

PLANETOUT INC  
Form 10-Q  
May 15, 2009

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

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

**For the quarterly period ended: March 31, 2009**

**or**

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

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

**Commission File Number: 000-50879**

**PLANETOUT INC.**

(Exact Name of Registrant as Specified in Its Charter)

**DELAWARE**

(State or Other Jurisdiction of Incorporation or  
Organization)

**94-3391368**

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

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

(Address of Principal Executive Offices)

**94111**

(Zip Code)

**(415) 834-6500**

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

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

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

The number of shares outstanding of the registrant's Common Stock, \$0.001 par value, as of April 30, 2009 was 4,070,713.

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**For the Quarter ended March 31, 2009**

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

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

	<b>December 31, 2008</b>	<b>March 31, 2009</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,943	\$ 1,812
Restricted cash	1,432	1,126
Accounts receivable, net	847	871
Prepaid expenses and other current assets	996	652
Total current assets	8,218	4,461
Property and equipment, net	5,275	4,611
Goodwill	2,988	2,988
Other assets	397	280
Total assets	\$ 16,878	\$ 12,340
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 695	\$ 937
Accrued expenses and other liabilities	2,927	1,971
Deferred revenue	2,830	2,403
Capital lease obligations, current portion	763	621
Deferred rent, current portion	320	340
Total current liabilities	7,535	6,272
Capital lease obligations, less current portion	117	82
Deferred rent, less current portion	949	856
Other long-term liabilities	300	300
Total liabilities	8,901	7,510
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Common stock: \$0.001 par value, 100,000 shares authorized, 4,089 and 4,089 shares issued and outstanding at December 31, 2008 and March 31, 2009, respectively	40	40
Additional paid-in capital	115,170	115,465
Accumulated other comprehensive loss	(94)	(100)
Accumulated deficit	(107,139)	(110,575)

Total stockholders' equity	7,977	4,830
Total liabilities and stockholders' equity	\$ 16,878	\$ 12,340

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2009</b>
Revenue:		
Advertising services	\$ 1,067	\$ 1,269
Subscription services	3,694	2,529
Transaction services	77	46
Total revenue	4,838	3,844
Operating costs and expenses: (*)		
Cost of revenue	2,444	2,043
Sales and marketing	1,597	901
General and administrative	2,038	2,736
Restructuring		554
Depreciation and amortization	1,115	727
Total operating costs and expenses	7,194	6,961
Loss from operations	(2,356)	(3,117)
Interest expense	(43)	(17)
Other income, net	67	6
Loss from continuing operations before income taxes	(2,332)	(3,128)
Provision for income taxes		3
Loss from continuing operations	(2,332)	(3,131)
Net income (loss) from and loss on sale of discontinued operations, net of taxes	(8,046)	(305)
Net loss	\$ (10,378)	\$ (3,436)
Net loss per share from continuing operations Basic and diluted	\$ (0.58)	\$ (0.77)
Loss per share from discontinued operations Basic and diluted	\$ (1.99)	\$ (0.08)
Net loss per share Basic and diluted	\$ (2.56)	\$ (0.85)
Weighted-average shares used to compute loss per share Basic and diluted	4,048	4,059

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(\*) Stock-based compensation is allocated as follows (see Note 6):

Cost of revenue	\$	33	\$	13
Sales and marketing		2		
General and administrative		92		278
Total stock-based compensation	\$	127	\$	291

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2009</b>
Cash flows from operating activities:		
Net loss	\$ (10,378)	\$ (3,436)
Net loss from discontinued operations, net of tax	8,046	(13)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,115	727
Non-cash services expense	90	4
Provision for doubtful accounts	4	
Stock-based compensation, net of cancellation and tax effects	127	291
Amortization of deferred rent	(57)	(73)
Changes in operating assets and liabilities, net of acquisition effects and restructuring:		
Accounts receivable	1,275	(24)
Prepaid expenses and other assets	15	461
Accounts payable	(340)	242
Accrued expenses and other liabilities	(420)	(956)
Deferred revenue	(112)	(108)
Net cash used in operating activities of continuing operations	(635)	(2,885)
Net cash provided by (used in) operating activities of discontinued operations	(753)	13
Net cash used in operating activities	(1,388)	(2,872)
Cash flows from investing activities:		
Purchases of property and equipment	(497)	(63)
Adjustment to proceeds from sale of discontinued operations		(319)
Changes in restricted cash	(1)	306
Net cash used in investing activities	(498)	(76)
Cash flows from financing activities:		
Principal payments under capital lease obligations	(207)	(177)
Net cash used in financing activities	(207)	(177)
Effect of exchange rate on cash and cash equivalents		(6)
Net decrease in cash and cash equivalents	(2,093)	(3,131)
Cash and cash equivalents, beginning of period	8,534	4,943
Cash and cash equivalents, end of period	\$ 6,441	\$ 1,812



Supplemental disclosure of noncash flow investing and financing activities:

Property and equipment and related maintenance acquired under capital leases	\$	80	\$
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The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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**PlanetOut Inc.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

***The Company***

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

In November 2005, the Company acquired substantially all of the assets of LPI Media Inc. and related entities (LPI), which 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.

On January 8, 2009, the Company signed a definitive agreement to combine with Here Networks LLC and Regent Entertainment Media Inc. Under the proposed business combination, the combined entity will be called Here Media Inc. (Here Media) and will be effected through a contribution by the owners of Here Networks and Regent Entertainment Media of those businesses and an estimate of \$4.7 million of cash into Here Media, a newly formed holding company. PlanetOut will concurrently be merged with a wholly owned subsidiary of Here Media. Following the contribution and the merger, all three companies will be subsidiaries of Here Media.

***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, 2008 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, 2008.

***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.

As a result of the Company experiencing recurring losses and negative cash flow from operations in 2008 and 2009 and its accumulated deficit, the Company has carefully assessed its anticipated cash needs for the next twelve months. On January 8, 2009, the Company signed a definitive agreement to combine with Here Networks, LLC and Regent Entertainment Media Inc. If the proposed business combination is not completed, the Company has adopted an operating plan to manage the costs of its capital expenditures and operating activities along with its revenues in order to meet its working capital needs for the next twelve months. Although the Company believes that it has sufficient working capital to conduct its operations and meet its current obligations for the next twelve months, it makes no assurance that it will be able to do so. Accordingly, the accompanying consolidated financial statements are presented on the basis that the Company is a going concern and therefore do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.



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### ***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 loss or net 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.

### ***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, the fair market value of which approximates cost.

### ***Restricted Cash***

Restricted cash consists 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.

### ***Fair Value Measurement of Assets and Liabilities***

Our financial assets and liabilities are valued using market prices on both active markets (level 1) and less active markets (level 2). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Level 2 instrument valuations are obtained from readily-available pricing sources for comparable instruments. As of March 31, 2009, we did not have any assets or liabilities without observable market values that would require a high level of judgment to determine fair value (level 3).

### ***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

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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.

On January 1, 2008, the Company determined that it had three reporting units and was operating in two segments. 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, 2008. The results of Step 1 of the annual goodwill impairment analysis on December 1, 2008 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. The Company determined that a triggering had not occurred in the three months ended March 31, 2009 and accordingly, no impairment was recorded during that period.

***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 March 31, 2008 and 2009 were \$352,000 and \$276,000, respectively.

***Stock-Based Compensation***

The Company accounts for stock-based awards under SFAS No. 123 (revised 2004), *Share-Based Payment* (FAS 123R) using the modified prospective method, which requires measurement of compensation cost for all stock-based awards at fair value on date of grant and recognition of compensation over the service period for awards expected to vest. The fair value of restricted stock is determined based on the number of shares granted and the quoted price of the Company's common stock, and the fair value of stock options is determined using the Black-Scholes valuation model. Such value is recognized as expense over the service period, net of estimated forfeitures, using the straight-line method under FAS 123R. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from the Company's current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. The Company considers many factors when estimating

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.

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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. In December 2007, the Company sold substantially all the assets of RSVP. As a result of the 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 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 2005. State jurisdictions that remain subject to assessment range from 2004 to 2008. 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 2008 or the three months ended March 31, 2009. The Company's effective tax rate differs from the federal statutory rate primarily due to increases in its deferred income tax valuation allowance.

***Net Loss Per Share***

Basic net loss per share ( Basic EPS ) is computed by dividing net loss by the sum of the weighted-average number of common shares outstanding during the period. Diluted net loss per share ( Diluted EPS ) gives effect to all dilutive potential common shares outstanding during the period. The computation of Diluted EPS does not assume conversion, exercise or contingent exercise of securities that would have an anti-dilutive effect on earnings. The dilutive effect of outstanding stock options and warrants is computed using the treasury stock method.



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

	<b>Three months ended March 31,</b>	
	<b>2008</b>	<b>2009</b>
Numerator:		
Net loss	\$ (10,378)	\$ (3,436)
Denominator for basic and diluted net loss per share:		
Weighted-average shares used to compute Basic and Diluted EPS	4,048	4,059
Net loss per share Basic and Diluted	\$ (2.56)	\$ (0.85)

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):

	<b>Three months ended March 31,</b>	
	<b>2008</b>	<b>2009</b>
Common stock options and warrants	207	107

**Recent Accounting Pronouncements**

In December 2007, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 141 (Revised 2007), *Business Combinations* ( SFAS 141R ). Under SFAS 141R, an acquiring entity is required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition date fair value with limited exceptions. SFAS 141R changes the accounting treatment for certain specific acquisition-related items including: expensing acquisition-related costs as incurred, valuing non-controlling interests at fair value at the acquisition date and expensing restructuring costs associated with an acquired business. SFAS 141R also requires acquisition-related costs be recorded as expenses in the periods in which the costs are incurred and the services are received. Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder s fees; advisory, legal, accounting, valuation, and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. The Company adopted FAS 141R effective January 1, 2009.

In April 2009, the FASB issued three related Staff Positions (FSP): (i) FSP 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4), (ii) FSP Statement of Financial Accounting Standard (SFAS) 115-2 and SFAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, (FSP SFAS 115-2 and SFAS 124-2) , and (iii) FSP SFAS 107-1 and Accounting Principles Board (APB) 28-1, *Interim Disclosures about Fair Value of Financial Instruments* , (FSP SFAS 107 and APB 28-1), each of which will be effective for interim and annual periods ending after June 15, 2009. FSP 157-4 provides guidance on how to determine the fair value of assets and liabilities under SFAS 157 *Fair Value Measurements* , in the current economic environment and reemphasizes that the objective of a fair value measurement remains the determination of an exit price. If we were to conclude that there has been a significant decrease in the volume and level of activity of the asset or liability in relation to *normal* market activities, quoted market values may not be representative of fair value and we may conclude that a change in valuation technique or the use of multiple valuation techniques may be appropriate. FSP SFAS 115-2 and SFAS 124-2 modify the requirements for recognizing other-than-temporarily impaired debt securities and revise the existing impairment

model for such securities by modifying the current *intent and ability* indicator in determining whether a debt security is other-than-temporarily impaired. FSP SFAS 107 and APB 28-1 enhance the disclosure of instruments under the scope of SFAS 157 for both interim and annual periods. We are currently evaluating the potential impact of these Staff Positions.

In April 2009, the FASB issued FSP No. 141R-1 *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (FSP 141R-1). FSP 141R-1 amends the provisions in FASB Statement 141R for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations. FSP 141R-1 eliminates the distinction between contractual and non-contractual contingencies, including the initial recognition and measurement criteria in Statement 141R and instead carries forward most of the provisions in SFAS 141 for acquired contingencies. FSP 141R-1 is effective for contingent assets and contingent liabilities acquired in

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business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We expect that FSP 141R-1 may have an impact on our consolidated financial statements.

**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, 2008. The results of Step 1 of the annual goodwill impairment analysis on December 1, 2008 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. The Company determined that a triggering had not occurred in the three months ended March 31, 2009 and accordingly, no impairment was recorded during that period.

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 three months ended March 31, 2009. An impairment charge of \$4.1 million related to the Company's Publishing business is reflected under discontinued operations during the three months ended March 31, 2008. See Note 8, Discontinued Operations.

*Intangible Assets*

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

	December 31, 2008			March 31, 2009		
	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, 2008 and March 31, 2009, the Company's intangible assets were fully amortized. During the three months ended March 31, 2008 and 2009, the Company did not record any amortization expense on its intangible assets.

An impairment charge of \$2.2 million related to the Company's Publishing business is reflected under discontinued operations during the three months ended March 31, 2008. See Note 8, Discontinued Operations.

**Note 3 Other Balance Sheet Components**

	December 31, 2008	March 31, 2009
	(In thousands)	
<b>Accounts receivable:</b>		
Trade accounts receivable	\$ 913	\$ 937

Less: Allowance for doubtful accounts	(66)	(66)
	\$ 847	\$ 871

In the three months ended March 31, 2008 and 2009, the Company provided for an increase in the allowance for doubtful accounts of \$4,000 and zero, respectively, and wrote-off \$2,000 and zero, respectively, against the allowance for doubtful accounts.

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	<b>December 31, 2008</b>	<b>March 31, 2009</b>
	<b>(In thousands)</b>	
<b>Property and equipment:</b>		
Computer equipment and software	\$ 9,321	\$ 9,329
Furniture and fixtures	875	875
Leasehold improvements	1,686	1,686
Website development costs	7,738	7,793
	19,620	19,683
Less: Accumulated depreciation and amortization	(14,345)	(15,072)
	\$ 5,275	\$ 4,611

In the three months ended March 31, 2008 and 2009, the Company recorded depreciation and amortization expense of property and equipment of \$1,115,000 and \$727,000, respectively.

	<b>December 31, 2008</b>	<b>March 31, 2009</b>
	<b>(In thousands)</b>	
<b>Accrued expenses and other liabilities:</b>		
Accrued payroll and related liabilities	\$ 1,270	\$ 1,138
Other accrued liabilities	1,657	833
	\$ 2,927	\$ 1,971

**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 of zero and \$689,000 under this Plan in the three months ended March 31, 2008 and 2009, respectively. As of March 31, 2009, the Company estimates that the total outstanding potential payments that have not been paid or accrued to date remaining under this plan is \$552,000. Severance related to the Company's former Chief Technology Officer and former Chief Executive Officer are not included in this amount as their respective severance agreements were established at their respective dates of hire which occurred prior to the adoption of the Plan in January 2008, but, a retention amount awarded to our former Chief Technology Officer under this Plan is included. 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.

***Termination Fee***

Under the terms of the proposed business combination with Here Media Inc., PlanetOut stockholders will receive one share of Here Media common stock, together with one share of Here Media special stock, for each share of PlanetOut stock that the stockholder owns immediately prior to the effective time of the merger, which will result in the former PlanetOut stockholders owning approximately 20% of Here Media's common stock and 100% of its outstanding special stock. The owners of Here Networks and Regent Entertainment Media will receive that number of shares of Here Media's common stock such that they will own approximately 80% of Here Media's common stock following the merger and the contributions. The special stock is being issued to provide a limited form of downside protection in the event of a liquidation, dissolution or winding up of Here Media or a sale of Here Media for cash or publicly tradable within four years after the merger and in which the holders of Here Media common stock would, but for the effect of the special stock, receive less than \$4.00 per share. If the proposed business combination is not completed due to certain contingencies, the Company may owe a termination fee of \$500,000 to the owners of Here Networks and Regent Entertainment Media.

**Table of Contents*****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*****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 to vest on May 14, 2009, provided that Allen's engagement has not been terminated prior to such vesting date. 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 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.

***Replacement of Warrant***

On January 8, 2009, 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 \$0.69 per share, subject to certain customary adjustments. The warrant vested immediately with respect to 62,500 shares, with the remaining 12,500 shares vesting on May 14, 2009, provided that Allen's engagement has not been terminated prior to such vesting dates. 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 agreed to surrender for cancellation the 75,000 share warrant previously issued to it in January 2008. The warrant was issued in reliance on an exemption pursuant to Section 4(2) of the Securities Act of 1933, as amended. The value of the remaining unvested portion of the warrant will be reassessed subsequent to its vesting in May 2009.

The Company recorded \$90,000 and \$4,000 in the three months ended March 31, 2008 and 2009, respectively, of non-cash services expense associated with these warrants.

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

During the three months ended March 31, 2009, the Company did not grant any stock options under its existing equity incentive plans. The following table summarizes stock option activity for the three months ended March 31, 2009 (in thousands):

	<b>Shares</b>
Outstanding at January 1, 2009	22
Forfeited/expired/cancelled	(2)
Outstanding at March 31, 2009	20

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.

**Table of Contents***Restricted Stock*

The following table summarizes restricted stock grant activity for the three months ended March 31, 2009 (in thousands):

	<b>Shares</b>
Unvested at January 1, 2009	29
Vested	(15)
Forfeited	(13)
Unvested at March 31, 2009	1

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 majority of the remaining unvested restricted stock is scheduled to vest within the following twelve months.

**Note 7 Restructuring**

On January 16, 2009, the Company reduced its workforce by approximately 33%, including its Chief Technology Officer, to reduce costs and manage operating expenses. In connection with this reduction in its workforce, the Company recorded expense related to employee severance benefits of approximately \$554,000 of which \$282,000 was paid in the three months ended March 31, 2009 and \$272,000 is recorded as an accrued payroll expense as of March 31, 2009. These amounts do not include severance related to the departure of our former Chief Executive Officer which occurred subsequent to the January restructuring, but do include amounts related to severance provided to our former Chief Technology Officer under his existing employment agreement.

**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 December 2007, the Company sold substantially all of the assets of its former reporting unit, 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 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. In the three months ended March 31, 2009, the Company revised its estimate of the net loss on sale of its Publishing business based on the completion of advertising services to Regent under the Marketing Agreement with them.

As a result of 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, LPI and SpecPub as discontinued operations within the condensed consolidated financial statements for the three months ended March 31, 2008 and 2009 in accordance with FAS 144. In addition, the Company has segregated the cash flow activity of RSVP, LPI and SpecPub from the condensed consolidated statements of cash flows for the three months ended March 31, 2008 and 2009. The results of operations of RSVP 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.

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The results of discontinued operations for the three months ended March 31, 2008 were as follows (in thousands):

	<b>Three months ended March 31, 2008</b>			
	<b>LPI</b>	<b>SpecPub</b>	<b>RSVP</b>	<b>Total</b>
Total revenue	\$ 4,005	\$ 1,133	\$	\$ 5,138
Operating costs and expenses:				
Cost of revenue	3,488	952	(12)	4,428
Sales and marketing	1,368	318	1	1,687
General and administrative	621	115	2	738
Depreciation and amortization	52	2		54
Impairment of goodwill and intangible assets	1,978	4,294		6,272
Total operating costs and expenses	7,507	5,681	(9)	13,179
Income (loss) from operations	(3,502)	(4,548)	9	(8,041)
Other income (expense), net	(6)	1		(5)
Net income (loss) from discontinued operations	\$ (3,508)	\$ (4,547)	\$ 9	\$ (8,046)

The results of discontinued operations for the three months ended March 31, 2009 were as follows (in thousands):

	<b>Three months ended March 31, 2009</b>	
	<b>LPI</b>	<b>Total</b>
Total revenue	\$	\$
Operating costs and expenses:		
Cost of revenue	(8)	(8)
General and administrative	(5)	(5)
Total operating costs and expenses	(13)	(13)
Income from operations	13	13
Other income (expense), net		
Income from discontinued operations	13	13
Loss on sale of discontinued operations	(318)	(318)
Net income (loss) from and loss on sale of discontinued operations	\$ (305)	\$ (305)

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

*The following discussion should be read in conjunction with the financial statements and related notes which appear elsewhere in this document. This discussion contains forward-looking statements that involve risks and uncertainties. In some cases, you can identify forward-looking statements by terminology including would, could, may, will, should, expect, intend, plan, anticipate, believe, estimate, predict, potential or continue, the negative of these terms or other comparable terminology. These statements are only predictions. Forward-looking statements include statements about our business strategy, future operating performance and prospects. You should not place undue reliance on these forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this document and in our Form 10-K filed for the year ended December 31, 2008.*

#### **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 the divestitures of RSVP, LPI and SpecPub and our decision to exit the Travel and Events and Publishing businesses in December 2007 and August 2008, respectively, we have one segment remaining as of December 31, 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, LPI and SpecPub in discontinued operations within the consolidated financial statements.

On January 8, 2009, we signed a definitive agreement to combine with Here Networks LLC and Regent Entertainment Media Inc. Under the proposed business combination, the combined entity will be called Here Media Inc. ( Here Media ) and will be effected through a contribution by the owners of Here Networks and Regent Entertainment Media of those businesses and an estimate of \$4.7 million of cash into Here Media, a newly formed holding company. PlanetOut will concurrently be merged with a wholly owned subsidiary of Here Media. Following the contribution and the merger, all three companies will be subsidiaries of Here Media.

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

Our total revenue was \$3.8 million in the three months ended March 31, 2009, decreasing 21% from total revenue of \$4.8 million in the three months ended March 31, 2008. These decreases were primarily due to decreases in our subscription revenues as a result of a reduction in online subscribers to our Gay.com website, offset partially by \$0.7 million of advertising revenue included in our total advertising services revenue of \$1.3 million in the three months ended March 31, 2009, related to marketing and advertising services provided to Regent as part of the Marketing Agreement with Regent entered into in conjunction with the sale of our Publishing business.

Total operating costs and expenses were \$7.0 million in the three months ended March 31, 2009, increasing 2% from total operating costs and expenses of \$7.2 million in the three months ended March 31, 2008. This increase was primarily due to transaction costs related to our pending business combination with Here Media of \$0.9 million, severance costs and other costs related to the departure of our former Chief Executive Officer of \$0.7 million and our January 2009 restructuring costs of \$0.6 million, offset by a reduction in compensation and employee related costs as a result of reduced headcount.

Loss from operations was \$3.1 million in the three months ended March 31, 2009, compared to loss from operations of \$2.4 million in the three months ended March 31, 2008. This increase in loss from operations was the result of the decreases in total revenues and increased operating costs and expenses as noted above.

Management expects that revenue will decrease for the remainder of fiscal 2009 in comparison to fiscal 2008, primarily as a result of general economic conditions and anticipated decreases in subscription services revenue due to reductions in our paid subscriber base as a result of continued increased credit card failures on renewals of online subscriptions, increased competition and the completion of advertising services provided to Regent from May 2008 to March 2009.

We expect our operating loss will decrease for the remainder of fiscal 2009 in comparison to fiscal 2008 due primarily to reductions in operating expenses including our January 2009 restructuring and the departure of our former Chief Executive Officer and as a result of our adoption of an operating plan to manage the costs of our capital

expenditures and operating activities along with our revenues in order to meet our working capital needs.

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*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 \$1.3 million in the three months ended March 31, 2009, an increase of 19% from the three months ended March 31, 2008. This increase in advertising services revenue was primarily due to marketing and advertising services of \$0.7 million provided to Regent under the Marketing Agreement entered into in conjunction with the sale of our Publishing business.

For the remainder of fiscal 2009, we expect advertising services revenue to decrease in comparison to fiscal 2008 due to the completion of advertising services provided to Regent under the Marketing Agreement from May 2008 to March 2009, overall economic conditions and potential softening of the online advertising market.

*Subscription Services.* We derive subscription services revenue from paid membership subscriptions to our online media properties. Our subscription services revenue was \$2.5 million in the three months ended March 31, 2009, a decrease of 32% from the three months ended March 31, 2008. These decreases in subscription services revenue were due primarily to a reduction in the number of online subscribers to our Gay.com website primarily as a result of increases in credit card failures on renewals of online subscriptions and increased cancellation of subscriptions. We believe the increased cancellations are the result of multiple factors, including the failure to introduce new features and functionalities on site until the relaunch of the Gay.com website on September 30, 2008, increased competition and general overall economic conditions.

For the remainder of fiscal 2009, we expect total subscription services revenue to decrease in comparison to fiscal 2008, as a result of continued increased credit card failures on renewals of online subscriptions, increased competition and general economic conditions.

*Transaction Services.* Transaction services revenue includes revenue generated from co-marketing opportunities with other affiliates that are marketing to the LGBT community. Our transaction services revenue totaled \$0.1 million and zero for the three months ended March 31, 2009 and 2008, respectively, as a result of the decrease in online subscribers to our Gay.com website.

For the remainder of fiscal 2009, we expect transaction services revenue to continue to decrease slightly in comparison to fiscal 2008.

***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 \$2.0 million in the three months ended March 31, 2009, decreasing 16% from cost of revenue of \$2.4 million in the three months ended March 31, 2008. This decrease was due to an overall decrease in compensation and employee related costs as a result of reduced headcount and decreases in computer equipment and infrastructure maintenance costs, credit card fees and advertising servicing costs, partially offset by decreased capitalization of labor of our product development and technology personnel upon the re-launching of our Gay.com website during the latter half of 2008.

For the remainder of fiscal 2009, we expect cost of revenue and cost of revenue as a percentage of revenue to decrease in comparison to fiscal 2008, as a result of reductions in headcount from our January 2009 restructuring.

*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 \$0.9 million in the three months ended March 31, 2009, decreasing 44% from sales and marketing expenses of \$1.6 million in the three months ended March 31, 2008. Sales and marketing expenses as a percentage of revenue was 23% for the three months ended March 31, 2009, down from 33% in the three months ended March 31, 2008. These decreases were primarily due to decreased compensation and employee related costs as a result of reduced headcount and a reduction in advertising and market research expenses.

For the remainder of fiscal 2009, we expect sales and marketing expenses and sales and marketing as a percentage of revenue to decrease in comparison to fiscal 2008 as a result of reductions in headcount from our January 2009 restructuring and further reductions in advertising and marketing research expenditures for the remainder of 2009.

*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 \$2.7 million for the three months ended March 31, 2009, increasing 34% from general and administrative expenses of \$2.0 million in the three months ended March 31, 2008. General and administrative

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expenses as a percentage of revenue were 71% for the three months ended March 31, 2009, up from 42% in the three months ended March 31, 2008. These increases were due primarily to transactions costs related to our pending business combination with Here Media of \$0.9 million recognized in accordance with the adoption of FAS 141R and severance and related costs of \$0.7 million, including, stock-based compensation expense of \$0.2 million, related to the departure of our former Chief Executive Officer.

For the remainder of fiscal 2009, we expect general and administrative expenses to decrease from fiscal 2008 primarily due to decreased compensation and employee related costs as a result of decreases in headcount from our January 2009 restructuring and the departure of our former Chief Executive Officer in the three months ended March 31, 2009.

**Restructuring.** On January 16, 2009, we reduced our workforce by approximately 33%, including our Chief Technology Officer, to reduce costs and manage operating expenses. In connection with this reduction in our workforce, we recorded expense related to employee severance benefits of approximately \$554,000 during the three months ended March 31, 2009. We completed this restructuring in the first quarter of 2009.

**Depreciation and Amortization.** Depreciation and amortization expense was \$0.7 million for the three months ended March 31, 2009, decreasing 35% from depreciation and amortization expense of \$1.1 million in the three months ended March 31, 2008. These decreases were primarily due to a decrease in depreciable assets in service during the three months ended March 31, 2009 compared to the prior year periods.

For the remainder of fiscal 2009, we expect depreciation and amortization expense will decrease over fiscal 2008 as a result of a decrease in our depreciable assets in service.

***Other Income and Expenses***

**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 \$0.1 million and zero in the three months ended March 31, 2009 and 2008, 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 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. In the three months ended March 31, 2009, we revised our estimate of the net loss on sale of our Publishing business based on the completion of our services to Regent under our Marketing Agreement with them.

As a result of 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, LPI and SpecPub as discontinued operations within the condensed consolidated financial statements for the three months ended March 31, 2008 and 2009 in accordance with FAS 144. In addition, we have segregated the cash flow activity of RSVP, LPI and SpecPub from the condensed consolidated statements of cash flows for the three months ended March 31, 2008 and 2009. The results of operations of RSVP 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.



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The results of discontinued operations for the three months ended March 31, 2008 were as follows (in thousands):

	<b>Three months ended March 31, 2008</b>			
	<b>LPI</b>	<b>SpecPub</b>	<b>RSVP</b>	<b>Total</b>
Total revenue	\$ 4,005	\$ 1,133	\$	\$ 5,138
Operating costs and expenses:				
Cost of revenue	3,488	952	(12)	4,428
Sales and marketing	1,368	318	1	1,687
General and administrative	621	115	2	738
Depreciation and amortization	52	2		54
Impairment of goodwill and intangible assets	1,978	4,294		6,272
Total operating costs and expenses	7,507	5,681	(9)	13,179
Income (loss) from operations	(3,502)	(4,548)	9	(8,041)
Other income (expense), net	(6)	1		(5)
Net income (loss) from discontinued operations	\$ (3,508)	\$ (4,547)	\$ 9	\$ (8,046)

The results of discontinued operations for the three months ended March 31, 2009 were as follows (in thousands):

	<b>Three months ended March 31, 2009</b>	
	<b>LPI</b>	<b>Total</b>
Total revenue	\$	\$
Operating costs and expenses:		
Cost of revenue	(8)	(8)
General and administrative	(5)	(5)
Total operating costs and expenses	(13)	(13)
Income from operations	13	13
Other income (expense), net		
Income from discontinued operations	13	13
Loss on sale of discontinued operations	(318)	(318)
Net income (loss) from and loss on sale of discontinued operations	\$ (305)	\$ (305)

***Liquidity and Capital Resources***

Cash used in operating activities for the three months ended March 31, 2009 was \$2.9 million, due primarily to our loss from continuing operations of \$3.5 million which included one-time transaction costs of \$0.8 million related to our pending business combination with Here Media. Cash used in operating activities for the three months ended March 31, 2008 was \$1.4 million, and was primarily attributable to our loss from continuing operations of \$2.3 million.

Cash used in investing activities in the three months ended March 31, 2009 was \$0.1 million and was primarily attributable to an adjustment to proceeds from our sale of discontinued operations partially offset by refunds from our credit card processors for reserves that they had previously held back from us to cover any exposure that they may have had. Cash used in investing activities in the three months ended March 31, 2008 was \$0.5 million and was

primarily attributable to purchases of property and equipment.

Net cash used in financing activities in each of the three months ended March 31, 2008 and 2009 was \$0.2 million, due primarily to principal payments under capital lease obligations.

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

During the three months ended March 31, 2009, we invested \$0.1 million in property and equipment of which zero was financed through capital leases. During the three months ended March 31, 2008, we invested \$0.5 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 2009, 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, but to a lesser extent than we had invested in those activities in 2008.

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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 invest capital resources to continue 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. If we are unable to raise sufficient funds, we may need to reduce our planned operations.

We have carefully assessed our anticipated cash needs for the next twelve months and adopted an operating plan to manage our costs of capital expenditures and operating activities along with our revenues in order to meet our working capital needs for the next twelve months.

On January 8, 2009, we signed a definitive agreement to combine with Here Networks LLC and Regent Entertainment Media Inc. Under the proposed business combination, the combined entity will be called Here Media Inc. ( Here Media ) and will be effected through a contribution by the owners of Here Networks and Regent Entertainment Media of those businesses and an estimate of \$4.7 million of cash into Here Media, a newly formed holding company. We incurred a significant net loss in 2008 and expect to incur additional losses during 2009. We expect that raising additional financing will be very difficult, if it could be obtained at all. Accordingly, if we are unsuccessful in completing the proposed business combination, we could be forced to engage in dispositions of our remaining assets or businesses on unfavorable terms, or consider curtailing or ceasing operations. In that event, we cannot provide any assurance that our assets will be sufficient to meet our liabilities.

**Off-Balance Sheet Arrangements**

We did not have any off-balance sheet liabilities or transactions as of March 31, 2009.

**Contractual Obligations**

The following table summarizes our contractual obligations as of March 31, 2009, and the effect that these obligations are expected to have on our liquidity and cash flows in future periods (in thousands):

		<b>Payments Due by Period</b>		
		<b>Remainder</b>		
	<b>Total</b>	<b>of</b>	<b>2009</b>	<b>2010</b>
		<b>2009</b>		<b>2011-2012</b>
<b>Contractual obligations:</b>				
Capital leases	\$ 880	\$ 550	\$ 272	\$ 58
Operating leases	7,206	1,856	2,386	2,964
Total contractual obligations	\$ 8,086	\$ 2,406	\$ 2,658	\$ 3,022

*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 July 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

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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, 2008.

### **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 in certain job types, 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 December 2007, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 141 (Revised 2007), *Business Combinations* ( SFAS 141R ). Under SFAS 141R, an acquiring entity is required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition date fair value with limited exceptions. SFAS 141R changes the accounting treatment for certain specific acquisition-related items including: expensing acquisition-related costs as incurred, valuing non-controlling interests at fair value at the acquisition date and expensing restructuring costs associated with an acquired business. SFAS 141R also requires acquisition-related costs be recorded as expenses in the periods in which the costs are incurred and the services are received. Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation, and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. We adopted FAS 141R effective January 1, 2009 and recognized \$270,000 of transaction costs related to our pending business combination with Here Media that were recorded in prepaid expenses as of December 31, 2008, in our general and administrative expenses in the three months ended March 31, 2009.

In April 2009, the FASB issued three related Staff Positions (FSP): (i) FSP 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4), (ii) FSP Statement of Financial Accounting Standard (SFAS) 115-2 and SFAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, (FSP SFAS 115-2 and SFAS 124-2) , and (iii) FSP SFAS 107-1 and Accounting Principles Board (APB) 28-1, *Interim Disclosures about Fair Value of Financial Instruments* , (FSP SFAS 107 and APB 28-1), each of which will be effective for interim and annual periods ending after June 15, 2009. FSP 157-4 provides guidance on how to determine the fair value of assets and liabilities under SFAS 157 *Fair Value Measurements* , in the current economic environment and reemphasizes that the objective of a fair value measurement remains the determination of an exit price. If we were to conclude that there has been a significant decrease in the volume and level of activity of the asset or liability in relation to *normal* market activities, quoted market values may not be representative of fair value and we may conclude that a change in valuation technique or the use of multiple valuation techniques may be appropriate. FSP SFAS 115-2 and SFAS 124-2 modify the requirements for recognizing other-than-temporarily impaired debt securities and revise the existing impairment model for such securities by modifying the current *intent and ability* indicator in determining whether a debt security is other-than-temporarily impaired. FSP SFAS 107 and APB 28-1 enhance the disclosure of instruments under the scope of SFAS 157 for both interim and annual periods. We are currently evaluating the potential impact of these Staff Positions.

In April 2009, the FASB issued FSP No. 141R-1 *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (FSP 141R-1). FSP 141R-1 amends the provisions in FASB Statement 141R for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations. FSP 141R-1 eliminates the distinction between contractual and non-contractual contingencies, including the initial recognition and measurement criteria in

Statement 141R and instead carries forward most of the provisions in SFAS 141 for acquired contingencies. FSP 141R-1 is effective for contingent assets and contingent liabilities acquired in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We expect that FSP 141R-1 may have an impact on our consolidated financial statements.

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### **Item 4T. Controls and Procedures**

#### ***Evaluation of Disclosure Controls and Procedures***

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

We evaluated the effectiveness of the design and operation of disclosure controls and procedures as of March 31, 2009 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 March 31, 2009, 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 March 31, 2009, our accumulated deficit was approximately \$110.6 million. We experienced net losses of \$51.2 million and \$17.7 million for the years ended December 31, 2007 and 2008, respectively, and a net loss of \$3.4 million for the three months ended March 31, 2009, 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.

**While our proposed merger with Here Networks LLC and Regent Entertainment Media Inc. is pending, we will be subject to business uncertainties and contractual restrictions that could adversely affect our business.**

Uncertainty about the effect of our proposed merger on our employees and customers may have an adverse effect on our business. Although we intend to take actions to reduce any adverse effects, these uncertainties may impair our ability to attract, retain and motivate key personnel until the merger is completed and for a period of time thereafter, and could cause customers, suppliers and others that deal with us to seek to change existing business relationships. Employee retention may be particularly challenging during the pendency of the merger, as employees may experience uncertainty about their future post-merger roles with the company. If, despite our retention efforts, key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the company post-merger, our business could be seriously harmed.

The merger agreement also restricts us from taking specified actions until the proposed business combination occurs or the merger agreement terminates. These restrictions may prevent us from pursuing otherwise attractive business opportunities and making other changes to our business that may arise before completion of the proposed business combination or, if the proposed business combination is abandoned, termination of the merger agreement.

**Failure to complete the proposed business combination with Here Networks LLC and Regent Entertainment Media Inc. could negatively affect our business.**

If the proposed business combination is not completed for any reason, we may be subject to a number of material risks, including the following:

- we may not realize the benefits expected from becoming part of a combined company, including a potentially enhanced competitive and financial position;





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current and prospective employees may experience uncertainty about their future roles with us, which may adversely affect our ability to attract and retain key management, marketing and technical personnel;

in preparation for the proposed business combination, we may take additional actions with respect to our business that we would not have taken if we were continuing to operate on a stand-alone basis;

costs related to the proposed business combination which we incur, such as legal, accounting and some financial advisory fees, must be paid even if the proposed business combination is not completed; and

we may be required to raise additional capital to continue operating as a stand-alone company, which could result in substantial dilution to our existing stockholders or increased interest and other costs, and such additional capital may not be available on acceptable terms, or at all, especially in view of the current market conditions.

**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. 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 remaining assets or businesses on unfavorable terms, or consider curtailing or ceasing operations.

**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, on January 16, 2009, reduced our sales force by approximately 50% to reduce costs and manage expenses. If we are unable to retain our current sales force, or if our reduced sales force is unable to effectively meet its increased obligations, 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.

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.

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**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, some of our members and subscribers canceled their accounts and subscriptions with us. On January 16, 2009, we reduced our technology staff by approximately 50% to reduce costs and manage expenses. 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, 2008 and the three months ended March 31, 2009, total subscription cancellations exceeded the number of new and recurring 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. 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.

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

We were previously notified by Nasdaq that our common stock failed to meet the minimum market value of \$5 million for publicly held shares and that we had also failed to maintain the minimum of \$10 million in stockholders equity, each of which was necessary for continued listing on The Nasdaq Global Market. Accordingly, on April 3, 2009, we transferred the listing of our common stock

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from The Nasdaq Global Market to The Nasdaq Capital Market. In addition, our common stock has been trading below The Nasdaq Capital Market's \$1 minimum bid price. While this requirement has been suspended through July 20, 2009, there can be no assurance that after that date we will be able to comply with the minimum bid price or other requirements necessary to maintain our listing on the The Nasdaq Capital Market.

If we are unable to comply with the minimum bid price or other requirements necessary to maintain our listing on The Nasdaq Capital Market, the Nasdaq staff will provide us with written notification of such failure and provide us with a time period within which to regain compliance. If we fail to regain compliance, the Nasdaq staff will provide us with written notification that our securities will be delisted and we will have the right to appeal this 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 the pink sheets, both of which are viewed by most investors as less desirable and less liquid marketplaces than The Nasdaq Capital Market. This would 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.

### **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.

### **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, and during fiscal 2008, we recorded additional goodwill impairment charges of \$4.1 million related to our Publishing business;

- 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, including our Chief Executive Officer on March 3, 2009 and our Chief Technology Officer on January 16, 2009 as part of a reduction in our total workforce of approximately 33%.

Any disruptions from further reductions in force or 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 reduction in force and divestiture of certain businesses and entry into a definitive merger agreement regarding a proposed business combination with Here Networks LLC and Regent Entertainment Media Inc. 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.

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### **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. Our members' email accounts could be compromised by phishing or other means, and used to send spam email messages clogging our email servers and disrupting our members' ability to send and receive email. Any successful attempt by hackers to disrupt our websites' services or our internal systems could harm our business, be expensive to remedy and damage our reputation, resulting in a loss of visitors, members, subscribers, advertisers and other customers.

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

Our markets are intensely competitive and subject to rapid change. 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, 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.



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### **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. Our compliance with these laws may require us to, for example, change or limit the content we offer to customers through our websites, or change or limit the ways in which our online subscribers interact with one another. If such changes or limitations cause our subscribers to cancel their subscriptions, or reduce the number of first-time subscribers, our revenue could decline.

### **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. In January 2009, we further reduced our customer service staff to reduce costs and manage expenses. If due to these reductions or otherwise we are unable to continually provide adequate staffing for our customer service operations, our reputation could be harmed and we may lose existing and potential subscribers. In addition, we cannot guarantee that email and telephone call volumes will not exceed our present system or staffing capacities. If this occurs, we could experience delays in responding to customer inquiries and addressing customer concerns.

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

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

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

A portion of the content of our online service 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.

### **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. 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.**

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.

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**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 April 30, 2009, the closing sale prices of our common stock on the Nasdaq Stock Market ranged from \$0.07 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 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. On January 8, 2009, the Stockholder Rights Plan was amended so that it did not apply to the proposed business combination with Here Networks LLC, Regent Entertainment Inc. and Here Media Inc.

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

Stock repurchase activity during the three months ended March 31, 2009 was as follows:

		(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
Period					
January 1, 2009	January 31, 2009				
February 1, 2009	February 29, 2009				
March 1, 2009	March 31, 2009				
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 first quarter of 2009.

**Item 5. Other Information**

Not Applicable.

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

- 2.6 Agreement and Plan of Merger by and among PlanetOut Inc., Here Media Inc., HMI Merger Sub, the HMI Owners and the HMI Entities Referred to in the Agreement dated as of January 8, 2009 (filed as Exhibit 2.1 to our Current Report on Form 8-K, File No. 000-50879, filed on January 14, 2009 and incorporated herein by reference).
- 2.7 First Amendment to Agreement and Plan of Merger, dated as of April 27, 2009, by and among PlanetOut Inc., Here Media Inc., HMI Merger Sub, the HMI Owners and the HMI Entities (filed as Exhibit 2.1 to our Current Report on Form 8-K, File No. 000-50879, filed on May 1, 2009, 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).
- 4.4 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).

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<b>Exhibit Number</b>	<b>Description of Documents</b>
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).
4.6	Warrant Certificate issued to Allen & Company, LLC dated May 15, 2007 (filed as Exhibit 99.1 to our Current Report on Form 8-K, File No. 000-50879, filed on May 18, 2007 and incorporated herein by reference). Replaced and superseded by Exhibit 4.8.
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). Replaced and superseded by Exhibit 4.9.
4.9	Common Stock Warrant issued to Allen & Company, LLC dated January 8, 2009 (filed as Exhibit 99.1 to our Current Report on Form 8-K, File No. 000-50879, filed on January 14, 2009 and incorporated herein by reference).
4.10	Amendment to Rights Agreement among PlanetOut Inc. and Wells Fargo Bank, N.A. dated January 8, 2009 (filed as Exhibit 4.10 to our Annual Report on Form 10-K, File No. 000-50879, filed on March 4, 2009 and incorporated herein by reference).
4.11	Amendment to Rights Agreement among PlanetOut Inc. and Wells Fargo Bank, N.A. dated March 20, 2009 (filed as Exhibit 4.1 to our Current Report on Form 8-K, File No. 000-50849, filed on March 25, 2009 and incorporated herein by reference).
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.



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**SIGNATURES**

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

**PLANETOUT INC.**

Date: May 15, 2009

By:                   /s/ DANIEL E. STEIMLE  
                          Daniel E. Steimle  
                          *Chief Executive Officer and Chief Financial*  
                          *Officer*  
                          *(Principal Financial and Accounting Officer)*  
                          30

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