FORTUNECITY.COM INC. - 2007 ANNUAL REPORT

April 29, 2008

Dear Fellow Shareholders,

The Company's primary focus during 2007 was the further development of MyPhotoAlbum.com, the personal online photo archiving and sharing service. MyPhotoAlbum recorded revenue growth of 92% over the prior year fueled by an increase in the number of paid subscription accounts supported by a spike in transactions during the fourth quarter holiday gift buying season.

MyPhotoAlbum continues to generate 15,000 new user registrations per month with no direct customer acquisition expenses bringing the total number of active accounts to 215,000 at the end of 2007. The number of paid Club Member subscription accounts increased by 70% to 11,000.

A new service condition was implemented requiring all MyPhotoAlbum users to complete a minimum of one transaction per year to maintain use of their photo album account. The Company will provide the free photo service during the first year as an efficient user acquisition process, but it now actively removes accounts and their respective photos that are not producing revenue for the business. In turn, MyPhotoAlbum persistently promotes the benefits of the paid Club Membership subscription service. Club Members enjoy full access to the library of custom design themes and layouts, unrestricted photo and video uploading, and discounts on prints and photos products. Visitors to the paying member photo albums are able to download the full sized photo image and will not see online advertising.

The Company continues to operate the original FortuneCity free web space service www.fortunecity.com and its short URL sub-domain service www.go.to. The website traffic is optimized with advertising relationships with Google and other large advertising networks.

The Company will seek means to raise capital to propel the MyPhotoAlbum user and revenue rate of growth in 2008.

Yours truly,

Peter Macnee	Jeremy W. Metcalfe
President and CEO	Chairman of the Board

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Overview

FortuneCity.com Inc. and its subsidiaries ("FortuneCity" or the "Company") provide online web services and interactive media sales. The services are marketed through uniquely branded websites targeting small businesses and individuals based primarily in North America.

The Company continues to offer its original advertising supported free homepage service under the FortuneCity.com brand and the free sub-domain redirect engine under the go.to brand. Over the past three years, the Company internally developed MyPhotoAlbum.com, a personalized online photo and video sharing service. The Company's interactive media sales agency sells the Company's significant online advertising impressions generated on FortuneCity's web properties that can be located at:

www.FortuneCity.com
www.MyPhotoAlbum.com
www.go.to

The Company offers free trial web services across all of its brands as an efficient customer acquisition strategy. All free basic web services produce revenue through the sale of advertising campaigns on the Internet traffic generated by its customers and others viewing the web pages. Users are marketed the Company's premium subscription service to eliminate advertising and to gain preferred features.

Revenue Sources

Media Sales. The Company's advertising revenues are derived by delivering advertising impressions on the Company's web sites and on third party web sites. An "impression" is deemed delivered when an advertisement appears on a web page viewed by the web site visitor. The duration of the Company's advertising commitments typically range from one week to one month. Advertising revenue is recorded net of agency fees and third party publisher payments.

Photo Services. The Company generates revenues from the printing and shipping of photo prints, photo cards, photo books, photo calendars, photo gift merchandise such as mugs, mouse pads and shirts, annual memberships to the premium club service, and account reactivation fees. Revenues are recorded net of returns, promotions redeemed by customers and other discounts. Customers place orders via the website only and pay primarily using credit cards.

Marketing and Licensing. On January 31, 2006, simultaneous with the sale of the web hosting customer base, the Company entered into an exclusive marketing and licensing agreement for paid web hosting services. The Company leverages the traffic and goodwill associated with its web hosting brand name and website in return for a 57.5% share of new customer's revenue during the first year of service.

Web Services. Prior to January 31, 2006, the Company earned revenues from the paid web hosting subscription fees billed monthly, quarterly or annually. The fees the Company charged for web hosting services differed based on the type of hosting plan purchased and the amount of data storage, bandwidth and other services included. Revenue from paid web hosting was recognized over the life of the service contract. Domain name registration revenue consists of domain name registrations, renewals and transfers and was recorded net of the fees paid to register the domains. On January 31, 2006, the Company sold its web hosting customer base, and accordingly generated only one month of web hosting and domain registration revenue for the year ended December 31, 2006. The Company generates web services revenue from other domains that it owns such as hotgames.com.

2007 Performance Highlights

- Photo Services Revenue Increased by 92% – The Company experienced consistent growth in photo services revenue as a result of increased sales of print products as well as the introduction of photo merchandise. Additionally, the Company continued to see positive growth in the percentage of free members upgrading to the paid Club membership program.

Results of Operations

Revenues

Revenues for 2007 and 2006 primarily consisted of Media Sales, which represented 63% and 79% of total revenues, respectively. The table below contains a revenue breakdown by source for the years ended December 31, 2007 and 2006:

	For the Year Ended December 31, 2007	For the Year Ended December 31, 2006
Media Sales	$ 1,110,330	$ 1,612,581
Photo Services	520,614	271,532
Web Services	30,772	57,862
Marketing and Licensing Revenue	108,256	96,707
Total revenues	$ 1,769,972	$ 2,038,682

Revenue for the year ended December 31, 2007 decreased 13% over the same period in 2006 to $1,769,972 from $2,038,682. Media sales decreased due to the continued decline in sales of advertising to third party publishers. These decreases were partially offset by the substantial growth in the photo services revenue, which grew 92% from 2006 to 2007. The increase in the marketing and licensing revenue is a result of the agreement being in effect for 12 months in 2007 compared to 11 months in 2006. Conversely, web services revenue declined as a result of there being only one month of paid web hosting revenue included in 2006 and no paid web hosting revenue in 2007 as a result of the sale in January 2006.

Costs and Expenses

The following table highlights the costs and expenses for the years ended December 31, 2007 and 2006.

	For the Year Ended December 31, 2007	% of Revenues	For the Year Ended December 31, 2006	% of Revenues
Total revenues	$ 1,769,972	100%	$ 2,038,682	100%
Costs and expenses:				
Costs of revenues	821,702	46%	834,384	41%
Sales and marketing	215,395	12%	428,469	21%
Product development	586,117	33%	659,887	32%
General and administrative	737,824	42%	857,260	42%
Operating expenses	2,361,038	133%	2,780,000	136%
Non cash stock option compensation benefit	(66,424)	-4%	(343,528)	-17%
Total costs and expenses	$ 2,294,614	130%	$ 2,436,472	120%

Costs of Revenues

The principal expenses included in cost of revenues are data center service charges, cost of bandwidth, photo related products and payroll related costs.

The cost of revenues for the year ended December 31, 2007 decreased 2% from $834,384 to $821,702, over the similar period in 2006, and increased as a percentage of total revenues from 41% to 46%. The decrease in cost of revenues for the year ended December 31, 2007 was attributable to the negotiation of a master services agreement with a new data center in October 2006 that reduced the data center and bandwidth charges and was in effect for the entire year in 2007 compared to only 3 months of 2006. That decrease was offset by an 84% increase in costs of photo related products that was consistent with our increase in photo services revenue.

Sales and Marketing

Sales and marketing expenses consist primarily of salaries and related benefits, advertising and public relations.

The sales and marketing expenses for the year ended December 31, 2007 decreased from $428,469 to $215,395, or 50%, over the similar period in 2006 and decreased as a percentage of total revenues from 21% to 12%. The decrease in sales and marketing expenses for the year 2007 was primarily attributable to a 67% reduction in payroll and related expenses. The decrease in payroll and related expenses was due to the Company reducing the staff required to sell online advertising impressions due to the transition to using large advertising networks such as Google Adsense.

Product Development

Product development expenses include salaries and related costs associated with software development, testing and upgrading of the Company's network of web sites.

The product development expenses for the year ended December 31, 2007 decreased from $659,887 to $586,117, or 11%, over the similar period in 2006 and increased as a percentage of total revenues from 32% to 33%. The reduction of product development payroll and related expenses is a result of the reallocation of the workforce between other areas of the Company.

General and Administrative

General and administrative expenses include employee salaries and related costs, rent, professional services and other corporate expenses.

The general and administrative expenses for the year ended December 31, 2007 decreased from $857,260 to $737,824, or 14%, over the similar period in 2006 and remained flat as a percentage of total revenues at 42% in both years. The decrease in general and administrative expenses for the year 2007 was primarily attributable to the Company entering into a new lease for office space decreasing rent expense and a reduction of general and administrative salaries and benefits due to a reduction in head count.

Non cash stock option compensation benefit

Included in non cash stock option compensation benefit is the benefit recorded for options that were repriced on June 1, 2003 and the expense for stock options that were issued after June 1, 2003.

On June 1, 2003 the company repriced all outstanding options to the then current market price of $.06 and all shares became vested. These options originally had exercise prices ranging from $.07 to $.47. Accounting standards require that stock options that have been modified shall be accounted for as variable from the date of modification to the date the option is exercised, forfeited or expires unexercised. The non cash stock option compensation benefit for repriced shares decreased for the year ended December 31, 2007 from $343,528 to $66,424, or 81%, over the similar period in 2006. The decrease in the non cash stock option compensation benefit over 2006 was primarily attributable due to a reduction in the market price of the stock from $0.096 to $0.085.

Gain on Sale of Asset

On January 31, 2006, the Company sold its paid web hosting assets to Hostopia.com Inc. ("Hostopia") for a contingent purchase price of $1,132,000. At the time of the sale, the Company had outstanding liabilities to Hostopia totaling $432,000. Hostopia was offsetting liabilities outstanding against the purchase price resulting in potential cash proceeds of $700,000. The Company received an initial 20% payment at closing followed by monthly installments equal to 50% of the revenue collected from continuing customers. For the year ended December 31, 2006, a gain on sale of asset of $464,785 was recorded, which was the net consideration received minus related fees and expenses. On July 9, 2007, Hostopia paid the Company $361,180 for full satisfaction of the of the purchase price in exchange for extending the marketing agreement an additional 2 years through January 31, 2010. The payment received was deferred and will be recorded as a gain on the sale of asset over the remaining life of the marketing agreement. For the year ended December 31, 2007, a gain on sale of asset of $361,255 was recorded which was the sum of cash received of $97,513 plus liabilities forgiven totaling $263,742.

Gain on Sale of Subsidiary

On March 24, 2006, the Company completed the sale of the stock of Ampira GmbH. A gain of $218,086 was recorded in the consolidated statements of operations for the year ended December 31, 2006.

Liquidity and Capital Resources

As shown on the accompanying consolidated statements of operations, the Company has incurred recurring losses from operations and negative cash flows from operations. As of December 31, 2007, the Company had cash and cash equivalents of approximately $262,000. In March 2008, the Company entered into a Fulfillment Agreement with Qualex, Inc. whereby all photo processing will be fulfilled by Qualex in exchange for payments totaling $250,000. The Company believes that, as a result of this, it currently has sufficient cash and financing commitments to meet its funding requirements over the next year, however, the Company's operations may require additional external financing. There can be no assurances that the Company will be successful in its financing efforts. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Summary of cash flows for the years ended December 31, 2007 and 2006:

	2007	2006
Cash used in operating activities	$ (208,809)	$ (1,008,430)
Cash provided by investing activities	271,760	597,043
Cash provided by (used in) financing activities	(203,865)	482,039

Cash used in operating activities primarily consists of the net (loss) income adjusted for non-cash items such as depreciation and amortization, non cash stock option compensation benefit and other non-cash items, and the effect of changes in working capital and other activities. Cash used in operating activities in 2007 of $290,000 consisted primarily of a net loss of $191,000, reduced by $361,000 for the gain on sale of asset and offset by cash provided by working capital of $343,000. Cash used in operating activities in 2006 of $1,008,000 consisted primarily of net income of $281,000, reduced by $344,000 in non cash stock option compensation benefit and $945,000 used in working capital and other activities.

Cash provided by investing activities in 2007 of approximately $272,000 was a result of proceeds from sale of asset of $391,000, offset by minor equipment purchases and repayments of capital leases. Cash provided by investing activities in 2006 of approximately $597,000 was a result of proceeds from sale of asset of $283,000 and the sale of a subsidiary of $199,000. Capital expenditures for the past couple of years have generally been for computer storage equipment specifically for the storage of picture files in connection with the online photo services business. Any material capital expenditures in 2008 will be for similar equipment.

Cash used in financing activities in 2007 of $204,000 was a consequence of the repurchase of equity units subject to mandatory redemption of $404,000. To help with this repurchase, the Company received a note from a partnership controlled by the major stockholder in the amount of $200,000. Cash provided by financing activities in 2006 of $482,000 was due to proceeds from the issuance of equity units subject to mandatory redemption of $605,000, offset by the repayments made on the outstanding line of credit of $206,000.

Employees

As of December 31, 2007 and 2006 the Company had 12 (of whom 3 were in sales and marketing and 6 were in product development) and 14 (of whom 5 were in sales and marketing and 6 were in product development) full-time employees, respectively. The remainder of the employees in both years were in operational support and administrative positions.

Board Member and Treasury Holdings

The share holdings of the Company's stock by board members and the Company at December 31, 2007 were as follows:

	Number of Shares	US$ Par Value	US$ Market Value (FWB)
Jeremy Metcalfe	20,569,853	$ 205,699	$ 1,817,840
Daniel Metcalfe	1,250,000	12,500	110,468
Peter Macnee	160,478	1,605	14,182
Peter Langkilde	-	-	-

FORTUNECITY.COM INC. AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
FortuneCity.com Inc.:

We have audited the accompanying consolidated balance sheets of FortuneCity.com Inc. (a Delaware corporation) and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in stockholders' deficit and other comprehensive income (loss) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FortuneCity.com Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred recurring losses from operations, which resulted in negative working capital at December 31, 2007 and raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Dalessio, Cascio Company, LLC

New York, New York
April 30, 2008

DALESSIO, CASCIO & COMPANY, LLC
Certified Public Accountants

FORTUNECITY.COM INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006
(in U.S. dollars)

ASSETS	2007	2006
CURRENT ASSETS:		
Cash and cash equivalents	$ 261,869	$ 402,783
Accounts receivable, net of allowance for doubtful accounts of $10,000 and $75,000, respectively	101,945	398,008
Prepaid expenses and other current assets	43,179	40,241
Total current assets	406,993	841,032
PROPERTY AND EQUIPMENT, net	243,025	253,941
OTHER ASSETS	81,146	69,667
Total assets	$ 731,164	$ 1,164,640
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$ 272,918	$ 213,718
Accrued expenses	113,676	156,242
Capital lease obligation	74,190	46,667
Other current liabilities	518,830	375,196
Due to Hostopia	-	263,742
Total current liabilities	979,614	1,055,565
Deferred rent	5,565	47,606
Deferred gain on sale of asset	152,866	-
Capital lease obligation	88,406	81,119
Related party note payable	210,060	-
Total liabilities other than shares	1,436,511	1,184,290
Equity units subject to mandatory redemption; 1,344,200 and 4,541,216 units issued and outstanding, respectively; redemption value of $201,630 and $681,182, respectively	201,630	664,326
Total liabilities	1,638,141	1,848,616
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT:		
Common stock; $.01 par value; 80,000,000 shares authorized; and 42,623,990 and 42,119,410 shares issued and outstanding, respectively	426,240	421,194
Additional paid-in capital	120,036,997	120,049,636
Accumulated deficit	(118,368,240)	(118,177,297)
Other comprehensive loss	(3,001,974)	(2,977,509)
Total stockholders' deficit	(906,977)	(683,976)
Total liabilities and stockholders' deficit	$ 731,164	$ 1,164,640

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

FORTUNECITY.COM INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(in U.S. dollars)

	2007	2006
REVENUES	$ 1,769,972	$ 2,038,682
COST OF REVENUES	821,702	834,384
Gross profit	948,270	1,204,298
OPERATING EXPENSES:		
Sales and marketing	215,395	428,469
Product development	586,117	659,887
General and administrative	737,824	857,260
Non cash stock option compensation benefit	(66,424)	(343,528)
Total operating expenses	1,472,912	1,602,088
Operating loss	(524,642)	(397,790)
INTEREST INCOME	258	462
INTEREST EXPENSE	(27,814)	(10,051)
Loss from continuing operations before impact of sales of asset and subsidiary	(552,198)	(407,379)
GAIN ON SALE OF ASSET	361,255	464,785
GAIN ON SALE OF SUBSIDIARY	-	218,086
Impact of sales of asset and subsidiary	361,255	682,871
Net (loss) income from continuing operations	(190,943)	275,492
Earnings from discontinued operation	-	5,502
Net (loss) income	(190,943)	280,994
Accretion of equity units financing costs	(16,856)	(58,994)
Net (loss) income attributable to common stockholders	$ (207,799)	$ 222,000
(Loss) earnings per share - Basic:		
Continuing operations	$ (0.00)	$ 0.01
Discontinued operations	$ -	$ 0.00
Attributable to common stockholders	$ (0.00)	$ 0.01
(Loss) earnings per share - Diluted:		
Continuing operations	$ (0.00)	$ 0.01
Discontinued operations	$ -	$ 0.00
Attributable to common stockholders	$ (0.00)	$ 0.00
Shares used in per share calculation - basic	42,197,038	41,900,973
Shares used in per share calculation - diluted	42,197,038	53,271,363

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

FORTUNECITY.COM INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT AND OTHER COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(in U.S. dollars)

	Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Deficit	Loss *	Total
BALANCE, January1, 2006	41,401,865	$ 414,019	$ 120,416,279	$ (118,458,291)	$ (2,955,673)	$ (583,666)
Foreign currency translation adjustment	-	-	-	-	(21,836)	(21,836)
Net income	-	-	-	280,994	-	280,994
Total comprehensive income						259,158
Exercise of stock options	717,545	7,175	35,879	-	-	43,054
Compensation benefit due to repricing of stock options	-	-	(366,200)	-	-	(366,200)
Adoption of SFAS 123R	-	-	22,672	-	-	22,672
Accretion of financing costs	-	-	(58,994)	-	-	(58,994)
BALANCE, December 31, 2006	42,119,410	$ 421,194	$ 120,049,636	$ (118,177,297)	$ (2,977,509)	$ (683,976)
Foreign currency translation adjustment	-	-	-	-	(24,465)	(24,465)
Net loss	-	-	-	(190,943)	-	(190,943)
Total comprehensive loss						(215,408)
Conversion of redeemable equity units into common stock	504,580	5,046	70,641	-	-	75,687
Compensation benefit due to repricing of stock options	-	-	(75,576)	-	-	(75,576)
Stock option expense	-	-	9,152	-	-	9,152
Accretion of financing costs	-	-	(16,856)	-	-	(16,856)
BALANCE, December 31, 2007	42,623,990	$ 426,240	$ 120,036,997	$ (118,368,240)	$ (3,001,974)	$ (906,977)

* Compiled exclusively of foreign currency translation adjustment.

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

FORTUNECITY.COM INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(in U.S. dollars)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (190,943)	$ 280,994
Earnings from discontinued operation	-	(5,502)
Adjustments to reconcile net (loss) income to net cash used in operating activities-		
Depreciation and amortization	165,274	107,369
Bad debt expense	58,641	63,312
Non cash stock option compensation benefit	(66,424)	(343,528)
Loss on sale of property and equipment	-	9,051
Gain on sale of asset	(361,255)	(464,785)
Gain on sale of subsidiary	-	(218,086)
Changes in operating assets and liabilities-		
Decrease (increase) in-		
Accounts receivable	237,422	3,374
Prepaid expenses and other current assets	(2,938)	(4,863)
Other assets	(11,479)	17,416
(Decrease) increase in-		
Accounts payable	59,200	(372,121)
Accrued expenses and other current liabilities	(54,266)	(74,469)
Due to Hostopia	-	74,905
Deferred rent	(42,041)	(13,933)
Net cash used in operating activities-continuing operations	(208,809)	(940,866)
Net cash used in operating activities-discontinued operation	-	(67,564)
Net cash used in operating activities	(208,809)	(1,008,430)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(65,127)	(79,239)
Payment of capital lease obligation	(54,421)	(18,328)
Proceeds from maturity of short-term investments	-	200,576
Proceeds from sale of property and equipment	-	12,500
Net proceeds from sale of asset	391,308	282,522
Net proceeds from sale of subsidiary	-	199,012
Net cash provided by investing activities	271,760	597,043
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of equity units subject to mandatory redemption	-	605,332
Repurchase of equity units subject to mandatory redemption	(403,865)	-
Borrowings under bank line of credit	-	39,846
Payment of bank line of credit	-	(206,193)
Proceeds from exercising of stock options	-	43,054
Proceeds from related party - note payable	200,000	-
Net cash (used in) provided by financing activities	(203,865)	482,039
EFFECTS OF FOREIGN EXCHANGE	-	4,460
(Decrease) increase in cash and cash equivalents	(140,914)	75,112
Cash and cash equivalents, beginning of year	402,783	327,671
Cash and cash equivalents, end of year	$ 261,869	$ 402,783
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 17,685	$ 10,051
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS		
Capital lease obligations entered into for property and equipment	$ 89,232	$ 117,349
Conversion of equity units into common stock	$ 75,687	$ -

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

1. ORGANIZATION AND BUSINESS

FortuneCity.com Inc. and its subsidiaries ("FortuneCity" or the "Company") provide a variety of online web services and sells online advertising. The services are marketed through uniquely branded websites promoting each service as part of the FortuneCity global web property.

FortuneCity's interactive media sales team leverages the Company's global Internet audience to generate advertising revenue. Advertising impressions and revenue are generated primarily from FortuneCity's three largest web properties; the FortuneCity home page service, the go.to domain redirect service, and MyPhotoAlbum, the online photo and video sharing service. In addition, the Company represents and sells online advertising inventory and advertising solutions provided by third party web publishers.

MyPhotoAlbum provides photo enthusiasts the ability to store and share photos and videos online. The service is recognized for its extensive customization features that allow its registered users to create personalized online photo albums. The Company generates revenue from the sale of advertising, photo printing (including greeting cards, books and calendars), photo gift merchandise (including items such as coffee mugs, mouse pads and t-shirts), annual subscriptions to the MyPhotoAlbum premium service and account reactivation fees. The photo printing services and the photo gift merchandise products are offered through private labeled fulfillment partnerships with professional photo processing labs, responsible to create, package and mail each order directly to the MyPhotoAlbum customer.

The Company also operates a web and email forwarding engine that was recently re-branded as "go.to". Users select from a variety of short, memorable sub-domains that redirect internet and email traffic to another web address. Online advertisements are displayed each time a request is made for one of the sub-domains.

The Company's primary web services can be located at:

www.FortuneCity.com
www.MyPhotoAlbum.com
www.go.to

Liquidity

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern which contemplates, among other things, the realization of assets and satisfaction of liabilities in the normal course of business.

As shown on the accompanying consolidated statements of operations, the Company has incurred recurring losses from operations and negative cash flows from operations. As of December 31, 2007, the Company had cash and cash equivalents of $261,869. In March 2008, the Company entered into a Fulfillment Agreement with Qualex, Inc. whereby all photo processing will be fulfilled by Qualex in exchange for payments totaling $250,000 (See Note 15). The Company believes that, as a result of this, it currently has sufficient cash and financing commitments to meet its funding requirements over the next year, however, the Company's operations may require additional external financing. There can be no assurances that the Company will be successful in its financing efforts. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements, which were prepared using accounting principles generally accepted in the United States of America (''GAAP''), include the accounts of FortuneCity and its wholly owned subsidiaries and are presented in U.S. dollars. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

Preparing the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates are related to the allowance for doubtful accounts, income taxes, contingencies and allocation of revenues by type for web services and MyPhotoAlbum.com. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the result of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers deposits that can be redeemed on demand and investments that have original maturities of less than three months, when purchased, to be cash equivalents. As of December 31, 2007, the Company's cash and cash equivalents were deposited in one financial institution.

Fair Value of Financial Instruments

All of the Company's financial instruments are comprised of cash and cash equivalents, accounts receivable, accounts payable, related party note payable and equity units subject to mandatory redemption. Their carrying amounts approximate fair value due to the short-term maturity of these instruments.

Unbilled Accounts Receivable

At December 31, 2007 and 2006, accounts receivable includes $81,814 and $162,278, respectively, of unbilled accounts receivable, which are a normal part of the Company's internet advertising business as some receivables are normally invoiced in the month following the completion of the earnings process.

Allowance for Doubtful Accounts

The Company determines its allowance for doubtful accounts based on the evaluation of the aging of its accounts receivable and a customer-by-customer analysis of high-risk customers. The Company's reserves contemplate its historical loss rate on receivables, specific customer situations and the economic environments in which the Company operates.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation and amortization. Expenditures for major additions and improvements are capitalized, and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation or amortization is removed from the accounts and any resulting gain or loss is included in the consolidated statements of operations for the respective period. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method, ranging from three to five years, for financial statement purposes. The Company uses other depreciation methods (generally accelerated) for tax purposes where appropriate. Assets held under capital leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Amortization of leasehold improvements and equipment under capital lease is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related lease.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which applies the liability method of accounting for income taxes. Under this method, deferred tax liabilities and assets are determined based on the differences between the financial statement and tax bases of assets and liabilities using currently enacted tax rates. These differences are primarily due to bad debt, depreciation on fixed assets, amortization of intangible assets, deferred compensation and deferred rent expense. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

In July 2006, the FASB issued Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes,* ("FIN 48") as an interpretation of FASB Statement No. 109, *Accounting for Income Taxes* ("SFAS 109"). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109 and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. Measurement of the tax uncertainty occurs if the recognition threshold has been met. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. Differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption should be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. The Company adopted FIN 48 for the year ended December 31, 2007, which did not have a material effect on the financial position, cash flows or results of operations.

Revenue Recognition

Advertising

The Company's advertising revenues are derived principally from the sale of short-term online advertisements on the Company's network of web sites. The duration of the Company's advertising commitments generally ranged from one week to one month. Sponsorship advertising contracts typically have longer terms and involve more integration with the Company's network of sites, such as co-branded pages and placement of text links that provide users with direct links to the advertiser's web site.

Advertising revenues on online advertisement contracts are recognized ratably over the period in which the advertisement is displayed, provided that no significant Company obligations remain at the end of a period and collection of the resulting receivable is probable. Company obligations typically include guarantees of minimum number of "impressions," or times that an advertisement appears in pages viewed by users of the Company's network of sites. To the extent minimum guaranteed impressions are not met, the Company defers recognition of the corresponding revenues related to the undelivered impressions until the remaining guaranteed impression levels are achieved.

The majority of the Company's advertising revenues are derived from direct advertising sales. Advertising revenues have been recorded net of agency fees.

Deferred Revenue

Deferred revenue consists of billings or collections in excess of recognized revenue relating to advertising contracts, annual club membership paid in advance for MyPhotoAlbum and the deferred gain relating to the sale of the paid web hosting customer base to Hostopia (see Note 14).

Web Hosting Services

Revenues from web hosting services primarily consist of recurring subscription fees billed monthly, quarterly or annually. Revenues from web hosting services are recognized over the life of the service contract.

Domain registration revenues, consisting primarily of registration fees charged to customers for domain name registration services, are recorded net of fees paid to register the domains in the period in which the transaction occurs.

In January 2006, the Company sold its web hosting customer base. Accordingly, only one month of web hosting and domain registration revenues were recorded for the year ended December 31, 2006.

Marketing and Licensing Revenue

In January 2006, simultaneous with the sale of the web hosting customer base to Hostopia.com Inc. ("Hostopia") (Notes 12 and 14), the Company entered into a marketing agreement with Hostopia for paid web hosting services. The Company leverages the traffic and goodwill associated with its web hosting brand name and website in return for a 57.5% share of new customer's revenue during the first year of service. Revenues from the marketing and licensing agreement are recognized when new customer subscription fees are earned by Hostopia based upon the service contract.

Photo Services

Revenues from photo services primarily consist of print and card sales, photo book sales, photo gift sales, club memberships and account reactivation fees. Revenues from prints, cards, books and gifts are recognized when the products are printed and shipped. Club membership revenue is recognized as the revenue is earned over the life of the membership (one year). Revenue from reactivation fees is recognized when the account is reactivated.

Due to Hostopia

As of December 31, 2007 and 2006, the caption on the accompanying consolidated balance sheets Due to Hostopia amounted to $-0- and $263,742, respectively which was comprised of deferred revenue related to annual payments related to hosting services and amounts owed under the service agreement. In January 2006, the Company sold its paid hosting customer service contracts to Hostopia. In connection with the sale, Hostopia agreed to offset the deferred revenue and amounts owed under the service agreement against the monthly purchase price payments. In July 2007, the Company entered into an Amended Asset Purchase Agreement whereas a cash payment of $361,180 was made to the Company and the entire outstanding liability was forgiven in full satisfaction of the purchase price (Note 14).

Advertising

Advertising costs are expensed as incurred. For the years ended December 31, 2007 and 2006, such costs were $73,911 and $93,323, respectively.

Stock-Based Compensation

On June 1, 2003 the Company repriced all outstanding options to the then current market price of $.06 and all shares became vested. These options originally had exercise prices ranging from $.07 to $.47. Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* ("SFAS 123R"), requires that stock options that have been modified shall be accounted for as variable from the date of the modification to the date the option is exercised, forfeited or expires unexercised. For the years ended December 31, 2007 and 2006, the Company recorded compensation benefit in the amount of $75,576 and $366,200, respectively in connection with the repricing.

Effective January 1, 2006, the Company adopted SFAS 123R, using the modified prospective approach and accordingly prior periods have not been restated to reflect the impact of SFAS 123R. Under SFAS 123R, stock-based awards granted prior to its adoption are expensed over the remaining portion of their service period. These awards are expensed under an accelerated amortization approach using the same fair value measurements which were used in calculating pro forma stock-based compensation expense under SFAS 123. For stock-based awards granted on or after January 1 2006, the Company records stock-based compensation expense on a straight-line basis the vesting period of 36 months. The Company did not grant stock options to employees for the years ended December 31, 2007 and 2006. For the year ended December 31, 2007 and 2006, the Company recorded compensation expense in the amount of $9,152 and $22,672, respectively, related to these options.

Stock-based compensation expense recognized for the year ended December 31, 2007 and 2006 is based on the value of the portion of stock-based payments awards that is ultimately expected to vest. SFAS 123R requires forfeitures to be estimated at the time of grant in order to estimate the amount of stock-based awards that will ultimately vest. The estimate is based on the Company's historical rates of forfeiture. Stock-based compensation expense recognized in the statement of operations for the years ended December 31, 2007 and 2006 includes (i) compensation expense for stock-based payment awards granted prior to, but not yet vested as of December 31, 2005, based on the grant-date fair value estimated in accordance with the pro forma provisions of SFAS 123. As stock-based compensation expense recognized in the statement of operations for the year ended December 31, 2007 and 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. In the Company's pro forma information required under SFAS 123 for the year ended December 31, 2005, the Company accounted for forfeitures as they occurred. The fair value of each option award is estimated on the date of grant using the Black-Scholes Model (See Note 10 for assumptions).

<u>Product Development</u>

Product development costs are expensed as incurred. Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. Based upon the Company's product development process, technological feasibility is established upon completion of a working model. Costs incurred by the Company between completion of the working model and the point at which the product is ready for general release have been insignificant.

<u>Concentration of Credit Risk</u>

Financial instruments which subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and trade accounts receivable. The Company maintains cash and cash equivalents with one financial institution. The Company performs periodic evaluations of the relative credit standing of this institution. From time to time, the Company's cash balances with any financial institution may exceed Federal Deposit Insurance Corporation limits.

The Company's customers are concentrated in the United States. The Company performs ongoing credit evaluations and generally does not require collateral.

The Company performs credit card authorizations of its customers prior to fulfillment of photo related orders. Credit risk is limited due to the collection of payments in advance or at the time of the transaction and the Company's large number of diversified customers.

For the years ended December 31, 2007 and 2006, one customer accounted for approximately 47% and 12% of total revenues, respectively.

At December 31, 2007, two customers accounted for 39% and 11% of Company's gross accounts receivable. At December 31, 2006, five customers accounted for 16%, 15%, 14%, 11% and 10% of Company's gross accounts receivable.

Risks Associated with Outsourcing Key Services

Certain key services that meet the Company's requirements are provided by a single supplier. The Company has contracted iLand Internet Solutions Corporation ("iLand"), a Level 3 Communications Inc. reseller, to provide a secure hosted environment for a majority of the Company's hardware infrastructure (Note 12). The inability of iLand to supply these services could result in disruption of the Company's business, which in turn could have a material adverse effect on the Company's business, financial condition, and results of operations.

401(k) Plan

The Company has a contributory 401(k) employee benefits plan covering substantially all of its employees. The Company made no contribution to the plan for the years ended December 31, 2007 and 2006.

Foreign Currency

The assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars at exchange rates as of the balance sheet date. Revenues and expenses are translated at the average of the rates prevailing during the year. Adjustments from translating foreign currency financial statements are reported in other comprehensive income (loss) as a separate component of stockholders' deficit. The currency of the country of domicile is the functional currency of each of the Company's subsidiaries. As of December 31, 2007, the Company has no active foreign subsidiaries (Note 7).

New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157") which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement is effective for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company is currently assessing whether adoption of SFAS 157 will have an impact on the financial position, cash flows or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159") which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This statement is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing whether adoption of SFAS 159 will have an impact on the financial position, cash flows or results of operations.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations* ("SFAS 141 revised") which is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect the adoption of SFAS 141 revised to have a material impact on the consolidated financial statements.

In December 2007, FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51 ("SFAS 160") which is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect the adoption of SFAS 141 revised to have a material impact on the consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or retained earnings.

3. BASIC AND DILUTED NET (LOSS) INCOME PER SHARE

Basic net (loss) income per common share is computed using the weighted-average common shares outstanding for the period. Diluted net (loss) income per common share is computed using the weighted-average common shares outstanding plus any potentially dilutive securities, except when their effect is anti-dilutive. The dilutive effect of outstanding stock options and warrants is reflected in diluted earnings per share by application of the treasury stock method. For the year ended December 31, 2007, diluted net loss per common share is computed using the weighted-average common shares outstanding for the period and excludes all potentially dilutive securities because the Company is in a net loss position and their inclusion would have been anti-dilutive. Dilutive securities primarily include stock options, warrants and equity units subject to mandatory redemption.

The computation of basic earnings per share and diluted (loss) earnings per share for "(Loss) income from continuing operations" for the years ended December 31, 2007 and 2006 is as follows:

	2007	2006
(Loss) income from continuing operations	$ (190,943)	$ 275,492
Weighted-average number of common shares outstanding—Basic	42,197,038	41,900,973
Weighted average effect of dilutive securities		
Equity units subject to mandatory redemption	-	2,686,022
Employee stock options	-	6,915,999
Warrants	-	1,768,369
Weighted-average number of common shares outstanding—Diluted	42,197,038	53,271,363
Net (loss) earnings per share from continuing operations:		
Basic	$ (0.00)	$ 0.01
Diluted	$ (0.00)	$ 0.01

The following securities have been excluded from the diluted net (loss) earnings per share calculation because the respective exercise prices are greater then the average market value of the underlying stock or their inclusion would have been anti-dilutive for the years ended December 31, 2007 and 2006:

	2007	2006
Employee stock options	10,947,745	50,000
Warrants	1,222,222	6,506,241

4. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2007 and 2006 consist of the following:

	2007	2006
Computer equipment	$ 465,285	$ 364,366
Office equipment	53,702	34,457
Leasehold improvements	15,633	12,038
Computer software	50,239	19,640
	584,859	430,501
Less: Accumulated depreciation and amortization	(341,834)	(176,560)
	$ 243,025	$ 253,941

Depreciation and amortization expense was $165,274 and $107,369 for the years ended December 31, 2007 and 2006, respectively.

In December 2006, the Company sold furniture for $12,500 to a stockholder and former board member. The loss from the sale was $9,051 and is included in general and administrative expenses in the consolidated statement of operations for the year ended December 31, 2006.

5. BANK LINE OF CREDIT

In July 2005, the Company entered into a revolving line of credit agreement with a bank that allowed the Company to borrow up to $200,000. The line of credit was fully secured by a certificate of deposit classified as short-term investments-restricted on the accompanying balance sheet as of December 31, 2005. Borrowings under the line of credit bear interest at 8%. The outstanding balance was $166,347 at December 31, 2005. In April 2006, the company redeemed the certificate of deposit, repaid the entire balance outstanding on the line of credit and closed the revolving line of credit.

6. CAPITAL LEASE OBLIGATION

The Company leases certain computer equipment under agreements that are classified as capital leases. The cost of equipment under capital leases is included in the Consolidated Balance Sheets as property and equipment and was $239,766 and $150,534 at December 31, 2007 and 2006, respectively. Accumulated amortization of the leased equipment at December 31, 2007 and 2006, was approximately $84,866 and $24,707, respectively. Amortization of assets under capital leases is included in depreciation expense.

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of December 31, 2007, are as follows:

	Year Ending December 31,	Amount
	2008	$ 108,476
	2009	82,281
	2010	22,791
Total minimum lease payments		213,548
Less: Amount representing estimated taxes and insurance costs included in total amounts above		(22,183)
Net minimum lease payments		191,365
Less: Amount representing interest		(28,769)
Present value of net minimum lease payments		162,596
Less: Current maturities of capital lease obligations		(74,190)
Long-term capital lease obligations		$ 88,406

7. OTHER CURRENT LIABILITIES

Other current liabilities consist of the following at December 31, 2007 and 2006:

	2007	2006
Advertising deferred revenue	$ 35,165	$ 33,432
Membership deferred revenue	98,276	52,377
Deferred gain on sale of asset	140,929	-
Due to advertising partners	100	69,492
Liabilities of inactive subsidiaries (a)	244,360	219,895
	$ 518,830	$ 375,196

(a) These liabilities will be paid or credited to income when these subsidiaries are dissolved.

8. INCOME TAXES

The primary components of temporary differences which give rise to deferred taxes are as follows:

	December 31, 2007	December 31, 2006
Deferred tax asset:		
Net operating loss carryforward	$ 42,164,000	$ 41,270,000
Allowance for doubtful accounts	4,000	30,000
Depreciation and amortization	808,000	900,000
Deferred rent	3,000	20,000
Deferred compensation	70,000	101,000
FASB 123 Expense	13,000	-
Accruals	11,000	38,000
Deferred tax assets before valuation allowance	43,073,000	42,359,000
Less: valuation allowance	(43,073,000)	(42,359,000)
Net deferred tax assets	$ -	$ -

As a result of the Company's history of operating losses, management believes a valuation allowance for the entire net deferred tax asset, after considering deferred tax liabilities, is required. As of December 31, 2007 and 2006, the Company had estimated net operating loss carryforwards of approximately $105,408,000 and $104,298,000 , respectively. The change in valuation allowances for 2007 was an increase of $714,000 and a decrease in 2006 of $1,729,000.

The net operating loss carryforwards originated in the following jurisdictions:

	December 31, 2007	December 31, 2006
United States	$ 89,404,488	$ 88,294,418
The Netherlands	12,189,216	12,189,216
Other	3,814,094	3,814,094
	$ 105,407,798	$ 104,297,728

As of December 31, 2007 U.S. loss carryforwards expire through 2027. The Netherlands loss carryforwards have no expiration.

The Company utilized approximately $4,557,000 of its net operating loss carryforwards during the year ended December 31, 2006 to offset foreign income taxes related to the sale of the Company's German subsidiary.

9. RELATED PARTY NOTE PAYABLE

In July 2007, a partnership controlled by the Company's major stockholder loaned $200,000 to the Company under an unsecured promissory note. The note is payable in full on July 31, 2010 plus accrued interest. Interest accrues at the rate of 12% per annum. At December 31, 2007, the outstanding balance due was $200,000. For the year ended December 31, 2007, the Company accrued and recorded interest expense of $10,060. The principal plus accrued interest is recorded under the caption related party note payable on the accompanying consolidated balance sheets.

10. STOCKHOLDERS' DEFICIT

Exercising of Employee Stock Options

For the years ended December 31, 2007 and 2006, the Company issued -0- and 717,545 shares of its common stock for cash proceeds of $-0- and $43,054, respectively.

Preferred stock

Effective March 3, 1999 the Company's Board of Directors authorized 10,000,000 shares of preferred stock to be issued. As of December 31, 2007 these shares have not been issued and the Company currently has no plans to issue the shares.

Stock Plan

In May 1998, the Company adopted the 1998 Stock Option Plan, as amended (the ''Plan''), which provides for the issuance of up to 23,600,000 shares for both non-statutory and incentive stock options to employees, officers, consultants and non-employee directors. Most options shall be exercisable for a period of up to ten years from the date of grant at no less than 100% of the fair market value of the Company's common stock on the date of grant. The term of such options shall be five years from the date of grant for stockholders who own more than ten percent of the voting power of all classes of stock of the Company at the date of grant.

For the years ended December 31, 2007 and 2006, no stock options were granted, so as a result, no assumptions were needed to calculate fair values.

The following summarizes the activity under the Plan:

	Options		
	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balance, December 31, 2005	11,891,681	$ 0.06	
Granted	-	-	
Exercised	(717,545)	0.06	
Canceled	(219,391)	0.06	
Balance, December 31, 2006	10,954,745	$ 0.06	
Granted	-	-	
Exercised	-	-	
Canceled	(7,000)	0.06	
Balance, December 31, 2007	10,947,745	$ 0.06	$ 267,444
Exercisable at December 31, 2007	10,881,745	$ 0.06	$ 267,444

The following table summarizes information about stock options outstanding at December 31, 2007:

Range of Exercise Prices	Number Outstanding at December 31, 2007	Remaining Contractual Life	Weighted Average Exercise Price	Weighted Average Grant-date Fair Value
$ 0.06 - 0.23	10,947,745	3.66 years	$ 0.06	$ 0.06

The weighted average exercise price and the weighted average grant-date fair value for the exercisable stock options are $0.06, respectively, for the year ended December 31, 2007.

The total intrinsic value of options exercised during the years ended December 31, 2007 and 2006 amounted to $-0- and $100,232, respectively.

A summary of the status of the Company's nonvested shares at December 31, 2007 and 2006, and changes during the years ended December 31, 2007 and 2006 is presented below:

	Options	
	Shares	Weighted Average Grant-date Fair Value
Balance, December 31, 2005	383,500	$ 0.15
Granted	-	-
Vested	(83,000)	0.15
Forfeited	(150,000)	0.15
Balance, December 31, 2006	150,500	$ 0.14
Granted	-	-
Vested	(84,500)	0.15
Forfeited	-	-
Balance, December 31, 2007	66,000	$ 0.13

As of December 31, 2007, there was approximately $7,500 of total unrecognized compensation cost related to stock-based compensation arrangements. The cost is expected to be recognized on a straight line basis over the remaining vesting period of the stock option award through the second quarter of 2008. The total fair value of shares vested during the years ended December 31, 2007 and 2006 was $9,152 and $22,672, respectively.

Warrants

In July 2003, the Company entered into an equity line of credit agreement with a Partnership controlled by the Company's major stockholder that expired on December 31, 2005. In return for this funding commitment the Company agreed to issue the Partnership a four-year warrant to purchase up to 10,000,000 shares of common stock at a price of $.12 cents per share. The warrant issued in connection with the equity line of credit agreement includes certain antidilution provisions in the event shares are issued below the warrant exercise price of $.12 cents. For the year ended December 31, 2006, no warrants were exercised and the warrants were cancelled in connection with the equity unit purchase agreement (Note 11).

11. EQUITY UNITS SUBJECT TO MANDATORY REDEMPTION

Equity units subject to mandatory redemption at December 31, 2007 and 2006 consists of the following:

	2007	2006
Common Shares	$ 147,715	$ 358,041
Value of warrant	53,915	323,141
Unamortized financing costs	-	(16,856)
Equity units subject to mandatory redemption	$ 201,630	$ 664,326

On May 22, 2006 the Company entered into an Equity Unit Purchase Agreement (the "Agreement") with new investors. Per the terms of the Agreement, the Company issued and sold equity units, each consisting of one share of the Company's common stock and a warrant to purchase 2.42225 shares of the Company's common stock, for an exercise price of $0.15 per share. The Company issued 4,541,216 equity units at a price of $0.15 for aggregate proceeds of $681,182. The Company issued 4,036,636 equity units for aggregate proceeds of $605,495 on May 22, 2006 and 504,580 equity units for aggregate proceeds of $75,687 on August 3, 2006. In connection with this transaction, the Company incurred fees of $75,850, which were deferred and were accreted to additional paid-in capital over nine months. For the years ended December 31, 2007 and 2006, $16,856 and $58,994, respectively, was accreted through a charge to additional paid-in capital in the accompanying consolidated statement of changes in stockholders' deficit and other comprehensive income (loss). The Company issued 11,000,000 warrants in connection with the sale of the equity units. The Agreement allocated $0.135 to each share of common stock and $0.015 to each warrant.

The associated Warrants are exercisable for 11,000,000 shares of common stock at an exercise price of $0.15 per share. The Company engaged an independent financial consultant to prepare the valuation of the warrant based upon the Black-Scholes valuation model. Based upon the independent valuation the warrant had a value of $0.15 as of May 22, 2006. The Company determined the value of the stock and the warrant based on the pro-rata fair values of the market value of the stock as of May 22, 2006 ($0.1662) and an independent valuation of the warrant (as of May 22, 2006). The Warrants will expire seven years after issuance. The following assumptions were used to determine the fair value of the Warrants using the Black-Scholes valuation model: a term of seven years, risk-free rate of 4.96%, volatility of 116%, and dividend yield of zero.

Put and Call Options
The Agreement included Put and Call arrangements, which granted the Company the option to call, or buy back the shares of the Company's common stock from the investors and granted the investors the option to put, or sell the shares of the Company's common stock to the Company. The arrangement existed in order to give the respective parties the ability to unwind the investment in the event that certain performance related requirements were not satisfied.

The performance related requirements were identified as either the Company closing on a “Qualified Acquisition” or the investors meeting an “Activity” criteria. A “Qualified Acquisition” meant an acquisition of a business (by way of a purchase of assets, an Equity Transaction or otherwise), which had generated revenues of at least $2,000,000 for the twelve months prior to acquisition or $500,000 in the fiscal quarter prior to acquisition or had annual earnings before interest, tax, depreciation and amortization of at least $1,000,000 for the twelve months prior to acquisition or $250,000 in the fiscal quarter prior to acquisition. In addition, the Board of Directors of the Company was able to deem any acquisition not satisfying these criteria as a Qualified Acquisition. The “Activity“ criteria meant the investors were actively engaged during a period of ninety consecutive days in one or more of the actions required to complete a Qualified Acquisition. The activities may have included, but not be limited to, identifying, analyzing, negotiating or structuring financing for any potential acquisition.

The Put and Call Option I (“Put and Call I”) commenced nine months (February 22, 2007) from closing (May 22, 2006) and lasted for 60 days. The Put window that opened at that time would have been triggered by the Investors at their option. The Call window that opened at that time could only be triggered by the Company if a Qualified Acquisition was not closed and if the Investors had not satisfied the meaning of Activity, as defined in the Agreement. If the Put or Call was triggered for the nine months window, then the strike price was $0.15 per share for the shares included in the Equity Units purchased by the Investors, but would not apply to any Warrant Shares purchased as result of exercising the Warrants. The price was to be paid in cash by the Company within thirty days of either party exercising their option. All unexercised Warrants would be voided at that time and all Board representation by any Investor would immediately lapse. If the Investors failed to meet the activity requirement for a period of ninety consecutive days within the nine month window, the Put strike price would be $0.075 per share for the Shares purchased by the Investors, but would not apply to any warrant shares purchased as result of exercising the Warrants. In the event that a Qualified Acquisition was completed during the nine month window, the Put and Call Option I would immediately lapse.

The Put and Call Option II (“Put and Call II”) commenced 12 months (May 22, 2007) from closing (May 22, 2006) and lasted for 180 days. The put and call window that opened twelve months form Closing could be triggered by either the Investors or the Company if no Qualified Acquisition had been closed and the Investor had not satisfied the meaning of Activity in the six months prior to the twelve month window opening. The Investors would direct their nominees on the Board of Directors to abstain from voting on the exercise of any call option under Put and Call Option II. If the put was exercised by the Investors at the twelve month window, the purchase price would be $0.075 per share for the Shares included in the Equity Units purchased by the Investors, but would not apply to any Warrant Shares purchased as result of exercising the Warrants. All unexercised Warrants would be voided at that time and all Board representation by any Investor would immediately lapse. If the call was exercised by the Company at the twelve month window, the purchase price would be $0.15 per share for the Shares included in the Equity Units purchased by the Investors, but would not apply to any Warrants Shares purchased as a result of exercising the Warrants.

Liquidation Value
The 4,541,216 shares of common stock that the Company issued in conjunction with the Agreement were subject to redemption as outlined by the Put and Call agreements above. During the time period associated with Put and Call I, each share had a liquidation value of $0.15 per share. During the time period associated with Put and Call II, each share had a liquidation value of $0.075 per share The liquidation value was payable within thirty days of either party exercising their option.

Repurchase of units
On July 9, 2007, the Company entered into a repurchase agreement to reacquire some of the 4,036,636 equity units originally issued on May 22, 2006. The repurchase agreement called for the Company to reacquire two-thirds of the related outstanding equity units (2,692,436) and five-sixths of the warrants attached to these equity units (8,144,892). The equity units were acquired at $0.15 per equity unit for an aggregate purchase price of $403,865. Upon reacquiring the equity units, the 2,692,436 shares of common stock and 8,144,892 warrants were cancelled. Following the closing of the repurchase agreement, all of the rights of the investors associated with these equity units have been terminated and the Company entered into a new call that gave the Company the right to call all but not less than the shares and warrants not repurchased or cancelled by this agreement for a period of 150 days. The new call expired in December 2007. If the call had been exercised by the Company, the purchase price would have been $0.15 per share for the equity units.

On April 30, 2008, the Company entered into an agreement with the investors to repurchase the outstanding equity units subject to mandatory redemptions in the amount of $201,630 as of December 31, 2007 for an aggregate purchase price of $105,392. The Company entered into promissory note agreements with the investors for $105,392. The notes will be payable in full on April 30, 2009 plus interest. Interest will accrue at the rate of 10% per annum. The promissory notes will be collateralized by all the assets of the Company. Upon the payment of the promissory notes, the 1,344,200 shares of common stock and 1,632,886 warrants will be cancelled.

Conversion of equity units
Upon the expiration of the Put and Call II associated with the equity unit purchase agreement on November 18, 2007, all equity units not covered by the above mentioned repurchase agreement were converted to 504,580 shares of common stock and warrants to purchase 1,222,222 shares of common stock valued at an aggregate value of $75,687. The warrants will expire seven years from the issuance date of November 16, 2007. For the year ended December 31, 2007, no warrants were exercised.

12. COMMITMENTS AND CONTINGENCIES

Leases

In January 2007 the Company entered into an agreement with its landlord in New York to terminate its lease effective February 1, 2007 and entered into a new lease through February 2010. The Company's minimum lease obligations under the lease is as follows:

Year ending December 31,	Amount
2008	97,416
2009	100,339
2010	16,805
Total minimum lease payments	$ 214,560

Rent expense for the years ended December 31, 2007 and 2006 was $96,021 and $145,067, respectively. Rent expense for the years ended December 31, 2007 and 2006 includes rental income of $5,000 and $50,000, respectively, from a Company that is controlled by a stockholder and former board member.

The Company's old and new office leases include rent abatement periods. The deferred rent liability on the accompanying consolidated balance sheets represents the difference between the total rent payments made and the average monthly obligations over the life of the leases. The old lease required a security deposit in the amount of $69,667 which is included in other assets on the consolidated balance sheet at December 31, 2006. The new lease requires a deposit of $23,760, which is included in other assets on the consolidated balance sheet at December 31, 2007.

Master Services Agreement

In 2006, the Company negotiated an agreement with iLand Internet Solutions Corporation. This agreement is for 12 months beginning in October 2006, and month to month thereafter, and requires the Company to pay monthly recurring charges for a secure hosted environment for a majority of the Company's hardware infrastructure. The costs associated with these agreements amounted to $115,492 and $258,308 for the years ended December 31, 2007 and 2006, respectively, and is included in the cost of revenues in the Company's consolidated statements of operations.

Strategic Services Agreement

In November 2004, the Company entered into an agreement with Hostopia.com Inc. ("Hostopia") to provide a private labeled web hosting solution. Under the agreement, Hostopia provided the web hosting, domain and email services, along with customer support for the Company's FortuneCity.com paid hosting subscribers. The agreement was for 36 months beginning in January 2005 and required the Company to pay monthly recurring charges for the services provided to FortuneCity end users. The costs associated with this agreement amount to $38,629 for the year ended December 31, 2006 and is included in the cost of revenues in the Company's consolidated statements of operations. In January 2006, the Company agreed to sell its paid hosting customers to Hostopia (Note 14). As part of the sale, this agreement with Hostopia was terminated, and all associated termination fees were waived.

Marketing and Licensing Agreement

On January 31, 2006, the Company entered into a marketing and licensing agreement with Hostopia for the period February 1, 2006 through January 31, 2008 with an option to extend for an additional year. The Company has agreed to continue to market domain, email and hosting services under the FortuneCity brand name and refer customers to Hostopia in exchange for referral fees. The Company receives 57.5% of new customer's revenue during the first year of service. The Company will continue to own and operate the FortuneCity.com website and seamlessly refer prospective paid web hosting customers to web pages maintained by Hostopia. This will have an impact on the amount of new business obtained for Hostopia which accordingly will affect the amount of referral fees generated for the Company. The referral fee will be paid on new customers that have entered into contracts subsequent to January 31, 2006, as defined in the marketing and licensing agreement. On July 9, 2007, the Company agreed to extend the marking agreement an additional 2 years through January 31, 2010 in exchange for full satisfaction of the of the purchase price agreed to upon the Company selling its paid web hosting assets to Hostopia on January 31, 2006 (Note 14). For the years ended December 31, 2007 and 2006, the Company recorded revenue of $108,247 and $96,707, respectively, under the marketing and licensing agreement.

Contingencies

From time to time, the Company has been party to various litigation and administrative proceedings relating to claims arising from its operations in the normal course of business. Management believes that the resolution of these matters will not have a material adverse effect on the Company's business, results of operations, financial condition or cash flows.

13. DISCONTINUED OPERATION

In December 2005, the Company decided to sell its Hamburg, Germany based online media sales subsidiary, Ampira GmbH ("Ampira") to KON AG Klinkhammer Online ("KON") in order to focus its business activities in the North American market.

On March 24, 2006, the Company sold the stock of Ampira for approximately $244,000. In December 2005, the Company received $12,000 upon signing of the letter of intent. At the closing the Company received approximately $177,000 for aggregate proceeds of $189,000. The balance of the purchase price ($55,000) was paid in equal installments over a 10 month period commencing on April 24, 2006. At December 31, 2006, one monthly installment remained outstanding in the amount of $4,819 and was classified in prepaid expenses and other current assets on the consolidated balance sheet. This installment was received in February 2007. The assets sold consisted primarily of accounts receivable and other assets. The buyer also assumed certain accounts payable and accrued liabilities.

In March 2006, a gain on disposal of $218,086, as detailed below was recorded in the consolidated statement of operations:

Cash consideration received	$	244,577
Write-down of assets		(2,128)
Commissions		(12,183)
Legal fees		(12,180)
Gain on sale of subsidiary	$	218,086

Ampira's sales, reported in discontinued operation, for year ended December 31, 2006, were $152,256. Ampira's net income, reported in discontinued operation, for the year ended December 31, 2006, was $5,502.

The following is a summary of the net assets sold on the closing date of March 24, 2006:

		March 24, 2006
Assets of discontinued operation:		
Cash	$	57,249
Accounts receivable		48,628
Other assets		26,177
Total assets	$	132,054
Liabilities of discontinued operation:		
Accounts payable	$	91,335
Accrued expenses		38,615
Other current liabilities		-
Total liabilities	$	129,950

14. GAIN ON SALE OF ASSET

On January 31, 2006, the Company sold its paid web hosting assets to Hostopia.com Inc. The paid web hosting assets consists of existing service contracts with customers. The contingent purchase price is $1,132,000 less total liabilities of $423,000 resulting in potential cash proceeds of $700,000. The total liabilities include amounts owed from the prior wholesale service agreement and deferred revenue as of January 31, 2006. The Company received a net payment of $151,400 at the closing.

The remainder of the contingent purchase price was to be paid monthly. The computation was based on revenues that are generated from customers of the Company that had entered into a service agreement with the Company prior to the closing date for web hosting services, and continue to pay for such services after closing ("continuing revenues"), times a purchase price payment percentage as defined in the agreement. Hostopia agreed to assume the deferred revenue for the paid web hosting assets as of January 31, 2006. Hostopia offset the deferred revenue liability and an outstanding accounts payable balance as of January 31, 2006 against the purchase price payments. The monthly payment of the total liabilities was computed by taking the continuing revenues multiplied by 50% minus the purchase price payment percentage. The purchase agreement was to continue until the purchase price of $1,132,000 was paid or when there were no longer continuing revenues. On July 9, 2007, Hostopia paid the Company $361,180 for full satisfaction of the purchase price in exchange for extending the marking agreement an additional 2 years through January 31, 2010 (Note 12). The $361,180 received for full satisfaction of the purchase price was recorded as deferred gain on sale of asset and will be recognized over the remaining life of the marketing agreement. As of December 31, 2007, the deferred gain consists of the following:

Consideration received in full satisfaction of the purchase price	$ 361,180
Gain recognized for the year ended December 31, 2007 (a)	(67,385)
Total deferred gain as of December 31, 2007	293,795
Current portion	(140,929)
Long term portion	$ 152,866

(a) Recorded under "gain on sale of asset" on the accompanying Consolidated Statements of Operations

For the years ended December 31, 2007 and 2006, a gain on sale of asset of $361,255 and $464,785, respectively, as detailed below was recorded in the consolidated statement of operations:

	2007	2006
Consideration received		
Cash consideration received	$ 97,513	$ 286,471
Offset of outstanding liabilities	263,742	171,942
Year end receivable on payments received	-	10,321
Total consideration received	361,255	468,734
Legal fees	-	(3,949)
Gain on sale of asset	$ 361,255	$ 464,785

15. SUBSEQUENT EVENT

Fulfillment Services Agreement

In March 2008, the Company entered into a Fulfillment Services Agreement with Qualex, Inc. for all MyPhotoAlbum photo processing services to be fulfilled by Qualex. In exchange for this agreement, the Company will receive a payment in an amount totaling $250,000.

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