

Customer Acquisition Network Holdings, Inc.
Form 10-Q
May 20, 2008

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549**

FORM 10-Q
(Mark One)

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

For the quarterly period ended: **March 31, 2008**

OR

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

For the transition period from: _____ to _____

Commission File Number: 333-141141

Customer Acquisition Network Holdings, Inc.
(Exact name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of Incorporation or
Organization)

01-0692341
(I.R.S. Employer Identification No.)

200 Park Avenue South
Suite 908-909
New York, NY
(Address of Principal Executive Offices)

10003
(Zip code)

(954) 712-0000
Registrant's Telephone Number, Including Area Code

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

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

YES NO

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

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Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

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

YES NO

As of May 16, 2008, 36,935,167 shares of issuer's common stock, with \$0.001 par value per share, were outstanding.

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)

CUSTOMER ACQUISITION NETWORK HOLDINGS, INC.

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Forward-Looking Statements

This quarterly report on Form 10-Q and other written reports and oral statements made from time to time by the Company may contain so-called “forward-looking statements,” all of which are subject to risks and uncertainties. Forward-looking statements can be identified by the use of words such as “expects,” “plans,” “will,” “forecasts,” “projects,” “intends,” “estimates,” and other words of similar meaning. One can identify them by the fact that they do not relate strictly to historical or current facts. These statements are likely to address our growth strategy, financial results, ability to raise additional capital and product and development programs. One must carefully consider any such statement and should understand that many factors could cause actual results to differ from our forward looking statements. These factors may include inaccurate assumptions and a broad variety of other risks and uncertainties, including some that are known and some that are not. No forward looking statement can be guaranteed and actual future results may vary materially.

Information regarding market and industry statistics contained in this quarterly report on Form 10-Q is included based on information available to us that we believe is accurate. It is generally based on industry and other publications that are not produced for purposes of securities offerings or economic analysis. We have not reviewed or included data from all sources, and cannot assure investors of the accuracy or completeness of the data included in this quarterly report of Form 10-Q. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and the additional uncertainties accompanying any estimates of future market size, revenue and market acceptance of products and services. We do not assume any obligation to update any forward-looking statement. As a result, investors should not place undue reliance on these forward-looking statements.

The forward-looking statements included in this quarterly report on Form 10-Q are made only as of the date of this quarterly report on Form 10-Q. We do not intend, and do not assume any obligations, to update these forward looking statements, except as required by law.

PART I.
FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

CUSTOMER ACQUISITION NETWORK HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2008 (Unaudited)	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,207,916	\$ 3,675,483
Accounts receivable, net	2,529,506	3,390,302
Prepaid assets	78,329	55,750
Other	21,993	-
Total current assets	3,837,744	7,121,535
Property and equipment, net	787,256	512,031
Intangible assets, net	1,505,248	1,028,621
Goodwill	15,209,724	7,909,571
Deferred debt issue cost, (net of accumulated amortization of \$60,960 and \$13,932, respectively)	30,478	77,505
Deferred acquisition cost	-	129,333
Other assets	66,937	66,937
Total assets	\$ 21,437,387	\$ 16,845,533
Liabilities and Stockholders' Equity		
Current liabilities:		
Secured senior notes payable, (net of debt discount of \$450,836 and \$1,127,084, respectively)	\$ 4,549,164	\$ 3,872,916
Capital lease obligation, current portion	9,290	9,290
Accounts payable	2,662,681	2,499,604
Accrued expenses	1,279,206	1,046,719
Accrued interest	101,470	36,173
Total current liabilities	8,601,811	7,464,702
Deferred revenue	75,110	-
Capital lease obligation, net of current portion	77,533	19,317
Deferred tax liability	264,000	-
Total liabilities	9,018,454	7,484,019
Commitments and contingencies (note 8)		
Stockholders' equity:		

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Preferred Stock, \$0.001 par value; 10,000,000 shares authorized, zero shares issued and outstanding at March 31, 2008 and December 31, 2007	-	-
Common Stock, \$0.001 par value; 140,000,000 shares authorized, 35,979,667 and 34,979,667 issued and outstanding at March 31, 2008 and December 31, 2007	35,980	34,980
Common Stock, \$0.001 par value; 200,000 shares issuable at March 31, 2008	200	-
Additional paid-in capital	19,450,713	12,737,982
Deferred consulting	(99,676)	(178,481)
Accumulated deficit	(6,968,284)	(3,232,967)
Total stockholders' equity	12,418,933	9,361,514
Total liabilities and stockholders' equity	\$ 21,437,387	\$ 16,845,533

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

CUSTOMER ACQUISITION NETWORK HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

**For the three months
ended March 31, 2008**

Revenues	\$	4,301,918
Cost of revenue		2,820,141
Gross profit		1,481,777
Operating expenses:		
General and administrative (includes stock-based compensation of \$571,294)		2,389,927
Sales and marketing		888,102
Technology support		277,038
Amortization of intangible assets		183,373
Merger, acquisition and organizational costs		285,735
Server and hosting maintenance		355,349
Total operating expenses		4,379,524
Loss from operations		(2,897,747)
Other income (expense)		
Interest income		4,136
Interest expense		(841,707)
Total other income (expense), net		(837,570)
(Loss) before income tax benefit	\$	(3,735,317)
Income tax benefit		-
Net loss	\$	(3,735,317)
Net loss per share - basic and diluted	\$	(0.10)
Weighted average shares outstanding - basic and diluted		35,946,334

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

CUSTOMER ACQUISITION NETWORK HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Three Months Ended March 31, 2008
(Unaudited)

	Common Stock issued and issuable Stock	Amount	Additional Paid-In Capital	Deferred Consulting	Accumulated Deficit	Total Stockholders' Equity
Balance, December 31, 2007	34,979,667	\$ 34,980	\$ 12,737,982	\$ (178,481)	\$ (3,232,967)	\$ 9,361,514
Net loss three months ended March 31, 2008	-	-	-		(3,735,317)	(3,735,317)
Common Stock Issuable	200,000	200	474,800			475,000
Amortization of deferred consulting - warrants	-	-		78,805	-	78,805
Stock Options expense			492,489	-		492,489
Issuance of Warrant in connection with Options Media Group merger			29,169			29,169
Issuance of Common Stock in connection with Options Media Group merger	1,000,000	1,000	5,716,273	-	-	5,717,273
Balance, March 31, 2008	36,179,667	\$ 36,180	\$ 19,450,713	\$ (99,676)	\$ (6,968,284)	\$ 12,418,933

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

CUSTOMER ACQUISITION NETWORK HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

Three months ended
March 31, 2008

Net cash used in operating activities	\$	(1,190,286)
Cash flows from investing activities:		
Purchase of fixed assets, net of acquisition		(171,150)
Acquisition of business		(1,605,921)
Cash acquired in acquisition		41,424
Deferred future acquisition costs		(10,619)
Net cash used in investing activities	\$	(1,746,266)
Cash flows from financing activities:		
Principal payments under capital lease		(6,015)
Proceeds from common stock subscriptions, net of costs		475,000
Net cash provided by financing activities	\$	468,985
Net decrease in cash and cash equivalents		(2,467,567)
Cash and cash equivalents		
Beginning of Period		3,675,483
End of Period	\$	1,207,916
Supplemental disclosure of cash flow information		
Cash paid during the Period for interest	\$	101,461
Non-cash investing and financing activities:		
Issuance of common stock in business combination	\$	5,717,273

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

CUSTOMER ACQUISITION NETWORK HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2008
(Unaudited)

Note 1. Nature of Operations, Going Concern and Basis of Presentation

Overview

Customer Acquisition Network, Inc. was formed in Delaware on June 14, 2007.

Outsiders Entertainment, Inc. was incorporated on March 4, 2002 under the laws of the State of Delaware. On August 28, 2007 the name was changed to Customer Acquisition Network Holdings, Inc.

On August 28, 2007, Customer Acquisition Network Holdings, Inc. ("Holdings"), entered into an Agreement and Plan of Merger and Reorganization (the "CAN Merger Agreement") by and among Holdings, Customer Acquisition Network, Inc. ("CAN"), and CAN Acquisition Sub Inc., a newly formed, wholly-owned Delaware subsidiary of Holdings ("CAN Acquisition Sub"). The merger transaction contemplated under the CAN Merger Agreement (the "CAN Merger") was consummated on August 28, 2007, at which time CAN Acquisition Sub was merged with and into CAN, and CAN, as the surviving corporation, became a wholly-owned subsidiary of Holdings.

On August 31, 2007, Holdings entered into an Agreement and Plan of Merger (the "Desktop Merger Agreement") by and among Holdings, Desktop Interactive, Inc., a privately held Delaware corporation ("Desktop"), CAN and Desktop Acquisition Sub, Inc., a newly formed, wholly-owned Delaware subsidiary of Holdings ("Desktop Acquisition Sub"). The merger transaction contemplated under the Desktop Merger Agreement (the "Desktop Merger"), was consummated on August 31, 2007, at which time, Desktop Acquisition Sub was merged into Desktop, and Desktop, as the surviving corporation, became a wholly-owned subsidiary of Holdings.

After the CAN Merger, Holdings succeeded to the business of CAN as its sole line of business. Desktop owned and operated an Internet advertising network serving Internet advertising to website publishers including proprietary ad serving technology operated under the name "Interclick." After the Desktop Merger, we also continued to operate the Desktop business.

Unless the context requires otherwise, references to the "Company," "CAN," "we," "our" and "us" for periods prior to the closing of our reverse merger on August 28, 2007, refer to Customer Acquisition Network, Inc., a private Delaware corporation that is now our wholly-owned subsidiary, and references to the "Company," "Holdings", "we," "our" and "us" for periods subsequent to the closing of the reverse merger on August 28, 2007, refer to Customer Acquisition Network Holdings, Inc., a publicly traded company, and its subsidiaries, Customer Acquisition Network, Inc., Desktop Acquisition Sub, Inc. and Options Acquisition (See below).

The Company was previously presented as a development stage company. Upon its acquisition of Desktop on August 31, 2007, the Company exited the development stage.

Merger with Customer Acquisition Network Holdings, Inc.

On August 28, 2007, Holdings entered into the CAN Merger Agreement by and among Holdings, CAN and CAN Acquisition Sub. Upon closing of the CAN Merger, CAN Acquisition Sub merged with and into CAN, and CAN, as the surviving corporation, became a wholly-owned subsidiary of Holdings. Prior to the CAN Merger, Holdings' name was changed to Customer Acquisition Network Holdings, Inc. and Holdings effected a 10.958333333 -for-1 share split of its common stock (the "Stock Split"). All share and per share data in the accompanying financial statements have

been adjusted retroactively, for the effect of the recapitalization and subsequent stock split.

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CUSTOMER ACQUISITION NETWORK HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2008
(Unaudited)

At the closing of the CAN Merger, each share of CAN's common stock issued and outstanding, 24,238,000 immediately prior to the closing of the CAN Merger, was converted into the right to receive one share of Holdings' common stock. In addition, pursuant to the CAN Merger Agreement and under the terms of an attendant Agreement of Conveyance, Transfer and Assignment of Assets and Assumption of Obligations, Holdings transferred all of its pre-CAN Merger assets and liabilities to its newly formed wholly owned subsidiary, Outsiders Entertainment Holdings, Inc. ("Splitco"). Subsequently, Holdings transferred all of its outstanding capital stock of Splitco to a major stockholder of Holdings in exchange for cancellation of all shares of Holdings' common stock held by such shareholder (the "Split off"). The remaining shares outstanding (6,575,000, excluding the Holdings shares issued to CAN's shareholders as a result of the CAN Merger), represent the surviving "Public Float" shares, of which 2.6 million shares are restricted.

Recapitalization

Prior to the closing of the CAN Merger, Holdings had limited operations and net assets. At the same time, CAN had significantly more capital than Holdings and had commenced certain publishing/advertising operations. In addition, as discussed in "Merger with Desktop," below, after the closing of the CAN Merger, Holdings consummated the Desktop Merger and effected the Split off. As a result of these facts and the former shareholders of CAN obtaining voting and management control of the combined entity, the CAN Merger is considered and accounted for as a recapitalization of CAN, with CAN being considered as the acquirer and Holdings the acquiree for accounting purposes. Accordingly, the Company's financial statements for periods prior to the CAN Merger become those of the accounting acquirer, retroactively restated for the equivalent number of shares received in the CAN Merger. Operations prior to the CAN Merger are those of the Company and earnings per share for the period prior to the CAN Merger are restated to reflect the equivalent number of shares outstanding.

On a recapitalized basis, as of March 31, 2008, upon the closing of the CAN Merger and reflecting the effects of the Split off, Desktop Acquisition, Options Media Acquisition and other issuances of shares, there are 36,179,667 total shares issuable or issued as of March 31, 2008 of which 6,575,000 shares represent the Public Float. There are 2.6 million Public Float shares that are restricted.

On January 4, 2008, Holdings consummated an Agreement and Plan of Merger (the "Options Merger"), wherein Holdings formed, Options Acquisition Sub, Inc. ("Options Acquisition"), and Options Newsletter, Inc. ("Options Newsletter" or "Options") was merged into Options Acquisition, which is the surviving corporation and a wholly-owned subsidiary of Holdings.

Merger with Options Media

On January 4, 2008, Holdings consummated an Agreement and Plan of Merger (the "Options Merger"), wherein Holdings formed, Options Acquisition Sub, Inc. ("Options Acquisition"), and Options Newsletter, Inc. ("Options Newsletter" or "Options") was merged into Options Acquisition, which is the surviving corporation and a wholly-owned subsidiary of Holdings.

Options Newsletter, a privately held Delaware corporation, now known as Options Media, began selling advertising space within free electronic newsletters that Options Newsletter published and emailed to subscribers. Options Newsletter also generated leads for customers by emailing its customers' advertisements to various email addresses from within the Options Newsletter's database. Options Newsletter is also an email service provider ("ESP") and offers customers an email delivery platform to create, send and track email campaigns. During the quarter ended March 31, 2008, the majority of Options Newsletter's revenue was derived from being an ESP, but the Options Acquisition

continues to publish newsletters as well as email customer advertisements on a cost per lead generated basis.

The initial merger consideration (the “Options Merger Consideration”) included \$1.5 million in cash of which \$150,000 is held in escrow pending passage of deferred representation and warranty time period and 1.0 million shares of Holdings’ stock valued at \$5.72 per share (applying EITF 99-12 “Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination”) .The total initial purchase price was \$7,395,362 and includes the cash of \$1,500,000, common stock valued at \$5,717,273, legal fees of \$73,920, valuation service fees of \$25,000, brokers fees of \$50,000 and 10,000 warrants valued at \$29,169 with an exercise price of \$5.57 per share.

CUSTOMER ACQUISITION NETWORK HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2008
(Unaudited)

The shares of Holdings' stock issued in conjunction with the Options Merger are subject to a 12-month lockup.

In addition to the initial merger consideration, Holdings is obligated to pay an additional \$1 million (the "Earn Out") if certain gross revenues are achieved for the one year period subsequent to the Options Merger payable 60 days after the end of each of the quarters starting with March 31, 2008. For the quarter ended March 31, 2008 the Company incurred \$279,703 in Earn Out which is included in accrued expenses. This additional consideration is treated as an adjustment to goodwill.

Holdings has accounted for the acquisition utilizing the purchase method of accounting in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations". The results of operations of Options Acquisition is included in the consolidated results of operations of the Company beginning on January 1, 2008. The operations from January 1, 2008 to January 4, 2008 were not material. The net purchase price, including acquisition costs paid, was allocated to assets acquired and liabilities assumed as follows:

Current assets (including cash of \$41,424)	\$ 58,153
Property and equipment	112,289
Other assets (Software)	67,220
Goodwill	7,300,153
Other Intangibles	660,000
Liabilities assumed	(258,750)
Deferred tax liability	(264,000)
Net purchase price	\$ 7,675,065

Intangible assets acquired include Customer Relationships valued at \$610,000 and \$50,000 for a covenant not to compete.

Goodwill is expected not to be deductible for income tax purposes.

In connection with the purchase of Options, the Company executed a three year employment agreement with the former owner of Options to pay him \$250,000 per year plus 300,000 options which cliff vest 1/3 at the end of each of three years and are exercised at \$1.00 per share. (See Note 7).

Going Concern

As reflected in the accompanying unaudited condensed consolidated financial statements for the three month period ended March 31, 2008, the Company had a net loss of \$ 3,735,317 and \$1,190,286 of net cash used in operations. At March 31, 2008 the Company had a working capital deficiency of \$4,764,067, which includes \$4,549,164 of net carrying value of Senior Secured Notes maturing on May 30, 2008. Additionally at March 31, 2008, the Company had an accumulated deficit of \$6,968,284. These matters and the Company's expected needs for capital investments required to support operational growth, maturing debt and acquisition related earn out obligations, raise substantial doubt about its ability to continue as a going concern. The Company's unaudited condensed consolidated financial statements do not include any adjustments to reflect the possible effects on recoverability and classification of assets

or the amounts and classification of liabilities that may result from our inability to continue as a going concern.

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CUSTOMER ACQUISITION NETWORK HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2008
(Unaudited)

Since inception, the Company has financed its working capital and capital expenditure requirements primarily from the issuance of short term debt securities and sales of common stock as well as sales of online advertising services. With the acquisition of Options Media, the Company expects to additionally finance working capital, capital expenditures and ongoing operations through the provision of email and data management services as well as continuing to access the capital markets. In addition, the Company is pursuing the refinancing of its currently maturing debt and/or extending the maturity of such debt beyond December 31, 2008. In addition, the Company will pursue deferral of acquisition related earn out obligations on an as needed basis.

While we have heavily invested in our online advertising and will continue to invest in online advertising as well as email and data management services, we believe that based on our current cash and working capital position, our current and projected operations and our assessment of how potential equity and/or debt investors have viewed, and will continue to view, us and the expected growth in our business, we will be able to obtain the required capital and cash flows from operations to execute our business plan successfully and continue operations through December 2008, however there can be no assurances.

Our business plan is based on our ability to generate future revenues from the sale of advertising, email and data management services and the obtaining of adequate capital to support our growth and operating activities. However, the time required for us to become profitable from operations is uncertain, and we cannot assure you that we will achieve or sustain operating profitability or generate sufficient cash flow and obtain the necessary capital to meet our planned capital expenditures, working capital and debt service requirements.

We believe that actions being taken by management as discussed above provide the opportunity to allow us to continue as a going concern.

Basis of Presentation

The interim condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of the Company's management, all adjustments (consisting only of normal recurring adjustments and reclassifications) necessary to present fairly our results of operations and cash flows for the three months ended March 31, 2008 and our financial position as of March 31, 2008 have been made. The results of operations for such interim periods are not necessarily indicative of the operating results to be expected for the full year.

Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed or omitted from these interim consolidated financial statements. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-KSB (the "Annual Report") for the fiscal year ended December 31, 2007, as filed with the Securities and Exchange Commission ("SEC") on May 15, 2008.

Note 2. Significant Accounting Policies

Use of Estimates

Our unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). These accounting principles require us to make certain estimates,

judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of our condensed consolidated financial statements as well as the reported amounts of revenues and expenses during the periods presented. Our unaudited condensed consolidated financial statements would be affected to the extent there are material differences between these estimates and actual results. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result. Significant estimates include the valuation of accounts receivable, purchase price fair value allocation for business combinations, valuation and amortization periods of intangible assets and deferred costs, valuation of goodwill, valuation of capital stock, options and warrants granted for services or recorded as debt discounts, or other non-cash purposes including business combinations and the estimate of the valuation allowance on deferred tax assets.

CUSTOMER ACQUISITION NETWORK HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2008
(Unaudited)

Cash and Cash Equivalents

The Company considers all short-term highly liquid investments with an original maturity at the date of purchase of three months or less to be cash equivalents. There were no cash equivalents at March 31, 2008.

Principals of Consolidation

The consolidated financial statements include the accounts of Customer Acquisition Network Holdings, Inc. and its wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated in the consolidation.

Accounts Receivable and Allowance for Doubtful Accounts Receivable

Trade accounts receivables are stated at gross invoice amounts less an allowance for doubtful accounts receivable.

Credit is extended to customers based on an evaluation of their financial condition and other factors. The Company generally does not require collateral or other security to support accounts receivable. The Company performs ongoing credit evaluations of its customers and maintains an allowance for potential bad debts.

The Company estimates its allowance for doubtful accounts by evaluating specific accounts where information indicates the customers may have an inability to meet financial obligations, such as bankruptcy proceedings and receivable amounts outstanding for an extended period beyond contractual terms. In these cases, the Company uses assumptions and judgment, based on the best available facts and circumstances, to record a specific allowance for those customers against amounts due to reduce the receivable to the amount expected to be collected. These specific allowances are re-evaluated and adjusted as additional information is received. The amounts calculated are analyzed to determine the total amount of the allowance.

Direct write-offs are taken in the period when the Company has exhausted its efforts to collect overdue and unpaid receivables or otherwise evaluates other circumstances that indicate that the Company should abandon such efforts.

Bad debt expense for the three months ended March 31, 2008 was approximately \$17,000.

Business Combinations

The Company accounts for its acquisitions utilizing the purchase method of accounting. Under the purchase method of accounting, the total consideration paid is allocated to the underlying assets and liabilities, based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Determining the fair value of certain acquired assets and liabilities, identifiable intangible assets in particular, is subjective in nature and often involves the use of significant estimates and assumptions including, but not limited to: estimates of revenue growth rates, determination of appropriate discount rates, estimates of advertiser and publisher turnover rates, and estimates of terminal values. These assumptions are generally made based on available historical information. Definite-lived identifiable intangible assets are amortized on a straight-line basis, as this basis approximates the expected cash flows from the Company's existing definite-lived identifiable intangible assets.

CUSTOMER ACQUISITION NETWORK HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2008
(Unaudited)

Property and Equipment

Property and equipment is stated at cost. Depreciation is computed using the straight line method and is expensed upon the estimated useful lives of the assets. Expenditures for additions and improvements are capitalized while repairs and maintenance are expensed as incurred.

Depreciation expense for the three months ended March 31, 2008 was approximately \$63,000.

Intangible Assets

The Company records the purchase of intangible assets not purchased in a business combination in accordance with SFAS 142 "Goodwill and Other Intangible Assets" and records intangible assets acquired in a business combination in accordance with SFAS 141 "Business Combinations".

Customer Relationships are amortized based upon the estimated percentage of annual or period projected cash flows generated by such relationships, to the total cash flows generated over the estimated three year life of the customer relationships.

Developed technology is amortized on a straight-line basis over 5 years.

The non-compete intangible is amortized over the term of the agreement.

Goodwill

The Company tests goodwill for impairment in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". Accordingly, goodwill is tested for impairment at least annually at the reporting unit level or whenever events or circumstances indicate that goodwill might be impaired. The Company has determined its reporting units based on the guidance in SFAS No. 142 and Emerging Issues Task Force ("EITF") Issue D-101, "Clarification of Reporting Unit Guidance in Paragraph 30 of FASB Statement No. 142." As of March 31, 2008, the Holdings reporting units consisted of the Company, Desktop and Options. The Company, and now Holdings, has elected to test for goodwill impairment annually.

We completed our annual goodwill impairment test as of December 31, 2007 and determined that no adjustment to the carrying value of goodwill was required. There have been no changes subsequent to this test which would indicate further testing is necessary.

Long-lived Assets

Management evaluates the recoverability of the Company's identifiable intangible assets and other long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets," which generally requires the assessment of these assets for recoverability when events or circumstances indicate a potential impairment exists. Events and circumstances considered by the Company in determining whether the carrying value of identifiable intangible assets and other long-lived assets may not be recoverable include, but are not limited to: significant changes in performance relative to expected operating results, significant changes in the use of the assets, significant negative industry or economic trends, a significant decline in the Company's stock price for a sustained period of time, and changes in the Company's business strategy. In determining if impairment exists, the Company estimates the

undiscounted cash flows to be generated from the use and ultimate disposition of these assets. If impairment is indicated based on a comparison of the assets' carrying values and the undiscounted cash flows, the impairment loss is measured as the amount by which the carrying amount of the assets exceeds the fair market value of the assets.

CUSTOMER ACQUISITION NETWORK HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2008
(Unaudited)

Revenue Recognition

The Company recognizes revenue in accordance with Staff Accounting Bulletin (“SAB”) No. 104, “Revenue Recognition in Financial Statements.” Under SAB No. 104, the Company recognizes revenue when the following criteria have been met: persuasive evidence of an arrangement exists, the fees are fixed or determinable, no significant Company obligations remain, and collection of the related receivable is reasonably assured.

Revenues consist of amounts charged to customers, net of discounts, credits and amounts paid or due under revenue sharing arrangements, for actions on advertisements placed on our publisher vendor’s websites. The Company’s revenue is recognized in the period that the advertising impressions, click-throughs or actions occur, when lead-based information is delivered or, provided that no significant Company obligations remain, collection of the resulting receivable is reasonably assured, and prices are fixed or determinable. Additionally, consistent with the provisions of EITF Issue No. 99-19, “Reporting Revenue Gross as a Principal versus Net as an Agent,” the Company recognizes revenue as a principal. Accordingly, revenue is recognized on a gross basis.

Revenues for advertisements in the Company’s newsletter are recognized at the time the newsletter is emailed to subscribers. Revenues for direct emails of customer advertisements are recognized at the time the customer’s advertisement is emailed to recipients by the Company. Revenues from ESP activities include a monthly fee charged for the right to send a fixed number of emails per month. ESP revenues are generally collected upfront from customers for service periods of one to six months. Thus, ESP revenues are deferred and recognized over the respective service period. Overage charges apply if the customer sends more emails in one month than is allowed per the contract. Accordingly, overage charges are accrued in the month of occurrence.

Cost of Revenue

Cost of revenue consists of publisher fees. The Company becomes obligated to make payments related to the above fees in the period the advertising impressions, click-throughs, actions or lead-based information are delivered or occur. Such expenses are classified as cost of revenue in the corresponding period in which the revenue is recognized in the accompanying statement of operations.

Fair Value of Financial Instruments

The Company’s financial instruments, including cash and cash equivalents, accounts receivable, notes payable, accounts payable and accrued expenses, are carried at historical cost basis. At December 31, 2007, the carrying amounts of these instruments approximated their fair values because of the short-term nature of these instruments.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes in accordance with SFAS No. 109, “Accounting for Income Taxes.” Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current year, and (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity’s financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the deferred tax assets reported if, based on the weight of the available positive and negative

evidence, it is more likely than not some portion or all of the deferred tax assets will not be realized. A liability (including interest if applicable) is established in the consolidated financial statements to the extent a current benefit has been recognized on a tax return for matters that are considered contingent upon the outcome of an uncertain tax position. Applicable interest is included as a component of income tax expense and income taxes payables.

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In June 2006, the FASB issued *SFASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109"* ("FIN 48"). This statement which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48, which is effective for fiscal years beginning after December 15, 2006, also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We adopted the provisions of FIN 48 on our inception date of June 14, 2007. The adoption of the provisions of FIN 48 did not have a material impact on our financial position and results of operations.

Stock-based Compensation

Compensation expense associated with the granting of stock based awards to employees and directors and non-employees is recognized in accordance with SFAS No. 123(R), "Share Based Payment" and related interpretations. SFAS No. 123(R) requires companies to estimate and recognize the fair value of stock-based awards to employees and directors. The value of the portion of an award that is ultimately expected to vest is recognized as an expense over the requisite service periods using the straight-line attribution method.

Basic and Diluted Net Loss Per Common Share

Basic net loss per common share is computed by dividing net loss by the weighted-average number of shares of common stock outstanding for the period. Diluted net loss per common share is computed using the weighted-average number of common shares outstanding for the period, and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options, stock warrants, convertible debt instruments or other common stock equivalents.

Recently Issued Accounting Standards

On January 1, 2008, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value and expands disclosure of fair value measurements. Refer to note 8 for further information. In February 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position, "FSP FAS 157-2—Effective Date of FASB Statement No. 157" ("FSP 157-2"), which delays the effective date of SFAS 157 for one year for certain nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Excluded from the scope of SFAS 157 are certain leasing transactions accounted for under SFAS No. 13, "Accounting for Leases." The exclusion does not apply to fair value measurements of assets and liabilities recorded as a result of a lease transaction but measured pursuant to other pronouncements within the scope of SFAS 157. The Company does not expect that the adoption of the provisions of FSP 157-2 will have a material impact on its consolidated financial position, cash flows or results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R requires that upon initially obtaining control, an acquirer will recognize 100% of the fair values of acquired assets, including goodwill, and assumed liabilities, with only limited exceptions, even if the acquirer has not acquired 100% of its target. Additionally, contingent consideration arrangements will be fair valued at the acquisition date and included on that basis in the purchase price consideration and transaction costs will be expensed as incurred.

SFAS 141R also modifies the recognition for pre-acquisition contingencies, such as environmental or legal issues, restructuring plans and acquired research and development value in purchase accounting. SFAS 141R amends SFAS No. 109, "Accounting for Income Taxes," to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. SFAS 141R is effective for business combinations for which the acquisition date is on or after January 1, 2009. The impact of adopting SFAS 141R will be dependent on the future business combinations that the Company may pursue after its effective date.

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In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements" ("SFAS 160"). This Statement amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is required to be adopted simultaneously with SFAS 141R and is effective for the Company on January 1, 2009. The Company does not currently have any non-controlling interests in its subsidiaries, and accordingly, the adoption of SFAS 160 is not expected to have a material impact on its consolidated financial position, cash flows or results of operations.

Reclassifications

Certain amounts in the accompanying 2007 financial statements have been reclassified to conform to the 2008 presentation.

Note 3. Intangible Assets

Intangible assets which were all acquired from the Desktop and the Options Media business combinations consists of the following:

	March 31, 2008	December 31, 2007
Customer relationships	\$ 1,150,000	\$ 540,000
Developed technology	790,000	790,000
Non-compete agreement	50,000	-
Domain name	683	683
	1,990,683	1,330,683
Accumulated amortization	(485,435)	(302,062)
Intangible assets, net	\$ 1,505,248	\$ 1,028,621

Customer Relationships are amortized based upon the estimated percentage of annual or period projected cash flows generated by such relationships, to the total cash flows generated over the estimated three year life of the Customer Relationships. Accordingly, this results in an accelerated amortization in which the majority of costs is amortized during the two year period following the acquisition date of the intangible.

Developed technology is being amortized on a straight-line basis over 5 years.

The domain name is being amortized over its remaining life at acquisition date of six months.

The non-compete intangible is being amortized over the term of the agreement.

Amortization expense for the three month ended March 31, 2008 was \$183,373.

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Note 4. Notes Payable and other obligations

	March 31, 2008					
	Principal	Original Issue Discount	Debt Discount Lender Fee	Common Stock	Accumulated Amortization of Debt Discount	Notes Payable net of Debt Discount
Customer Acquisition Network Holdings, Inc.						
8% Senior Secured Promissory Notes due May 2008	\$ 5,000,000	\$ (500,000)	\$ (50,000)	\$ (802,500)	\$ 901,664	\$ 4,549,164
Equipment - Capital lease obligation	86,823	-	-	-	-	86,823
Total notes payable, long-term debt and other obligations	5,086,823	(500,000)	(50,000)	(802,500)	901,664	4,635,987
Less:						
Current maturities	(5,009,290)	500,000				