Professional Diversity Network, Inc.
Form 10-Q
May 15, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended March 31, 2013

OR

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Transition Period from_____ to __________ .

Commission File Number: 001-35824

Professional Diversity Network, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	83-0374250 (I.R.S. Employer Identification No.)

801 W. Adams Street, Suite 600, Chicago, Illinois 60607
(address of principal executive offices) (Zip Code)

Telephone: (312) 614-0950
(Registrant's telephone number, including area code)

N/A
(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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes o No o

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.

Large accelerated filer	o	Accelerated filer	o
Non–accelerated filer	o	Smaller reporting company	x

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

There were 6,317,227 shares outstanding of the registrant's common stock as of May 13, 2013.

PROFESSIONAL DIVERSITY NETWORK, INC.

FORM 10-Q
FOR THE THREE MONTHS ENDED MARCH 31, 2013

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PART I

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

Professional Diversity Network, Inc.
CONDENSED BALANCE SHEETS (Unaudited)

	March 31, 2013	December 31, 2012
Current Assets:		
Cash and cash equivalents	$20,513,060	$868,294
Accounts receivable	766,232	1,923,048
Marketable securities, at fair value	254,787	251,349
Prepaid expense	216,963	63,982
Total Current Assets	21,751,042	3,106,673
Property and equipment, net	54,104	34,863
Security deposits	23,711	23,711
Deferred offering costs - initial public offering	-	832,240
Developed technology, net	443,861	402,890
Goodwill	635,671	635,671
Trade name	90,400	90,400
Total assets	$22,998,789	$5,126,448
Current Liabilities:		
Accounts payable	$301,574	$265,013
Accrued expenses	125,264	85,327
Deferred revenue	552,586	500,000
Warrant liability	304,560	
Total current liabilities	1,283,984	850,340
Notes payable - members, net of original issue discount of $0 and $138,256 as of March 31, 2013 and December 31, 2012, respectively	-	1,487,900
Deferred tax liability	195,737	-
Total liabilities	1,479,721	2,338,240
Commitments and contingencies		
Stockholders' Equity		
Common stock $0.01 par value, 25,000,000 shares authorized, 6,318,227 and 3,487,847 shares issued and outstanding, as of March 31, 2013 and December 31, 2012	63,182	34,878
Additional paid-in capital	21,932,761	2,751,827
Accumulated Deficit	(481,816)	-

Accumulated other comprehensive income	4,941	1,503
Total stockholders' equity	21,519,068	2,788,208
Total liabilities and stockholders' equity	$22,998,789	$5,126,448

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

Professional Diversity Network, Inc.
CONDENSED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (Unaudited)

	For the Three Months Ended March 31, 2013	2012
Revenues		
Recruitment services	$535,680	$ 1,000,000
Consumer advertising and marketing solutions revenue	384,123	514,661
Total revenues	919,803	1,514,661
Costs and expenses:		
Cost of services	239,213	202,052
Sales and marketing	455,809	290,712
General and administrative	421,066	253,350
Depreciation and amortization	55,424	20,711
Gain on sale of property and equipment	(4,734)	-
Total costs and expenses	1,166,778	766,825
(Loss) income from operations	(246,975)	747,836
Other income (expense)		
Interest expense	(155,137)	(45,037)
Interest and other income	5,225	3,282
Other expense, net	(149,912)	(41,755)
Change in fair value of warrant liability	110,808	---
(Loss) income before income taxes	(286,079)	706,081
Income tax expense	195,737	-
Net (loss)income	$(481,816)	$ 706,081
Other comprehensive income:		
Net (loss) income	$(481,816)	$ 706,081
Unrealized gains on marketable securities	3,438	25,834
Comprehensive (loss) income	$(478,378)	$ 731,915
Net (Loss) Income per Common Share Basic and diluted	$(0.11)	$ 0.21
Shares used in computing pro forma net (loss) income per common share:		
Basic and diluted	4,307,794	3,487,847
Pro-forma computation related to conversion to a C		

corporation upon completion of initial public offering		
Historical pre-tax net (loss) income before taxes	$(286,079)	$ 706,081
Pro-forma income tax provision	(164,370)	292,155
Pro-forma net (loss) income	$(121,709)	413,926
Pro-forma (loss) earnings per share - basic and diluted		
Weighted average number of shares outstanding	4,307,794	3,487,847
Unaudited Pro-Forma (Loss) earnings per share	$(0.03)	$ 0.12

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

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Professional Diversity Network, Inc.
CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

	Common Stock					
	Shares	Par Value	Additional Paid In Capital	Accumulated Deficit	Accumulated other comprehensive income (loss)	Total Stockholders' Equity
Balance at December 31, 2012	3,487,847	$34,878	$2,751,827		$ 1,503	$2,788,208
Conversion of debt to equity	205,380	2,054	1,640,982			1,643,036
Net proceeds from initial public offering	2,625,000	26,250	17,739,952			17,766,202
Unrealized holding gain on marketable securities					3,438	3,438
Distributions to members			(200,000)			(200,000)
Net loss				$ (481,816)		(481,816)
Balance at March 31, 2013	6,318,227	$63,182	$21,932,761	$ (481,816)	$ 4,941	$21,519,068

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

Professional Diversity Network, Inc.
CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

	For the Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net (loss) income	$ (481,816)	$ 706,081
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization expense	55,424	20,710
Deferred tax expense	195,737	-
Change in fair value of warrant liability	(110,808)	-
Realized loss on sale of investments, net	-	588
Gain on sale of property and equipment	(4,734)	-
Interest added to notes payable	16,881	27,837
Accretion of interest on notes payable	138,256	17,200
Changes in operating assets and liabilities:		
Accounts receivable	1,209,402	158,986
Accounts payable	(4,258)	311,805
Accrued expenses	39,937	(82,825)
Prepaid expenses	(152,981)	-
Deferred income	-	(75,000)
Net cash provided by operating activities	901,040	1,085,382
Cash flows from investing activities:		
Costs incurred to develop technology	(92,466)	(19,089)
Sale of property and equipment	6,203	-
Purchases of property and equipment	(24,639)	-
Net cash used in investing activities	(110,902)	(19,089)
Cash flows from financing activities:		
Distributions to members	(200,000)	(893,333)
Proceeds from IPO, net of offering costs	19,474,565	-
Repayments of notes payable		(48,000)
Deferred IPO costs	(419,937)	(267,773)
Net cash provided by (used in) financing activities	18,854,628	(1,209,106)
Net increase (decrease) in cash and cash equivalents	19,644,766	(142,813)
Cash and cash equivalents, beginning of year	868,294	2,254,431
Cash and cash equivalents, end of period	$ 20,513,060	$ 2,111,618
Supplemental disclosures of other cash flow information:		
Cash paid for income taxes	$ -	$ -
Cash paid for interest	$ -	$ -
Non-cash disclosures:		
IPO costs in accounts payable	$ 40,819	$ -
Deferred revenue in accounts receivable	$ 52,586	$ -

Conversion of notes payable to equity	$	1,643,037	$	-
Reduction of additional paid-in capital for deferred initial public offering costs	$	1,292,996	$	-
Fair value of warrant liabilities	$	415,368	$	-

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

Professional Diversity Network, Inc.
Condensed Notes to Financial Statements

1. Description of Business

Professional Diversity Network, Inc. (the "Company," "Professional Diversity Network," "we," "our" and "us") is a corporatio organized under the laws of Delaware, originally formed as IH Acquisition, LLC under the laws of the State of Illinois on October 3, 2003. The Company operates an online professional networking community with career resources specifically tailored to the needs of seven different diverse cultural groups including: Women, Hispanic Americans, African Americans, Asian Americans, differently-abled, veterans, lesbians, gay, bisexual and transgender (LGBT), and students, and graduates seeking to transition from education to career. The network's purposes, among others, are to assist its members in their efforts to connect with like-minded individuals, identify career opportunities within the network and connect members with prospective employers. The Company's technology platforms are integral to the operation of its business.

2. Liquidity, Financial Condition and Management's Plans

The Company has historically funded its operations principally from cash flows generated in its operating activities. We had been dependent on Monster Worldwide for all of our recruitment revenue pursuant to an alliance agreement that expired December 31, 2012. Because our agreement with Monster Worldwide was exclusive in so far as it prohibited us from selling our recruitment services to anyone other than Monster Worldwide, the growth of the Company had been dependent on the growth of Monster Worldwide's diversity recruitment business. We believe that by expanding on the sources of our recruitment revenue, which we have begun to do by entering into non-exclusive agreements with new strategic business partners or agreements that provide for limited exclusivity, such as the one we entered into with LinkedIn Corporation ("LinkedIn") in November 2012, and by increasing our sales force to commence direct sales of our products and services, we have an opportunity to provide better services to our customers and achieve revenues and margins that are greater than those achieved during the term of our agreement with Monster Worldwide.

The non-renewal of our agreement with Monster Worldwide had a material impact on revenue and operating cash flow. Under our agreement with Monster Worldwide, we have agreed to provide limited support and access to data to permit Monster Worldwide to continue to meet certain obligations to its customers in 2013. With respect to job postings that Monster sold prior to the expiration of our agreement on December 31, 2012, we are permitting Monster to maintain such postings on our websites until the earlier of (a) the date that Monster Worldwide's obligation to maintain such posting expires or (b) December 31, 2013. In addition, we will continue to provide Monster with access to our data until December 31, 2013. We do not expect the job postings that Monster Worldwide sold prior to the expiration of our agreement to remain posted on our websites through December 31, 2013 and we and Monster Worldwide may agree to remove the vast majority of such job postings from our websites on or around June 30, 2013. We have incurred and expect to continue to incur only de minimis additional labor and costs, and will not receive any additional payments from Monster Worldwide subsequent to the expiration of our agreement. Additionally, as of January 1, 2013, we have begun to sell our products and services directly to employers, except for those identified as restricted by LinkedIn.

The Company completed an initial public offering ("IPO") of its equity securities (Note 11) on March 8, 2013 and received $19,474,565 in proceeds net of offering costs. The Company incurred approximately $1.3 million of IPO expenses through March 31, 2013 in its efforts to complete the IPO. Expenses incurred in connection with the IPO were accounted for as a reduction of the offering proceeds.

As of March 31, 2013, there have been no immediate or material changes to the core operations of our business; however, we have incurred various expenses associated with becoming a public company. These expenses include increases in professional fees and the hiring of additional administrative staff that are customarily associated with establishing a public company compliance structure. We have also made investments in technologies that we need to support the evolution of our business from a fixed fee recruitment service with an exclusive source of revenue to a platform that uses social media to promote the integration of diverse groups into the workforce. We believe that the planned evolution of our business, launched in 2013, will enable to diversify our revenue sources and customer base over time.

3. Summary of Significant Accounting Policies

The accompanying unaudited condensed financial statements as of March 31, 2013 and for the three months then ended have been prepared in accordance with the accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and pursuant to the instructions to Form 10-Q and Article 8 of Regulation S-X of the Securities and Exchange Commission ("SEC") and on the same basis as the Company prepares its annual audited consolidated financial statements. The condensed balance sheet as of March 31, 2013, condensed statements of comprehensive (loss) income, condensed statements of cash flows for the three months ended March 31, 2013 and 2012, and the condensed statements of stockholders' equity for the three months ended March 31, 2013 are unaudited, but include all adjustments, consisting only of normal recurring adjustments, which the Company considers necessary for a fair presentation of the financial position, operating results and cash flows for the periods presented. The results for the three months ended March 31, 2013 are not necessarily indicative of results to be expected for the year ending December 31, 2013 or for any future interim period. The condensed balance sheet at December 31, 2013 has been derived from audited financial statements; however, it does not include all of the information and notes required by U.S. GAAP for complete financial statements. The accompanying condensed financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2012, and notes thereto included in the Company's annual report on Form 10-K, which was filed with the SEC on April 1, 2013.

Accounting Estimates - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant areas that required management to make estimates and assumption that affect the amounts and disclosures in the financial statements include revenue recognition, valuation of goodwill, trade name and URL, costs capitalized to develop technology and the Company's estimated useful lives of assets. Actual results could differ from those estimates.

Significant Accounting Policies - Other than as described in this Note 3, there have been no material changes to the Company's significant accounting policies as compared to the significant accounting policies described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012 as filed with the SEC on April 1, 2013.

Advertising and Marketing Expenses - Advertising and Marketing expenses are expensed as incurred. For the three months ended March 31, 2013 and 2012 the Company incurred advertising and marketing expenses of approximately $157,000 and $107,000, respectively.

Income Taxes – As a result of the Company's completion of its IPO, the Company's results of operations are taxed as a C Corporation. Prior to the IPO, the Company's operations were taxed as a limited liability company, whereby the Company elected to be taxed as a partnership and the income or loss was required to be reported by each respective member on their separate income tax returns. Therefore, no provision for income taxes has been provided in the accompanying condensed financial statements for periods prior to March 31, 2013.

This change in tax status to a taxable entity resulted in the recognition of deferred tax assets and liabilities based on the expected tax consequences of temporary differences between the book and tax basis of the Company's assets and liabilities at the date of the IPO. This resulted in a net deferred tax expense of $195,737 being recognized and included in the tax provision for the three and nine months ended March 31, 2013. The tax expense was determined using an effective tax rate of 40.6% for the period from March 4, 2013 (the date on which the tax status changed to a C Corporation) to March 31, 2013.

The unaudited pro forma computation of income tax expense (benefit) included in the condensed statements of comprehensive income (loss), represents the tax effects that would have been reported had the Company been subject to U.S. federal and state income taxes as a corporation for all periods presented. Pro forma taxes are based upon the statutory income tax rates and adjustments to income for estimated permanent differences occurring during each period. Actual rates and expenses could have differed had the Company actually been subject to U.S. federal and state income taxes for all periods presented. Therefore, the unaudited pro forma amounts are for informational purposes only and are intended to be indicative of the results of operations had the Company been subject to U.S. federal and state income taxes as a corporation for all periods presented.

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the financial statement basis and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company estimates the degree to which tax assets and credit carryforwards will result in a benefit based on expected profitability by tax jurisdiction. A valuation allowance for such tax assets and loss carryforwards is provided when it is determined to be more likely than not that the benefit of such deferred tax asset will not be realized in future periods. If it becomes more likely than not that a tax asset will be used, the related valuation allowance on such assets would be reduced. The following table provides a breakdown of the Company's net deferred tax liability as of March 31, 2013:

Net Operating Loss	$92,188
Goodwill and trade name	(85,872)
Developed technology	(180,100)
Property and equipment	(21,953)
	$(195,737)

Fair Value of Financial Assets and Liabilities- Financial instruments, including cash and cash equivalents, accounts payable and accrued liabilities which are carried at historical cost, which management believes that the recorded amounts approximate fair value due to the short-term nature of these instruments.

The Company measures the fair value of financial assets and liabilities based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The Company uses three levels of inputs that may be used to measure fair value:

Level 1 — quoted prices in active markets for identical assets or liabilities

Level 2 — quoted prices for similar assets and liabilities in active markets or inputs that are observable

Level 3 — inputs that are unobservable (for example cash flow modeling inputs based on assumptions

Financial assets measured at fair value on a recurring basis are summarized below:

	March 31, 2013	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Marketable securities	$254,787	$ 254,787	$-	$ -
Liabilities:				
Fair value of warrant obligations (Note 10)	$304,560	$ -	$-	$ 304,560

	December 31, 2012	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Marketable securities	$251,349	$ 251,349	$-	$ -

The Company considers its investments in exchange traded shares to be Level 1.

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Level 3 liabilities are valued using unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the derivative liabilities. For fair value measurements categorized within Level 3 of the fair value hierarchy, the Company's accounting and finance department, who report to the Chief Financial Officer, determine its valuation policies and procedures. The development and determination of the unobservable inputs for Level 3 fair value measurements and fair value calculations are the responsibility of the Company's accounting and finance department and are approved by the Chief Financial Officer.

Level 3 Valuation Techniques:

Level 3 financial liabilities consist of warrant liabilities for which there is no current market for these securities such that the determination of fair value requires significant judgment or estimation. Changes in fair value measurements categorized within Level 3 of the fair value hierarchy are analyzed each period based on changes in estimates or assumptions and recorded as appropriate.

The Company uses the Black-Scholes option valuation model to value Level 3 financial liabilities at inception and on subsequent valuation dates. This model incorporates transaction details such as the Company's stock price, contractual terms, maturity, risk free rates, as well as volatility.

A significant decrease in the volatility or a significant decrease in the Company's stock price, in isolation, would result in a significantly lower fair value measurement. Changes in the values of the derivative liabilities are recorded in "(Loss) gain due to change in fair value of derivative instruments" in the Company's condensed consolidated statements of operations.

As of March 31, 2013, there were no transfers in or out of Level 3 from other levels in the fair value hierarchy.

Net (Loss) Earnings per Share - The Company computes basic net (loss) earnings per share by dividing net (loss) earnings per share available to common stockholders by the weighted average number of common shares outstanding for the period and excludes the effects of any potentially dilutive securities. Diluted earnings per share, if presented, would include the dilution that would occur upon the exercise or conversion of all potentially dilutive securities into common stock using the "treasury stock" and/or "if converted" methods as applicable. The computation of basic net (loss) income per share for the three months ended March 31, 2013 and 2012, excludes the potentially dilutive securities summarized in the table below because their inclusion would be anti-dilutive.

Recently Issued Accounting Pronouncements

In February 2013, the FASB issued ASU 2013-02-Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("ASU 2013-02"). ASU 2013-02 is intended to improve the reporting of reclassifications out of accumulated other comprehensive income. Accordingly, an entity is required to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. The amendments in this ASU supersede the presentation requirements for reclassifications out of accumulated other comprehensive income in ASU 2013-05 and ASU 2013-12. ASU 2013-02 is effective for reporting periods beginning after December 15, 2012. The Company adopted ASU 2013-02 effective January 1, 2013 and the adoption did not have an impact on the quarterly financials but may have an impact in future periods.

	2013	2012
Warrants to purchase common stock	131,250	---

4. Marketable Securities

Investments in Marketable Securities are as follows:

	March 31, 2013				December 31, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Amortized cost	Gross Unrealized Gains	Gross unrealized losses	Estimated fair value
Equity								
Exchange traded fund	$ 249,846	$ 4,941	-	$ 254,787	$ 249,846	$ 1,503	-	$ 251,349

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5. Capitalized Technology

Capitalized Technology is as follows:

	March 31, 2013	December 31, 2012
Capitalized cost:		
Balance, beginning of period	$ 734,291	$ 376,044
Additional capitalized cost	92,466	358,247
Balance, end of period	$ 826,757	$ 734,291
Accumulated amortization:		
Balance, beginning of period	$ 331,401	$ 229,897
Provision for amortization	51,495	101,504
Balance, end of period	$ 382,896	$ 331,401
Net Capitalized Technology	$ 443,861	$ 402,890

Beginning the third quarter of 2012, the Company embarked on updating the technology stack of its web product platform to support emerging technologies. Dubbed "V2", the platform was switched over to at the end of year 2012, though the development continued through the first quarter of 2013.

The new technology stack employed in V2, completely switched over the platform to object-oriented programming that will make it easier for components of the platform to be modular, and integrate with other services as and when needed. Further, automated testing tools are being set up on new technology stack, which will add more stability to the sites, and make it easier to identify bugs.

The front end of the V2 product platform follows responsive web design, allowing it to serve up a web experience optimized for devices of different screen sizes such as mobile phones and tablets, which is in line with the shift of internet usage to mobile. Further, the design of all the websites is being changed to simplify the user experience and makes the websites visually more modern.

Talent recruitment communities or groups on the Company's websites are an integral product for employers to brand themselves for social diversity recruitment and build a diverse talent pool. The setup of these groups involves custom programming by software developers. V2 improves the setup process by employing a Content Management System that allows for Client Services personnel to themselves set up a group, much like setting up web pages on a blog.

V2 also unifies the different diversity sites of the Company, by tying them together with a common login and enabling a user that identifies with multiple affinities to easily change between sites they are members of. This unified experience also allows for online traffic to be driven to a single site, and then redirected automatically to the appropriate network.

6. Property and Equipment

Property and Equipment is as follows:

	March 31, 2013	December 31, 2012

Computer hardware	$	64,759	$	64,759
Furniture and Fixtures		24,880		19,884
Leasehold improvements		18,171		13,876
		107,810		98,519
Less: Accumulated Depreciation		53,706		63,656
	$	54,104	$	34,863

Depreciation expense for the three months ended March 31, 2013 and 2012 was $3,929 and $3,000 respectively, and is recorded in depreciation and amortization expense in the accompanying condensed statements of comprehensive (loss) income.

7. Accrued Expenses

Accrued expenses consist of the following:

	March 31, 2013	December 31, 2012
Deferred rent	$ 10,082	$ 6,149
Accrued expenses	115,080	78,084
Payroll liabilities	102	1,094
Total accrued expenses	$ 125,264	$ 85,327

8. Notes Payable

As of March 31, 2013, no notes payable are outstanding. As part of our reorganization in connection with our initial public offering, we entered into a debt exchange agreement with the three founders of the Company, whereby three outstanding promissory notes in the principal amounts of $1,341,676, $142,000 and $37,143 plus accrued interest owed to them, respectively, were exchanged for 168,982, 28,851 and 7,547 shares of common stock, respectively, at a price per share equal to the initial public offering price, which was $8.00 per share. This transaction was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended (the “Securities Act”).

At December 31, 2012, Notes Payable included the three notes described above. The interest rate on the notes was 6% per annum, with all unpaid interest and principal due on November 1, 2014. The Company assumed one of such notes payable at an acquisition date fair value of $692,614 and a face value of $1,341,676. The discount on the note was recorded at 6.055%.

The remaining unamortized discount was $0 and $138,256 at March 31, 2013 and December 31, 2012, respectively. The balance on this note was $0 and $1,199,703 at March 31, 2013 and December 31, 2012, respectively. The second note payable, including accrued but unpaid interest, was $0 and $228,443 at March 31, 2013 and December 31, 2012, respectively. The third note payable was in the amount of $0 and $59,753 at March 31, 2013 and December 31, 2012, respectively. The total notes payable including accrued but unpaid interest amounted to $0 and $1,487,899 as of March 31, 2013 and December 31, 2012, respectively. Interest expense on these note obligations amounted to $155,137 and $45,037 for the three months ended March 31, 2013 and 2012, respectively. Interest expense includes the amortization of the debt discount of $138,256 and $17,200 for the three months ended March 31, 2013 and 2012, respectively. Payments on the notes were $0 and $48,000 for the three months ended March 31, 2013 and 2012, respectively.

9. Commitments and Contingencies

Lease Obligations - The Company leases office space under two operating lease agreements. The first agreement expires in 2014. During the three months ended March 31, 2013 and 2012 the Company incurred $14,880 and $10,480, respectively of rent expense under the first lease agreement and is included in general and administrative expense in the Condensed Statements of Comprehensive (Loss) Income. On January 18, 2013, we entered into a sublease agreement for our former headquarters space of approximately 1,870 square feet. The sublease provides $3,000 per month rent, expires on October 31, 2013 and $ amount is included in general and administrative expense in the Condensed Statements of Comprehensive (Loss) Income. On December 16, 2012 the Company entered into a second and separate operating lease agreement commencing on January 1, 2013 to lease 4,600 square feet of office space. The lease expires on June 30, 2015 and provides for monthly rent of $4,064 for the first 10 months and $6,386 per month for the remaining 20 months of the lease. During the three months ended March 31, 2013 the Company incurred $11,610 of rent expense under the first lease agreement and is included in general and administrative expense in the Condensed Statements of Comprehensive (Loss) Income.

Future minimum payments under the leases at March 31, 2013 are as follows:

Year ending December 31,		
2013 (remaining 9 months)	$	79,940
2014		120,259
2015		38,313
Total	$	238,512

10. Warrant Liability

The common stock purchase warrants issued to the underwriters in the Company's IPO in March 2013 have certain cash settlement features that require them to be recorded as liability instruments. At issuance, a portion of the proceeds from the IPO were allocated to the value of the warrant and recorded as an offering cost, reducing the proceeds from the IPO. Accordingly, as a liability the warrant obligations are adjusted to fair value at the end of each reporting period with the change in value reported in the statement of operations. Such fair values were estimated using the Black-Scholes valuation model. The Company will continue to adjust the warrant liability for changes in fair value until the earlier of the exercise, at which time the liability will be reclassified to stockholders' equity, or expiration of the warrants.

The warrant liability was valued using the Black-Scholes option valuation model and the following assumptions on the following dates:

		March 31, 2013		March 4, 2013
Expected life		5.88 years		6.00 years
Risk-free interest rate		0.86%		0.86%
Dividend yield		0.00%		0.00%
Volatility		48%		48%
Warrants outstanding		131,250		131,250
Fair value of warrants	$	304,560	$	415,368

The fair value of the warrant liability decreased to $304,560 at March 31, 2013 from $415,368 at March 4, 2013. Accordingly, the Company decreased the warrant liability by $110,808 to reflect the change in fair value at March 31, 2013. This amount is included as a change in the fair value of warrant instruments in the accompanying condensed statement of operations for the three months ended March 31, 2013. The following table sets forth a summary of the changes in the fair value of our Level 3 financial liabilities that are measured at fair value on a recurring basis:

Beginning balance	$--
Initial warrant valuation	(415,368)
Net unrealized gain	110,808
Ending balance	$(304,560)

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11. Stockholders' Equity

Initial Public Offering– On March 8, 2013, we consummated our initial public offering of 2,625,000 shares of our common stock at a price to the public of $8.00 per share. The aggregate offering price for shares sold in the offering was $21 million. The offer and sale of all of the shares in the offering were registered under the Securities Act pursuant to registration statements on Form S-1 (File Nos. 333-187081 and 333-181594), which were declared effective by the SEC on March 4, 2013 and March 7, 2013, respectively. Aegis Capital Corp. and Merriman Capital, Inc. acted the underwriters for the offering. The net proceeds of the offering, after deducting the underwriting discounts and commissions, the underwriters' accountable expense allowance of up to 1.5% of the gross proceeds from the sale of the firm shares and offering expenses payable by us, were approximately $18.2 million.

Preferred Stock- The Company has no preferred stock issued. Our amended and restated certificate of incorporation and amended and restated bylaws include provisions that allows the company's Board of Directors to issue, without further action by the stockholders, up to 1,000,000 shares of undesignated preferred stock;

Warrant – In connection with the IPO, the Company issued a warrant for 131,250 shares of common stock to the underwriter in connection with this offering that will remain outstanding after this offering at an exercise price of $10.00 per share, equal to 125% of the initial public offering price with an expiration date of March 4, 2019.

Common Stock- Following its IPO, the Company had one class of common stock outstanding with a total number of shares authorized of 25,000,000. As of March 31, 2013, the Company had outstanding 6,318,227 shares of common stock.

Equity Incentive Plans- Prior to the consummation of our initial public offering, we adopted the 2013 Equity Compensation Plan under which we reserved 500,000 shares of our common stock for the purpose of providing equity incentives to our employees, officers, directors and consultants including options, restricted stock, restricted stock units, stock appreciation rights, other equity awards, annual incentive awards and dividend equivalents. The plan provides for a maximum of 500,000 shares that could be acquired upon the exercise of a stock option or the vesting of restricted stock. The plan was approved by our stockholders prior to the consummation of our initial public offering.

Distributions to Members of the LLC- In 2013, prior to the reorganization on March 5, 2013, the Company made pro rata distributions to the members of the LLC in the amount of $200,000.

12. Customer Concentration

The Company's revenues are currently highly dependent on two customers, LinkedIn and Apollo Group, and the loss of either major customer would materially and adversely affect the Company's business, operating results and financial condition. Our agreement with LinkedIn, which became effective January 1, 2013, provides that LinkedIn will make fixed quarterly payments to us in the amount of $500,000 per quarter during the term of the agreement. (This amount is half of the fixed quarterly payments we received from Monster Worldwide, which equaled $1 million per quarter.) Under the LinkedIn agreement, we will also earn commission for sales of our services by LinkedIn in excess of certain thresholds. The fixed quarterly payments are payable regardless of sales volumes or any other performance metric. If Apollo Group seeks to negotiate their agreements on terms less favorable to the Company and the Company accepts such unfavorable terms, or if the Company seeks to negotiate better terms, but is unable to do so, then the Company's business, operating results and financial condition would be materially and adversely affected. Our agreement with Monster Worldwide, which expired on December 31, 2012, provided for an annual fixed fee of $4 million that was subject to adjustment based on certain criteria, e.g. the flat fee could have been decreased by 10% for any calendar quarter where the ratio of our job applicants to jobs posted falls below a certain threshold. The flat fee could have been increased if Monster Worldwide's gross revenue from diversity and inclusion services (e.g., job postings, resume search services and recruitment media advertising) exceeded a certain threshold. Monster Worldwide's gross revenue subject to the agreement was monitored through an automated daily export of views and applications related to the postings to ensure that contract minimums were met or additional fees were to be billed.

Recruitment Revenue

Revenues from the Company's recruitment services are recognized when the services are performed, evidence of an arrangement exists, the fee is fixed and determinable and collectability is probable. The Company's recruitment revenue is derived from the Company's agreements through single and multiple job postings, recruitment media, access to the Company's resume database, talent recruitment communities, basic and premier corporate memberships, hiring campaign marketing and advertising, e-newsletter marketing and research and outreach services.

On November 12, 2012, we entered into a diversity recruitment partnership agreement with LinkedIn, which became effective on January 1, 2013. Pursuant to our agreement, LinkedIn may resell to its customers diversity-based job postings and recruitment advertising on our websites. Our agreement with LinkedIn provides that LinkedIn will make fixed quarterly payments to us in the amount of $500,000 per quarter. Under the LinkedIn agreement, we will also earn commission for sales of our services in excess of certain thresholds. The fixed quarterly payments are payable regardless of sales volumes or any other performance metric. We may earn additional commission payments with LinkedIn, (i) if certain sales levels are achieved, and (ii) we may earn revenue by selling our services directly, as described above. Under our agreement with LinkedIn, we will receive (i) no commissions on the first $10 million of LinkedIn's revenue from the sale of our services during each calendar year, (ii) 20% commission on LinkedIn's revenue from the sale of our services during each calendar year that is in excess of $10 million and less than $50 million, and (iii) 15% commission on LinkedIn's revenue from the sale of our services during each calendar year that is in excess of $50 million. As an example solely to illustrate the stair-step structure of our commission schedule with LinkedIn, if LinkedIn sells $60 million of our services during any calendar year, we would receive $9.5 million in commission revenue for such year, in addition to our fixed payments, because we would earn no commission revenue for the first $10 million of LinkedIn sales of our services, $8 million in commission revenue for the next $40 million of LinkedIn sales of our services and $1.5 million in commission revenue for the remaining $10 million of LinkedIn sales of our services. We will not obtain information about commissions earned from LinkedIn, if any, until within 60 days following the end of any fiscal quarter.

Consumer Advertising and Consumer Marketing Solutions Revenue

The businesses and organizations that use the Company's marketing solutions are enabled to target and reach large audiences of diverse professionals and connect to relevant services with solutions that include email marketing, social media, search engines, traffic aggregators and strategic partnerships. Advertising revenue is recognized based upon fixed fees with certain minimum monthly website visits, a fixed fee for revenue sharing agreements in which payment is required at the time of posting, billed based upon the number of impressions recorded on the websites as specified in the customer agreement or through our agreements with Apollo Group.

Performance under the E2E Site with Apollo Group commenced in January 2012, at which time the Company launched the advertising and promotion of the E2E Site containing digital banners, dedicated email blasts and weekly blogs. The Company has the guaranteed Apollo Group at least 30,000 visits to the sites over a six month period or must refund any shortfall at $5.00 per visit less than 30,000 visits or extend the agreement until the 30,000 visit guarantee is reached. Site visits for the number of users are measured through an outside service which monitors the Company's compliance with such minimum visits requirement. Total fees payable under the Second Schedule may not exceed $150,000. The Company recognizes the lesser of (i) 1/6th of the $150,000 fee per month for each of the 6 months during the minimum measurement period of January 1, 2012 through June 30, 2012, or (ii) the cumulative number of visits through the end of such month. Revenues under the Second Schedule were being recognized at the lesser of these two amounts to ensure that revenue does not exceed actual visits or the requirement to maintain the portal for the minimum period of six months. The Company recognized revenue under this agreement of $0 and $75,000 during the three months ended March 31, 2013 and 2012, respectively.

On June 11, 2012, we agreed to an insertion order with Apollo Group that replaces the January, 2012 EZE Schedule. The insertion order provides for payment to us of up to $150,000 per month for a period of 12 months based upon the number of persons we refer to the University of Phoenix who express an interest in obtaining information about attending the University of Phoenix. There is no guaranteed payment associated with this insertion order and for the three months ended March 31, 2013 and the year ended December 31, 2012, the Company generated $4,125 and $346,000 of revenue under the insertion order.

Our Second Schedule with Apollo Group is an agreement that may be renewed annually and provides for a fixed fee of $1,400,000 annually. E2C Site users are current students or alumni of the University of Phoenix, or its affiliates, that choose to land on an Employer Group Page that is controlled and hosted by the Company for the purpose of searching job opportunities and descriptions posted by a University of Phoenix Alliance Partner. We invoice Apollo and recognize 1/12th of the contract revenue ratably over the term of the contract on the last day of the month to ensure that all performance requirements have been met. There are no guarantees or required numbers of visits under the E2C agreement. We are subject to a significantly limited performance measure that requires the E2C Site to be operational for 99.9% of the time in each month (other than for scheduled maintenance). This E2C Site was operational prior to the start of the measurement period by utilizing our preexisting platform. The Company recognized revenue under this agreement in the amounts of $350,000 during each of the three months ended March 31, 2013 and 2012.

Two customers accounted for 93%, or approximately $854,000, of total gross sales with one customer representing 54% and the other representing 39% of total gross sales for the three months ended March 31, 2013. Two customers accounted for 94%, or approximately $1,400,000, of total gross sales with one customer representing 66% and the other representing 28% of total gross sales for the three months ended March 31, 2012. Two customers accounted for 90% or approximately $687,000 of accounts receivable with one customer representing 44% and the other representing 46% at March 31, 2013. In addition, two customers accounted for 72% or approximately $1,400,000 of accounts receivable with one customer representing 52% and the other representing 20% at December 31, 2012 .

13. Subsequent Events

On April 29, 2013, the Company announced that its Board of Directors authorized a share repurchase program pursuant to which the Company may repurchase up to $1 million of its outstanding common stock. The repurchases under the program will be made from time to time over a six month period at prevailing market prices in open market or privately negotiated transactions, depending upon market conditions. The manner, timing and amount of any repurchases will be determined by the Company based on an evaluation of market conditions, stock price and other factors. Under the program, the purchases will be funded from available working capital, and the repurchased shares will be held in treasury. The program does not obligate the Company to acquire any particular amount of common stock, and it may be modified or suspended at any time at its discretion.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our Unaudited Financial Statements, including the notes to those statements, included elsewhere in this Quarterly Report. This section and other parts of this Quarterly Report on Form 10-Q (this “Quarterly Report”) contains forward-looking statements within the meaning of Section 27A of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 concerning our future results of operations and financial position, business strategy and plans and our objectives for future operations. In some cases, you can identify forward-looking statements by the following words: “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “ongoing,” “plan,” “potential,” “predict,” “project,” “should,” “will,” “would,” or the negative of th other comparable terminology, although not all forward-looking statements contain these words. These statements involve known and unknown risks, uncertainties and other factors that may cause our or our industry’s results, levels of activity, performance or achievements to be materially different from the information expressed or implied by these forward-looking statements. Although we believe that we have a reasonable basis for each forward-looking statement contained in this Quarterly Report, we caution you that these statements are based on a combination of facts and factors currently known by us and our projections of the future, about which we cannot be certain. Such risks and uncertainties include, among others, those discussed in “Item 1A - Risk Factors” of our Annual Report on Form 10-K as filed with the SEC on April 1, 2013 , as well as in our condensed financial statements, related notes, and the other financial information appearing elsewhere in this Quarterly Report and our other filings with the Securities and Exchange Commission, or the SEC. These factors could cause actual results to differ materially from the results anticipated by these forward-looking statements. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. The forward-looking statements in this Quarterly Report speak only as of the date they were made. We do not intend, and undertake no obligation, to update any of our forward-looking statements to reflect actual results or future events or circumstances. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Unless we specify otherwise, all references in this Quarterly Report to “Professional Diversity Network,” “we,” “our,” “us” and the “Company” refer to Professional Diversity Network, LLC d/b/a iHispano.com prior to the consummation of our reorganization (from an Illinois limited liability company into a Delaware corporation) on March 5, 2013, and Professional Diversity Network, Inc. after our reorganization.

For purposes of this Quarterly Report, unless the context clearly dictates otherwise, all references to “professional(s)” means any person interested in the company’s websites presumably for the purpose of career advancement or related benefits offered by the Company, whether or not such person is employed and regardless of the level of education or skills possessed by such person. The Company does not impose any selective or qualification criteria on membership and the term “professional(s)” as used in this Quarterly Report should be interpreted accordingly. In addition, the Company does not verify that any member of a particular Company website qualifies as a member of the ethnic, cultural or other group identified by that website. References to “user(s)” means any person who visits one or more of our websites and “our member(s)” means an individual user who has created a member profile on that website as of the date of measurement. If a member is inactive for 24 months then such person will be automatically de-registered from our database. The term “diverse” (or “diversity”) is used throughout this Annual Report to include communities that are distinct based on a wide array of criteria which may change from time to time, including ethnic, national, cultural, racial, religious or gender classification.
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Overview

Professional Diversity Network develops and operates online websites and networks dedicated to serving diverse professionals in the United States. To date, we have been particularly focused on Hispanic-American and African-American professionals and recently launched additional websites dedicated to other diverse professional segments, including women, Asian-American, LGBT (lesbian, gay, bisexual and transgender), differently-abled and military professionals.

We were founded on October 23, 2003 under laws of the state of Illinois as IH Acquisition LLC, for the purpose of acquiring assets, consisting primarily of an online job board for Hispanic professionals. On February 4, 2004, we changed our name to iHispano.com LLC. In 2007, we changed our business platform and implemented technology to operate our business as communities of professional networking sites for diverse professionals, and we have continued with this business platform ever since. In September 2008, we began to brand ourselves as Professional Diversity Network. On March 15, 2012, we changed our name from iHispano.com LLC to Professional Diversity Network, LLC. On March 5, 2013, we reorganized our business, converting from an LLC into a Delaware corporation, in conjunction with our initial public offering of common stock, which is listed on the NASDAQ Capital Market.

As of March 31, 2013 we had approximately 2,346,000 members and subsequently we surpassed the 2,500,000 members milestone. Currently, more than 3,000 companies and organizations, including 60% of the Fortune 500 companies, have listed job postings on our websites. Most of these listings came to us through our exclusive agreement with Monster Worldwide for our recruitment services. Our agreement with Monster Worldwide expired on December 31, 2012 and was not renewed. On November 12, 2012, we entered into a diversity recruitment partnership agreement with LinkedIn, which became effective on January 1, 2013. Pursuant to the LinkedIn arrangement, LinkedIn may resell to its customers diversity-based job postings and recruitment advertising appearing on our websites. Since January 1, 2011, we have had a strategic partnership with the University of Phoenix (through its parent company, the Apollo Group, Inc.), which advertises on our websites. Regardless of the strategic partner we may work with, we believe that our networking platforms provide an effective means to meet the career advancement needs of diverse professionals, the employers that seek to hire them and the advertisers that seek to reach them.

Our major assets currently are two of our websites – iHispano.com, which has over 1.2 million members in its network, and AMightyRiver.com, which has over 900,000 members in its network. For the three months ended March 31, 2013, iHispano.com had over 683,000 unique visitors and over 781,000 visits, while AMightyRiver.com had over 202,000 unique visitors and over 230,000 visits.

We calculate unique visitors for each of our websites as users who have visited that particular website at least once regardless of whether they are members. A user who visits one of our websites, regardless of frequency, is only counted as one unique visitor, based on data provided by Google Analytics, a leading provider of digital marketing intelligence.

We define the number of visits for each of our websites as the number of times a user has been to that particular website. If a user is inactive on the website site for 30 minutes or more, any future activity will be counted as a new visit. Users that leave one of our websites and return to the same website within 30 minutes will be counted as part of the original visit.

We recently launched additional online professional networking websites that serve other diverse communities – including women (WomensCareerChannel.com), Asian-Americans (ACareers.net), LGBT (OutProNet.com), enlisted and veteran military personnel (Military2Career.com) and differently-abled (ProAble.net) professionals. Although each of these new professional networking websites is fully operational, these websites are and continue to be in the early stages of development. Since its inception in September 2011, WomensCareerChannel.com has experienced significant growth in terms of unique visitors, visits and membership. For the three months ended March 31, 2013, this website had over 205,000 visits and over 177,000 unique visitors. By March 31, 2013, WomensCareerChannel.com had over 117,000 members.

We believe our revenue model is aligned with our focus on serving our members. We currently provide members with access to our websites at no cost, a strategy which we believe will allow us to continue to grow our membership base and promote high levels of member engagement for the mutual benefit of members, employers and advertisers.

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For the three months ended March 31, 2013, we generated all of our revenue from two sources: recruitment, which generated approximately 58% of our revenue, and advertising services, which generated approximately 42% of our revenue.