PLANETOUT INC
Form 10-Q
October 31, 2008

Table of Contents

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

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

For the quarterly period ended: September 30, 2008

or

o **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	**94-3391368**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1355 SANSOME STREET, SAN FRANCISCO, CALIFORNIA	**94111**
(Address of Principal Executive Offices)	(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. þ Yes o 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 o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No

The number of shares outstanding of the registrant s Common Stock, $0.001 par value, as of October 30, 2008 was 4,088,889.

PlanetOut Inc.
INDEX
Form 10-Q
For the Quarter ended September 30, 2008

Table of Contents

PART I
FINANCIAL INFORMATION
PlanetOut Inc.

Item 1. Financial Statements

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	December 31, 2007	September 30, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,534	$ 8,202
Restricted cash	167	1,587
Accounts receivable, net	3,679	1,249
Prepaid expenses and other current assets	937	772
Current assets of discontinued operations	7,348	
Total current assets	20,665	11,810
Property and equipment, net	7,821	5,789
Goodwill	2,988	2,988
Other assets	523	409
Long-term assets of discontinued operations	9,355	
Total assets	$ 41,352	$ 20,996
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 845	$ 731
Accrued expenses and other liabilities	1,888	2,331
Deferred revenue	4,042	4,151
Capital lease obligations, current portion	815	944
Deferred rent, current portion	264	299
Current liabilities of discontinued operations	4,513	
Total current liabilities	12,367	8,456
Capital lease obligations, less current portion	880	176
Deferred rent, less current portion	1,066	1,042
Long-term liabilities of discontinued operations	2,130	
Total liabilities	16,443	9,674
Commitments and contingencies (Note 4)		
Stockholders equity:		
Common stock: $0.001 par value, 100,000 shares authorized, 4,096 and 4,089 shares issued and outstanding at December 31, 2007 and September 30, 2008, respectively	40	40
Additional paid-in capital	114,406	114,999

Accumulated other comprehensive loss		(85)		(86)
Accumulated deficit		(89,452)		(103,631)
Total stockholders equity		24,909		11,322
Total liabilities and stockholders equity	$	41,352	$	20,996

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

Table of Contents

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

	Three months ended September 30, 2007	Three months ended September 30, 2008	Nine months ended September 30, 2007	Nine months ended September 30, 2008
Revenue:				
Advertising services	$ 2,441	$ 1,725	$ 6,887	$ 4,621
Subscription services	3,924	3,313	12,257	10,578
Transaction services	95	80	380	216
Total revenue	6,460	5,118	19,524	15,415
Operating costs and expenses: (*)				
Cost of revenue	2,577	2,309	8,764	6,883
Sales and marketing	2,103	1,511	6,971	4,656
General and administrative	2,787	1,726	8,923	5,445
Restructuring	581		581	
Depreciation and amortization	1,453	1,010	4,073	3,157
Total operating costs and expenses	9,501	6,556	29,312	20,141
Loss from operations	(3,041)	(1,438)	(9,788)	(4,726)
Interest expense	(750)	(29)	(1,564)	(109)
Other income, net	158	46	412	157
Loss from continuing operations before income taxes	(3,633)	(1,421)	(10,940)	(4,678)
Benefit for income taxes	6		6	
Loss from continuing operations	(3,627)	(1,421)	(10,934)	(4,678)
Loss from and loss on sale of discontinued operations, net of tax	(1,628)	(787)	(32,196)	(9,501)
Net loss	$ (5,255)	$ (2,208)	$ (43,130)	$ (14,179)
Loss per share from continuing operations:				
Basic and diluted	$ (0.93)	$ (0.35)	$ (4.46)	$ (1.15)
Loss per share from discontinued operations:				
Basic and diluted	$ (0.42)	$ (0.19)	$ (13.13)	$ (2.34)
Net loss per share:				
Basic and diluted	$ (1.34)	$ (0.54)	$ (17.58)	$ (3.50)
Weighted-average shares used to compute net loss per share basic and diluted	3,920	4,061	2,453	4,053

(*) Includes stock-based compensation as follows (see Note 1):								
Cost of revenue	$	36	$	28	$	152	$	93
Sales and marketing		2		1		30		5
General and administrative		129		84		389		262
Total stock-based compensation	$	167	$	113	$	571	$	360

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

Table of Contents

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

	Nine months ended Septmeber 30,	
	2007	**2008**
Cash flows from operating activities:		
Net loss	$ (43,130)	$ (14,179)
Net loss from and loss on sale of discontinued operations, net of tax	32,196	9,501
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,073	3,157
Non-cash services expense	135	241
Provision for (reversal of) doubtful accounts	(21)	71
Restructuring	203	
Stock-based compensation	571	360
Amortization of debt discount	392	
Amortization of deferred rent	(162)	(198)
Loss on disposal or write-off of property and equipment	507	
Changes in operating assets and liabilities, net of acquisition effects:		
Accounts receivable	1,440	2,646
Prepaid expenses and other assets	274	347
Accounts payable	34	(114)
Accrued expenses and other liabilities	(102)	437
Deferred revenue	(354)	109
Net cash provided by (used in) operating activities of continuing operations	(3,944)	2,378
Net cash provided by (used in) operating activities of discontinued operations	(9,747)	999
Net cash provided by (used in) operating activities	(13,691)	3,377
Cash flows from investing activities:		
Purchases of property and equipment	(2,656)	(1,681)
Sales of short-term investments	2,050	
Changes in restricted cash	2,688	(1,420)
Net cash provided by (used in) investing activities of continuing operations	2,082	(3,101)
Net cash used in investing activities of discontinued operations	(262)	
Net cash provided by (used in) investing activities	1,820	(3,101)
Cash flows from financing activities:		
Proceeds from exercise of common stock and warrants	78	
Proceeds from equity financing, net of transaction costs of $2,183	24,017	
Tax withholding payments reimbursed by restricted stock	(93)	(8)
Principal payments under capital lease obligations and notes payable	(10,800)	(599)

Net cash provided by (used in) financing activities		13,202		(607)
Effect of exchange rate on cash and cash equivalents		20		(1)
Net increase (decrease) in cash and cash equivalents		1,351		(332)
Cash and cash equivalents, beginning of period		9,674		8,534
Cash and cash equivalents, end of period	$	11,025	$	8,202
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.

Table of Contents

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 included the operations of the SpecPub asset group (SpecPub), and which the Company operated as wholly-owned subsidiaries. On August 13, 2008, the Company completed the sale of substantially all the assets of LPI and SpecPub. As a result of this sale and the Company s decision to exit its Publishing business, the results of operations and financial position of LPI are reported in discontinued operations within the condensed consolidated financial statements. See Note 8, 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 its 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 8, 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 September 30, 2008 consists of $1,587,000 of reserves required by the Company s credit card processors of both its online and discontinued operations 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 August 2008, the Company divested itself 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 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.

Table of Contents

There were no goodwill impairment charges related to the Company s Publishing business during the three months ended September 30, 2007 and 2008. 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 nine months ended September 30, 2007 and 2008, respectively. Goodwill impairment charges of $0.2 million and $4.0 million related to the Company s Travel and Events Business are reflected under discontinued operations during the three and nine months ended September 30, 2007, respectively. There were no goodwill impairment charges related to the Company s Travel and Events Business during the three and nine months ended September 30, 2008. See Note 8, 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 units 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 September 30, 2007 and 2008 were $537,000 and $419,000, respectively. Total advertising costs in the nine months ended September 30, 2007 and 2008 were $1,635,000 and $1,164,000, 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

Table of Contents

recorded as a cumulative adjustment in the period estimates are revised. The Company considers many factors when estimating 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 8, 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. In August 2008, the Company sold substantially all the assets and liabilities of LPI. As a result of the sale of 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 8, 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 nine months ended September 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.

Table of Contents

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2008	2007	2008
Numerator:				
Net loss	$ (5,255)	$ (2,208)	$ (43,130)	$ (14,179)
Denominator for basic and diluted net loss per share:				
Weighted-average shares	3,920	4,061	2,453	4,053
Net loss per share:				
Basic and diluted	$ (1.34)	$ (0.54)	$ (17.58)	$ (3.50)

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):

	Nine months ended September 30,	
	2007	2008
Common stock options and warrants	227	203

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 August 2008, the Company divested itself 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 nine months ended September 30, 2008.

There were no goodwill impairment charges related to the Company s Publishing business during the three months ended September 30, 2007 and 2008. 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 nine months ended September 30, 2007 and 2008, respectively. Goodwill impairment charges of $0.2 million and $4.0 million related to the Company s Travel and Events Business are reflected under discontinued operations during the three and nine months ended September 30, 2007, respectively. There were no goodwill impairment charges related to the Company s Travel and Events Business during the three and nine months ended September 30, 2008. See Note 8, Discontinued Operations.

Intangible Assets

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

	December 31, 2007			September 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 September 30, 2008, the Company s intangible assets were fully amortized. During the three and nine months ended September 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 totaled $1,187,000, 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 totaled $3,250,000, as described more fully in Note 8, Discontinued Operations.

There were no intangible asset impairment charges related to the Company s Publishing business during the three months ended September 30, 2007 and 2008. Intangible asset impairment charges of zero and $2.1 million related to the Company s Publishing business are reflected under discontinued operations during the nine months ended

September 30, 2007 and 2008, respectively. Intangible asset impairment charges of $0.7 million and $0.7 million related to the Company s Travel and Events Business are reflected under discontinued operations during the three and nine months ended September 30, 2007, respectively. There were no goodwill impairment charges related to the Company s Travel and Events Business during the three and nine months ended September 30, 2008. See Note 8, Discontinued Operations.

Table of Contents

Note 3 Other Balance Sheet Components

	December 31, 2007	September 30, 2008
	(In thousands)	
Accounts receivable:		
Trade accounts receivable	$ 3,694	$ 1,313
Less: Allowance for doubtful accounts	(15)	(64)
	$ 3,679	$ 1,249

In the three months ended September 30, 2007 and 2008, the Company provided for an increase in the allowance for doubtful accounts of $29,000 and $45,000 respectively, and did not write-off any accounts receivable against the allowance for doubtful accounts in either period. In the nine months ended September 30, 2007 and 2008, the Company provided for an increase in the allowance for doubtful accounts of $23,000 and $71,000 respectively, and wrote-off accounts receivable against the allowance for doubtful accounts totaling zero and $23,000, 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 totaled $486,000, as described more fully in Note 8, Discontinued Operations.

	December 31, 2007	September 30, 2008
	(In thousands)	
Property and equipment:		
Computer equipment and software	$ 9,661	$ 9,194
Furniture and fixtures	992	875
Leasehold improvements	1,971	1,686
Website development costs	6,453	7,628
	19,077	19,383
Less: Accumulated depreciation and amortization	(11,256)	(13,594)
	$ 7,821	$ 5,789

In the three months ended September 30, 2007 and 2008, the Company recorded depreciation and amortization expense of property and equipment of $1,453,000 and $1,010,000, respectively. In the nine months ended September 30, 2007 and 2008, the Company recorded depreciation and amortization expense of property and equipment of $3,775,000 and $3,157,000, respectively. In the three months ended September 30, 2007 and 2008, the Company did not record any non-cash impairment charges. In the nine months ended September 30, 2007 and 2008, the Company recorded non-cash impairment charges of $467,000 and zero, respectively.

	December 31, 2007	September 30, 2008
	(In thousands)	
Accrued expenses and other liabilities:		
Accrued payroll and related liabilities	$ 1,110	$ 700

Other accrued liabilities	778	1,631
	$ 1,888	$ 2,331

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 without cause at any time, unless the participant receives employment or an offer of employment from a successor to the Company. The Company has made payments under this Plan in the three months ended September 30, 2008 in connection with the sale of LPI and currently estimates that future payments under the Plan, including both the retention and the severance components, may result in an additional expense to the Company in the range of approximately $0.7 million to a maximum of approximately $1.6 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.

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 Stockholders Equity

Equity Financing

In July 2007, the Company closed its private placement financing with a group of accredited and institutional investors. The Company received an aggregate of approximately $26.2 million in gross proceeds from the sale of approximately 2.3 million shares of its common stock at a price of $11.50 per share (the Private Placement). The Company realized net proceeds of approximately $24.0 million from the Private Placement after deducting fees payable to the placement agent and other transaction costs. The Company used a portion of the proceeds to repay, in full, its indebtedness obligations under the notes payable issued in connection with the Company s acquisition of the assets of LPI, as well as its obligations under loans from Orix. In August 2007, the Company filed a registration statement on Form S-3 with the SEC pursuant to which it registered for re-sale the shares sold in the Private Placement.

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 $66,000 and $76,000 in the three months ended September 30, 2007 and 2008, respectively, and $135,000 and $241,000 in the nine months ended September 30, 2007 and 2008, respectively, of non-cash services expense associated with these warrants.

Note 6 Stock-Based Compensation

Stock Options

During the nine months ended September 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 nine months ended September 30, 2008 (in thousands):

	Shares
Outstanding at January 1, 2008	129

Forfeited/expired/cancelled	(13)
Outstanding at September 30, 2008	116

Table of Contents

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 nine months ended September 30, 2008 (in thousands):

	Shares
Unvested at January 1, 2008	49
Granted	2
Vested	(19)
Forfeited	(2)
Unvested at September 30, 2008	30

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 $3.18 per share.

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

Year Ending December 31,	
2008 (remaining three months)	1
2009	17
2010	12
	30

Note 7 Restructuring

In July 2007, the board of directors of the Company adopted and approved a reorganization plan to further align the Company s resources with its strategic business objectives. As part of the plan, the Company closed its international offices located in Buenos Aires and London in order to streamline the Company s business operations and reduce expenses. The reorganization, along with other organizational changes, reduced the Company s total workforce by approximately 15%. Restructuring costs of approximately $581,000, primarily related to employee severance benefits of approximately $451,000 and facilities consolidation expenses of approximately $130,000, were recorded during the three months ended September 30, 2007. The Company completed this restructuring in the third quarter of 2007.

Note 8 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 August 2008, the Company completed the sale of its Publishing business, which included substantially all the assets of LPI and SpecPub, to Regent Entertainment Media Inc. (Regent Entertainment) the designee of Regent Releasing, L.L.C. (Regent), an affiliate of here! Networks. The sale was accomplished pursuant to a Put/Call Agreement between Regent, Regent Entertainment, PlanetOut, LPI and SpecPub and a Marketing Agreement between Regent and PlanetOut. These agreements include cash payments by Regent and Regent Entertainment of $6.5 million, the assumption of the majority of the operating liabilities of the Company s Publishing business by Regent Entertainment, and commitments by the Company to provide certain marketing and advertising services to Regent through March 31, 2009. During the three and nine months ended September 30, 2008, the Company recorded a net loss on sale of discontinued operations of $0.1 million related to the sale of its Publishing business, which included $0.8 million of estimated direct costs incurred in connection with the sale. In estimating net loss on sale, management relied on a number of other estimates including estimates of the amounts attributable to the consummation of this sale transaction. Accordingly, the Company may revise its estimate of the net loss on sale of its Publishing business.

Table of Contents

As a result of the sale of the Company s interest in DSW, the sale of substantially all the assets of RSVP, the sale of 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 nine months ended September 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 sheet as of December 31, 2007. 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 nine months ended September 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 August 13, 2008, the closing date for the sale, and deemed that no impairment had occurred subsequent to March 31, 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 sale transaction.

Restructuring costs of approximately $19,000, consisting of termination benefits related to the Company's Travel and Events business, were recorded in discontinued operations during the three and nine months ended September 30, 2007. Restructuring costs of approximately $892,000, consisting of termination benefits of approximately $351,000 and contract termination expenses of approximately $541,000 related to the Company's Publishing business, were recorded in discontinued operations during the three and nine months ended September 30, 2008.

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

	Three months ended September 30, 2007			
	LPI	**SpecPub**	**RSVP**	**Total**
Total revenue	$ 5,682	$ 1,584	$ 7,855	$ 15,121
Operating costs and expenses:				
Cost of revenue	3,512	990	7,643	12,145
Sales and marketing	1,641	381	260	2,282
General and administrative	834	62	125	1,021
Restructuring			19	19
Depreciation and amortization	249	2	118	369
Impairment of goodwill and intangible assets			900	900
Total operating costs and expenses	6,236	1,435	9,065	16,736
Income (loss) from operations	(554)	149	(1,210)	(1,615)
Other income (expense), net	(14)	(4)	5	(13)
Income (loss) from discontinued operations	$ (568)	$ 145	$ (1,205)	$ (1,628)

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

Table of Contents

	Three months ended September 30, 2008			
	LPI	SpecPub	RSVP	Total
Total revenue	$ 3,810	$ 661	$	$ 4,471
Operating costs and expenses:				
Cost of revenue	2,313	465		2,778
Sales and marketing	640	92	(2)	730
General and administrative	383	52	1	436
Restructuring	795	97		892
Depreciation and amortization	256	28		284
Total operating costs and expenses	4,387	734	(1)	5,120
Income (loss) from operations	(577)	(73)	1	(649)
Other expense, net	(3)			(3)
Income (loss) from discontinued operations	(580)	(73)	1	(652)
Gain (loss) on sale of discontinued operations	(786)	651		(135)
Income (loss) from and loss on sale of discontinued operations	$ (1,366)	$ 578	$ 1	$ (787)

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

	Nine months ended September 30, 2007				
	LPI	SpecPub	RSVP	DSW	Total
Total revenue	$ 15,396	$ 4,906	$ 17,023	$ 2	$ 37,327
Operating costs and expenses:					
Cost of revenue	10,143	3,042	18,678		31,863
Sales and marketing	4,175	1,151	1,455	37	6,818
General and administrative	2,541	495	376	1	3,413
Restructuring			19		19
Depreciation and amortization	753	251	287		1,291
Impairment of goodwill and intangible assets	15,700	5,400	4,700		25,800
Total operating costs and expenses	33,312	10,339	25,515	38	69,204
Loss from operations	(17,916)	(5,433)	(8,492)	(36)	(31,877)
Other income (expense), net	(239)	(103)	23		(319)
Loss from discontinued operations	$ (18,155)	$ (5,536)	$ (8,469)	$ (36)	$ (32,196)

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

	Nine months ended September 30, 2008			
	LPI	SpecPub	RSVP	Total

Total revenue	$ 12,569	$ 2,885	$	$ 15,454
Operating costs and expenses:				
Cost of revenue	9,179	2,283	(20)	11,442
Sales and marketing	3,346	686	(21)	4,011
General and administrative	1,617	210	4	1,831
Restructuring	795	97		892
Depreciation and amortization	327	31		358
Impairment of goodwill and intangible assets	1,978	4,294		6,272
Total operating costs and expenses	17,242	7,601	(37)	24,806
Income (loss) from operations	(4,673)	(4,716)	37	(9,352)
Other income (expense), net	(15)	1		(14)
Income (loss) from discontinued operations	(4,688)	(4,715)	37	(9,366)
Gain (loss) on sale of discontinued operations	(786)	651		(135)
Income (loss) from and loss on sale of discontinued operations	$ (5,474)	$ (4,064)	$ 37	$ (9,501)

14

Table of Contents

The current and non-current assets and liabilities of discontinued operations as of December 31, 2007 were as follows (in thousands):

	December 31, 2007		
	LPI	SpecPub	Total
Current assets of discontinued operations:			
Accounts receivable, net	$ 3,189	$ 977	$ 4,166
Inventory	1,113	314	1,427
Prepaid expenses and other current assets	1,251	504	1,755
	$ 5,553	$ 1,795	$ 7,348
Long-term assets of discontinued operations:			
Property and equipment, net	$ 620	$ 54	$ 674
Goodwill	1,427	2,708	4,135
Intangible assets, net	1,870	2,567	4,437
Other assets	58	51	109
	$ 3,975	$ 5,380	$ 9,355
Current liabilities of discontinued operations:			
Accounts payable	$ 494	$ 74	$ 568
Accrued expenses and other liabilities	603	161	764
Deferred revenue, current portion	1,717	1,434	3,151
Capital lease obligations, current portion	23	7	30
	$ 2,837	$ 1,676	$ 4,513
Long-term liabilities of discontinued operations:			
Deferred revenue, less current portion	$ 1,089	$ 578	$ 1,667
Capital lease obligations, less current portion	104	24	128
Deferred rent, less current portion	158	177	335
	$ 1,351	$ 779	$ 2,130

Table of Contents

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 August 13, 2008, we completed the sale of our Publishing business, which included substantially all the assets of LPI Media Inc. (LPI) and SpecPub, Inc. (SpecPub), to Regent Entertainment Media Inc. (Regent Entertainment) the designee of Regent Releasing, L.L.C. (Regent), an affiliate of here! Networks. The sale was accomplished pursuant to a Put/Call Agreement between Regent, Regent Entertainment, PlanetOut, LPI and SpecPub and a Marketing Agreement between Regent and PlanetOut. These agreements include cash payments by Regent and Regent Entertainment of $6.5 million, the assumption of the majority of the operating liabilities of our Publishing business by Regent Entertainment, and our commitments to provide certain marketing and advertising services to Regent through March 31, 2009.

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 September 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 $5.1 million in the three months ended September 30, 2008, decreasing 21% from total revenue of $6.5 million in the three months ended September 30, 2007. Our total revenue was $15.4 million in the nine months ended September 30, 2008, decreasing 21% from total revenue of $19.5 million in the nine months ended September 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 $1.0 million of advertising revenue related to marketing and advertising services provided to Regent as part of the Marketing Agreement with Regent.

Total operating costs and expenses were $6.6 million in the three months ended September 30, 2008, decreasing 31% from total operating costs and expenses of $9.5 million in the three months ended September 30, 2007. Total operating costs and expenses were $20.1 million in the nine months ended September 30, 2008, decreasing 31% from total operating costs and expenses of $29.3 million in the nine months ended September 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, reductions in legal and accounting expenses, a decrease in advertising, marketing and market research expenses, and the non-recurrence of restructuring costs. Compensation and employee related costs during the nine months ended September 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 $1.4 million in the three months ended September 30, 2008, compared to loss from operations of $3.0 million in the three months ended September 30, 2007. This decrease in loss from operations was the result of the $3.0 million reduction in operating costs and expenses noted above, offset by the $1.4 million decrease in total revenue noted above. Loss from operations was $4.7 million in the nine months ended September 30, 2008, compared to loss from operations of $9.8 million in the nine months ended September 30, 2007. This decrease in loss from operations was the result of the $9.2 million reduction in operating costs and expenses noted above, offset by the $4.1 million decrease in total revenue noted above. The net reduction in loss from operations due to the closure of our international offices was approximately $0.4 million and $1.6 million, respectively, in the three and nine months ended September 30, 2008. The net reduction in loss from operations due to non-recurring severance and related costs was approximately $0.5 million in the nine months ended September 30, 2008.

Management expects that revenue will decrease for the remainder of fiscal 2008 in comparison to fiscal 2007, primarily as a result of general economic conditions, 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 for the remainder of fiscal 2008 as we continue to modify our web applications in conjunction with the re-launch of our Gay.com website.

Results of Operations

Revenue

Advertising Services. We derive 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 $1.7 million in the three months ended September 30, 2008, a decrease of 29% from the three months ended September 30, 2007. Advertising services revenue was $4.6 million in the nine months ended September 30, 2008, a decrease of 33% from the nine months ended September 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 $0.7 million and $1.0 million of advertising revenue in the three and nine months ended September 30, 2008, respectively, related to marketing and advertising services provided to Regent as part of the Marketing Agreement with Regent.

For the remainder of fiscal 2008, we expect advertising services revenue to decrease in comparison to fiscal 2007 due to the effects of turnover in our advertising sales group, the discontinuance of local advertising sales and the closure of our international offices, offset partially by marketing and advertising services to be provided to Regent. 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 services revenue.

Subscription Services. We derive subscription services revenue from paid membership subscriptions to our online media properties. Our subscription services revenue was $3.3 million in the three months ended September 30, 2008, a decrease of 16% from the three months ended September 30, 2007. Our subscription services revenue was $10.6 million in the nine months ended September 30, 2008, a decrease of 14% from the nine months ended September 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 September 30, 2008 and 2007, respectively. Our transaction services revenue totaled $0.2 million and

$0.4 million in the nine months ended September 30, 2008 and 2007, respectively. These decreases in transactions services revenue were due to the discontinuance of our transaction-based website Kleptomaniac.com.

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 $2.3 million in the three months ended September 30, 2008, decreasing 10% from cost of revenue of $2.6 million in the three months ended September 30, 2007. Cost of revenue was $6.9 million in the nine months ended September 30, 2008, decreasing 21% from cost of revenue of $8.8 million in the nine months ended September 30, 2007. These decreases were due to an overall decrease in compensation and employee related costs as a result of reduced headcount and non-recurrence of severance related costs, a reduction in expenses due to the closing of our international offices in conjunction with our July 2007 reorganization plan and decreases in consumer marketing, credit card fees and advertising servicing costs. Compensation and employee related costs during the nine months ended September 30, 2007 included severance and other costs related to the departure of our former Chief Technology Officer. Cost of revenue was 45% as a percentage of total revenue for the three months ended September 30, 2008, up from 40% in the three months ended September 30, 2007. This increase was primarily due to increased contract labor expenses in the three months ended September 30, 2008 incurred in conjunction with the re-launch of our Gay.com website. Cost of revenue remained flat at 45% as a percentage of total revenue for the nine months ended September 30, 2008 and 2007.

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 continue to modify our web applications in conjunction with the re-launch of our Gay.com website and as we deploy new networks.

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 September 30, 2008, decreasing 28% from sales and marketing expenses of $2.1 million in the three months ended September 30, 2007. Sales and marketing expenses were $4.7 million in the nine months ended September 30, 2008, decreasing 33% from sales and marketing expenses of $7.0 million in the nine months ended September 30, 2007. Sales and marketing expenses as a percentage of revenue were 30% for the three months ended September 30, 2008, down from 33% in the three months ended September 30, 2007. Sales and marketing expenses as a percentage of revenue were 30% for the nine months ended September 30, 2008, down from 36% in the nine months ended September 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 and reduced expenses as a result of the discontinuance of our transaction-based website Kleptomaniac.com.

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 September 30, 2008, decreasing 38% from general and administrative expenses of $2.8 million in the three months ended September 30, 2007. Our general and administrative expenses were $5.4 million for the nine months ended September 30, 2008, decreasing 39% from general and administrative expenses of $8.9 million in the nine months ended September 30, 2007. General and administrative expenses as a percentage of revenue were 34% for the three months ended September 30, 2008, down from 43% in the three months ended September 30, 2007. General and administrative expenses as a percentage of revenue were 35% for the nine months ended September 30, 2008, down from 46% in the nine months ended September 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 nine months ended September 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 decreased compensation and employee related costs as a result of decreases in headcount and decreased legal costs.

Restructuring. In July 2007, our board of directors adopted and approved a reorganization plan to further align our resources with our strategic business objectives. As part of the plan, we closed our international offices located in Buenos Aires and London in order to streamline our business operations and reduce expenses. The reorganization, along with other organizational changes, reduced our total workforce by approximately 15%. Restructuring costs of approximately $581,000, primarily related to employee severance benefits of approximately $451,000 and facilities consolidation expenses of approximately $130,000, were recorded during the three months ended September 30, 2007. We completed this restructuring in the third quarter of 2007.

Depreciation and Amortization. Depreciation and amortization expense was $1.0 million for the three months ended September 30, 2008, decreasing 30% from depreciation and amortization expense of $1.5 million in the three months ended September 30, 2007. Depreciation and amortization expense was $3.2 million for the nine months ended September 30, 2008, decreasing 22% from depreciation and amortization expense of $4.1 million in the nine months ended September 30, 2007. These decreases were primarily due to a decrease in depreciable assets in service during the three and nine months ended September 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 a result of the re-launch of our Gay.com website and as a result of additional capital investments to support our on-going product development.

Other Income and Expenses

Interest Expense. Interest expense was $29,000 and $750,000 for the three months ended September 30, 2008 and 2007, respectively. Interest expense was $109,000 and $1,564,000 for the nine months ended September 30, 2008 and 2007, respectively. Interest expense in the three and nine months ended September 30, 2007 included $700,000 and $1,406,000, 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 $46,000 and $158,000 in the three months ended September 30, 2008 and 2007, respectively. Other income, net was $157,000 and $412,000 in the nine months ended September 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 August 2008, we sold our Publishing business to Regent, which included the operations of LPI and SpecPub and recorded a net loss on sale of discontinued operations of $0.1 million related to the sale of our Publishing business. The net loss on sale of discontinued operations included $0.8 million of estimated direct costs incurred in connection with the sale. In estimating net loss on sale, management relied on a number of other estimates including estimates of the amounts attributable to the consummation of this sale transaction. Accordingly, we may revise our estimate of the net loss on sale of our Publishing business.

As a result of the sale of our interest in DSW, the sale of substantially all the assets of RSVP, the sale of 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 nine months ended September 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 sheet as of December 31, 2007. 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 nine months ended September 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 August 13, 2008, the closing date for the sale, and deemed that no impairment had occurred subsequent to March 31, 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 sale transaction.

Table of Contents

Restructuring costs of approximately $19,000, consisting of termination benefits related to our Travel and Events business, were recorded in discontinued operations during the three and nine months ended September 30, 2007. Restructuring costs of approximately $892,000, consisting of termination benefits of approximately $351,000 and contract termination expenses of approximately $541,000 related to our Publishing business, were recorded in discontinued operations during the three and nine months ended September 30, 2008.

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

	Three months ended September 30, 2007			
	LPI	**SpecPub**	**RSVP**	**Total**
Total revenue	$ 5,682	$ 1,584	$ 7,855	$ 15,121
Operating costs and expenses:				
Cost of revenue	3,512	990	7,643	12,145
Sales and marketing	1,641	381	260	2,282
General and administrative	834	62	125	1,021
Restructuring			19	19
Depreciation and amortization	249	2	118	369
Impairment of goodwill and intangible assets			900	900
Total operating costs and expenses	6,236	1,435	9,065	16,736
Income (loss) from operations	(554)	149	(1,210)	(1,615)
Other income (expense), net	(14)	(4)	5	(13)
Income (loss) from discontinued operations	$ (568)	$ 145	$ (1,205)	$ (1,628)

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

	Three months ended September 30, 2008			
	LPI	**SpecPub**	**RSVP**	**Total**
Total revenue	$ 3,810	$ 661	$	$ 4,471
Operating costs and expenses:				
Cost of revenue	2,313	465		2,778
Sales and marketing	640	92	(2)	730
General and administrative	383	52	1	436
Restructuring	795	97		892
Depreciation and amortization	256	28		284
Total operating costs and expenses	4,387	734	(1)	5,120
Income (loss) from operations	(577)	(73)	1	(649)
Other expense, net	(3)			(3)
Income (loss) from discontinued operations	(580)	(73)	1	(652)
Gain (loss) on sale of discontinued operations	(786)	651		(135)
Income (loss) from and loss on sale of discontinued operations	$ (1,366)	$ 578	$ 1	$ (787)

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

	Nine months ended September 30, 2007				
	LPI	SpecPub	RSVP	DSW	Total
Total revenue	$ 15,396	$ 4,906	$ 17,023	$ 2	$ 37,327
Operating costs and expenses:					
Cost of revenue	10,143	3,042	18,678		31,863
Sales and marketing	4,175	1,151	1,455	37	6,818
General and administrative	2,541	495	376	1	3,413
Restructuring			19		19
Depreciation and amortization	753	251	287		1,291
Impairment of goodwill and intangible assets	15,700	5,400	4,700		25,800
Total operating costs and expenses	33,312	10,339	25,515	38	69,204
Loss from operations	(17,916)	(5,433)	(8,492)	(36)	(31,877)
Other income (expense), net	(239)	(103)	23		(319)
Loss from discontinued operations	$ (18,155)	$ (5,536)	$ (8,469)	$ (36)	$ (32,196)

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

	Nine months ended September 30, 2008			
	LPI	SpecPub	RSVP	Total
Total revenue	$ 12,569	$ 2,885	$	$ 15,454
Operating costs and expenses:				
Cost of revenue	9,179	2,283	(20)	11,442
Sales and marketing	3,346	686	(21)	4,011
General and administrative	1,617	210	4	1,831
Restructuring	795	97		892
Depreciation and amortization	327	31		358
Impairment of goodwill and intangible assets	1,978	4,294		6,272
Total operating costs and expenses	17,242	7,601	(37)	24,806
Income (loss) from operations	(4,673)	(4,716)	37	(9,352)
Other income (expense), net	(15)	1		(14)
Income (loss) from discontinued operations	(4,688)	(4,715)	37	(9,366)
Gain (loss) on sale of discontinued operations	(786)	651		(135)
Income (loss) from and loss on sale of discontinued operations	$ (5,474)	$ (4,064)	$ 37	$ (9,501)

Liquidity and Capital Resources

Cash provided by operating activities for the nine months ended September 30, 2008 was $3.4 million, due primarily to non-cash charges related to depreciation and amortization, a decrease in accounts receivable and net cash provided by operating activities of discontinued operations, offset partially by our loss from continuing operations of

$4.7 million. Cash used in operating activities for the nine months ended September 30, 2007 was $13.7 million, and was primarily attributable to our loss from continuing operations of $10.9 million and net cash used in operating activities of discontinued operations of $9.7 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 nine months ended September 30, 2008 was $3.1 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 processors 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 nine months ended September 30, 2007 was $1.8 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 nine months ended September 30, 2008 was $0.6 million, due primarily to principal payments under capital lease obligations. Net cash provided by financing activities in the nine months ended September 30, 2007 was $13.2 million, due primarily to the net proceeds of $24.0 million from our equity financing in July 2007 with a group of accredited and institutional investors, partially offset by 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.

Table of Contents

During the nine months ended September 30, 2008, we invested $1.8 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 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 August 2008, we sold substantially all the assets of our Publishing business.

Off-Balance Sheet Arrangements

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

Contractual Obligations

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

	Payments Due by Period			
	Total	**Remainder of 2008**	**2009-2010**	**2011-2012**
Contractual obligations:				
Capital leases	$ 1,422	$ 255	$ 1,079	$ 88
Operating leases	8,420	607	4,849	2,964
Total contractual obligations	$ 9,842	$ 862	$ 5,928	$ 3,052

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 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.

Table of Contents

We evaluated the effectiveness of the design and operation of disclosure controls and procedures as of September 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 September 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.

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 will continue to suffer.

We have experienced significant net losses and we expect to continue to incur losses in the future. As of September 30, 2008, our accumulated deficit was approximately $103.6 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 $14.2 million in the nine months ended September 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.

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. We have experienced turnover in our sales team, and 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 advertising expenditures to larger, higher-traffic websites 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 content providers, including large media companies such as Yahoo!, Google, MSN, Time Warner, Viacom 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.

Table of Contents

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.

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

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, and to our members, including banner advertisements, rich media advertisements, 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. If we are unable to predict the cost of developing these custom advertising campaigns, our expenses may increase and our margins will be reduced.

If we encounter technical difficulties, such as outages and slow or non-responsive system performance, with our Gay.com website or if the website lacks the functionality desired by our users, members and subscribers, our revenue will decline.

We recently converted the core website functionality of our flagship website, Gay.com, onto a new technology platform. During the re-launch of the Gay.com website, we experienced technical difficulties that resulted in downtime and suboptimal performance of the website. As a result of these technical difficulties, a few of our members and subscribers canceled their accounts and subscriptions with us. If we encounter further technical difficulties, and such difficulties result in continued or increased downtime on our Gay.com website, or if our users, members and subscribers do not like the new look, feel and functionality of our new Gay.com website, additional members and subscribers may cancel their accounts and subscriptions with us, advertisers may fail to initiate or renew their contracts with us and our revenue will decline.

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 to be of high quality or sufficient breadth, if we introduce new services or re-launch current services, as we recently did with our Gay.com website, and such services 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 nine months ended September 30, 2008, total subscription cancellations exceeded the number of new subscriptions, resulting in a decrease in total paying online subscribers.

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 is a poor value or that customer service issues are not satisfactorily resolved. We also believe that 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. Members may decline to subscribe or existing subscribers may cancel their subscriptions if our websites experience a disruption or degradation of services, including slow response times or excessive downtime 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.

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.

If we do not regain and maintain compliance with Nasdaq minimum market value of publicly held shares requirement or other listing requirements, we may be forced to transfer to the Nasdaq Capital Market or our common stock may be delisted.

On August 11, 2008, we received a notice from the Nasdaq Listing Qualifications Department of The Nasdaq Stock Market stating that we have not maintained a minimum market value of $5,000,000 of publicly held shares (defined as total shares outstanding, less any shares held by officers, directors or beneficial owners of 10% or more of the total shares outstanding), as required for continued inclusion under Marketplace Rule 4450(a)(2) (the Rule). The notice further stated that we had 90 calendar days (or until October 30, 2008) to regain compliance. If, at anytime prior to October 30, 2008, the minimum market value of publicly held shares (as defined by the Rule) of our common stock was $5,000,000 or greater for a minimum of 10 consecutive trading days, then we would regain compliance with the Rule. We were unable to regain compliance by October 30, 2008. However, on October 16, 2008, we were notified by Nasdaq that, due to extraordinary market conditions, Nasdaq was temporarily suspending the minimum bid price and market value of publicly held shares requirements for continued inclusion. As a result of that suspension, all companies in the compliance process resulting from their failure to meet these requirements, including us, will remain in the same stage of the process through January 16, 2009.

If we cannot demonstrate compliance with the Rule by January 16, 2009, the Nasdaq staff will provide written notification that our securities will be delisted and, at that time, we may appeal the determination to a Listing Qualifications Panel. If our common stock were to be delisted, it would trade on the over-the-counter bulletin board or in the pink sheets, both of which are viewed by most investors as less desirable and less liquid market places than the Nasdaq Global Market or the Nasdaq Capital Market. This could make trading more difficult for our investors, leading to lower trading volumes and declines in share price, which would also make it more difficult and expensive for us to raise any additional capital. Additionally, a future reverse stock split, if any, may not necessarily result in our regaining compliance with Nasdaq rules.

Alternatively, we may apply to transfer our securities to the Nasdaq Capital Market, if we satisfy inclusion requirements for that market. If we timely submit the transfer application, the initiation of the delisting proceedings will be stayed by the Nasdaq staff pending review of the application. We intend to monitor the minimum market value of publicly held shares (as defined by the Rule) of our common stock between now and January 16, 2009. If our common stock does not trade at a level that is likely to regain compliance, our board of directors will consider options available to us, including applying to transfer our securities to the Nasdaq Capital Market.

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 August 13, 2008, we completed the sale of our Publishing business, including substantially all of the assets of our subsidiaries LPI and SpecPub. 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 $21.1 million and $4.0 million in discontinued operations due to lower revenue than expected related to our Publishing and Travel and Events 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.

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 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, the recent divestiture of certain businesses and the potential sale of the Company 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.

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, monitoring 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

Table of Contents

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. In our advertising business, we compete with traditional media companies focused on the general population and the LGBT community, including satellite radio, cable networks and network, cable and satellite television shows. We also compete with a broad variety of online content providers, including large media companies such as Yahoo!, Google, MSN, Time Warner, Viacom and News Corporation, as well as a number of smaller companies focused specifically on the LGBT community. In our subscription business, our competitors include many of the same 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.

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 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 the success of our recent move onto a more extensible core technology platform.

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, and PlanetOutInc.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.

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

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 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. 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 and August 2008 for those proposed regulations issued in June 2007 and June 2008, respectively. 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, system or service outages, technological issues with our infrastructure, 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.

Table of Contents

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. 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.

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.

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. 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 an earthquake-sensitive area, 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.

Table of Contents

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 October 30, 2008, the closing sale prices of our common stock on the Nasdaq Stock Market ranged from $1.25 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.

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.

Table of Contents

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

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

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2008 July 31, 2008		$		
August 1, 2008 August 31, 2008				
September 1, 2008 September 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

No matters were submitted to a vote of security holders during the third quarter of 2008.

Item 5. Other Information

Not Applicable.

Item 6. Exhibits

(a) Exhibits

Exhibit Number	Description of Documents
2.4	Put/Call Agreement among Regent Releasing, L.L.C., Regent Entertainment Media Inc., PlanetOut Inc., LPI Media Inc., and SpecPub, Inc. dated as of August 12, 2008 (filed as Exhibit 2.1 to our Current Report on Form 8-K, File No. 000-50879, filed on August 13, 2008, and incorporated herein by reference).
2.5	Marketing Agreement between Regent Releasing, L.L.C. and PlanetOut Inc. entered into as of August 12, 2008 (filed as Exhibit 2.2 to our Current Report on Form 8-K, File No. 000-50879, filed on August 13, 2008, and incorporated herein by reference).

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).

Table of Contents

Exhibit Number	Description of Documents
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	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.

Table of Contents

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: October 31, 2008

By: /s/ DANIEL E. STEIMLE
Daniel E. Steimle
Interim Chief Financial Officer
(Principal Financial and Accounting Officer)

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description of Documents
2.4	Put/Call Agreement among Regent Releasing, L.L.C., Regent Entertainment Media Inc., PlanetOut Inc., LPI Media Inc., and SpecPub, Inc. dated as of August 12, 2008 (filed as Exhibit 2.1 to our Current Report on Form 8-K, File No. 000-50879, filed on August 13, 2008, and incorporated herein by reference).
2.5	Marketing Agreement between Regent Releasing, L.L.C. and PlanetOut Inc. entered into as of August 12, 2008 (filed as Exhibit 2.2 to our Current Report on Form 8-K, File No. 000-50879, filed on August 13, 2008, and incorporated herein by reference).
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	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.