,344	\$

As of December 31, 2007 and June 30, 2008, the Company's intangible assets were fully amortized. During the three and six months ended June 30, 2007 and 2008, the Company did not record any amortization expense on its intangible assets. The net carrying amount of customer lists and user bases related to the Company's Publishing business that have been classified as long-term assets of discontinued operations as of December 31, 2007 and June 30, 2008 totaled \$1,187,000 and zero, respectively, and the net carrying amount of tradenames related to the Company's Publishing business that have been classified as long-term assets of discontinued operations as of December 31, 2007 and June 30, 2008 totaled \$3,250,000 and \$2,300,000, respectively, as described more fully in Note 7, Discontinued Operations.

Impairment charges related to intangible assets of zero and \$2.2 million related to the Company's Publishing business are reflected under discontinued operations during the three and six months ended June 30, 2008, respectively. There were no impairment charges related to intangible assets during the six months ended June 30, 2007. See Note 7, Discontinued Operations.



**Table of Contents****Note 3 Other Balance Sheet Components**

	<b>December 31, 2007</b>	<b>June 30, 2008</b>
	<b>(In thousands)</b>	
<b>Accounts receivable:</b>		
Trade accounts receivable	\$ 3,694	\$ 1,641
Less: Allowance for doubtful accounts	(15)	(17)
	<b>\$ 3,679</b>	<b>\$ 1,624</b>

In the three months ended June 30, 2007 and 2008, the Company provided for an increase (decrease) in the allowance for doubtful accounts of (\$8,000) and \$22,000 respectively, and wrote-off accounts receivable against the allowance for doubtful accounts totaling zero and \$22,000, respectively. In the six months ended June 30, 2007 and 2008, the Company provided for an increase (decrease) in the allowance for doubtful accounts of (\$6,000) and \$26,000 respectively, and wrote-off accounts receivable against the allowance for doubtful accounts totaling zero and \$24,000, respectively. The allowance for doubtful accounts related to the Company's Publishing business that has been classified as assets of discontinued operations as of December 31, 2007 and June 30, 2008 totaled \$486,000 and \$374,000, respectively, as described more fully in Note 7, Discontinued Operations.

	<b>December 31, 2007</b>	<b>June 30, 2008</b>
	<b>(In thousands)</b>	
<b>Property and equipment:</b>		
Computer equipment and software	\$ 9,661	\$ 9,304
Furniture and fixtures	992	875
Leasehold improvements	1,971	1,686
Website development costs	6,453	7,132
	19,077	18,997
Less: Accumulated depreciation and amortization	(11,256)	(12,742)
	<b>\$ 7,821</b>	<b>\$ 6,255</b>

In the three months ended June 30, 2007 and 2008, the Company recorded depreciation and amortization expense of property and equipment of \$1,112,000 and \$1,031,000, respectively. In the six months ended June 30, 2007 and 2008, the Company recorded depreciation and amortization expense of property and equipment of \$2,322,000 and \$2,147,000, respectively. In the three months ended June 30, 2007 and 2008, the Company recorded non-cash impairment charges of \$374,000 and zero, respectively. In the six months ended June 30, 2007 and 2008, the Company recorded non-cash impairment charges of \$467,000 and zero, respectively.

	<b>December 31, 2007</b>	<b>June 30, 2008</b>
	<b>(In thousands)</b>	
<b>Accrued expenses and other liabilities:</b>		
Accrued payroll and related liabilities	\$ 1,110	\$ 782

Other accrued liabilities	778	593
	\$ 1,888	\$ 1,375

#### **Note 4 Commitments and Contingencies**

##### ***Retention and Severance Plan***

In an effort to provide certain employees with an incentive to remain committed to the Company's business while it is evaluating its strategic alternatives, on January 11, 2008, the Company's Board of Directors adopted a retention and severance plan for certain of its management staff (the "Plan"). The retention component of the Plan provides for certain cash payments if the eligible participant remains with the Company through December 31, 2008 (or a pro rata portion thereof if such participant is terminated without cause prior to that date). In addition, the severance component of the Plan provides for certain cash payments in the event of termination

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without cause at any time, unless the participant receives employment or an offer of employment from a successor to the Company. The Company currently estimates that the adoption of the Plan, including both the retention and the severance components, may result in an additional expense to the Company in the range of approximately \$500,000 to a maximum of approximately \$1.3 million. The actual amounts will depend on numerous factors outside of the Company's control, such as whether the eligible participants choose to remain with the Company, the timing and nature of any transaction resulting in a change of control and whether an acquirer chooses to retain the participant employees or to assume the Plan, and the actual expense may ultimately be lower than the range listed above.

***Contingencies***

The Company is not currently subject to any material legal proceedings. The Company may from time to time, however, become a party to various legal proceedings, arising in the ordinary course of business. The Company may also be indirectly affected by administrative or court proceedings or actions in which the Company is not involved but which have general applicability to the Internet industry.

**Note 5 Issuance of Warrant**

In January 2008, the Company retained Allen & Company LLC ( Allen ) to assist the Company in evaluating strategic alternatives, including a possible sale of the Company. In connection with the engagement, in addition to certain fees payable to Allen in the event of a successful transaction, the Company issued to Allen a ten-year warrant to purchase up to 75,000 shares of the Company's common stock at an exercise price of \$6.20 per share, subject to certain customary adjustments. The warrant vested immediately with respect to 37,500 shares and vested with respect to 25,000 additional shares on May 14, 2008, with the remaining 12,500 shares vesting on May 14, 2009, provided that Allen's engagement has not been terminated prior to such vesting date. In addition, the vesting will accelerate in full in the event of a change of control of the Company. In connection with the issuance of this warrant, Allen surrendered for cancellation a 75,000 share warrant previously issued to it in May 2007. The Company valued the portion of the warrant which vested on issuance at \$228,000 and the portion of the warrant which vested on May 14, 2008 at \$44,000 by using the Black-Scholes option pricing model with an expected volatility factor of 146.1%, risk-free interest rate of 3.39%, no dividend yield and the contractual life of ten years. The value of the remaining unvested portion of the warrant is reassessed quarterly until vested in May 2009. The warrant expires in January 2018. The Company recorded \$69,000 and \$74,000 in the three months ended June 30, 2007 and 2008, respectively, and \$69,000 and \$165,000 in the six months ended June 30, 2007 and 2008, respectively, of non-cash services expense associated with these warrants.

**Note 6 Stock-Based Compensation*****Stock Options***

During the six months ended June 30, 2008, the Company did not grant any stock options under its existing equity incentive plans. The following table summarizes stock option activity for the six months ended June 30, 2008 (in thousands):

	<b>Shares</b>
Outstanding at January 1, 2008	129
Forfeited/expired/cancelled	(10)
Outstanding at June 30, 2008	119

Stock options granted under the Company's equity incentive plans generally vest 25% one year from the date of grant and 2.08% per month thereafter, and generally expire ten years from the date of grant.

***Restricted Stock***

The following table summarizes restricted stock grant activity for the six months ended June 30, 2008 (in thousands):



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	<b>Shares</b>
Unvested at January 1, 2008	49
Granted	1
Vested	(15)
Forfeited	(2)
Unvested at June 30, 2008	33

In general, restricted stock grants vest over a period from immediately to four years and are subject to the employees' continuing service to the Company. The cost of restricted stock is determined using the fair value of the Company's common stock on the date of the grant. The weighted average grant date fair value for restricted stock grants awarded during the period was \$4.14 per share.

Scheduled vesting for outstanding restricted stock grants at June 30, 2008 is as follows (in thousands):

**Year Ending December 31,**

2008 (remaining six months)	3
2009	17
2010	13
	33

**Note 7 Discontinued Operations**

In an effort to simplify the Company's business model, the Company discontinued its Travel and Events businesses during 2007. In March 2007, the Company sold its membership interest in DSW, a joint venture, to the minority interest partner. In December 2007, the Company sold substantially all of the assets of RSVP.

In April 2008, the Company entered into a binding letter of intent to sell the Company's Publishing business, which includes the operations of LPI and SpecPub, to Regent Releasing, L.L.C. or its designee ( "Regent"), an affiliate of here! Networks. The letter of intent includes marketing commitments and cash payments by Regent of \$6.5 million, the assumption of the majority of the operating liabilities of the Company's Publishing business, and commitments by the Company to provide certain marketing and advertising services to Regent. Regent's acquisition of the assets and assumption of the liabilities of the Publishing business will be accomplished through a put/call mechanism. Regent has the right to acquire the assets and liabilities from May 31, 2008 to August 31, 2008 (the "Call"). The Company has the right to transfer the assets and liabilities from June 30, 2008 to August 31, 2008 (the "Put"). The Put or the Call must be exercised no later than August 21, 2008, and the transaction is expected to close on or before August 31, 2008.

As a result of the sale of the Company's interest in DSW, the sale of substantially all the assets of RSVP, the agreement to sell substantially all of the assets of LPI and SpecPub and the Company's decision to exit its Publishing and Travel and Events businesses, the Company has reported the results of operations and financial position of RSVP, DSW, LPI and SpecPub as discontinued operations within the condensed consolidated financial statements for the three and six months ended June 30, 2007 and 2008 in accordance with FAS 144. The Company has reported the financial position of LPI and SpecPub as assets and liabilities of discontinued operations on the condensed consolidated balance sheets as of December 31, 2007 and June 30, 2008. In addition, the Company has segregated the cash flow activity of RSVP, DSW, LPI and SpecPub from the condensed consolidated statements of cash flows for the six months ended June 30, 2007 and 2008. The results of operations of RSVP and DSW were previously reported and included in the results of operations and financial position of the Company's Travel and Events segment. The results of operations of LPI and SpecPub were previously reported and included in the results of operations and financial position of the Company's Publishing segment.

As a result of the agreement to sell LPI, the Company reduced the net carrying value of the LPI reporting unit by \$2.0 million in the three months ended March 31, 2008 to the estimated amount attributable to the sale of this

reporting unit. As a result of the agreement to sell SpecPub, the Company reduced the net carrying value of the SpecPub reporting unit by \$4.3 million in the three months ended March 31, 2008 to the estimated amount attributable to the sale of this reporting unit. These reductions in carrying value are reflected in impairment of goodwill and intangible assets in the results of discontinued operations. The Company reviewed the net carrying values of its LPI and SpecPub reporting units at June 30, 2008 and deemed that no impairment had occurred in the three months ended June 30, 2008. In estimating the reduction in carrying value of these reporting units, management relied on a number of estimates in calculating the amounts attributable to the consummation of this sales transaction. There are inherent

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uncertainties related to these estimates and management's judgment in applying them to the estimated impairment. Accordingly, the Company may revise its estimates of the impairment.

The results of discontinued operations for the three months ended June 30, 2007 were as follows (in thousands):

	<b>Three months ended June 30, 2007</b>			
	<b>LPI</b>	<b>SpecPub</b>	<b>RSVP</b>	<b>Total</b>
Total revenue	\$ 5,196	\$ 1,745	\$ 4,773	\$ 11,714
Operating costs and expenses:				
Cost of revenue	3,456	1,090	5,621	10,167
Sales and marketing	1,298	376	506	2,180
General and administrative	805	287	104	1,196
Depreciation and amortization	249	123	89	461
Impairment of goodwill	15,700	5,400	3,800	24,900
Total operating costs and expenses	21,508	7,276	10,120	38,904
Loss from operations	(16,312)	(5,531)	(5,347)	(27,190)
Other income (expense), net	(99)	(43)	11	(131)
Loss from discontinued operations	\$ (16,411)	\$ (5,574)	\$ (5,336)	\$ (27,321)

The results of discontinued operations for the three months ended June 30, 2008 were as follows (in thousands):

	<b>Three months ended June 30, 2008</b>			
	<b>LPI</b>	<b>SpecPub</b>	<b>RSVP</b>	<b>Total</b>
Total revenue	\$ 4,754	\$ 1,091	\$	\$ 5,845
Operating costs and expenses:				
Cost of revenue	3,378	866	(8)	4,236
Sales and marketing	1,338	276	(20)	1,594
General and administrative	613	43	1	657
Depreciation and amortization	19	1		20
Impairment of goodwill and intangible assets				
Total operating costs and expenses	5,348	1,186	(27)	6,507
Income (loss) from operations	(594)	(95)	27	(662)
Other income (expense), net	(6)			(6)
Income (loss) from discontinued operations	\$ (600)	\$ (95)	\$ 27	\$ (668)

The results of discontinued operations for the six months ended June 30, 2007 were as follows (in thousands):

	Six months ended June 30, 2007				
	LPI	SpecPub	RSVP	DSW	Total
Total revenue	\$ 9,714	\$ 3,322	\$ 9,168	\$ 2	\$ 22,206
Operating costs and expenses:					
Cost of revenue	6,631	2,052	11,035		19,718
Sales and marketing	2,534	770	1,195	37	4,536
General and administrative	1,707	433	251	1	2,392

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Depreciation and amortization	504	249	169		922
Impairment of goodwill	15,700	5,400	3,800		24,900
Total operating costs and expenses	27,076	8,904	16,450	38	52,468
Loss from operations	(17,362)	(5,582)	(7,282)	(36)	(30,262)
Other income (expense), net	(225)	(99)	18		(306)
Loss from discontinued operations	\$ (17,587)	\$ (5,681)	\$ (7,264)	\$ (36)	\$ (30,568)

The results of discontinued operations for the six months ended June 30, 2008 were as follows (in thousands):

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	<b>Six months ended June 30, 2008</b>			
	<b>LPI</b>	<b>SpecPub</b>	<b>RSVP</b>	<b>Total</b>
Total revenue	\$ 8,759	\$ 2,224	\$	\$ 10,983
Operating costs and expenses:				
Cost of revenue	6,866	1,818	(20)	8,664
Sales and marketing	2,706	594	(19)	3,281
General and administrative	1,234	158	3	1,395
Depreciation and amortization	71	3		74
Impairment of goodwill and intangible assets	1,978	4,294		6,272
Total operating costs and expenses	12,855	6,867	(36)	19,686
Income (loss) from operations	(4,096)	(4,643)	36	(8,703)
Other income (expense), net	(12)	1		(11)
Income (loss) from discontinued operations	\$ (4,108)	\$ (4,642)	\$ 36	\$ (8,714)

The current and non-current assets and liabilities of discontinued operations were as follows (in thousands):

	<b>December 31, 2007</b>			<b>June 30, 2008</b>		
	<b>LPI</b>	<b>SpecPub</b>	<b>Total</b>	<b>LPI</b>	<b>SpecPub</b>	<b>Total</b>
<b>Current assets of discontinued operations:</b>						
Accounts receivable, net	\$ 3,189	\$ 977	\$ 4,166	\$ 2,392	\$ 521	\$ 2,913
Inventory	1,113	314	1,427	1,165	249	1,414
Prepaid expenses and other current assets	1,251	504	1,755	1,056	356	1,412
	\$ 5,553	\$ 1,795	\$ 7,348	\$ 4,613	\$ 1,126	\$ 5,739
<b>Long-term assets of discontinued operations:</b>						
Property and equipment, net	\$ 620	\$ 54	\$ 674	\$ 1,025	\$ 52	\$ 1,077
Goodwill	1,427	2,708	4,135			
Intangible assets, net	1,870	2,567	4,437	1,319	981	2,300
Other assets	58	51	109	21	20	41
	\$ 3,975	\$ 5,380	\$ 9,355	\$ 2,365	\$ 1,053	\$ 3,418
<b>Current liabilities of discontinued operations:</b>						
Accounts payable	\$ 494	\$ 74	\$ 568	\$ 559	\$ 126	\$ 685
Accrued expenses and other liabilities	603	161	764	542	109	651
Deferred revenue, current portion	1,717	1,434	3,151	1,847	1,593	3,440
Capital lease obligations, current portion	23	7	30	128	8	136
	\$ 2,837	\$ 1,676	\$ 4,513	\$ 3,076	\$ 1,836	\$ 4,912
<b>Long-term liabilities of discontinued operations:</b>						

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Deferred revenue, less current portion	\$ 1,089	\$ 578	\$ 1,667	\$ 1,044	\$ 549	\$ 1,593
Deferred rent, less current portion	158	177	335	170	20	190
Capital lease obligations, less current portion	104	24	128	131		131
	\$ 1,351	\$ 779	\$ 2,130	\$ 1,345	\$ 569	\$ 1,914

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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion should be read in conjunction with the financial statements and related notes which appear elsewhere in this document. This discussion contains forward-looking statements that involve risks and uncertainties. In some cases, you can identify forward-looking statements by terminology including would, could, may, will, should, expect, intend, plan, anticipate, believe, estimate, predict, potential or continue, the negative of these terms or other comparable terminology. These statements are only predictions. Forward-looking statements include statements about our business strategy, future operating performance and prospects. You should not place undue reliance on these forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this document and in our Form 10-K filed for the year ended December 31, 2007.*

#### **Overview**

We are a leading online media company exclusively serving the worldwide lesbian, gay, bisexual and transgender, or LGBT, community. We serve this audience through our websites Gay.com and PlanetOut.com.

As a result of further integrating our various businesses, our executive management team, and our financial and management reporting systems during fiscal 2006, we began to operate as three segments effective January 1, 2007: Online, Publishing and Travel and Events. The Travel and Events segment consisted of travel and events marketed through our RSVP Productions, Inc. ( RSVP ) brand and by our consolidated affiliate, PNO DSW Events, LLC ( DSW ). We sold our interest in DSW in March 2007 and substantially all the assets of RSVP in December 2007.

On January 14, 2008, we announced that we retained the services of Allen & Company, LLC to assist us in evaluating strategic alternatives, including a possible sale of the Company. On April 6, 2008, our Board of Directors approved the decision to enter into a binding letter of intent relating to the sale of our publishing business to Regent Releasing, L.L.C. or its designee ( Regent ), an affiliate of here! Networks, as more fully described in Note 7

Discontinued Operations in our Notes to Unaudited Condensed Consolidated Financial Statements. The transaction is expected to close on or before August 31, 2008.

Our Board of Directors approved the decision to enter into the binding letter of intent to sell our publishing business to Regent because the cross-platform synergies we anticipated in connection with our online and print publishing businesses were not realized to the degree, or as quickly, as we originally expected, and because we determined that our future cash flows and earnings were likely to be best optimized through the divestiture of our publishing business. Accordingly, our Board of Directors decided that selling our publishing business was in the best interest of our stockholders.

The April 2008 letter of intent with Regent to sell our publishing business provides for the sale of substantially all the assets of LPI Media Inc. ( LPI ) and SpecPub, Inc. ( SpecPub ), which together comprise our Publishing segment. As a result of the divestitures of RSVP, DSW, LPI and SpecPub and our decision to exit the Travel and Events and Publishing businesses, we have one segment remaining as of June 30, 2008: Online. In accordance with Statement of Financial Accounting Standards ( SFAS ) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, we have reported the results of operations and financial position of RSVP, DSW, LPI and SpecPub in discontinued operations within the consolidated financial statements.

The process of exploring all of our strategic alternatives with Allen & Co., including a possible sale of the Company, is ongoing and remains active with respect to our online business.

#### ***Executive Operating and Financial Summary***

Our total revenue was \$5.5 million in the three months ended June 30, 2008, decreasing 20% from total revenue of \$6.8 million in the three months ended June 30, 2007. Our total revenue was \$10.3 million in the six months ended June 30, 2008, decreasing 21% from total revenue of \$13.1 million in the six months ended June 30, 2007. These decreases were primarily due to decreases in our advertising revenues as a result of turnover in our advertising sales group and the discontinuance of local advertising sales, a reduction in online subscribers to our Gay.com website and the closing of our international offices in conjunction with our July 2007 reorganization plan, offset partially by \$0.3 million of advertising revenue related to marketing and advertising services provided to Regent as part of the binding letter of intent with Regent.

Total operating costs and expenses were \$6.4 million in the three months ended June 30, 2008, decreasing 37% from total operating costs and expenses of \$10.1 million in the three months ended June 30, 2007. Total operating costs and expenses were \$13.6 million in the six months ended June 30, 2008, decreasing 31% from total operating costs and expenses of \$19.8 million in the six



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months ended June 30, 2007. These decreases were primarily due to a reduction in compensation and employee related costs as a result of reduced headcount and non-recurrence of severance related costs, a reduction in expenses related to the closure of our international offices in conjunction with our July 2007 reorganization plan, a decrease in advertising, marketing and market research expenses, reductions in legal, accounting, contract labor expenses and outsourced managed services and a reduction in stock-based compensation expense. Compensation and employee related costs during the six months ended June 30, 2007 included severance and other costs related to the departure of our former Chief Technology Officer and our former President and Chief Operating Officer.

Loss from operations was \$0.9 million in the three months ended June 30, 2008, compared to loss from operations of \$3.3 million in the three months ended June 30, 2007. This decrease in loss from operations was the result of the \$3.7 million reduction in operating costs and expenses noted above, offset partially by the \$1.3 million decrease in total revenue noted above. Loss from operations was \$3.3 million in the six months ended June 30, 2008, compared to loss from operations of \$6.7 million in the six months ended June 30, 2007. This decrease in loss from operations was the result of the \$6.2 million reduction in operating costs and expenses noted above, offset partially by the \$2.8 million decrease in total revenue noted above. The net reduction in loss from operations due to the closure of our international offices was approximately \$0.5 million and \$0.8 million, respectively, in the three and six months ended June 30, 2008. The net reduction in loss from operations due to non-recurring severance and related costs was approximately \$0.5 million in the six months ended June 30, 2008.

Management expects that revenue will decrease for the remainder of fiscal 2008 in comparison to fiscal 2007, primarily as a result of anticipated decreases in subscription services revenue due to reductions in our paid subscriber base, anticipated decreases in advertising services revenue due to the effects of turnover in our advertising sales group, the discontinuance of local advertising sales and the closure of our international offices, partially offset by an increase in advertising services revenue due to marketing and advertising services to be provided to Regent.

We expect our operating loss will continue to decrease for the remainder of fiscal 2008 in comparison to fiscal 2007 due to the non-recurrence in fiscal 2008 of impairment charges recognized in fiscal 2007. However, we expect to incur additional expenses in re-designing our technological architecture, rewriting our web applications and deploying a new technology platform and new networks during fiscal 2008.

**Results of Operations*****Revenue***

*Advertising Services.* We derive online advertising revenue from advertising contracts in which we typically undertake to deliver a minimum number of impressions to users over a specified time period for a fixed fee. Advertising services revenue was \$1.8 million in the three months ended June 30, 2008, a decrease of 28% from the three months ended June 30, 2007. Advertising services revenue was \$2.9 million in the six months ended June 30, 2008, a decrease of 35% from the six months ended June 30, 2007. These decreases in advertising services revenue were due to turnover in our advertising sales group, the discontinuance of local advertising sales and the closure of our international offices in conjunction with our July 2007 reorganization plan, offset partially by \$0.3 million of advertising revenue related to marketing and advertising services provided to Regent as part of the binding letter of intent with Regent.

For the remainder of fiscal 2008, we expect advertising services revenue to increase in comparison to fiscal 2007 due to marketing and advertising services to be provided to Regent, offset partially by the effects of turnover in our advertising sales group, the discontinuance of local advertising sales and the closure of our international offices. We expect the percentage of our overall revenue attributable to advertising services to increase slightly in 2008 as a result of decreases in our subscription and transaction services revenue.

*Subscription Services.* We derive online subscription services revenue from paid membership subscriptions to our online media properties. Our subscription services revenue was \$3.6 million in the three months ended June 30, 2008, a decrease of 14% from the three months ended June 30, 2007. Our subscription services revenue was \$7.3 million in the six months ended June 30, 2008, a decrease of 13% from the six months ended June 30, 2007. These decreases in subscription services revenue were due primarily to a reduction in the number of online subscribers to our Gay.com website and, to a lesser extent, to the closure of our international offices in conjunction with our July 2007 reorganization plan.

For the remainder of fiscal 2008, we expect total subscription services revenue to decrease in comparison to fiscal 2007, as a result of a reduction in online subscribers.

*Transaction Services.* Transaction services revenue includes revenue generated from the sale of products through our transaction-based websites. Our transaction services revenue totaled \$0.1 million and \$0.1 million in the three months ended June 30, 2008 and

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2007, respectively. Our transaction services revenue totaled \$0.1 million and \$0.3 million in the six months ended June 30, 2008 and 2007, respectively. The decrease in transactions services revenue was due to a decrease in sales of products on our transaction-based website properties.

For the remainder of fiscal 2008, we expect transaction services revenue to continue to decrease slightly in comparison to fiscal 2007.

***Operating Costs and Expenses***

**Cost of Revenue.** Cost of revenue primarily consists of payroll and related benefits associated with supporting our subscription-based services, the development and expansion of site operations and support infrastructure and producing and maintaining content for our various websites. Other expenses directly related to generating revenue included in cost of revenue include transaction processing fees, computer equipment maintenance, occupancy costs, co-location and Internet connectivity fees, purchased content and cost of goods sold. Cost of revenue was \$2.1 million in the three months ended June 30, 2008, decreasing 39% from cost of revenue of \$3.5 million in the three months ended June 30, 2007. Cost of revenue was \$4.6 million in the six months ended June 30, 2008, decreasing 26% from cost of revenue of \$6.2 million in the six months ended June 30, 2007. Cost of revenue was 39% as a percentage of total revenue for the three months ended June 30, 2008, down from 51% in the three months ended June 30, 2007. Cost of revenue was 44% as a percentage of total revenue for the six months ended June 30, 2008, down from 47% in the six months ended June 30, 2007. These decreases were due to decreases in consumer marketing, credit card fees and advertising servicing costs, along with a reduction in expenses due to the closing of our international offices in conjunction with our July 2007 reorganization plan, an overall decrease in compensation and employee related costs as a result of reduced headcount and non-recurrence of severance related costs, and a decrease in consulting services. Compensation and employee related costs during the six months ended June 30, 2007 included severance and other costs related to the departure of our former Chief Technology Officer.

For the remainder of fiscal 2008, we expect cost of revenue and cost of revenue as a percentage of revenue to increase over fiscal 2007 as we deploy a new core technology platform for our websites.

**Sales and Marketing.** Sales and marketing expense primarily consists of payroll and related benefits for employees involved in sales, advertising client service, customer service, marketing and other support functions; product, service and general corporate marketing and promotions; and occupancy costs. Sales and marketing expenses were \$1.5 million in the three months ended June 30, 2008, decreasing 35% from sales and marketing expenses of \$2.4 million in the three months ended June 30, 2007. Sales and marketing expenses were \$3.1 million in the six months ended June 30, 2008, decreasing 35% from sales and marketing expenses of \$4.9 million in the six months ended June 30, 2007. Sales and marketing expenses as a percentage of revenue were 28% for the three months ended June 30, 2008, down from 35% in the three months ended June 30, 2007. Sales and marketing expenses as a percentage of revenue were 31% for the six months ended June 30, 2008, down from 37% in the six months ended June 30, 2007. These decreases were primarily due to a reduction in expenses related to the closing of our international offices in conjunction with our July 2007 reorganization plan, decreased advertising and market research expenses, decreased compensation and employee related costs as a result of reduced headcount, a decrease in stock-based compensation expenses and decreases in contract labor expenses.

For the remainder of fiscal 2008, we expect sales and marketing expenses and sales and marketing as a percentage of revenue to vary in comparison to fiscal 2007 depending on the timing of planned advertising to coincide with certain product development milestones.

**General and Administrative.** General and administrative expense consists primarily of payroll and related benefits for executive, finance, administrative and other corporate personnel, occupancy costs, professional fees, insurance and other general corporate expenses. Our general and administrative expenses were \$1.7 million for the three months ended June 30, 2008, decreasing 42% from general and administrative expenses of \$2.9 million in the three months ended June 30, 2007. Our general and administrative expenses were \$3.7 million for the six months ended June 30, 2008, decreasing 39% from general and administrative expenses of \$6.1 million in the six months ended June 30, 2007. General and administrative expenses as a percentage of revenue were 31% for the three months ended June 30, 2008, down from 42% in the three months ended June 30, 2007. General and administrative expenses as a percentage of revenue were 36% for the six months ended June 30, 2008, down from 47% in the six months ended June 30, 2007.

These decreases were due to decreases in legal and accounting expenses, compensation and employee related costs as a result of reduced headcount and non-recurrence of severance related costs, contract labor expense, stock-based compensation expense and a reduction in expenses due to the closing of our international offices in conjunction with our July 2007 reorganization plan. Compensation and employee related costs during the six months ended June 30, 2007 included severance and other costs related to the departure of our former President and Chief Operating Officer.

For the remainder of fiscal 2008, we expect general and administrative expenses to decrease from fiscal 2007 primarily due to

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decreased compensation and employee related costs as a result of decreases in headcount and decreased legal costs.

**Depreciation and Amortization.** Depreciation and amortization expense was \$1.0 million for the three months ended June 30, 2008, decreasing 25% from depreciation and amortization expense of \$1.4 million in the three months ended June 30, 2007. Depreciation and amortization expense was \$2.1 million for the six months ended June 30, 2008, decreasing 18% from depreciation and amortization expense of \$2.6 million in the three months ended June 30, 2007. These decreases were primarily due to a decrease in depreciable assets in service during the three and six months ended June 30, 2008 compared to the prior year periods.

For the remainder of fiscal 2008, we expect depreciation and amortization expense will increase over fiscal 2007 as our existing work in progress, including the re-launch of our websites, is placed into service and as a result of additional capital investments to support our on-going product development.

***Other Income and Expenses***

**Interest Expense.** Interest expense was \$37,000 and \$445,000 for the three months ended June 30, 2008 and 2007, respectively. Interest expense was \$80,000 and \$814,000 for the six months ended June 30, 2008 and 2007, respectively. Interest expense in the three and six months ended June 30, 2007 included \$392,000 and \$706,000, respectively, of interest expense and amortization of the loan discount on notes payable that were repaid in full in July 2007.

**Other Income, Net.** Other income, net consists primarily of interest earned on cash, cash equivalents, short-term investments and restricted cash. Other income, net was \$44,000 and \$94,000 in the three months ended June 30, 2008 and 2007, respectively. Other income, net was \$111,000 and \$254,000 in the six months ended June 30, 2008 and 2007, respectively. These decreases were primarily due to decreases in interest income resulting from lower cash balances.

***Discontinued Operations***

In an effort to simplify our business model, we discontinued our Travel and Events businesses during 2007. In March 2007, we sold our membership interest in DSW, a joint venture, to the minority interest partner. In December 2007, we sold substantially all of the assets of RSVP. In April 2008, we entered into a binding letter of intent with Regent to sell our Publishing business to Regent, which includes the operations of LPI and SpecPub. As a result of the sale of our interest in DSW, the sale of substantially all the assets of RSVP, the agreement to sell substantially all of the assets of LPI and SpecPub and our decision to exit our Publishing and Travel and Events businesses, we have reported the results of operations and financial position of RSVP, DSW, LPI and SpecPub as discontinued operations within the condensed consolidated financial statements for the three and six months ended June 30, 2007 and 2008 in accordance with FAS 144. We have reported the financial position of LPI and SpecPub as assets and liabilities of discontinued operations on the condensed consolidated balance sheets as of December 31, 2007 and June 30, 2008. In addition, we have segregated the cash flow activity of RSVP, DSW, LPI and SpecPub from the condensed consolidated statements of cash flows for the six months ended June 30, 2007 and 2008. The results of operations of RSVP and DSW were previously reported and included in the results of operations and financial position of our Travel and Events segment. The results of operations of LPI and SpecPub were previously reported and included in the results of operations and financial position of our Publishing segment.

As a result of the agreement to sell LPI, we reduced the net carrying value of the LPI reporting unit by \$2.0 million in the three months ended March 31, 2008 to the estimated amount attributable to the sale of this reporting unit. As a result of the agreement to sell SpecPub, we reduced the net carrying value of the SpecPub reporting unit \$4.3 million in the three months ended March 31, 2008 to the estimated amount attributable to the sale of this reporting unit. These reductions in carrying value are reflected in impairment of goodwill and intangible assets in the results of discontinued operations. We reviewed the carrying values of the LPI and SpecPub reporting units at June 30, 2008 and deemed that no impairment had occurred in the three months ended June 30, 2008. In estimating the reduction in carrying value of these reporting units, we relied on a number of estimates in calculating the amounts attributable to the consummation of this sales transaction. There are inherent uncertainties related to these estimates and our judgment in applying them to the estimated impairment. Accordingly, we may revise our estimates of the impairment.

The results of discontinued operations for the three months ended June 30, 2007 were as follows (in thousands):



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	<b>Three months ended June 30, 2007</b>			
	<b>LPI</b>	<b>SpecPub</b>	<b>RSVP</b>	<b>Total</b>
Total revenue	\$ 5,196	\$ 1,745	\$ 4,773	\$ 11,714
Operating costs and expenses:				
Cost of revenue	3,456	1,090	5,621	10,167
Sales and marketing	1,298	376	506	2,180
General and administrative	805	287	104	1,196
Depreciation and amortization	249	123	89	461
Impairment of goodwill	15,700	5,400	3,800	24,900
Total operating costs and expenses	21,508	7,276	10,120	38,904
Loss from operations	(16,312)	(5,531)	(5,347)	(27,190)
Other income (expense), net	(99)	(43)	11	(131)
Loss from discontinued operations	\$ (16,411)	\$ (5,574)	\$ (5,336)	\$ (27,321)

The results of discontinued operations for the three months ended June 30, 2008 were as follows (in thousands):

	<b>Three months ended June 30, 2008</b>			
	<b>LPI</b>	<b>SpecPub</b>	<b>RSVP</b>	<b>Total</b>
Total revenue	\$ 4,754	\$ 1,091	\$	\$ 5,845
Operating costs and expenses:				
Cost of revenue	3,378	866	(8)	4,236
Sales and marketing	1,338	276	(20)	1,594
General and administrative	613	43	1	657
Depreciation and amortization	19	1		20
Impairment of goodwill				
Total operating costs and expenses	5,348	1,186	(27)	6,507
Income (loss) from operations	(594)	(95)	27	(662)
Other income (expense), net	(6)			(6)
Income (loss) from discontinued operations	\$ (600)	\$ (95)	\$ 27	\$ (668)

The results of discontinued operations for the six months ended June 30, 2007 were as follows (in thousands):

	Six months ended June 30, 2007				
	LPI	SpecPub	RSVP	DSW	Total
Total revenue	\$ 9,714	\$ 3,322	\$ 9,168	\$ 2	\$ 22,206
Operating costs and expenses:					
Cost of revenue	6,631	2,052	11,035		19,718
Sales and marketing	2,534	770	1,195	37	4,536
General and administrative	1,707	433	251	1	2,392
Depreciation and amortization	504	249	169		922
Impairment of goodwill and intangible assets	15,700	5,400	3,800		24,900

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Total operating costs and expenses	27,076	8,904	16,450	38	52,468
Loss from operations	(17,362)	(5,582)	(7,282)	(36)	(30,262)
Other income (expense), net	(225)	(99)	18		(306)
Loss from discontinued operations	\$ (17,587)	\$ (5,681)	\$ (7,264)	\$ (36)	\$ (30,568)

The results of discontinued operations for the six months ended June 30, 2008 were as follows (in thousands):

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	<b>Six months ended June 30, 2008</b>			
	<b>LPI</b>	<b>SpecPub</b>	<b>RSVP</b>	<b>Total</b>
Total revenue	\$ 8,759	\$ 2,224	\$	\$ 10,983
Operating costs and expenses:				
Cost of revenue	6,866	1,818	(20)	8,664
Sales and marketing	2,706	594	(19)	3,281
General and administrative	1,234	158	3	1,395
Depreciation and amortization	71	3		74
Impairment of goodwill and intangible assets	1,978	4,294		6,272
Total operating costs and expenses	12,855	6,867	(36)	19,686
Income (loss) from operations	(4,096)	(4,643)	36	(8,703)
Other income (expense), net	(12)	1		(11)
Income (loss) from discontinued operations	\$ (4,108)	\$ (4,642)	\$ 36	\$ (8,714)

***Liquidity and Capital Resources***

Cash provided by operating activities for the six months ended June 30, 2008 was \$1.7 million, due primarily to decreases in accounts receivable and increases in deferred revenue and non-cash charges related to depreciation and amortization, offset partially by our loss from continuing operations of \$3.3 million and net cash used in operating activities of discontinued operations of \$0.8 million. Cash used in operating activities for the six months ended June 30, 2007 was \$4.4 million, and was primarily attributable to our loss from continuing operations of \$7.3 million and net cash used in operating activities of discontinued operations of \$2.6 million, partially offset by non-cash charges related to depreciation and amortization expense and a decrease in accounts receivable.

Cash used in investing activities in the six months ended June 30, 2008 was \$2.0 million and was primarily attributable to purchases of property and equipment and an increase in restricted cash related to reserves required by our credit card processor in order to cover any exposure that they may have as we collect revenue in advance of providing services to our customers. Cash provided by investing activities in the six months ended June 30, 2007 was \$3.1 million and was primarily attributable to sales of short-term investments and changes in restricted cash, offset partially by purchases of property and equipment.

Net cash used in financing activities in the six months ended June 30, 2008 was \$0.4 million, due primarily to principal payments under capital lease obligations. Net cash used in financing activities in the six months ended June 30, 2007 was \$1.3 million, due primarily to principal payments under capital lease obligations and notes payable.

We expect that cash provided by (used in) operating activities may fluctuate in future periods as a result of a number of factors, including fluctuations in our operating results, advertising sales, subscription trends and accounts receivable collections.

During the six months ended June 30, 2008, we invested \$1.1 million in property and equipment of which \$0.1 million was financed through capital leases. 100% of this investment related to computer equipment and software and website development costs related to enhancements to our website infrastructure and features. For the remainder of fiscal 2008, we expect to continue investing in our technology development as we improve our online technology platform and enhance our features and functionality across our network of websites.

Our capital requirements depend on many factors, including the level of our revenues, the resources we devote to developing, marketing and selling our products and services, the timing and extent of our introduction of new features and services, the extent and timing of potential investments and other factors. In particular, our subscription services consist of prepaid subscriptions that provide cash flows in advance of the actual provision of services. We expect to devote substantial capital resources to expand our product development and marketing efforts and for other general corporate activities.

Based on our current operations, we expect that our available funds and anticipated cash flows from operations will be sufficient to meet our expected needs for working capital and capital expenditures for the next twelve months, although we can provide no assurances in that regard. If we do not have sufficient cash available to finance our operations, we may be required to obtain additional public or private debt or equity financing. We cannot be certain that additional financing will be available to us on favorable terms when required or at all. On January 14, 2008, we announced that we retained the services of Allen & Company, LLC to assist us in evaluating strategic alternatives, including a possible sale of the Company. We are actively considering such strategic alternatives, and, in April 2008, we entered into an agreement to sell substantially all the assets of our Publishing business. If we are unable to

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complete the sale of our Publishing business, we may need to reduce our planned operations and cannot provide any assurance that our assets will be sufficient to meet our liabilities.

**Off-Balance Sheet Arrangements**

We did not have any off-balance sheet liabilities or transactions as of June 30, 2008.

**Contractual Obligations**

The following table summarizes our contractual obligations as of June 30, 2008, and the effect that these obligations are expected to have on our liquidity and cash flows in future periods (in thousands):

		<b>Payments Due by Period</b>		
		<b>Remainder</b>		
	<b>Total</b>	<b>of</b>	<b>2009-2010</b>	<b>2011-2012</b>
		<b>2008</b>		
<b>Contractual obligations:</b>				
Capital leases	\$ 1,320	\$ 442	\$ 852	\$ 26
Operating leases	9,022	1,209	4,849	2,964
Total contractual obligations	\$ 10,342	\$ 1,651	\$ 5,701	\$ 2,990

*Capital Leases.* We hold property and equipment under noncancelable capital leases with varying maturities.

*Operating Leases.* We lease or sublease office space and equipment under cancelable and noncancelable operating leases with various expiration dates through December 31, 2012. Operating lease amounts include minimum rental payments under our non-cancelable operating leases for office facilities, as well as limited computer and office equipment that we utilize under lease arrangements. The amounts presented are consistent with contractual terms and are not expected to differ significantly, unless a substantial change in our headcount needs requires us to exit an office facility early or expand our occupied space.

**Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, revenue and expenses and related disclosure of contingent assets and liabilities.

We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis on which we make judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Because this can vary in each situation, actual results may differ from the estimates under different assumptions and conditions.

There have been no significant changes in our critical accounting policies from those listed in our Form 10-K for the fiscal year ended December 31, 2007.

**Seasonality and Inflation**

We anticipate that our business may be affected by the seasonality of certain revenue lines. For example, advertising buys are usually higher approaching year-end and lower at the beginning of a new year than at other points during the year.

Inflation has not had a significant effect on our revenue or expenses historically and we do not expect it to be a significant factor in the short-term. However, inflation may affect our business in the medium-term to long-term. In particular, our operating expenses may be affected by a tightening of the job market, resulting in increased pressure for salary adjustments for existing employees and higher cost of replacement for employees that are terminated or resign.

**Recent Accounting Pronouncements**

In May 2008, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ( FAS 162 ). FAS 162 identifies the sources of accounting principles and the

framework for selecting the

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principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. FAS 162 is effective 60 days following the SEC's approval of Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present fairly in conformity with generally accepted accounting principles*. FAS 162 is not expected to have a material impact on our financial statements.

In April 2008, the FASB issued FASB Staff Position ( FSP ) No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*, ( FSP FAS 142-3 ). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FAS 142 in order to improve the consistency between the useful life of a recognized intangible asset under FAS 142 and the period of expected cash flows used to measure the fair value of the asset under FAS 141R and other generally accepted accounting principles. FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. We have not yet determined the effect on our consolidated financial statements, if any, upon adoption of FSP FAS 142-3.

In February 2008, the FASB issued FSP No. FAS 157-2, *Effective Date of FASB Statement No. 157* ( FSP FAS 157-2 ), to partially defer SFAS 157, *Fair Value Measurements* ( FAS 157 ). FSP FAS 157-2 defers the effective date of FAS 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008. We are currently evaluating the impact of adopting the provisions of FAS 157 as it relates to non-financial assets and liabilities.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ( FAS 141R ). FAS 141R requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. FAS 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. We have not yet determined the effect on our consolidated financial statements, if any, upon adoption of FAS 141R.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* ( FAS 160 ). FAS 160 clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. FAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. We have not yet determined the effect on our consolidated financial statements, if any, upon adoption of FAS 160.

**Item 4T. Controls and Procedures*****Evaluation of Disclosure Controls and Procedures***

We maintain disclosure controls and procedures designed to ensure that the required disclosure information in our Exchange Act reports is recorded, processed, summarized and reported timely as specified by SEC rules and forms, and that such information is communicated in a timely manner to our management, including our Chief Executive Officer and Chief Financial Officer.

We evaluated the effectiveness of the design and operation of disclosure controls and procedures as of June 30, 2008 under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, concluding that disclosure controls and procedures are effective at a reasonable assurance level based upon that evaluation.

***Changes in Internal Control over Financial Reporting***

There were no changes in our internal controls over financial reporting during the quarter ended June 30, 2008, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

We are involved from time to time in various legal proceedings, regulatory investigations and claims incident to the normal conduct of business, which may include proceedings that are specific to us and others generally applicable to business practices within the industries in which we operate. A substantial legal liability or a significant regulatory

action against us could have an adverse effect on our business, financial condition and on the results of operations in a particular quarter or year. We are not currently involved in any material legal proceedings.

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### **Item 1A. Risk Factors**

**We have a history of significant losses. If we do not regain and sustain profitability, our financial condition and stock price could suffer.**

We have experienced significant net losses and we expect to continue to incur losses in the future. As of June 30, 2008, our accumulated deficit was approximately \$101.4 million. Although we had positive net income in the year ended December 31, 2005, we experienced net losses of \$3.7 million and \$51.2 million for the years ended December 31, 2006 and 2007, respectively, and a net loss of \$12.0 million in the six months ended June 30, 2008, and we may not be able to regain or sustain profitability in the near future, causing our financial condition to suffer and our stock price to decline.

We may not be able to consummate the sale of our publishing business, and if we are not able to do so, our financial results may suffer.

We have entered into a binding letter of intent with Regent Releasing, L.L.C. relating to the sale of our publishing business. This transaction is expected to close on or before August 31, 2008, subject to satisfaction of certain conditions to closing. If for any reason the sale to Regent does not close, or if the marketing commitments and other cash payments specified in the agreement with Regent are not realized, our expected revenues and cash flow during 2008 would suffer, and we would likely be forced to incur certain incremental employee-related expenses.

**If we are unable to generate revenue from advertising or if we were to lose our existing advertisers, our business will suffer.**

Our advertising revenue is dependent on the budgeting, buying patterns and expenditures of advertisers which in turn are affected by a number of factors beyond our control such as general economic conditions, changes in consumer habits and changes in the retail sales environment. A decline or delay in advertising expenditures caused by such factors could reduce or hurt our ability to increase our revenue. Advertising expenditures by companies in certain sectors of the economy, such as the healthcare and pharmaceutical industry, currently represent a significant portion of our advertising revenue. Any political, economic, social or technological change resulting in a significant reduction in the advertising spending of this sector or other sectors could adversely affect our advertising revenue or our ability to increase such revenue.

Our advertising revenue is also dependent on the collective experience of our sales force and on our ability to recruit, hire, train, retain and manage our sales force. If we are unable to recruit or retain our sales force, we may be unable to meet the demands of our current advertisers or attract new advertisers and our advertising revenue could decrease.

Additionally, advertisers and advertising agencies may not perceive the LGBT market that we serve to be a broad enough or profitable enough market for their advertising budgets, or may prefer to direct their online and print advertising expenditures to larger, higher-traffic websites and higher circulation publications that focus on broader markets. If we are unable to attract new advertisers or if our advertising campaigns are unsuccessful with the LGBT community, our revenue will decrease and operating results will suffer.

In our advertising business, we compete with a broad variety of online and print content providers, including large media companies such as Yahoo!, Google, MSN, Time Warner, Viacom, Condé Nast and News Corporation, as well as a number of smaller companies focused on the LGBT community. If we are unable to successfully compete with current and new competitors, we may not be able to achieve or maintain market share, increase our revenue or achieve profitability.

Our ability to fulfill the demands of our online advertisers is dependent on the number of page views generated by our visitors, members and subscribers. If we are not able to attract new visitors, members or subscribers or to retain our current visitors, members and subscribers, our page views may decrease. If our page views decrease, we may be unable to timely meet the demands of our current online advertisers and our advertising revenue could decrease.

If our advertisers perceive the advertising campaigns we run for them to be unsuccessful or if they do not renew their contracts with us, our revenue will decrease and operating results will suffer.

On April 6, 2008, we entered into a binding letter of intent with Regent Releasing, L.L.C. relating to the sale of our publishing business. This transaction is expected to close on or before August 31, 2008. Until such time as the transaction closes, we are subject to the risks associated with our publishing advertising business as set forth above.

**Our success depends, in part, upon the growth of Internet advertising and upon our ability to accurately predict the cost of customized campaigns.**



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Online advertising represents a significant portion of our advertising revenue, and following the expected sale of our publishing business, will represent all of our advertising revenue. We compete with traditional media including television, radio and print, in addition to high-traffic websites, such as those operated by Yahoo!, Google, AOL and MSN, for a share of advertisers' total online advertising expenditures. We face the risk that advertisers might find the Internet to be less effective than traditional media in promoting their products or services, and as a result they may reduce or eliminate their expenditures on Internet advertising. Many potential advertisers and advertising agencies have only limited experience advertising on the Internet and historically have not devoted a significant portion of their advertising expenditures to Internet advertising. Additionally, filter software programs that limit or prevent advertisements from being displayed on or delivered to a user's computer are becoming increasingly available. If this type of software becomes widely accepted, it would negatively affect Internet advertising. Our business could be harmed if the market for Internet advertising does not grow.

Currently, we offer advertisers a number of alternatives to advertise their products or services on our websites, in our publications and to our members, including banner advertisements, rich media advertisements, traditional print advertising, email campaigns, text links and sponsorships of our channels, topic sections, directories, sweepstakes, awards and other online databases and content. Frequently, advertisers request advertising campaigns consisting of a combination of these offerings, including some that may require custom development.

On April 6, 2008, we entered into a binding letter of intent with Regent Releasing, L.L.C. relating to the sale of our publishing business. This transaction is expected to close on or before August 31, 2008. If we are no longer able to provide advertisers with a combination online and print advertising campaign or if we are unable to accurately predict the cost of developing other custom advertising campaigns for our advertisers, our revenue may decrease, our expenses may increase and our margins will be reduced.

**If our efforts to attract and retain subscribers are not successful, our revenue will decrease.**

Because a significant portion of our revenue is derived from our subscription services, we must continue to attract and retain subscribers. Many of our new subscribers originate from word-of-mouth referrals from existing subscribers within the LGBT community. If our subscribers do not perceive our service offerings or publications to be of high quality or sufficient breadth, if we introduce new services or publications that are not favorably received or if we fail to introduce compelling new content or features or enhance our existing offerings, we may not be able to attract new subscribers or retain our current subscribers. In the year ended December 31, 2007 and the six months ended June 30, 2008, total subscription cancellations exceeded the number of new subscriptions, resulting in a decrease in total online subscribers, or members with a paid subscription plan.

Our current online content and personals platforms may not provide the most effective platform from which to launch new or improve current services for our members or market to them. If there is a further delay in our plan to improve and consolidate these platforms, and this delay continues to prevent or delay the development or integration of new features or enhancements to existing features, our online subscriber contraction could accelerate. As a result, our revenue would decrease. Our base of likely potential subscribers is also limited to members of the LGBT community, who collectively comprise a small portion of the general adult population.

While seeking to add new subscribers, we must also minimize the loss of existing subscribers. We lose our existing subscribers primarily as a result of cancellations and credit card failures due to expirations or exceeded credit limits. Subscribers cancel their subscription to our services for many reasons, including a perception, among some subscribers, that they do not use the service sufficiently, that the service or publication is a poor value or that customer service issues are not satisfactorily resolved. We also believe that online customer satisfaction has suffered as a result of the presence in the chat rooms of our websites of adbots, which are software programs that create a member registration profile, enter a chat room and display third-party advertisements. Online members may decline to subscribe or existing online subscribers may cancel their subscriptions if our websites experience a disruption or degradation of services, including slow response times or excessive down time due to scheduled or unscheduled hardware or software maintenance or denial of service attacks. We must continually add new subscribers both to replace subscribers who cancel or whose subscriptions are not renewed due to credit card failures and to continue to grow our business beyond our current subscriber base. If excessive numbers of subscribers cancel their subscription, we may be required to incur significantly higher marketing expenditures than we currently anticipate in order to

replace canceled subscribers with new subscribers, which will harm our financial condition.

On April 6, 2008, we entered into a binding letter of intent with Regent Releasing, L.L.C. relating to the sale of our publishing business. This transaction is expected to close on or before August 31, 2008. Until such time as the transaction closes, we are subject to the risks associated with subscribers to our print publications as set forth above.

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**Our core revenue-generating software applications are written on a technology platform that has become increasingly difficult to support. As we convert our applications onto a more stable, supportable platform a process that requires time and financial investment we face the risk of not being able to maintain or enhance the functionality of our websites. As a result we may lose market share and our revenue may further decline.**

Significant portions of our revenue-generating websites are written in internally developed code that lacks sufficient explanatory documentation, and in some instances, is understood by only a limited number of our technology personnel. Our current core website functionality is being converted onto a code base and platform that are generally recognized as industry standard. However, our efforts to execute this conversion have required and will continue to require significant expenditures of personnel and financial resources over an extended period of time. Such an undertaking presents significant execution risks as we seek to maintain and enhance existing customer-facing functionality, while simultaneously building and supporting a new technology infrastructure. If we are unable to convert to a new technology platform or if we encounter technical difficulties during the conversion process, our websites may suffer downtime or may lack the functionality desired by our visitors, members and subscribers. This in turn may result in the loss of those visitors, members and subscribers, and a decline in our revenue.

**We expect our operating results to fluctuate, which may lead to volatility in our stock price.**

Our operating results have fluctuated in the past and may fluctuate significantly in the future due to a variety of factors, many of which are outside of our control. As a result, we believe that period-over-period comparisons of our operating results are not necessarily meaningful and that you should not rely on the results of one period as an indication of our future or long-term performance. Our operating results in future quarters may be below the expectations of public market analysts and investors, which may result in a decline in our stock price.

**Our limited operating history makes it difficult to evaluate our business.**

As a result of our limited operating history, it is difficult to forecast our revenue, gross profit, operating expenses and other financial and operating data. Our inability, or the inability of the financial community at large, to accurately forecast our operating results could cause us to grow slower or our net profit to be smaller or our net loss larger than expected, which could cause a decline in our stock price.

**Recent and potential future divestitures could result in operating difficulties and unanticipated liabilities.**

In December 2007, we completed the sale of substantially all of the assets of our travel and events business, RSVP. On April 6, 2008, we entered into a binding letter of intent with Regent Releasing, L.L.C. relating to the sale of our publishing business, including substantially all of the assets of our subsidiaries LPI and SpecPub. This transaction is expected to close on or before August 31, 2008. These divestitures may be associated with a number of risks, including:

- potential goodwill write downs associated with acquisitions of businesses where the previously anticipated synergies of the combined entities have not been realized. For example, during fiscal 2007, we recorded goodwill impairment charges of \$21.5 million and \$4.0 million in discontinued operations due to lower revenue than expected related to our publishing and travel businesses, respectively;

- the potential diversion of significant management attention and significant financial resources from the ongoing development of our business during the implementation of a divestiture;

- the potential impairment of relationships with and difficulty in attracting and retaining employees as a result of the divestiture of certain businesses;

- the potential impairment of relationships with our subscribers, advertisers, customers and partners as a result of the divestiture of certain businesses; and

- the difficulty in attracting and retaining qualified management to lead the retained businesses.

If we are unable to successfully address these or other risks associated with the divestiture of RSVP or LPI and SpecPub, we may be unable to replace the revenue from the divested businesses, which could adversely affect our financial condition and results of operations.

**If we do not continue to attract and retain qualified personnel, our business may suffer.**

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Our success depends on the collective experience of our senior executive team and board of directors and on our ability to recruit, hire, train, retain and manage other highly skilled employees and directors. We have recently experienced departures of several executives and key employees, and any disruptions from further departures of our senior executives or key employees could harm our business and financial results or limit our ability to grow and expand our business. Our financial condition and the recent and potential future divestiture of certain businesses may negatively impact our ability to attract and retain qualified personnel. We cannot provide assurance that we will be able to attract and retain a sufficient number of qualified employees or that we will successfully train and manage the employees that we do hire.

**We may need additional capital and may not be able to raise additional funds on favorable terms or at all, which could limit our ability to continue operations, dilute the ownership interests of existing stockholders, cause us to seek business dispositions on unfavorable terms, or cause us to consider curtailing or ceasing operations.**

In July 2007, we completed a private placement financing, which resulted in significant dilution to our existing stockholders. As a result of our recent and continuing losses, we may need to raise additional capital to fund operating activities. In April 2006, we filed a shelf registration statement with the SEC for up to \$75.0 million of common stock, preferred stock, debt securities and/or warrants to be sold from time to time at prices and on terms to be determined by market conditions at the time of offering. In addition, under the shelf registration statement some of our stockholders may sell up to 170,000 shares of our common stock. However, we are currently eligible for only very limited use of the shelf registration statement for a primary offering of our securities due to our low market capitalization and public float.

We expect that raising additional financing will be very difficult, if it could be obtained at all. If we were to raise additional funds through the issuance of equity, equity-related or debt securities, these securities may have rights, preferences or privileges senior to those of the rights of our common stock, and our stockholders will experience further dilution of their ownership interests. If we are unable to raise additional financing, our business could be harmed, and we could be forced to engage in dispositions of assets or businesses on unfavorable terms, or consider curtailing or ceasing operations.

**Any significant disruption in service on our websites or in our computer and communications hardware and software systems could harm our business.**

Our ability to attract new visitors, members, subscribers, advertisers and other customers to our websites is critical to our success and largely depends upon the efficient and uninterrupted operation of our computer and communications hardware and software systems. Our systems and operations are vulnerable to damage or interruption from power outages, computer hardware and telecommunications failures, software failures, computer viruses, security breaches, catastrophic events, errors in design, installation, configuration and usage by our employees, errors in usage by our customers, risks inherent in upgrades and transitions to new hardware and software systems and network devices, or the failure of our third party vendors to perform their obligations for any reason, any of which could lead to interruption in our service and operations, and loss, misuse or theft of data. Our websites could also be targeted by direct attacks intended to cause a disruption in service or to siphon off customers to other Internet services. Among other risks, our chat rooms may be vulnerable to infestation by software programs or scripts that we refer to as adbots. An adbot is a software program that creates a member registration profile, enters a chat room and displays third-party advertisements. Our members' email accounts could be compromised by phishing or other means, and used to send spam email messages clogging our email servers and disrupting our members' ability to send and receive email. Any successful attempt by hackers to disrupt our websites' services or our internal systems could harm our business, be expensive to remedy and damage our reputation, resulting in a loss of visitors, members, subscribers, advertisers and other customers.

**If we are unable to compete effectively, we may lose market share and our revenue may decline.**

Our markets are intensely competitive and subject to rapid change. Across our service lines, we compete with traditional media companies focused on the general population and the LGBT community, including local newspapers, national and regional magazines, satellite radio, cable networks and network, cable and satellite television shows. In our advertising business, we compete with a broad variety of online and print content providers,

including large media companies such as Yahoo!, Google, MSN, Time Warner, Viacom, Condé Nast and News Corporation, as well as a number of smaller companies focused specifically on the LGBT community. In our online subscription business, our competitors include these companies as well as other companies that offer more targeted online service offerings, such as Match.com, Yahoo! Personals, and a number of other smaller online companies focused specifically on the LGBT community. More recently, we have faced competition from the growth of social networking sites, such as MySpace and Facebook, that provide opportunity for an online community for a wide variety of users, including the LGBT community. If we are unable to successfully compete with current and new competitors, we may not be able to achieve or maintain adequate market share, increase our revenue or regain and maintain profitability.

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We believe that the primary competitive factors affecting our business are quality of content and service, price, functionality, brand recognition, customer affinity and loyalty, ease of use, reliability and critical mass. Some of our current and many of our potential competitors have longer operating histories, larger customer bases and greater brand recognition in other business and Internet markets and significantly greater financial, marketing, technical and other resources than we do. Therefore, these competitors may be able to devote greater resources to marketing and promotional campaigns, adopt more aggressive pricing policies or may try to attract readers, users or traffic by offering services for free and devote substantially more resources to developing their services and systems than we can. Increased competition may result in reduced operating margins, loss of market share and reduced revenue. Our ability to continue to offer increasingly competitive functional capabilities on our websites will also depend upon our success in moving onto a more extensible core technology platform which will be costly and time-consuming.

On April 6, 2008, we entered into a binding letter of intent with Regent Releasing, L.L.C. relating to the sale of our publishing business. This transaction is expected to close on or before August 31, 2008. At least until such time as the transaction closes, we are subject to the competitive risks associated with our publishing business as set forth above.

**If we are unable to protect our domain names, our reputation and brand could be harmed if third parties gain rights to, or use, these domain names in a manner that would confuse or impair our ability to attract and retain customers.**

We have registered various domain names relating to our brands, including Gay.com, PlanetOut.com, BuyGay.com, Out.com and Advocate.com. If we fail to maintain these registrations, a third party may be able to gain rights to or cause us to stop using these domain names, which will make it more difficult for users to find our websites and our service. The acquisition and maintenance of domain names are generally regulated by governmental agencies and their designees. The regulation of domain names in the United States may change in the near future. Governing bodies may designate additional top-level domains, such as .eu or .mobi, in addition to currently available domains such as .biz, .net or .tv, for example, appoint additional domain name registrars or modify the requirements for holding domain names. As a result, we may be unable to acquire or maintain relevant domain names. If a third party acquires domain names similar to ours and engages in a business that may be harmful to our reputation or confusing to our subscribers and other customers, our revenue may decline, and we may incur additional expenses in maintaining our brand and defending our reputation. Furthermore, the relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights is unclear. We may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon or otherwise decrease the value of our trademarks and other proprietary rights.

On April 6, 2008, we entered into a binding letter of intent with Regent Releasing, L.L.C. relating to the sale of our publishing business, including the sale of domain names associated with our print publications, such as Out.com and Advocate.com. This transaction is expected to close on or before August 31, 2008. At least until such time as the transaction closes, we are subject to the risks associated with our publishing-related domain names as set forth above.

**If we fail to adequately protect our trademarks and other proprietary rights, or if we get involved in intellectual property litigation, our revenue may decline and our expenses may increase.**

We rely on a combination of confidentiality and license agreements with our employees, consultants and third parties with whom we have relationships, as well as trademark, copyright and trade secret protection laws, to protect our proprietary rights. If the protection of our proprietary rights is inadequate to prevent use or appropriation by third parties, the value of our brands and other intangible assets may be diminished, competitors may be able to more effectively mimic our service and methods of operations, the perception of our business and service to subscribers and potential subscribers may become confused in the marketplace and our ability to attract subscribers and other customers may suffer, resulting in loss of revenue.

The Internet content delivery market is characterized by frequent litigation regarding patent and other intellectual property rights. As a publisher of online content, we face potential liability for negligence, copyright, patent or trademark infringement or other claims based on the nature and content of materials that we publish or distribute. For example, we have received, and may receive in the future, notices or offers from third parties claiming to have intellectual property rights in technologies that we use in our businesses and inviting us to license those rights. Litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets, to

determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or invalidity, and we may not prevail in any future litigation. We may also attract claims that our print and online media properties have violated the copyrights, rights of privacy, or other rights of third parties. Adverse determinations in litigation could result in the loss of our proprietary rights, subject us to significant liabilities, and require us to seek licenses from third parties or prevent us from licensing our technology or selling our products, any of which could seriously harm our business. An adverse determination could also result in the issuance of a cease and desist order, which may force us to discontinue operations through our website or websites. Intellectual property litigation, whether or not determined in our favor or settled, could be costly, could harm our reputation and could divert the



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efforts and attention of our management and technical personnel from normal business operations.

On April 6, 2008, we entered into a binding letter of intent with Regent Releasing, L.L.C. relating to the sale of our publishing business. This transaction is expected to close on or before August 31, 2008. At least until such time as the transaction closes, we are subject to the intellectual property-related risks associated with our publishing business as set forth above.

**Existing or future government regulation in the United States and other countries could limit our growth and result in loss of revenue.**

We are subject to federal, state, local and international laws, including laws affecting companies conducting business on the Internet, including user privacy laws, regulations prohibiting unfair and deceptive trade practices and laws addressing issues such as freedom of expression, pricing and access charges, quality of products and services, taxation, advertising, intellectual property rights, display and production of material intended for mature audiences and information security. In particular, we are currently required, or may in the future be required, to:

comply with a law passed in New Jersey in January 2008, or other similar laws which may be passed in the future, requiring us to conduct background checks on our members prior to allowing them to interact with other members on our websites or, alternatively, provide notice on our websites that we have not conducted background checks on our members, which may result in our members canceling their membership or failing to subscribe or renew their subscription, resulting in reduced revenue;

provide advance notice of any changes to our privacy policies or to our policies on sharing non-public information with third parties, and if our members or subscribers disagree with these policies or changes, they may wish to cancel their membership or subscription, which will reduce our revenue;

with limited exceptions, give consumers the right to prevent sharing of their non-public personal information with unaffiliated third parties, and if a significant portion of our members choose to request that we don't share their information, our advertising revenue that we receive from renting our mailing list to unaffiliated third parties may decline;

provide notice to residents in some states if their personal information was, or is reasonably believed to have been, obtained by an unauthorized person such as a computer hacker, which may result in our members or subscribers deciding to cancel their membership or subscription, reducing our membership base and subscription revenue;

comply with current or future anti-spam legislation by limiting or modifying some of our marketing and advertising efforts, such as email campaigns, which may result in a reduction in our advertising revenue; for instance, two states have passed legislation creating a "do not contact" registry for minors that would make it a criminal violation to send an email message to an address on that state's registry if the email message contained an advertisement for or even a link to a website that offered products or services that minors are prohibited from accessing;

comply with the European Union privacy directive and other international regulatory requirements by modifying the ways in which we collect and share our users' personal information; if these modifications render our services less attractive to our members or subscribers, for example, by limiting the amount or type of personal information our members or subscribers could post to their profiles, they may cancel their memberships or subscriptions, resulting in reduced revenue;

qualify to do business in various states and countries, in addition to jurisdictions where we are currently qualified, because our websites are accessible over the Internet in multiple states and countries, which if we fail to so qualify, may prevent us from enforcing our contracts in these states or countries and may limit our ability to grow our business;

limit our domestic or international expansion because some jurisdictions may limit or prevent access to our services as a result of the availability of some content intended for mature viewing which may render our services less attractive to our members or subscribers and result in a decline in our revenue; and

limit or prevent access, from some jurisdictions, to some or all of the member-generated content available through our websites, which may render our services less attractive to our members or subscribers and result in a decline in our revenue. For example, in June 2005, the United States Department of Justice (the DOJ ) adopted regulations purporting to implement the Child Protection and Obscenity Act of 1988, as amended (the CPO Act ), by requiring primary and secondary producers, as defined in the regulations, of certain adult materials to obtain, maintain and make available for inspection specified records, such as a performer's name, address and certain forms of photo identification as proof of a performer's age. Failure to

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properly obtain, maintain or make these records available for inspection upon request of the DOJ could lead to an imposition of penalties, fines or imprisonment. We could be deemed a secondary producer under the CPO Act because we allow our members to display photographic images on our websites as part of member profiles. In addition, we may be deemed a primary producer under the CPO Act because a portion of one of the businesses we acquired in the LPI acquisition is involved in production of adult content. Enforcement of these regulations as to secondary producers was stayed pending resolution of a legal challenge on the grounds that the regulations exceed the DOJ's statutory authority to regulate secondary producers, among other grounds. In July 2006, the Adam Walsh Child Protection and Safety Act of 2006 (the Walsh Act) became law, amending the CPO Act by expanding the definition of the adult materials covered by the CPO Act and by requiring secondary producers to maintain and make available specified records under the CPO Act. Additionally, in July 2006, the FBI began conducting CPO Act record inspections, including inspections of businesses that allegedly were secondary producers under the CPO Act. In March 2007, the court hearing the legal challenge to the CPO Act issued partial summary judgment in favor of the DOJ and requested further briefing on how the Walsh Act affected the stay on enforcement of the CPO Act against secondary producers. In April 2007, the court lifted the stay on enforcement against secondary producers. Additionally, in June 2007 and June 2008, the DOJ issued new proposed regulations to implement the Walsh Act and amended CPO Act. The public comment period for the proposed regulations closed in September 2007 for those proposed regulations issued in June 2007 and will close in August 2008 for those proposed regulations issued in June 2008. It is anticipated that these new proposed regulations will be challenged in court on various constitutional grounds and that another stay against enforcement of these regulations will be sought. In October 2007, the Sixth Circuit Court of Appeals ruled that the CPO Act was unconstitutional. The DOJ appealed that decision in January 2008 and the Sixth Circuit Court of Appeals has agreed to hear the appeal *en banc*. If the FBI continues to inspect businesses that are allegedly secondary producers and there are no legal challenges to the CPO Act, the Walsh Act or the new regulations purporting to implement these acts, or if these challenges are unsuccessful, we may be subject to significant and burdensome recordkeeping compliance requirements and we will have to evaluate and implement additional registration and recordkeeping processes and procedures, each of which would result in additional expenses to us. If our members and subscribers feel these additional restrictions or registration and recordkeeping processes and procedures are too burdensome, this is likely to result in an adverse impact on our subscriber growth which, in turn, will have an adverse effect on our financial condition and results of operations. Alternatively, if we determine that the recordkeeping and compliance requirements would be too burdensome, we may be forced to limit the type of content that we allow our members to post to their profiles, which will result in a loss of features that we believe our members and subscribers find attractive, and in turn could result in a decline in our subscriber growth.

The restrictions imposed by, and costs of complying with, current and possible future laws and regulations related to our business could limit our growth and reduce our membership base, revenue and profit margins.

**The risks of transmitting confidential information online, including credit card information, may discourage customers from subscribing to our services or purchasing goods from us.**

In order for the online marketplace to be successful, we and other market participants must be able to transmit confidential information, including credit card information, securely over public networks. Third parties may have the technology or know-how to breach the security of our customer transaction data. Any breach could cause consumers to lose confidence in the security of our websites and choose not to subscribe to our services or purchase goods from us. We cannot guarantee that our security measures will effectively prohibit others from obtaining improper access to our information or that of our users. If a person is able to circumvent our security measures, he or she could destroy or steal valuable information or disrupt our operations. Any security breach could expose us to risks of data loss, litigation and liability and may significantly disrupt our operations and harm our reputation, operating results or financial condition.

**If we are unable to provide satisfactory customer service, we could lose subscribers.**

Our ability to provide satisfactory customer service depends, to a large degree, on the efficient and uninterrupted operation of our customer service operations. Any significant disruption or slowdown in our ability to process

customer calls resulting from telephone or Internet failures, power or service outages, natural disasters or other events could make it difficult or impossible to provide adequate customer service and support. Further, we may be unable to attract and retain adequate numbers of competent customer service representatives, which is essential in creating a favorable interactive customer experience. In July 2007, we closed our office in Argentina, as a result of which the number of customer service representatives and the hours of customer service representation were reduced. If due to this reduction or otherwise we are unable to continually provide adequate staffing for our customer service operations, our reputation could be harmed and we may lose existing and potential subscribers. In addition, we cannot guarantee that email and telephone call volumes will not exceed our present system or staffing capacities. If this occurs, we could experience delays in responding to customer inquiries and addressing customer concerns.

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### **We may be the target of negative publicity campaigns or other actions by advocacy groups that could disrupt our operations because we serve the LGBT community.**

Advocacy groups may target our business through negative publicity campaigns, lawsuits and boycotts seeking to limit access to our services or otherwise disrupt our operations because we serve the LGBT community. These actions could impair our ability to attract and retain customers, especially in our advertising business, resulting in decreased revenue, and cause additional financial harm by requiring that we incur significant expenditures to defend our business and by diverting management's attention. Further, some investors, investment banking entities, market makers, lenders and others in the investment community may decide not to invest in our securities or provide financing to us because we serve the LGBT community, which, in turn, may hurt the value of our stock.

### **Adult content in our media properties may be the target of negative publicity campaigns or subject us to restrictive or costly regulatory compliance.**

A portion of the content of our media properties is adult in nature. Our adult content increased significantly as a result of our November 2005 acquisition of assets from LPI, which included several adult-themed media properties. Advocacy groups may target our business through negative publicity campaigns, lawsuits and boycotts seeking to limit access to our services or otherwise disrupt our operations because we are a provider of adult content. These actions could impair our ability to attract and retain customers, especially in our advertising business, resulting in decreased revenue, and cause additional financial harm by requiring that we incur significant expenditures to defend our business and by diverting management's attention. Further, some investors, investment banking entities, market makers, lenders and others in the investment community may decide not to invest in our securities or provide financing to us because of our adult content, which, in turn, may hurt the value of our stock. Additionally, future laws or regulations, or new interpretations of existing laws and regulations, may restrict our ability to provide adult content, or make it more difficult or costly to do so, such as the Walsh Act, which became law in July 2006, and the regulations adopted by the DOJ in June 2005 purporting to implement the CPO Act.

On April 6, 2008, we entered into a binding letter of intent with Regent Releasing, L.L.C. relating to the sale of our publishing business, including the adult-themed properties and assets of LPI/SpecPub. This transaction is expected to close on or before August 31, 2008. At least until such time as the transaction closes, we are subject to the risks associated with our adult-themed properties and assets as set forth above.

### **If one or more states or countries successfully assert that we should collect sales or other taxes on the use of the Internet or the online sales of goods and services, our expenses will increase, resulting in lower margins.**

In the United States, federal and state tax authorities are currently exploring the appropriate tax treatment of companies engaged in online commerce, and new state tax regulations may subject us to additional state sales and income taxes, which could increase our expenses and decrease our profit margins.

In 2003, the European Union implemented new rules regarding the collection and payment of value added tax, or VAT. These rules require VAT to be charged on products and services delivered over electronic networks, including software and computer services, as well as information and cultural, artistic, sporting, scientific, educational, entertainment and similar services. These services are now being taxed in the country where the purchaser resides rather than where the supplier is located. Historically, suppliers of digital products and services that existed outside the European Union were not required to collect or remit VAT on digital orders made to purchasers in the European Union. With the implementation of these rules, we are required to collect and remit VAT on digital orders received from purchasers in the European Union, effectively reducing our revenue by the VAT amount because we currently do not pass this cost on to our customers.

We also do not currently collect sales, use or other similar taxes for sales of our subscription services or for physical shipments of goods into states other than California and New York. In the future, one or more local, state or foreign jurisdictions may seek to impose sales, use or other tax collection obligations on us. If these obligations are successfully imposed upon us by a state or other jurisdiction, we may suffer decreased sales into that state or jurisdiction as the effective cost of purchasing goods or services from us will increase for those residing in these states or jurisdictions.

### **We are exposed to pricing and production capacity risks associated with our magazine publishing business, which could result in lower revenues and profit margins.**

We publish and distribute magazines, such as *The Advocate*, *Out*, *The Out Traveler* and *HIVPlus*, among others. The commodity prices for paper products have been increasing over recent years, and producers of paper products are often faced with production capacity limitations, which could result in delays or interruptions in our supply of paper. In addition, mailing costs have also been

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increasing, primarily due to higher postage rates. If pricing of paper products and mailing costs continue to increase, if we encounter shortages in our paper supplies, or if our third party vendors fail to meet their obligations for any reason, our revenues and profit margins could be adversely affected.

On April 6, 2008, we entered into a binding letter of intent with Regent Releasing, L.L.C. relating to the sale of our publishing business. This transaction is expected to close on or before August 31, 2008. At least until such time as the transaction closes, we are subject to the pricing and production capacity risks associated with our publishing business as set forth above.

### **In the event of an earthquake, other natural or man-made disaster, or power loss, our operations could be interrupted or adversely affected, resulting in lower revenue.**

Our executive offices and our data center are located in the San Francisco Bay area and we currently have significant publishing-related operations in Los Angeles. Our business and operations could be disrupted in the event of electrical blackouts, fires, floods, earthquakes, power losses, telecommunications failures, acts of terrorism, break-ins or similar events. Because our California operations are located in earthquake-sensitive areas, we are particularly susceptible to the risk of damage to, or total destruction of, our systems and infrastructure. We are not insured against any losses or expenses that arise from a disruption to our business due to earthquakes. Further, the State of California has experienced deficiencies in its power supply over the last few years, resulting in occasional rolling blackouts. If rolling blackouts or other disruptions in power occur, our business and operations could be disrupted, and we will lose revenue.

### **In the event we are unable to satisfy regulatory requirements relating to internal control over financial reporting, or if these internal controls are not effective, our business and our stock price could suffer.**

Section 404 of the Sarbanes-Oxley Act of 2002 requires companies to do a comprehensive and costly evaluation of their internal controls. As a result, our management is required on an ongoing basis to perform an evaluation of our internal control over financial reporting. Our efforts to comply with Section 404 and related regulations regarding our management's required assessment of internal control over financial reporting has required, and will continue to require, the commitment of significant financial and managerial resources. If we fail to timely complete these evaluations, we could be subject to regulatory scrutiny and a loss of public confidence in our internal controls, which could have an adverse effect on our business and our stock price.

### **Our stock price may be volatile and you may lose all or a part of your investment.**

Since our initial public offering in October 2004, our stock price has been and may continue to be subject to wide fluctuations. From October 14, 2004 through August 1, 2008, the closing sale prices of our common stock on the Nasdaq Stock Market ranged from \$1.75 to \$136.00 per share. Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in our operating results, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors or analysts deem comparable to us, the limited float due to the concentration of shares among our recent equity financing investors and sales of stock by our existing stockholders.

In addition, the stock markets have experienced significant price and trading volume fluctuations, and the market prices of Internet-related and e-commerce companies in particular have been extremely volatile and have recently experienced sharp share price and trading volume changes. These broad market fluctuations may impact the trading price of our common stock. In the past, following periods of volatility in the market price of a public company's securities, securities class action litigation has often been instituted against that company. This type of litigation could result in substantial costs to us and a likely diversion of our management's attention.

### **The sales of common stock by our stockholders could depress the price of our shares.**

If our stockholders sell substantial amounts of our common stock in the public market, the market price of our shares could fall. These sales might also make it more difficult for us to sell equity or equity related securities at a time and price that we would deem appropriate. For example, pursuant to the terms of our July 2007 private placement, we filed a registration statement registering for resale all of the common stock we issued in the private placement. Sales by these stockholders could have an adverse impact on the trading price of our common stock.

### **Our Stockholder Rights Plan, along with provisions in our charter documents and under Delaware law, could discourage a takeover that stockholders may consider favorable.**





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Our charter documents may discourage, delay or prevent a merger or acquisition that a stockholder may consider favorable because they:

authorize our board of directors, without stockholder approval, to issue up to 5,000,000 shares of undesignated preferred stock;

provide for a classified board of directors;

prohibit our stockholders from acting by written consent;

establish advance notice requirements for proposing matters to be approved by stockholders at stockholder meetings; and

prohibit stockholders from calling a special meeting of stockholders.

As a Delaware corporation, we are also subject to Delaware law anti-takeover provisions. Under Delaware law, a corporation may not engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other things, the board of directors has approved the transaction. Additionally, our Stockholder Rights Plan adopted in January 2007 will cause substantial dilution to a person or group that attempts to acquire us on terms not approved by our board of directors. Our board of directors could rely on Delaware law or the Stockholder Rights Plan to prevent or delay an acquisition of us.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Stock repurchase activity during the three months ended June 30, 2008 was as follows:

<b>Period</b>		<b>(a) Total Number of Shares Purchased (1)</b>	<b>(b) Average Price Paid per Share</b>	<b>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs</b>
April 1, 2008	April 30, 2008		\$		
May 1, 2008	May 31, 2008				
June 1, 2008	June 30, 2008				
Total			\$		

- (1) PlanetOut does not have any publicly announced plans or programs to repurchase shares of its

common stock.

**Item 3. Defaults Upon Senior Securities**

Not Applicable.

**Item 4. Submission of Matters to a Vote of Security Holders**

Our 2008 annual meeting of stockholders was held on June 11, 2008 to elect two directors to the board of directors and to ratify the appointment of Stonefield Josephson, Inc. as our independent public auditors for the fiscal year ending December 31, 2008.

In the election of directors, both director nominees were elected with the following votes:

Nominee	Number of Votes	
	For	Withheld
Phillip S. Kleweno	2,427,439	77,686
John E. Marcom, Jr.	2,427,453	77,672

The stockholders voted in favor of the ratification of the appointment of Stonefield Josephson, Inc. as our independent public auditors for the fiscal year ending December 31, 2008 as follows:

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	<b>Number of Votes</b>			<b>Broker</b>
	<b>For</b>	<b>Against</b>	<b>Abstain</b>	<b>Non-Votes</b>
Ratification of appointment of auditors	2,488,046	13,454	3,625	

**Item 5. Other Information**

Not Applicable.

**Item 6. Exhibits****(a) Exhibits****Exhibit****Number****Description of Documents**

- 3.1 Amended and Restated Certificate of Incorporation, as amended by Certificate of Amendment, dated October 1, 2007 and as currently in effect (filed as Exhibit 3.1 to our Current Report on Form 8-K, File No. 000-50879, filed on October 4, 2007, and incorporated herein by reference).
- 3.2 Amended and Restated Bylaws, as currently in effect (filed as Exhibit 3.4 to our Registration Statement on Form S-1, File No. 333-114988, initially filed on April 29, 2004, declared effective on October 13, 2004, and incorporated herein by reference).
- 4.1 Specimen of Common Stock Certificate (filed as Exhibit 4.1 to our Current Report on Form 8-K, File No. 000-50879, filed on October 4, 2007, and incorporated herein by reference).
- 4.2 Form of Senior Debt Indenture (filed as Exhibit 4.5 to our Registration Statement on Form S-3, File No. 333-133536, filed on April 25, 2006 and incorporated herein by reference).
- 4.3 Form of Subordinated Debt Indenture (filed as Exhibit 4.6 to our Registration Statement on Form S-3, File No. 333-133536, filed on April 25, 2006 and incorporated herein by reference).
- 4.4 Rights Agreement dated as of January 4, 2007 among PlanetOut Inc. and Wells Fargo Bank, N.A. (filed as Exhibit 99.2 to our Current Report on Form 8-K, File No. 000-50879, filed on January 8, 2007 and incorporated herein by reference).
- 4.5 Form of Rights Certificate (filed as Exhibit 99.3 to our Current Report on Form 8-K, File No. 000-50879, filed on January 8, 2007 and incorporated herein by reference).
- 4.7 Amendment to Rights Agreement among PlanetOut Inc. and Wells Fargo Bank, N.A. dated June 28, 2007 (filed as Exhibit 4.7 to our Quarterly Report on Form 10-Q, File No. 000-50879, filed on August 3, 2007 and incorporated herein by reference).
- 4.8 Common Stock Warrant to Allen & Company, LLC dated January 14, 2008 (filed as Exhibit 99.1 to our Current Report on Form 8-K, File No. 000-50879, filed on January 17, 2008 and incorporated herein by reference).
- 12.1 Computation of Ratio of Earnings to Fixed Charges.
- 31.1 Certification of Chief Executive Officer pursuant to the Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2

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Certification of Chief Financial Officer pursuant to the Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to Section 18 U.S.C section 1350.

32.2 Certification of Chief Financial Officer pursuant to Section 18 U.S.C. section 1350.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**PLANETOUT INC.**

Date: August 6, 2008

By: /s/ DANIEL E. STEIMLE

Daniel E. Steimle  
*Interim Chief Financial Officer*  
*(Principal Financial and Accounting Officer)*

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