# MyPhotoAlbum Inc.
# (formerly FortuneCity.com Inc)

# 2008 Annual Report

*April 29, 2009*

*Dear Fellow Shareholders,*

*The year 2008 marked the Company's exit from its roots in the web hosting sector and further focus on the online photo industry. The asset sale of the fortunecity.com website enabled the Company to concentrate its managerial and financial assets on its faster growing online photo service business. And as a result of the sale, the Company elected to change its corporate name to MyPhotoAlbum Inc. to identify the Company with its online photo service business.*

*The sale of the advertising supported personal homepage service for total potential proceeds of $2.2 million in Q2 2008 was timely. In the second half of 2008 the online advertising market experienced significant price declines and soft demand as part of the overall global economic downturn. This asset sale was validated by Yahoo!'s recent decision to close Geocities, a similar advertising supported webpage service.*

*The online photo finishing service sector in North America is dominated by a handful of large online and offline retail players. The sector, however, has hundreds of medium to small businesses supplying niche photo services and battling for market share and growth. A challenge consistent with the majority of smaller players in the field is the lack of capital to grow in this competitive field, thus the Board of Directors saw this fractured second tier market as an opportunity to become a consolidator within the industry.*

*The consolidation strategy will leverage the Company's robust and scalable technology platform, highlighted by lower image storage costs, and related bandwidth and data center expenses. As a result of this plan, MyPhotoAlbum can also derive more efficient customer acquisition practices, greater access to capital and the ability to shed legal, administration and general operational overheads.*

*In February 2009, the Company completed its first acquisition as part of its consolidation strategy. The Company purchased the assets of dotPhoto.com, a business founded in 1999 with 2008 revenues of $2.5 million. The dotPhoto.com business is complimentary to MyPhotoAlbum as it has been successful developing a user base of photography professionals and 'prosumers", active amateur photographers seeking a means to promote and sell their images. The Company will continue pursuing the acquisition of a variety of prospective photo service companies that will be accretive to cash flow and/or provide new technology and marketing differentiators.*

*The Company continues to operate its short URL sub-domain service www.go.to. The website traffic is optimized through an advertising relationship with Google Adsense.*

*Yours truly,*

*Peter Macnee*
*President and CEO*

*Jeremy W. Metcalfe*
*Chairman of the Board*

# MyPhotoAlbum Inc. and Subsidiaries

## Key figures for the year

| | January 1 - December 31, 2008 | January 1 - December 31, 2007 |
|---|---|---|
| Revenue | $ 816,087 | $ 895,629 |
| Gross profit | 318,586 | 523,769 |
| Operating loss | (1,271,031) | (900,014) |
| Impact of non-operating items | (3,389,144) | 335,754 |
| Earnings from discontinued operations | 59,567 | 373,317 |
| Net loss | (4,600,608) | (190,943) |

| | | |
|---|---|---|
| Earnings per share attributable to common stockholders - | | |
| Basic and diluted | (0.11) | (0.00) |

| | | |
|---|---|---|
| Cash flows from operating activities | (842,384) | (208,809) |
| Cash flows from investing activities | 1,613,379 | 326,181 |
| Cash flows from financing activities | (183,414) | (258,286) |

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| Total current assets | $ 924,068 | $ 411,027 |
| Total non-current assets | 315,873 | 320,137 |

| | | |
|---|---|---|
| Total current liabilities | 828,066 | 1,132,480 |
| Total non-current liabilities | 318,563 | 304,031 |
| Equity units | - | 201,630 |
| Total stockholders' equity (deficit) | 93,312 | (906,977) |
| Equity ratio in % | 8% | -124% |
| Total liabilities and stockholders' equity (deficit) | 1,239,941 | 731,164 |



myphotoalbum
my memories shared my way

# Table of Contents

# Management Discussion and Analysis

## Overview

MyPhotoAlbum Inc. and its subsidiaries (the "Company"), formerly known as FortuneCity.com Inc., completed a major restructuring during the first half of 2008. At a Special Meeting of Stockholders in June 2008 in New York, the Company approved the sale of its original business, the FortuneCity.com personal homepage service website to a US based web hosting company for total potential proceeds of $2,212,500. The Board of Directors decided to sell the FortuneCity.com website to enable the Company to concentrate its managerial and financial assets on its online photo service, the fastest growing area of the business. The Company's stockholders also approved the Board of Directors recommendation to change the company name to MyPhotoAlbum Inc. so that the corporate name identifies the Company with its primary business, the MyPhotoAlbum.com online photo service.

MyPhotoAlbum.com provides photo enthusiasts the ability to creatively store and share photos and videos online. The service is recognized for its extensive customization features that allow its registered users to create and share personalized online photo albums. The photo service also offers customers the means to purchase a wide variety of photo merchandise.

MyPhotoAlbum.com earns revenue through club membership fees, account reactivation fees, photo prints, photo gifts, photo books and calendars, and banner advertising.

In addition to the core photo service business, the Company also operates "go.to", a web and email forwarding engine. 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.

In February 2009, the Company completed the purchase of the assets of dotPhoto.com, a New Jersey based online photo service company. dotPhoto.com is named the #1 Photo Sharing Site by TopTen Reviews and provides a complimentary service to MyPhotoAlbum.com as it has been successful developing a user base of photography professionals and prosumers. In 2008, dotPhoto.com had approximately $2,500,000 in revenue. This acquisition was an important first step in the Company's strategy to pursue the consolidation of other online photo businesses that will increase revenue, improve cash flow, supply the Company with attractive new technologies and provide the Company market differentiation.

## Photo Services

**Revenue:** Revenue from the MyPhotoAlbum.com website for the year ended December 31, 2008 was $664,417 and includes club memberships, photo merchandise and advertising.

| REVENUE DISTRIBUTION | |
|---|---|
| Club Membership | 36% |
| Photo Merchandise | 59% |
| Advertising | 5% |

**Members:** As of December 31, 2008, MyPhotoAlbum had approximately 264,000 members that had uploaded over 63,500,000 photos. This represented net increases of approximately 37,500 members and 20 million photos from December 31, 2007 even though the

Company actively suspends and deletes those customer accounts, and the photos and videos within these online albums if they have not completed a transaction in the prior year. The user base growth continued to be driven organically with nominal advertising expenditures. More than 50% of new registrations were generated from visitors viewing a MyPhotoAlbum account.

| MEMBER ACTIVITY | | |
|---|---|---|
| | Members | Average Photos |
| Free | 238,362 | 160 |
| Club | 13,621 | 1,727 |

**Paid Subscriptions:** MyPhotoAlbum members can voluntarily upgrade their service package by paying an annual subscription fee entitling them to Club Membership status. The MyPhotoAlbum Club provides members unlimited and unrestricted photo and video storage and enhanced personalization features. As of December 31, 2008, the number of club members was 13,621, an increase of 24% from 10,975 club members at December 31, 2007. Club Members continued to show a much higher propensity to make photo merchandise purchases.

| TRANSACTION SOURCES | | |
|---|---|---|
| | Member % | Transaction % |
| Free | 95% | 47% |
| Club | 5% | 53% |

**Photo Product Merchandise:** MyPhotoAlbum offers a competitive catalog of over 75 different photo products. This includes standard consumer print sizes ranging from 4”x6” prints to 20”x30” wall posters; gift items such as greeting cards, mugs, mouse pads and t-shirts; and specialty photo books and calendars that were launched in October 2007. For the year ended December 31, 2008, the Company completed over 41,000 transactions at an average of $16 per transaction.

| ANNUALIZED REVENUE PER MEMBER | |
|---|---|
| Free | $1.11 |
| Club | $33.56 |

## Revenues

Photo services revenue increased 22% over the corresponding period in 2007 and accounted for 78% of total revenues. This increase helped to offset the decrease in advertising revenue, which declined 51% over the corresponding period in 2007. Total revenue for the year ended December 31, 2008 decreased from $895,629 to $816,087, or 9% over the same period in 2007. The advertising revenue decrease was primarily the result of a declining amount of ad impressions being displayed on the Company’s web and email forwarding engine. As a result, in Q1 2008, the Company updated the service and re-branded it as “go.to.” This has resulted in steady increases in registrations, ad impressions and revenue generated since the re-launch of the service.

## Cost of Revenue

Cost of revenues increased from $371,860 for the year ended December 31, 2007 to $497,501 for the year ended December 31, 2008. This increase is directly related to the 28% increase in the costs of revenue associated with the photo services for the year ended December 31, 2008 over the same period in 2007, which corresponds with the increase in photo services revenue. Costs of revenue expenses primarily consist of photo services costs of goods sold, data center expenses, equipment depreciation and credit card fees. Data center expenses increased by 61% along with necessary hardware purchases to meet the growth requirements of MyPhotoAlbum. The data center cost increase was triggered by significant increases in energy costs charged by the Company’s primary vendor.

## Sales and Marketing

The sales and marketing expenses for the year ended December 31, 2008 decreased from $174,468 to $96,771, or 45% compared to the same period in 2007. The decrease is a result of the elimination of the advertising sales person. The Company maintained its nominal online advertising and promotional expenditure.

## Product Development

Product development expenses include salaries and related costs associated with software development and testing, and upgrading of the company's server infrastructure and software applications. Product development expenses for the year ended December 31, 2008 increased from $598,050 to $758,386, or a 22% increase over the same period in 2007. The increase is a result of reallocating personnel resources to product development after the sale of the FortuneCity.com website.

## General and Administrative

General and administrative expenses consist primarily of salaries and related costs, rent, professional fees, depreciation and other corporate expenses. General and administrative expenses for the year ended December 31, 2008 increased from $717,689 to $771,183, or a 7% increase over the same period in 2007. This increase is a result of more data storage equipment being depreciated.

## Non cash stock compensation costs

For the year ended December 31, 2008, the Company recorded non cash compensation benefit of $36,723, and for the year ended December 31, 2007, the Company recorded non cash compensation benefit of $66,424, in connection with the repricing of stock options on June 1, 2003 and the expense for stock options issued after June 1, 2003.

## Sale of Asset

On January 31, 2006, the Company sold its paid web hosting assets. The contingent purchase price was $1,132,000. The Company received a net payment of $151,400 at closing and the remainder of the contingent price was paid based on certain milestones being achieved. In July 2007, the Company received a final payment of $361,180 in full satisfaction of the purchase price in exchange for extending a related marketing agreement through January 31, 2010. The $361,180 was recorded as a deferred gain to be recorded over the life of the marketing agreement. On June 12, 2008, the Company sold the FortuneCity.com personal homepage service and cancelled the marketing and brand agreement. The remaining balance of the deferred gain was recorded as income when the marketing agreement was cancelled. For the year ended December 31, 2008, the Company recorded a gain on sale of asset of $293,795.

## Sale of Business

On June 12, 2008, the Company sold the FortuneCity.com personal homepage service for potential cash proceeds of $2,212,500. The Company received a cash payment of $1,732,500 at closing and a payment of $480,000 was placed into an escrow account with equal payments to be released at the twelve month and eighteen month anniversaries of closing. For the year ended December 31, 2008, the Company recorded a gain of $1,656,661 on the sale of the business, which is equal to the cash payment less legal fees and the book value of assets sold. The remaining $480,000 of sales price, which is being held in escrow, will be recorded to income when the cash is released.

## Dissolution of Subsidiaries

In May 2008, the Board of Directors voted to dissolve all inactive foreign subsidiaries. As a result of dissolving the inactive subsidiaries, the Company recorded a loss on the liquidation of $5,393,260.

The loss is attributable to the reclassification of the cumulative foreign currency translation adjustment from the consolidated statement of changes in stockholders' equity (deficit) and other comprehensive loss to the statement of operations.

## Results of Operations

Net loss from continuing operations increased for the year ended December 31, 2008 to $4,660,175 from $564,260 over the same period in 2007. The increase in the net loss from continuing operations is primarily due to the negative impact of non-operating items of $3,389,144 for the year ended December 31, 2008.

The Company's net loss attributable to common stockholders was $4,600,608 for the year ended December 31, 2008. Additionally, the Company recorded earnings from discontinued operations of $59,567. These earnings are the results of the discontinued operations of the FortuneCity.com personal homepage service website that was sold in June 2008.

## Human Resources

As of December 31, 2008, the Company employed 9 full-time employees compared with 12 as of December 31, 2007. Of the 9 full-time employees as of December 31, 2008, 1 was a customer support employee, 6 were in product development and 2 were engaged in operational and administrative support.

## Financial Statements

The financial results presented in this 2008 Annual Report have been prepared in accordance with US GAAP.

## Board Member and Treasury Holdings

The share holdings of the Company's stock by board members and the Company at December 31, 2008 is as follows:

| | Number of Shares | US$ Par Value | US$ Market Value (FWB) |
|---|---|---|---|
| Jeremy Metcalfe | 20,569,853 | $ 205,699 | $ 1,275,331 |
| Daniel Metcalfe | 1,250,000 | 12,500 | 77,500 |
| Peter Macnee | 159,578 | 1,596 | 9,894 |
| Peter Langkilde | - | - | - |

DALESSIO, CASCIO & COMPANY, LLC
CERTIFIED PUBLIC ACCOUNTANTS
14 PENN PLAZA, SUITE 2004
NEW YORK, N.Y. 10122
(212) 244-1270
FAX: (212) 244-1743

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of
MyPhotoAlbum Inc.:

We have audited the accompanying consolidated balance sheets of MyPhotoAlbum Inc. (a Delaware corporation) and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in stockholders' equity (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 MyPhotoAlbum Inc. and subsidiaries as of December 31, 2008 and 2007, 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 consolidated financial statements, the Company has incurred recurring losses from operations, which resulted in working capital of $96,002 and negative working capital of $721,453 as of December 31, 2008 and 2007, respectively. These recurring losses from operations and working capital levels raise 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 consolidated 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, 2009

DALESSIO, CASCIO & COMPANY, LLC
Certified Public Accountants

# MyPhotoAlbum Inc. and Subsidiaries

## Consolidated Balance Sheets

December 30, 2008 & 2007

(in U.S. Dollars)

| ASSETS | 2008 | 2007 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 849,450 | $ 261,869 |
| Accounts receivable, net of allowance of $15,000 and $10,000, respectively | 18,079 | 46,069 |
| Prepaid expenses and other current assets | 56,539 | 36,329 |
| Assets of discontinued operation | - | 66,760 |
| Total current assets | 924,068 | 411,027 |
| PROPERTY AND EQUIPMENT, net | 216,634 | 238,991 |
| OTHER ASSETS | 99,239 | 81,146 |
| Total assets | $ 1,239,941 | $ 731,164 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 273,189 | $ 272,918 |
| Accrued expenses | 116,302 | 113,676 |
| Capital lease obligations | 89,401 | 74,190 |
| Other current liabilities | 349,174 | 377,901 |
| Liabilities of discontinued operation | - | 293,795 |
| Total current liabilities | 828,066 | 1,132,480 |
| Capital lease obligations | 77,365 | 88,406 |
| Related party note payable | 234,060 | 210,060 |
| Other non-current liabilities | 7,138 | 5,565 |
| Total liabilities other than shares | 1,146,629 | 1,436,511 |
| Equity units subject to mandatory redemption; - 0 - and 1,344,200 units issued and outstanding, respectively; redemption value of $ - 0 - and $201,630, respectively | - | 201,630 |
| Total liabilities | 1,146,629 | 1,638,141 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY (DEFICIT:) | | |
| Common stock; $.01 par value; 80,000,000 shares authorized; and 42,623,990 and 42,623,990 shares issued and outstanding, respectively | 426,240 | 426,240 |
| Additional paid-in capital | 120,000,274 | 120,036,997 |
| Accumulated deficit | (120,333,202) | (118,368,240) |
| Other comprehensive loss | - | (3,001,974) |
| Total stockholders' equity (deficit) | 93,312 | (906,977) |
| Total liabilities and stockholders' equity (deficit) | $ 1,239,941 | $ 731,164 |

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

# MyPhotoAlbum Inc. and Subsidiaries

## Consolidated Statements of Operations

### For the years ended December 31, 2008 & 2007

(in U.S. Dollars)

| | 2008 | 2007 |
|---|---|---|
| REVENUES | $ 816,087 | $ 895,629 |
| COST OF REVENUES | 497,501 | 371,860 |
| Gross profit | 318,586 | 523,769 |
| OPERATING EXPENSES: | | |
| Sales and marketing | 96,771 | 174,468 |
| Product development | 758,386 | 598,050 |
| General and administrative | 771,183 | 717,689 |
| Non cash stock option compensation benefit | (36,723) | (66,424) |
| Total operating expenses | 1,589,617 | 1,423,783 |
| Operating loss | (1,271,031) | (900,014) |
| Interest expense, net | (42,567) | (25,501) |
| Gain on sale of asset | 293,795 | 361,255 |
| Gain on sale of business | 1,656,661 | - |
| Loss on dissolution of subsidiaries | (5,393,260) | - |
| Gain on forgiveness of debt | 96,227 | - |
| Net loss from continuing operations | (4,660,175) | (564,260) |
| Earnings from discontinued operation | 59,567 | 373,317 |
| Net loss | (4,600,608) | (190,943) |
| Accretion of equity units financing costs | - | (16,856) |
| Net loss attributable to common stockholders | $ (4,600,608) | $ (207,799) |
| PER SHARE AMOUNTS, BASIC AND DILUTED | | |
| Net loss from continuing operations per share | $ (0.11) | $ (0.01) |
| Net loss per share | $ (0.11) | $ (0.00) |
| Net loss attributable to common stockholders per share | $ (0.11) | $ (0.00) |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | 42,623,990 | 42,197,038 |

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



myphotoalbum my memories shared my way

# MyPhotoAlbum Inc. and Subsidiaries

## Consolidated Statement of Changes in Stockholders' Equity (Deficit) and Other Comprehensive Loss

For the years ended December 31, 2008 & 2007

(in U.S. Dollars)

| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss * | Total |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| BALANCE, January1, 2007 | 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) |
| Dissolution of foreign subsidiaries | - | - | - | 2,635,646 | 3,001,974 | 5,637,620 |
| Net loss | - | - | - | (4,600,608) | - | (4,600,608) |
| Total comprehensive income | | | | | | 1,037,012 |
| Compensation benefit due to repricing of stock options | | | (174,889) | - | - | (174,889) |
| Stock option expense | | | 138,166 | - | - | 138,166 |
| BALANCE, December 31, 2008 | 42,623,990 | $ 426,240 | $ 120,000,274 | $ (120,333,202) | $ - | $ 93,312 |

* Compiled exclusively of foreign currency translation adjustment.

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



myphotoalbum my memories shared my way

# MyPhotoAlbum Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

### For the years ended December 31, 2008 & 2007

(in U.S. Dollars)

| | 2008 | 2007 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | $ (4,600,608) | $ (190,943) |
| Earnings from discontinued operation | (59,567) | (373,317) |
| Adjustments to reconcile net loss to net cash used in operating activities- | | |
| Depreciation and amortization | 151,853 | 165,274 |
| Bad debt expense | 4,485 | 58,641 |
| Non cash stock option compensation benefit | (36,723) | (66,424) |
| Gain on sale of asset | (293,795) | 361,255 |
| Gain on sale of business | (1,656,661) | - |
| Loss on dissolution of subsidiaries | 5,393,260 | - |
| Accrued interest on related party note payable | 24,000 | - |
| Forgiveness of debt | (96,227) | - |
| Changes in operating assets and liabilities- | | |
| Decrease (increase) in- | | |
| Accounts receivable | 16,655 | 34,885 |
| Prepaid expenses and other current assets | (13,360) | (2,938) |
| Other assets | (18,093) | (11,479) |
| (Decrease) increase in- | | |
| Accounts payable | (70,514) | 59,200 |
| Accrued expenses and other current liabilities | 218,260 | (54,266) |
| Other non-current liabilities | 131,925 | (42,041) |
| Net cash used in operating activities-continuing operations | (905,110) | (62,153) |
| Net cash provided by (used in) operating activities-discontinued operation | 62,726 | (146,656) |
| Net cash used in operating activities | (842,384) | (208,809) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (46,302) | (65,127) |
| Net proceeds from sale of asset | - | 391,308 |
| Net proceeds from sale of business | 1,659,681 | - |
| Net cash provided by investing activities | 1,613,379 | 326,181 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repurchase of equity units subject to mandatory redemption | (105,403) | (403,865) |
| Payment of capital lease obligations | (78,011) | (54,421) |
| Proceeds from related party - note payable | - | 200,000 |
| Net cash used in financing activities | (183,414) | (258,286) |
| Increase (Decrease) in cash and cash equivalents | 587,581 | (140,914) |
| Cash and cash equivalents, beginning of year | 261,869 | 402,783 |
| Cash and cash equivalents, end of year | $ 849,450 | $ 261,869 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid during the period for interest | $ 23,765 | $ 17,685 |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS | | |
| Capital lease obligations entered into for property and equipment | $ 82,181 | $ 89,232 |
| Conversion of equity units into common stock | $ - | $ 75,687 |

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



myphotoalbum
my memories shared my way

# Notes to Consolidated Financial Statements
December 31, 2008 & 2007

## 1. Organization & Business

MyPhotoAlbum Inc. and its subsidiaries ("MyPhotoAlbum" or the "Company") provide online web services. The services are marketed through uniquely branded websites promoting each service individually and as part of a larger group of web properties.

MyPhotoAlbum.com 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 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, account reactivation fees and from the sale of online advertising on the non-subscription accounts. 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 "go.to", a web and email forwarding engine. 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 web services can be located at www.MyPhotoAlbum.com and www.go.to.

In June 2008, the Company's stockholders approved the Board of Directors recommendation to change the company name from Fortunecity.com Inc., to MyPhotoAlbum Inc. so that the corporate name identifies the Company with its primary business.

**Liquidity**

The accompanying consolidated 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, 2008, the Company had cash and cash equivalents of $849,450. In April 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 $212,500 (See Note 8). In June 2008, the Company sold its FortuneCity.com personal homepage service website ("FortuneCity") to a US based web hosting company for potential cash proceeds totaling $2,212,500 (See Note 13). At the closing the Company received cash proceeds of $1,732,500. As part of the sale transaction, $480,000 of the sales proceeds were deposited in escrow to secure the Company's indemnification obligations as defined in the Asset Purchase Agreement. This amount and the accumulated interest will be paid pursuant to the indemnification provisions of the Asset Purchase Agreement and is expected to be paid in two equal installments in June and December 2009. In March 2009, the Company consolidated its operations in dotPhoto's West Trenton, New Jersey office, which the Company believes will result in a reduction of operating expenses for 2009 (See Note 17). The Company believes that, as a result of these transactions, 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 consolidated 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 MyPhotoAlbum and its wholly owned subsidiaries and are presented in U.S. dollars. All significant intercompany accounts and transactions have been eliminated. In May 2008, the Board of Directors voted to dissolve all of its subsidiaries. (See Note 15)

### 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 and contingencies. 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, 2008, the Company's cash and cash equivalents were deposited in four financial institutions.

### 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, 2008 and 2007, accounts receivable includes $- 0 - and $81,814, 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 provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company's estimate is based on historical collection experience and a review of the current status of trade accounts receivable. Accounts receivable are presented net of an allowance for doubtful accounts of $15,000 and $10,000 at December 31, 2008 and 2007, respectively.

## 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 leases is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related leases.

## 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

***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.

***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 third party advertising network sales organizations. 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 and annual club membership paid in advance for MyPhotoAlbum.

***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.

In June 2008, the Company sold FortuneCity, so all revenue earned from web hosting services for the years ended December 31, 2008 and 2007 is included in earnings from discontinued operations (See Note 13).

***Marketing and Licensing Revenue:*** In January 2006, simultaneous with the sale of the web hosting customer base to Hostopia.com Inc. ("Hostopia") (Notes 11 and 14), the Company entered into a marketing agreement with Hostopia for paid web hosting services. The Company leveraged 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.

In June 2008, the Company sold FortuneCity, so all revenue earned from marketing and licensing for the years ended December 31, 2008 and 2007 is included in earnings from discontinued operations (See Note 13).

### Advertising

Advertising costs are expensed as incurred. For the years ended December 31, 2008 and 2007, such costs were $62,854 and $80,667, 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, 2008 and 2007, the Company recorded compensation benefit in the amount of $174,889 and $75,576, 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 over the requisite vesting period of one to thirty-six months. The Company granted 3,407,000 and – 0 – stock options to employees for the years ended December 31, 2008 and 2007, respectively. For the year ended December 31, 2008 and 2007, the Company recorded compensation expense in the amount of $138,166 and $9,152, respectively, related to these options. The Company did not recognize any tax benefit for the years ended December 31, 2008 and 2007 related to all of the stock options.

Stock-based compensation expense recognized for the year ended December 31, 2008 and 2007 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, 2008 and 2007 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, 2008 and 2007 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. The fair value of each option award is estimated on the date of grant using the Black-Scholes Model (See Note 9 for assumptions).

### Product Development

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.

### Concentration of Credit Risk

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 four financial institutions. The Company performs periodic evaluations of the relative credit standing of these institutions. 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, 2008 and 2007, one customer accounted for approximately 9% and 24% of total revenues, respectively.

At December 31, 2008, four customers accounted for 23%, 24%, 32% and 14% of the Company’s gross accounts receivable. At December 31, 2007, two customers accounted for 39% and 11% of the 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 11). 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, 2008 and 2007.

### Foreign Currency

The assets and liabilities of the Company’s foreign subsidiaries were translated into U.S. dollars at exchange rates as of the balance sheet date. Revenues and expenses were translated at the average of the rates prevailing during the year. Adjustments from translating foreign currency financial statements were reported in other comprehensive income (loss) as a separate component of stockholders’ equity (deficit). The currency of the country of domicile is the functional currency of each of the Company’s subsidiaries. For the year ended December 31, 2008, the Company dissolved all inactive foreign subsidiaries (Note 15).

### Basic and Diluted Net Loss 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 antidilutive. 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 years ended December 31, 2008 and 2007, diluted net loss per common share is computed using the weighted-average common share 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.

## 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 December 2007, the FASB issued SFAS No. 141 (Revised 2007) (SFAS-141R), *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 160 revised to have a material impact on the consolidated financial statements.

In March 2008, FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133* ("SFAS 161") requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008. The Company does not expect the adoption of SFAS 161 to have a material impact on the consolidated financial statements.

In May 2008, FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("SFAS 162") requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. This statement will be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of* Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company is currently assessing whether adoption of SFAS 162 will have an impact on the financial position, cash flows or results of operations.

## 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. Property & Equipment

Property and equipment at December 31, 2008 and 2007 consist of the following:

| | 2008 | 2007 |
|---|---|---|
| Computer equipment | $ 568,039 | $ 448,387 |
| Office equipment | 53,702 | 53,702 |
| Leasehold improvements | 15,633 | 15,633 |
| Computer software | 59,069 | 50,239 |
| | 696,443 | 567,961 |
| Less: Accumulated depreciation and amortization | (479,809) | (328,970) |
| | $ 216,634 | $ 238,991 |

Depreciation and amortization expense was $151,853 and $165,274 for the years ended December 31, 2008 and 2007, respectively.

## 4. Capital Lease Obligations

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 $316,566 and $239,766 at December 31, 2008 and 2007, respectively. Accumulated amortization of the leased equipment at December 31, 2008 and 2007 was approximately $166,266 and $84,866, 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, 2008, are as follows:

| | Year Ending December 31, | Amount |
|---|---|---|
| | 2009 | $ 115,658 |
| | 2010 | 63,272 |
| | 2011 | 29,647 |
| Total minimum lease payments | | 208,577 |
| Less: Amount representing estimated taxes and insurance costs included in total amounts above | | (19,471) |
| Net minimum lease payments | | 189,106 |
| Less: Amount representing interest | | (22,340) |
| Present value of net minimum lease payments | | 166,766 |
| Less: Current maturities of capital lease obligations | | (89,401) |
| Long-term capital lease obligations | | $ 77,365 |

## 5. Other Current Liabilities

Other current liabilities consist of the following at December 31, 2008 and 2007:

| | 2008 | 2007 |
|---|---|---|
| Advertising deferred revenue | $ - | $ 35,165 |
| Exclusivity payment | 212,500 | - |
| Membership deferred revenue | 120,191 | 98,276 |
| Due to advertising partners | 1,557 | 100 |
| Other liabilities | 14,926 | - |
| Liabilities of inactive subsidiaries | - | 244,360 |
| | $ 349,174 | $ 377,901 |

The liabilities of inactive subsidiaries in the amount of $244,360 was credited to loss on dissolution of subsidiaries for the year ended December 31, 2008 on the accompanying consolidated statement of operations (See Note 15).

## 6. Income Taxes

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

| | December 31, | |
|---|---|---|
| | 2008 | 2007 |
| Deferred tax asset: | | |
| Net operating loss carryforward | $ 45,111,000 | $ 42,164,000 |
| Allowance for doubtful accounts | 6,000 | 4,000 |
| Depreciation and amortization | 56,000 | 808,000 |
| Deferred rent | 2,000 | 3,000 |
| Deferred compensation | - | 70,000 |
| FASB 123 Expense | 67,000 | 13,000 |
| Accruals | 10,000 | 11,000 |
| Deferred tax assets before valuation allowance | 45,252,000 | 43,073,000 |
| Less: valuation allowance | (45,252,000) | (43,073,000) |
| 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, 2008 and 2007, the Company had estimated net operating loss carryforwards of approximately $112,777,000 and $105,408,000, respectively. The change in valuation allowances for 2008 was an increase of $2,179,000 and an increase in 2007 of $714,000.

The net operating loss carryforwards originated in the following jurisdictions:

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| United States | $ 112,777,000 | $ 89,404,488 |
| The Netherlands | - | 12,189,216 |
| Other | - | 3,814,094 |
| | $ 112,777,000 | $ 105,407,798 |

As of December 31, 2008 U.S. loss carryforwards expire through 2028.

## 7. 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, 2008 and 2007, the outstanding balance due was $200,000. For the years ended December 31, 2008 and 2007, the Company accrued and recorded interest expense of $24,000 and $10,060, respectively. The principal plus accrued interest is recorded under the caption related party note payable on the accompanying consolidated balance sheets.

## 8. Fulfillment Services Agreement

In April 2008, the Company entered into a Fulfillment Services Agreement with Qualex Inc., a wholly owned subsidiary of Eastman Kodak Company, whereby the majority of MyPhotoAlbum's photo processing services will be fulfilled by Qualex Inc. The term of the agreement is 36 months and calls for photo products offered by and integrated with Qualex, to be fulfilled exclusively by Qualex. Key components of the agreement are:

***Market Development Fund:*** Qualex will provide the Company with a market development fund of 5% of the monthly sales invoiced by Qualex, which the Company may use solely for the execution of a mutually agreed to marketing plan during the term of the agreement. For the year ended December 31, 2008, the market development fund paid to the Company totaled $5,961 and was used to offset advertising expense.

***Exclusivity Payment*:** In consideration for the Company's exclusivity obligations described above, Qualex will pay the Company exclusivity payments totaling up to $250,000. The payments are to be made upon the completion of certain end-to-end test orders made by the Company. As of December 31, 2008, the Company successfully completed two of the three required test orders and has received $212,500 of the potential payments. The exclusivity payment is recorded as an other current liability.

***Revenue Share*:** The Company will pay Qualex 3% of all revenues collected from its customers during the term of the agreement for all products fulfilled by Qualex. For the year ended December 31, 2008, the Company recorded revenue share payments of $5,050.

In December 2008, Qualex notified the Company that it was exiting the photo processing services business and terminated the Fulfillment Services Agreement effective March 31, 2009.

# 9. Stockholders' Equity (Deficit)

### 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, 2008 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.

The fair value of each option award is estimated on the date of grant using a lattice-based option valuation model that uses the assumptions noted in the table below. Because lattice-based option valuation models incorporate ranges of assumptions for inputs, those ranges are disclosed. Expected volatilities are based on implied volatilities of similarly available investment instruments, historical volatility of the Company's stock, and other factors. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The Company uses the simplified method to calculate the expected term, which represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

| | 2008 |
|---|---|
| Expected volatility | 100% |
| Expected dividends | 0% |
| Expected term (in years) | 5 |
| Risk-free rate | 4.20% - 4.52% |

For the year ended December 31, 2007, 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, 2006 | 10,954,745 | $ 0.06 | |
| Granted | - | - | |
| Exercised | - | 0.06 | |
| Canceled | (7,000) | 0.06 | |
| Balance, December 31, 2007 | 10,947,745 | $ 0.06 | |
| Granted | 3,407,000 | 0.06 | |
| Exercised | - | - | |
| Canceled | (14,500) | 0.06 | |
| Balance, December 31, 2008 | 14,340,245 | $ 0.06 | $ - |
| Exercisable at December 31, 2008 | 14,090,245 | $ 0.06 | $ - |

The following table summarizes information about stock options outstanding at December 31, 2008:

| Range of Exercise Prices | Number Outstanding at December 31, 2008 | Remaining Contractual Life | Weighted Average Exercise Price | Weighted Average Grant-date Fair Value |
|---|---|---|---|---|
| $ 0.014 - 0.23 | 14,340,245 | 4.33 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, 2008.

The total intrinsic value of options exercised during the years ended December 31, 2008 and 2007 amounted to $- 0 - and $- 0 -, respectively.

A summary of the status of the Company's nonvested shares at December 31, 2008 and 2007, and changes during the years ended December 31, 2008 and 2007 is presented below:

| | Options | |
|---|---|---|
| | Shares | Weighted Average Grant-date Fair Value |
| Balance, December 31, 2006 | 150,500 | $ 0.14 |
| Granted | - | - |
| Vested | (84,500) | 0.15 |
| Forfeited | - | - |
| Balance, December 31, 2007 | 66,000 | $ 0.15 |
| Granted | 3,407,000 | 0.06 |
| Vested | (3,223,000) | 0.06 |
| Forfeited | - | - |
| Balance, December 31, 2008 | 250,000 | $ 0.01 |

As of December 31, 2008, there was approximately $2,200 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 fourth quarter of 2011. The total fair value of shares vested during the years ended December 31, 2008 and 2007 was $138,166 and $9,152, respectively.

## 10. Equity Units Subject to Mandatory Redemption

Equity units subject to mandatory redemption at December 31, 2008 and 2007 consists of the following:

| | 2008 | 2007 |
|---|---|---|
| Common Shares | $ - | $ 147,715 |
| Value of warrant | - | 53,915 |
| Unamortized financing costs | - | - |
| Equity units subject to mandatory redemption | $ - | $ 201,630 |

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, 2008 and 2007, $-0- and $16,856, respectively, was accreted through a charge to additional paid-in capital in the accompanying consolidated statement of changes in stockholders' equity (deficit) and other comprehensive 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 twothirds 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 were to be payable in full on April 30, 2009 plus interest. Interest will accrue at the rate of 10% per annum. The promissory notes were collateralized by all the assets of the Company. Upon the payment of the promissory notes, the 1,344,200 shares of common stock and 1,732,886 warrants were cancelled. The promissory notes were paid in full on June 12, 2008 with proceeds received from the sale of FortuneCity (See Note 13).

### 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, 2008 and 2007, no warrants were exercised.

## 11. Commitments & 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. In March 2009, the Company entered into an agreement with its landlord in New York that permitted the Company to terminate the Lease before the expiration date. In consideration for the early termination of the lease the Company forfeited the security deposit, which is equal to approximately three months rent. After completion of the dotPhoto.com asset purchase agreement, the Company consolidated its operations in dotPhoto's West Trenton, New Jersey office. The Company's minimum lease obligations under the dotPhoto lease are $12,000 for the year ended December 31, 2009.

Rent expense for the years ended December 31, 2008 and 2007 was $97,842 and $96,021, respectively. Rent expense for the years ended December 31, 2008 and 2007 includes rental income of $-0- and $5,000, respectively, from a Company that is controlled by a stockholder and former board member.

The Company's old office lease included a rent abatement period. 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 lease. The lease requires a deposit of $23,760, which is included in other assets on the consolidated balance sheet at December 31, 2008 and 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 $137,981 and $115,492 for the years ended December 31, 2008 and 2007, respectively, and is included in the cost of revenues in the Company's consolidated statements of operations.

### 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 had 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 received 57.5% of new customer's revenue during the first year of service. The Company operated the FortuneCity.com website and seamlessly referred prospective paid web hosting customers to web pages maintained by Hostopia. This had an impact on the amount of new business obtained for Hostopia which accordingly affected the amount of referral fees generated for the Company. The referral fees were 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 year ended December 31, 2007, the Company recorded revenue of $108,247 under the marketing and licensing agreement. The Company recorded revenue of $31,446 for the year ended December 31, 2008 under the marketing and licensing agreement which is recorded in earnings from discontinued operation (Note 13). The marketing and licensing agreement was terminated on July 10, 2008 as a result of the sale of FortuneCity.

### 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.

## 12. Patent Infringement Lawsuit

On May 14, 2008, the Company was one of 27 co-defendants named in a complaint for patent infringement brought by Fotomedia Technologies, LLC, alleging that certain of the Company's services infringe three patents that Fotomedia Technologies, LLC allegedly owns and is seeking a judgment of infringement for each of these asserted patents and other costs. As of April 30, 2009, the Company's legal counsel is unable to assess the probability of a favorable or unfavorable outcome or assess an estimate of the potential loss if any. The Company believes that the complaints are without merit. However, no assurance can be given that this matter will be resolved in the Company's favor. The other defendants named include most of the Company's direct competitors.

## 13. Sale of Business and Discontinued Operation

In March 2008, the Company determined to discontinue operations of its FortuneCity.com personal homepage service website ("FortuneCity"), and put the assets and business up for sale. The Company decided to sell FortuneCity to enable the Company to concentrate its managerial and financial assets on its online photo service, the fastest growing area of the business. On June 12, 2008, the Company completed the sale of FortuneCity to a US based web hosting company for total potential cash proceeds of $2,212,500. At the closing the Company received $1,732,500. The balance of the purchase price ($480,000) was placed in an escrow account with funds to be released in equal payments of 50% of the balance at the twelve month and eighteen month anniversaries of closing. The assets sold consisted primarily of computer hardware, trademarks, domain names, customer lists and other intangible assets.

In 2008, a gain on sale of business of $1,656,661, as detailed below was recorded in the consolidated statement of operations:

| | |
|---|---|
| Cash consideration received | $ 1,732,500 |
| Assets sold | (3,020) |
| Legal fees | (68,450) |
| Other sale related expenses | (4,369) |
| Gain on sale of business | $ 1,656,661 |

As part of the sale transaction, $480,000 of the sales proceeds were deposited in escrow to secure the Company's indemnification obligations as defined in the Asset Purchase Agreement. This amount and the accumulated interest will be paid pursuant to the indemnification provisions of the Asset Purchase Agreement and is expected to be paid in two equal installments on the twelve and eighteen month anniversaries of the Asset Purchase Agreement.

FortuneCity's sales, reported in discontinued operation, for year ended December 31, 2008 and 2007, were $315,410 and $874,343, respectively. FortuneCity's net income, reported in discontinued operation, for the years ended December 31, 2008 and 2007, was $59,567 and $373,317, respectively.

The assets and liabilities of the discontinued operation are presented separately under the captions "Assets of discontinued operation" and "Liabilities of discontinued operation", in the accompanying consolidated balance sheets at December 31, 2007 and as finally reported on the closing date of June 12, 2008 and consist of the following:

| | June 12, 2008 | December 31, 2007 |
|---|---|---|
| Assets of discontinued operation: | | |
| Accounts receivable | $ - | $ 62,723 |
| Fixed assets, net | 3,020 | 4,037 |
| Total assets | $ 3,020 | $ 66,760 |
| Liabilities of discontinued operation: | | |
| Deferred gain | $ 235,035 | $ 293,795 |
| Total liabilities | $ 235,035 | $ 293,795 |

## 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 consisted of existing service contracts with customers. The contingent purchase price was $1,132,000 less total liabilities of $423,000 resulting in potential cash proceeds of $700,000. The total liabilities included 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 were 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 11). The $361,180 received for full satisfaction of the purchase price was recorded as deferred gain on sale of asset and was to be recognized over the remaining life of the marketing agreement. The marketing and licensing agreement was terminated on July 10, 2008 as a result of the sale of FortuneCity (Note 13). Upon the signing of the termination agreement with Hostopia all obligations were released, accordingly, the Company recorded the remaining balance of $293,795 as a gain on sale of assets in the accompanying statement of operations for the year ended December 31, 2008. As of December 31, 2007, the deferred gain consisted 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



myphotoalbum
my memories shared my way

For the years ended December 31, 2008 and 2007, a gain on sale of asset of $293,795 and $361,255, respectively, as detailed below was recorded in the consolidated statement of operations:

| | 2008 | 2007 |
|---|---|---|
| Consideration received | | |
| Deferred gain recognized in period | $ 293,795 | $ - |
| Cash consideration received | - | 97,513 |
| Offset of outstanding liabilities | - | 263,742 |
| Total consideration received | 293,795 | 361,255 |
| Gain on sale of asset | $ 293,795 | $ 361,255 |

## 15. Loss on Dissolution of Subsidiaries

In May 2008, the Board of Directors voted to dissolve all remaining inactive subsidiaries. These subsidiaries have been inactive for over seven years. Approximately $244,360 in accrual expenses that are not expected to be realized were credited to loss on dissolution of subsidiaries. The remaining account balances consisted primarily of foreign currency translation adjustments that was recorded in accumulated other comprehensive loss in the accompanying consolidated statement of changes in stockholders' equity (deficit). The Company reclassified the cumulative foreign currency translation in the amount of $5,637,620 to the consolidated statement of operations for the year ended December 31, 2008 upon dissolution of the foreign subsidiaries in accordance with FASB 52 "Foreign Currency Translation".

## 16. Forgiveness of Debt

On April 30, 2008, the Company entered into an agreement with the investors (See Note 10) 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 $105,403 resulting in a gain on forgiveness of debt in the amount of $96,227 for the year ended December 31, 2008.

## 17. Subsequent Events

### dotPhoto Acquisition

On February 19, 2009, the Company purchased the assets of dotPhoto.com for $275,000 cash and the assumption of approximately $150,000 in liabilities.

### Strategic Partner Products and Services Agreement

On February 17, 2009, the Company entered into an agreement with EZ Prints Inc., a Georgia based digital photofinishing solution to fulfill all of the Company's photo processing services.

# MyPhotoAlbum Inc. and Subsidiaries

## Other Information

### Corporate Calendar for 2009/2010

| | |
|---|---|
| Publication of 2008 Annual Report | End of April 2009 |
| Publication of Interim Report for the period January 1 to June 30, 2009 | End of August 2009 |
| Publication of 2009 Annual Report | End of April 2010 |
| Publication of Interim Report for the period January 1 to June 30, 2010 | End of August 2010 |

## Investor Relations

MyPhotoAlbum Inc.
860 Lower Ferry Road, Suite 1
West Trenton, NJ 08628

Telephone: +1-212-981-8600
Facsimile: +1-646-395-1455

Peter Macnee, President and CEO, peter@myphotoalbum.com

Thomas Duhamel, Controller, tom@myphotoalbum.com

For investor matters contact:

MyPhotoAlbum Inc.
Investor Relations
Email: ir@myphotoalbum.com



myphotoalbum my memories shared my way