

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)

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**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**

	<b>March 31, 2008 (Unaudited)</b>	<b>December 31, 2007</b>
<b>Assets</b>		
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
<b>Liabilities and Stockholders' Equity</b>		
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		Additional Paid-In Capital	Deferred Consulting	Accumulated Deficit	Total Stockholders' Equity
	Amount					
<b>Balance, December 31, 2007</b>	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
<b>Balance, March 31, 2008</b>	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**

<b>Net cash used in operating activities</b>	\$	(1,190,286)
<b>Cash flows from investing activities:</b>		
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)
<b>Cash flows from financing activities:</b>		
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)
<b>Cash and cash equivalents</b>		
Beginning of Period		3,675,483
End of Period	\$	1,207,916
<b>Supplemental disclosure of cash flow information</b>		
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	<b>\$ 7,675,065</b>

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.

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**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**

	<b>March 31, 2008</b>					
	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	50,000	802,500	(901,664)	(4,558,454)
Amount due after one year	\$ 77,533	\$ -	\$ -	\$ -	\$ -	\$ 77,533

	<b>December 31, 2007</b>					
	Principal	Original Issue Discount	Debt Discount Lender Fee	Common Stock	Ac 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)	\$ 225,416	\$ 3,872,916
Equipment - Capital lease obligation	28,607	-	-	-	-	28,607
Total notes payable, long-term debt and other obligations	5,028,607	(500,000)	(50,000)	(802,500)	225,416	3,901,523

Less:

Current maturities	(5,009,290)	500,000	50,000	802,500	(225,416)	(3,882,206)
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Amount due after one year	\$	19,317	\$	-	\$	-	\$	-	\$	19,317
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**8% Senior Secured Promissory Notes due May 2008**

On November 30, 2007, pursuant to a purchase agreement we sold senior secured promissory notes (the "Notes") in the original aggregate principal amount of \$5,000,000. We received net proceeds in the amount of \$4,500,000 net of \$500,000 of an Original Issue Discount upon sale of the Notes.

The Notes will mature on May 30, 2008 (the "Maturity Date") and are accruing interest at the rate of 8% per annum, payable quarterly in cash. The Company, in the absence of an event of default and the satisfaction of certain conditions set forth in the Notes, shall be able to extend the Maturity Date from the original six months to nine months (the "Extended Maturity Date") by delivering a written notice to the holders of the Notes within at least ten (10) but not more than twenty (20) business days prior to the Maturity Date. The Company, as one of the conditions to such extension, is obligated to issue an aggregate of 40,000 shares of its common stock (the "Shares"), to be allocated among the buyers on the Maturity Date. In accordance with the terms and conditions of the Purchase Agreement, the Company will grant to the buyers, in connection with the issuance of the Shares, "piggyback" registration rights with respect to the Shares in the event that the Company registers any shares of common stock held by other stockholders of the company. Additionally, as one of the conditions to such extension, the interest rate will increase from 8% per annum to 12% per annum.

We used the net proceeds from the sale of the Notes first, to pay expenses and commissions related to the sale of the Notes and second, for the general working capital needs and acquisitions of companies or businesses reasonably related to internet marketing and advertising.

In addition, the Purchase Agreement contains certain customary negative covenants, including, without limitation, certain restrictions (subject to limited exceptions) on (i) the issuance of variable priced securities, (ii) purchases and payments, (iii) limitations on prepayments, (iv) incurrence of indebtedness, (v) sale of collateral, (vi) affiliate transactions and (vii) the ability to make loans and investments.

In consideration of the execution and delivery by the buyers of the Agreement, by and among the Company and the buyers, the buyers purchased 150,000 common shares at a negotiated purchase price of \$0.01 per share from a third party stockholder of the Company. On such date, the closing trading price of the Company's common stock on the Over The Counter Bulletin Board was \$5.35. The purchase of the common shares at a favorable price from such third party stockholder was a material inducement to the buyers entering into the transactions. Accordingly, under U.S. Generally Accepted Accounting Principles, of the \$4.5 million received by the Company in connection with the sale of the senior notes to the buyers, \$802,500 has been allocated to the value of the common shares sold to the buyers as if such common shares were contributed to the Company by the third party and then reissued by the Company in connection with the transactions.

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The resulting debt discount created by the original issue discount, lender fees and the 150,000 common shares issued of \$1,352,500, is being amortized to interest expense over the term of the debt. Amortization of the discount for the three month period ended March 31, 2008 totaled \$676,248 and is included in interest expense. In addition, the Company incurred legal and other fees associated with the issuance of the Notes. Such fees of \$91,437 are included in deferred debt issue costs and are being amortized to interest expense over the term of the debt. Amortization of the deferred costs for the three month period ended March 31, 2008 totaled \$47,027 and is included in interest expense.

Accrued interest related to the above notes at March 31, 2008 and at December 31, 2007, was \$98,630 and \$33,333, respectively.

The Notes are secured by a first security interest on all of Holding's and its subsidiaries' assets pursuant to a security agreement. The Purchase Agreement also provides for the pledge by Holdings and each of its subsidiaries of all of the capital stock or other equity interests held by them as collateral for the Notes, pursuant to a pledge agreement. In addition, each of the Holding's subsidiaries has entered into a guaranty, guaranteeing Holding's performance under the Purchase Agreement, Notes and related transaction documents.

In addition, the Company shall transfer all existing funds on deposit in each of its bank accounts on a daily basis to one or more deposit account(s) that are subject to an Account Control Agreement. The Account Control Agreement serves as collateral for all of the Company's and its subsidiaries cash accounts. In the event of default the lenders will have full access to all of the Company's cash accounts as set forth in the Account Control Agreement.

On May 5, 2008, the Company repaid approximately \$588,000 in principal, net of \$23,000 in unamortized discount, on its senior secured notes payable through issuance to the lender of 305,500 shares of common stock with a total fair value of \$1,069,250 based on quoted trading prices of \$3.50 per share and a five year warrant to purchase an additional 152,750 share of common stock at a \$2.50 with an estimated fair value of \$382,000. In conjunction with this extinguishment, the Company incurred an approximate \$863,000 loss.

**Note 5. Net Loss per Share**

Basic earnings per share are computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed using the weighted average number of common and potentially dilutive securities outstanding during the period. Potentially dilutive securities consist of the incremental common shares issuable upon exercise of stock options and warrants and conversion of convertible debt (using the treasury stock method). Potentially dilutive securities are excluded from the computation if their effect is anti-dilutive. The treasury stock effect of options, warrants and conversion of convertible debt to shares of common stock outstanding at March 31, 2008 have not been included in the calculation of the net loss per share as such effect would have been anti-dilutive. As a result of these items, the basic and diluted loss per share for all periods presented are identical. The following table summarizes the weighted average shares outstanding:

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	<b>Three month period ended March 31, 2008</b>
Net (loss)	\$ (3,735,317)
Weighted-average common shares outstanding—basic	35,946,334
Dilutive effect of stock options	-
Number of shares used to compute net income per common share—diluted	35,946,334
Net (loss) per common share:	
Basic	\$ (0.10)
Diluted	\$ (0.10)

At March 31, 2008 and December 31, 2007 there were common stock options for 4,973,500 and 4,331,000 shares, respectively.

At March 31, 2008 and December 31, 2007 there were common stock warrants for 510,000 and 500,000 shares, respectively which if exercised, may dilute future earnings per share.

#### **Note 6. Income Taxes**

As part of the allocation of the purchase price associated with the Options Media acquisition, (see Note 1) a deferred tax liability of \$264,000 was established as a result of differences between the book and tax basis of acquired intangible assets.

In addition, the company has not recognized a tax benefit for the three-month period ended March 31, 2008, due to the Company's continuing losses.

#### **Note 7. Shareholders' Equity**

##### **Preferred Stock**

The Company is authorized to issue up to 10,000,000 shares of \$0.001 par value preferred stock of which none is issued and outstanding at March 31, 2008.

##### **Common Stock**

The Company is authorized to issue up to 140,000,000 shares of \$0.001 par value common stock of which 35,979,667 was issued and outstanding at March 31, 2008.

During January 2008, the Company issued 1,000,000 common stock in connection with the acquisition of Options Media. (See Note 1)

On March 28, 2008, the Company entered into agreements to sell for \$500,000 an aggregate of (i) 200,000 shares of its common stock, par value \$0.001 per share and (ii) five-year warrants to purchase 150,000 shares of its common stock at an exercise price of \$2.75 per share. In conjunction with the agreements during the quarter ended March 31,



2008, the Company received aggregate proceeds of \$475,000, net of \$25,000 in fees. These issuable shares and warrants are price protected and the Company may be obligated to issue additional shares and/or warrants in the event the Company issues common stock at a price less than \$2.50 per share or warrants at an exercise price of less than \$2.75. Subsequent to March 31, 2008, the Company issued common stock and warrants for less than the floor amounts and accordingly is required to issue an additional 50,000 shares of common stock in conjunction with this stock and warrant issuance.

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**Stock Incentive Plan and Option Grants**

In the three-month periods ended March 31, 2008, the Company recognized stock-based compensation of \$492,489 in connection with the Company's Stock option plan.

During the three month period ended March 31, 2008, the Company granted 662,500 stock options, each exercisable at the fair value of the common stock on the respective grant dates ranging from \$3.43 to \$4.13 pursuant to the employment contracts. The options vest pro rata over 4 years and expire 5 years from the grant date. The total value of the options of \$2,570,684 was computed using a Black-Scholes option pricing method with volatility of 80% (based on comparative companies) an expected term of 5 years (based on contracted term since we have no history and using the SAB 107 simplified method does not produce a material difference), dividends of 0% and an interest rate ranging from 2.66% to 3.79%. The value will be recognized pro rata over the respective 4-year requisite service periods.

**Note 8. Commitments and Contingencies**

**Leases**

As of March 31, 2008 the minimum future lease payments for the New York lease and the Options Media lease with noncancelable terms in excess of one year are as follows:

Year ended December 31,		
2008	\$	152,210
2009		188,250
2010		191,557
2011		105,570
2012		52,785
	\$	690,372

Rent expense was \$79,495 for the period three month period ended March 31, 2008.

The Company leases office space for its Fort Lauderdale location under a yearly renewable lease agreement.

Monthly lease expense associated with this lease is approximately \$11,300.

**Guaranteed Bonus**

On December 2007, the Company entered into an employment agreement whereby the Company is obligated to pay a guaranteed bonus of \$500,000 during the first year of the employment agreement.

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***Legal Matters:***

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. As of March 31, 2008, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of our operations.

There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial shareholder, is an adverse party or has a material interest adverse to our interest.

**Note 9. Concentrations**

**Concentration of Credit Risk**

Financial instruments that potentially subject the Company to concentration of credit risk consist of cash and cash equivalents and accounts receivable. Cash and cash equivalents are deposited in the local currency with a limited number of financial institutions in the United States. The balances in the United States held at any one financial institution may be in excess of Federal Deposit Insurance Corporation (“FDIC”) insurance limits. As of March 31, 2008, there was approximately \$335,000 and \$607,000 in excess of insurable limits at three different locations.

**Concentration of Revenues and Accounts Receivable**

For the quarter ended March 31, 2008, the Company had a significant customer with individual percentage of total revenues equaling 10% or greater as follows:

Customer 1	19.55%
% of Total Revenues	19.55%

At March 31, 2008 concentration of accounts receivable with significant customers representing 10% or greater of accounts receivable was as follows:

Customer 2	15.30%
Customer 3	11.86%
% of Accounts receivable	27.16%

**Note 10. Related Party Transactions**

Included in revenues for the three month ended March 31, 2008 is approximately \$41,000 of revenue from a related party affiliate which is controlled by one of our directors who was one of the former owners of Desktop Interactive.

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**Note 11. Subsequent Events**

On April 25, 2008, Bruce Kreindel, Chief Executive Officer (the "CFO"), Treasurer, and a member of the board of directors of Customer Acquisition Network Holdings, Inc. (the "Company") executed a separation and release agreement (the "Separation Agreement") in which he resigned as CFO, Treasurer and as a member of the board of directors of the Company. Mr. Kreindel has agreed to remain in the position of interim CFO until the earlier of (i) the Company's retention of a CFO or (ii) May 15, 2008. Pursuant to the terms of the Separation Agreement, Mr. Kreindel received, as severance (i) \$50,000 payable on or prior to May 9, 2008, and (ii) \$125,000 to be paid in accordance with the Company's regular payroll practices. Pursuant to the terms of the employment agreement dated June 28, 2007 between Mr. Kreindel and the Company, Mr. Kreindel received equity in the Company known as "Founder's Stock." Pursuant to the terms of the Separation Agreement, Mr. Kreindel will retain his Founder's Stock. Mr. Kreindel has agreed, that at any time prior to December 27, 2008, he will, as may be required by the Company, enter into a lock-up agreement on the same terms and conditions as all other members of the Company's board of directors, with respect to the Founder's Stock. Prior to entering into the Separation Agreement, 93,855 options had vested as of the date of the Separation Agreement. Pursuant to the Separation Agreement, Mr. Kreindel will not be entitled to any other options. Mr. Kreindel will have the unqualified right to exercise any of the vested options for a period of 12 months after the separation date.

Subsequent to March 31, 2008, the Company entered into a Subscription Agreement pursuant to which the Company sold of (i) 100,000 shares of its common stock, par value \$0.001 per share and (ii) five-year warrants to purchase 150,000 shares of its common stock at an exercise price of \$2.75 per share for aggregate gross proceeds of \$250,000. These shares and warrants are price protected and the Company may be obligated to issue additional shares and/or warrants in the event the Company issues common stock at a price less than \$2.50 per share or warrants at an exercise price of less than \$2.75.

As a result of the issuance by the Company of common stock at a price below 2.50 per share and warrants at an exercise price of 2.79 per share, the co issued an additional 25k shares of common stock and a warrant to purchase 5k shares of common stock at an exercise price of \$2.50 per share, pursuant to the price protection.

At March 31, 2008, the Company had an accounts receivable balance of \$375,658 from a certain customer for CPM advertising earned in the period ending March 31, 2008. Subsequent to March 31, 2008, the Company purchased from this customer for \$350,000 an inventory of qualified data for use by the Company in email advertising and the account receivable at March 31, 2008 from this customer was paid in full. The Company will account for the data purchase as an intangible asset and will amortize its cost over its expected life.

On April 30, 2008, the Company entered into a Subscription Agreement pursuant to which the Company sold (i) 50,000 shares of common stock and (ii) a five-year warrant to purchase 25,000 shares of common stock at an exercise price of \$2.50 per share for aggregate gross proceeds of \$100,000.

On May 5, 2008, the Company entered into a Subscription Agreement pursuant to which the Company sold (i) 150,000 shares of common stock and (ii) a five-year warrant to purchase 75,000 shares of common stock at an exercise price of \$2.50 per share for aggregate gross proceeds of \$300,000.

On May 5, 2008, the Company entered into a Subscription Agreement with pursuant to which the Company sold (i) 50,000 shares of common stock and (ii) a five year warrant to purchase 25,000 shares of common stock at an exercise price of \$2.50 per share for aggregate gross proceeds of \$100,000.

On May 5, 2008, the Company entered into a Subscription Agreement with pursuant to which the Company sold (i) 25,000 shares of common stock and (ii) a five year warrant to purchase 12,500 shares of common stock at an exercise price of \$2.50 per share for aggregate gross proceeds of \$50,000.

On May 5, 2008, the Company repaid approximately \$588,000 in principal, net of \$23,000 in unamortized discount, on its senior secured notes payable through issuance to the lender of 305,500 shares of common stock with a total fair value of \$1,069,000 based on a quoted trade price of \$3.50 per share and a five year warrant to purchase an additional 152,750 share of common stock at a \$2.50 with an estimated fair value of \$382,000. In conjunction with this extinguishment, the Company incurred an approximate \$863,000 loss.

On May 15, 2008, the Company entered into a Subscription Agreement pursuant to which the Company sold (i) 325,000 shares of common stock and (ii) a five year warrant to purchase 162,500 shares of common stock at an exercise price of \$2.50 per share for aggregate proceeds of \$650,000.

On May 16, 2008 the Company received an employment arbitration dispute notice on behalf of its former chief operating officer in connection with the termination of his employment with the Company. The claim is for severance in the amount of \$300,000.

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

*The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this quarterly report on Form 10-Q. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including but not limited to those set forth under "Risk Factors" in our annual report on Form 10-KSB filed on April 15, 2008.*

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and assumptions, including, but not limited to, those related to revenue recognition, allowance for doubtful accounts, income taxes, goodwill and other intangible assets, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and assumptions.

### **Company Overview**

We are an emerging provider of Internet advertising solutions for Internet publishers and advertisers. We offer advertisers an integrated multi-channel Internet advertising solution designed to satisfy their growing demand for new customer leads and acquisitions. We intend to deliver pay-for-performance-based Internet advertising solutions known as cost-per-action, or CPA, cost-per-click, or CPC, and cost-per-thousand, or CPM. With CPA, an advertiser only pays when an Internet user completes an action as defined by the advertiser. Examples of CPA actions include, but are not limited to, the acquisition of qualified database entrants (such as opt-in email), driving sign-ups, downloads, inquiries or acquiring paying customers. In the case of CPC, an action is defined by an Internet user clicking on an advertisement.

In the case of CPM, we believe we are revolutionizing the way advertisers are able to purchase online media. In the past, marketers have been unable to pinpoint exactly which websites attract a high percentage of the target audience they are trying to reach based on their desired metric. With our ad network, interCLICK, we empower the advertiser to reach the exact target audience by offering unparalleled transparency as well as a suite of advanced targeting capabilities that ensure brand metrics are achieved without sacrificing reach or quality. With this approach, interCLICK is taking the inefficiencies out of the buyer/seller dynamic by allowing CPM advertisers to achieve a direct response metric, whether it's a click, lead or a sale. We believe that this fundamental difference allows online marketers to achieve a better ROI while still being able to target the premium websites.

### **Corporate History**

Prior to August 28, 2007, we were a public company, without material assets or activities. On August 28, 2007, we completed a reverse merger, pursuant to which a wholly-owned subsidiary of ours merged with and into a private company, Customer Acquisition Network, Inc., with such private company being the surviving company. In connection with this reverse merger, we discontinued our former business and succeeded to the business of Customer Acquisition Network, Inc. as our sole line of business. For financial reporting purposes, Customer Acquisition Network, Inc., and not us, is considered the accounting acquirer. Accordingly, the historical financial statements presented and the discussion of financial condition and results of operations herein are those of Customer Acquisition Network, Inc. and do not include our historical financial results.



## Edgar Filing: Customer Acquisition Network Holdings, Inc. - Form 10-Q

On August 31, 2007, we consummated the acquisition of Desktop Interactive, Inc., (“Desktop”) known in the industry as InterCLICK, one of the nation’s leading Internet advertising networks. ComScore, the industry standard utilized to measure an ad network’s capability to reach unique online visitors, recently rated interlock as the eleventh largest and fastest-growing ad network in the United States for 2007. InterCLICK reaches 109 million unique U.S. visitors per month, or 58% of the U.S. online population, with impressions per month exceeding four billion. interCLICK’s rapidly expanding customer base includes some of the world’s largest Internet publishers and advertisers.

On January 4, 2008, we consummated the acquisition of Options Newsletter, Inc., known in the industry as Options Media (“Options”), a leading provider of email delivery services.

### Results of Operations

The following table presents our results of operations for the period January 1, 2008 to March 31, 2008. It should be noted that our results of operations and our liquidity and capital resources discussions include the operations of Desktop as well as Options for the three months ended March 31, 2008 (otherwise referred to as the “Period”).

		<b>For the three months ended March 31, 2008</b>
Revenues	\$	4,301,918
Cost of revenue		2,820,141
Gross profit		1,481,777
<b>Operating expenses:</b>		
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)
<b>Other income (expense)</b>		
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





## **Revenues**

Revenues for the Period were \$4,301,918 and represent three months of post acquisition Desktop and Options operations. Revenues for the first quarter ended March 31, 2007 including pro forma pre-acquisition Desktop and Options revenue totaled \$1,478,627, which represents a year-over-year increase of 190.9% compared to the first quarter ended March 31, 2008 revenues of \$4,301,918.

Historically, Q1 in the Internet advertising industry is the weakest quarter in terms of demand for cost per thousand (CPM) advertising campaigns. Desktop is particularly sensitive to this seasonality effect given that the majority of its revenues are based on CPM campaigns. Additionally, we previously reported that in Q4 2007, during the month of December, an ad network customer represented approximately \$900,000 in Desktop revenues. As previously reported, that was a one-time media buy, and that positive seasonality revenue was not expected to continue into 2008.

Given the continued overall growth in online advertising, coupled with other strategic initiatives undertaken by Desktop and Options, including our continued enhancement of our behavioral targeting system, our continued ability to acquire top tier publishing media, and our new and rapidly growing list management email business, we expect to continue to increase our advertising customer base and revenues on a year-over-year basis.

We expect that CPM based revenues will continue to grow as a percentage of our overall Desktop revenues in future quarters. In the first quarter ended March 31, 2008, CPM revenues accounted for over 70% of Desktop's overall revenues.

## **Cost of Revenue and Gross Profit**

Cost of revenue for the Period was \$2,820,141 and represents the amounts we paid to website publishers on Desktop's online advertising network and data license partners on Option's list management business. Cost of revenue and attendant gross margins represent the post acquisition operations of Desktop and Options for the three month period ended March 31, 2008.

We pay Desktop's website publishers on a CPM or a revenue share basis. The amount of display advertisements we are able to deliver (e.g. impressions), is based upon the level of publishing media we can acquire. Based on our ComScore rating as of March 31, 2008, we currently reach 58% of the domestic online population and are ranked as the eleventh largest ad network in the domestic online marketplace. We expect to continue to expand our publisher base as well as increase the levels of acquired publishing media, particularly with tier one publishers.

We pay Option's data license partners a revenue sharing fee, typically at the industry average rate of 50% of total revenues earned.

Gross profits for the three month period ending March 31, 2008 was \$1,481,777 or 34.4% and represent three months of post acquisition Desktop and Options operations.

## **Operating Expenses:**

### ***General and Administrative***

General and administrative expenses consist primarily of executive and administrative compensation, facilities costs, insurance, depreciation, professional and investor relations services fees. Total general and administrative expenses for the Period were \$2,389,927, which includes three months of post acquisition expenses of Desktop totaling \$490,489 and of Options totaling \$401,429. The remaining expense primarily represents our executive and administrative salaries, facilities costs, insurance and professional and investor relations services fees.



In addition, we incurred \$571,294 of non cash stock based compensation charges resulting from \$492,489 in expense from our stock option plans and \$78,805 from amortization of warrants issued for consulting services.

### ***Sales and Marketing***

Sales and marketing expenses consist primarily of compensation for sales and marketing and related support resources, sales commissions and trade shows. Sales and marketing expenses for the Period were \$888,102, which primarily includes three months of post acquisition expenses of Desktop totaling \$823,980 and of Options totaling \$61,199. We expect sales and marketing costs to increase as a result of our continued expansion of sales and marketing resources and the expected overall growth in our business.

### ***Technology Support***

Technology Support consists primarily of compensation of technology support and related consulting resources and third party ad server costs for Desktop. Total technology costs for the Period were \$277,038, including \$69,516 of third party ad server costs. During the three month period ended March 31, 2008, Desktop's ad server system was certified by certain tier 1 publishers. This certification, coupled with Desktop's continued expansion of its technological infrastructure enabling us to deliver increasing levels of ad impressions, should result in a significant reduction in third party ad server costs.

Technology support and related consulting support resources have been directed primarily towards continued enhancement of our consumer behavioral-targeting and predictive scoring capabilities, integration and optimization of captured and acquired consumer data, and ongoing maintenance and improvement of our ad server optimization technology platform. Technology support compensation and consulting fees were \$183,346 for the Period.

### ***Amortization of Intangible Assets***

Amortization of intangible assets for the Period was \$183,373. This amount represents the amortization of intangible assets, customer relationships and developed technology, acquired through the Desktop and Options acquisitions. .

### ***Merger, Acquisition and Organizational Costs***

Merger, Acquisition and Organizational Costs consist primarily of audit and accounting services related to the acquisition of Options. Total merger, acquisition and organizational costs were \$285,735. Due to the acquisitive nature of our company, we anticipate that we will continue to incur such costs.

### ***Income taxes***

As part of the allocation of the purchase price associated with the Options Media acquisition, (see Note 1) a deferred tax liability of \$264,000 was established as a result of differences between the book and tax basis of acquired intangible assets.

In addition, the company has not recognized a tax benefit for the three-month period ended March 31, 2008, due to the Company's continuing losses.

### ***Liquidity and Capital Resources***

At March 31, 2008, we had a cash and cash equivalent balance of approximately \$1.2 million and a working capital deficit of approximately \$4.8 million. Net cash used in operations during the three month period ended March 31, 2008 totaled approximately \$1.2 million. The use of cash for operations resulted primarily from net losses of approximately \$2.1 million before \$1.7 million in non-cash charges. This loss was offset by a \$0.9 million inflow of cash from a net decrease in accounts receivable.



Cash used in investing activities for the Period was approximately \$1.7 million. The primary use of the cash for the Period was for the purchase of Options, our newly acquired subsidiary, totaling approximately \$1.6 million.

Cash provided by financing activities for the Period was approximately \$469,000, resulting primarily from \$475,000 in cash received from stock subscriptions, net of \$25,000 in offering costs.

The Company' Secured Promissory Notes ('the Notes') with a \$5.0 million face amount will mature on May 30, 2008 (the "Maturity Date") and are accruing interest at the rate of 8% per annum, payable quarterly in cash. We, in the absence of an event of default and the satisfaction of certain conditions set forth in the Notes, are able to extend the Maturity Date from the original six months to nine months (the "Extended Maturity Date") by delivering a written notice to the holders of the Notes within at least ten (10) but not more than twenty (20) business days prior to the Maturity Date. We, as one of the conditions to such extension, are obligated to issue an aggregate of 40,000 shares of our common stock (the "Shares"), to be allocated among the buyers on the Maturity Date. In accordance with the terms and conditions of a purchase agreement that we entered into with the buyers of the Notes, we are obligated to grant to the buyers, in connection with the issuance of the Shares, "piggyback" registration rights with respect to the Shares in the event that we register any shares of common stock held by our other stockholders. Additionally, as one of the conditions to such extension, the interest rate will increase from 8% per annum to 12% per annum.

In addition the Securities Purchase Agreement contained certain customary negative covenants, including, without limitation, certain restrictions (subject to limited exceptions) on (i) the issuance of variable priced securities, (ii) purchases and payments, (iii) limitations on prepayments, (iv) incurrence of indebtedness, (v) sale of collateral, (vi) affiliate transactions and (vii) the ability to make loans and investments.

On May 5, 2008, the Company repaid \$588,000 in principal, net of \$23,000 in unamortized discount, on its senior secured notes payable through issuance to the lender of 305,500 shares of common stock with a total fair value of \$1,069,250 and a five year warrant to purchase an additional 152,750 share of common stock at a \$2.50 with an estimated fair value of \$382,000. In conjunction with this extinguishment, the Company incurred an approximate \$863,000 loss.

**Item 4T. Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Interim Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Commission Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and the Interim Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter covered by this quarterly report on Form 10-Q. Based on the foregoing, our Chief Executive Officer and Interim Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

**PART II**  
**OTHER INFORMATION**

**Item 1. Legal Proceedings**

From time to time we may be involved in claims arising in the ordinary course of business. To our knowledge there are no pending or threatened legal proceedings, government actions, administrative actions, investigations or claims against the Company.

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

Except as previously included in our Current Reports on Form 8-K with the Securities and Exchange Commission and as described below, we have not sold any equity securities during the period covered by this Report that were not registered under the Securities Act of 1933, as amended.

**Item 6. Exhibits**

Exhibit Number	Description
31.1*	Section 302 Certification of Principal Executive Officer
31.2*	Section 302 Certification of Principal Financial Officer
32.1*	Section 906 Certification of Principal Executive Officer and Principal Financial Officer

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\* Filed herewith.



**SIGNATURES**

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

CUSTOMER ACQUISITION NETWORK HOLDINGS, INC.

Dated: May 20, 2008

By:

/s/ Michael D. Mathews

Name: Michael D. Mathews  
Title: Chief Executive Officer