WEBB INTERACTIVE SERVICES INC
Form 10QSB
May 16, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

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

For the period ended March 31, 2005

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

For the transition period from __________ to __________

Commission File Number : 0-28462

WEBB INTERACTIVE SERVICES, INC.

(Exact name of registrant as specified in its charter)

Colorado	**84-1293864**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

1899 Wynkoop, Suite 600

Denver, CO 80202

(Address of principal executive offices, including zip code)

(303) 308-3180

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act) Yes ¨ No x

The number of shares of registrant s common stock outstanding as of as of May 1, 2005, was: 25,433,552

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QUARTERLY REPORT

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This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, and is subject to the safe harbors created by those sections. These forward-looking statements are subject to significant risks and uncertainties, including those identified in the section of this Form 10-QSB entitled Management s Discussion and Analysis of Financial Condition and Results of Operations Factors That May Affect Future Operating Results, which may cause actual results to differ materially from those discussed in such forward-looking statements. The forward-looking statements within this Form 10-QSB are identified by words such as believes, anticipates, expects, intends, may, will and other similar expressions. However, these w are not the exclusive means of identifying such statements. In addition, any statements which refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. The Company undertakes no obligation to publicly release the results of any revisions to these forward-looking statements which may be made to reflect events or circumstances occurring subsequent to the filing of this Form 10-QSB with the Securities and Exchange Commission (SEC). Readers are urged to carefully review and consider the various disclosures made by the Company in this report and in the Company s other reports filed with the SEC that attempt to advise interested parties of the risks and factors that may affect the Company s business.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WEBB INTERACTIVE SERVICES, INC.

CONDENSED BALANCE SHEETS

(UNAUDITED)

	March 31, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,854	$ 42,688
Prepaid expenses	71,797	15,082
Note and other receivables from Jabber	151,988	249,249
Total current assets	227,639	307,019
Investment in Jabber		422,348
Total assets	$ 227,639	$ 729,367
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 41,970	$ 30,875
Accrued compensation, benefits and payroll taxes	16,747	16,404
Total current liabilities	58,717	47,279
Commitments and contingencies		
Stockholders equity:		
Preferred stock, no par value, 5,000,000 shares authorized:		
Series D junior convertible preferred stock, 734 shares issued and outstanding, liquidation preference of $1,000 per share	561,781	561,781
Common stock, no par value, 60,000,000 shares authorized, 25,433,552 and 25,555,602 shares issued and outstanding, respectively	119,251,388	109,834,689
Warrants and options	1,085,028	10,501,727
Accumulated deficit	(120,729,275)	(120,216,109)
Total stockholders equity	168,922	682,088
Total liabilities and stockholders equity	$ 227,639	$ 729,367

The accompanying notes to condensed financial statements are an integral part of these condensed balance sheets.

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WEBB INTERACTIVE SERVICES, INC.

CONDENSED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended March 31,	
	2005	**2004**
Net revenues	$	$
Operating expenses:		
General and administrative	91,327	185,362
Depreciation		19,361
	91,327	204,723
Loss from operations	(91,327)	(204,723)
Interest income	509	3,625
Loss from investment in Jabber	(422,348)	(178,000)
Net loss	$ (513,166)	$ (379,098)
Net loss per share, basic and diluted	$ (0.02)	$ (0.01)
Weighted average shares outstanding, basic and diluted	25,058,138	25,371,591

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

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WEBB INTERACTIVE SERVICES, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three Months Ended March 31,	
	2005	**2004**
Cash flows from operating activities:		
Net loss	$ (513,166)	$ (379,098)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense		19,361
Loss from investment in Jabber	422,348	178,000
Changes in operating assets and liabilities:		
Increase in prepaid expenses and other current assets	(56,715)	(97,538)
Increase in accounts payable and accrued liabilities	11,095	31,952
Increase (decrease) in accrued compensation, benefits and payroll taxes	343	(21,458)
Net cash used in operating activities	(136,095)	(268,781)
Cash flows from investing activities:		
Collection of note and other receivables from Jabber	97,261	33,647
Collection of notes receivable from Company officer		3,337
Net cash provided by investing activities	97,261	36,984
Net decrease in cash and cash equivalents	(38,834)	(231,797)
Cash and cash equivalents, beginning of period	42,688	559,590
Cash and cash equivalents, end of period	$ 3,854	$ 327,793
Supplemental disclosure of cash flow information:		
Supplemental schedule of non-cash investing and financing activities:		
Series D junior convertible preferred stock converted to common stock	$	$ 38,268

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

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WEBB INTERACTIVE SERVICES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

MARCH 31, 2004

(UNAUDITED)

NOTE 1 BASIS OF PRESENTATION

The sole business of Webb Interactive Services, Inc. (the Company, Webb, we, us or our) is the ownership of securities of Jabber, Inc. (Jabber). At March 31, 2005, on an as-if converted basis, we owned approximately 43% of Jabber s common stock. We report our investment in Jabber in accordance with the equity method of accounting for investments.

On April 8, 2005, Jabber sold 8,571,458 shares of its series E preferred stock for $1.5 million to an affiliate of Webb. As a result of the transaction, Webb s ownership of Jabber was reduced from approximately 43% to 38% of Jabber s outstanding common stock on an as-if converted basis. The series E preferred stock purchase agreement included an option, which expires on December 28, 2005, enabling the investor to purchase up to an additional $2 million worth of series E preferred stock on the same terms as the original investment. In the event that the full $2 million of the additional series E preferred stock is sold, Webb s ownership interest in Jabber would be reduced to approximately 33% of Jabber s then outstanding common stock on an as-if converted basis.

Jabber is a commercial developer of real-time communications software and instant messaging (IM) solutions offering proprietary, scalable extensible IM software solutions for enterprises, government agencies, carriers and service providers and distribution partners. We became a commercial sponsor of the Jabber.org instant messaging open-source movement in September 1999. We formed Jabber in February 2000. Jabber commenced operations in May 2000, and released its initial proprietary IM software product in March 2001.

We have not been profitable since inception. Webb does not currently have a source of revenue but does incur operating expenses separate from those of Jabber. Our success depends upon the ability of Jabber to market its products and services and generate revenues sufficient to exceed its expenses. Because of the new and evolving nature of instant messaging technologies and Jabber s early stage of development, we cannot be sure that its revenue model will prove to be viable, whether demand for its products and services will materialize at the prices it expects to charge, or whether current or future pricing levels will be sustainable. Jabber has expended significant funds to develop its current product offerings and Jabber anticipates continuing losses through at least 2005 as it further develops and markets its products.

At March 31, 2005, we had $3,854 in cash and $168,922 in working capital. We have no current source of cash other than the $151,988 we collected from Jabber during April 2005. We have initiated efforts to raise additional operating capital so that we may maintain our status as a reporting company under the Securities Exchange Act of 1934. We estimate that so long as we remain only a holding company, we will require approximately $110,000 of additional operating capital to sustain our status as a reporting company through the end of 2005 and approximately $400,000 of additional operating capital for each year thereafter if we remain a reporting company. In the event that we are not able to raise additional working capital by July 2005, we will consider terminating our status as a reporting company under the Securities Exchange Act of 1934, in order to sustain our operations until at least December 31, 2005. We estimate that the cost of maintaining our operations as a non-reporting company would be approximately $140,000 per year. There can be no assurance that we will be able to raise additional operating capital or, if we are able to raise operating capital, that the terms upon which such capital is available will be acceptable.

NOTE 2 STOCK BASED COMPENSATION PLANS

We issue stock options to our employees and outside directors to purchase our stock pursuant to stockholder approved stock option programs. We account for our stock-based compensation plans under the intrinsic value method of accounting as defined by Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees and related interpretations. No stock-based employee compensation cost is reflected in net loss for the three months ended March 31, 2005 and 2004 as all options granted under these plans

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had an exercise price equal to the fair market value of the underlying common stock on the date of grant. For pro forma disclosures, the estimated fair value of the options is amortized over the vesting period, typically three years. The following table illustrates the effect on net income and earnings per share if we had accounted for our stock option and stock purchase plans under the fair value method of accounting under Statement of Financial Accounting Standards (SFAS) No. 123, Accounting and Disclosure of Stock Based Compensation (SFAS 123).

	Three Months Ended March 31,	
	2005	**2004**
Net loss as reported	$ (513,166)	$ (379,098)
Expense calculated under SFAS 123	(3,540)	(78,924)
Pro-forma net loss	$ (516,706)	$ (458,022)
Pro-forma net loss per share-basic and diluted	$ (0.02)	$ (0.02)

We estimate the fair value of our options using the Black-Scholes option value model, which is one of several methods that can be used to estimate option values. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Our options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimates. Webb did not grant any options during the three months ended March 31, 2005. The fair value of options granted in the three months ended March 31, 2004 were estimated at the date of grant using a Black-Scholes pricing model with the weighted average assumptions in the table which follows.

	Three Months Ended March 31, 2004
Risk-free interest rate	5.0%
Expected dividend yield	0%
Expected lives	3 years
Expected volatility	128%
Dividend yield	0%
Weighted average fair value	$ 0.54

NOTE 3 NET LOSS PER SHARE

Net loss per share is calculated in accordance with SFAS No. 128, Earnings Per Share (SFAS 128). Under the provisions of SFAS 128, basic net loss per share is computed by dividing net loss applicable to common shareholders for the period, subject to certain adjustments, by the weighted average number of common shares outstanding for the period. Diluted net loss per share is computed by dividing the net loss for the period by the weighted average number of common and potential common shares outstanding during the period if the effect of the potential common shares is dilutive. As a result of our net losses, all potentially dilutive securities, as indicated in the table below, would be anti-dilutive and are excluded from the computation of diluted loss per share, and there are no differences between basic and diluted per share amounts for all periods presented.

	March 31,	
	2005	2004
Stock options	2,529,271	2,749,919
Warrants	1,525,000	2,174,700
Series D junior convertible preferred stock	734,000	734,000
Total	4,788,271	5,658,619

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The number of shares excluded from the earnings per share calculation because they are anti-dilutive, using the treasury stock method were zero and 867,035 for the three months ended March 31, 2005 and 2004, respectively.

NOTE 4 INVESTMENT IN JABBER, INC.

Jabber is a Delaware corporation founded by Webb in February 2000. Jabber is a commercial developer of extensible instant messaging software for enterprises, carriers and service providers that require real-time communication and collaboration solutions. Jabber s products are based on the standardized extensible message and presence protocol, XMPP, developed by the Jabber.org open-source movement. Jabber instant messaging solutions differ from packaged and consumer instant messaging solutions in the ability of Jabber instant messaging to support and to be integrated with other applications and services.

On April 8, 2005, Jabber sold 8,571,428 shares of its series E convertible preferred stock (series E preferred stock) for $1.5 million to Jona, Inc., our largest shareholder. As a result of the transaction, Webb s ownership interest in Jabber was reduced from approximately 43% to approximately 38% of Jabber s outstanding common stock on an as-if converted basis. The investor also acquired an option, which expires on December 28, 2005 to purchase up to an additional 11,428,572 shares of the series E preferred stock for $2 million. In the event all of the additional shares are purchased, Webb s ownership interest in Jabber would be reduced to approximately 33% of Jabber s then outstanding common stock on an as-if converted basis. We are currently reviewing SEC Staff Accounting Bulletin No. 51, Accounting for Sales of Stock by a Subsidiary and Accounting Principle Bulletin No. 18, The Equity Method of Accounting for Investments in Common Stock to determine Webb s financial statement impact in the second quarter of 2005, if any, as a result of this transaction.

On March 19, 2003, France Telecom Technologies Investissements (FTTI), a wholly-owned subsidiary of France Telecom, Intel Capital Corporation (Intel), a wholly-owned subsidiary of Intel Corporation, and Webb purchased an aggregate of 25,218,914 shares of Jabber series D convertible preferred stock (series D preferred stock) for $7.2 million. At April 15, 2005, Webb owned 18,550,232 shares of Jabber common stock and 7,705,779 shares of Jabber series D preferred stock.

The series E and D preferred stock are convertible into shares of Jabber s common stock on a one-for-one basis. The sale of the series E preferred stock required the approval of two holders of the series D preferred stock. The sale of the series E preferred stock was approved by FTTI and Intel, but not by Webb. In connection with the purchase of the series E preferred stock, Jona, Inc. also purchased from Intel a portion of its series D preferred stock.

The series E and D preferred stock include liquidation preferences which entitle the holders of the preferred stock on the liquidation of Jabber, including a sale of Jabber, to first be paid their original purchase price for their preferred stock and then to participate with holders of common stock on an as-converted basis in the distribution of the remaining proceeds. The conversion price of the preferred stock would be adjusted on a weighted average basis in the event that Jabber sells shares of its common stock or securities convertible into or exercisable for its common stock at a price less than the original purchase prices for the preferred stock.

Without the prior approval of the holder of the series E preferred stock and holders of 66 2/3% of the outstanding shares of series D preferred stock, Jabber may not engage in any transaction or arrangement for the distribution of Jabber s securities to the public; permit any transaction which would result in any of the holders of the preferred stock owning more than 49% of Jabber s outstanding shares of capital stock; or take any other action that would result in Jabber becoming a reporting company under the Securities Exchange Act of 1934. If an event has not occurred by January 1, 2005, that would permit Webb to distribute its Jabber securities to Webb shareholders, Webb may require FTTI, on an annual basis until such an event has occurred, to sell Webb 1,000,000 shares of the Jabber common stock held by FTTI, at a purchase price equal to the conversion price for the series D preferred stock plus interest compounded at 15% per annum.

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The unaudited condensed financial information for Jabber is presented below:

Results of Operations

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Net revenues	$ 970,982	$ 1,612,951
Costs and expenses	2,340,071	2,022,046
Loss from operations	(1,369,089)	(409,095)
Other loss, net	(21,002)	(1,042)
Net loss	$ (1,390,091)	$ (410,137)
Webb s loss from investment in Jabber	$ (422,348)	$ (178,000)

The losses we recorded from our investment in Jabber for the three months ended March 31, 2005, were limited by approximately $181,000 as we have no obligation to fund further Jabber losses and therefore our investment in Jabber is not reduced below zero.

Financial Position

	March 31, 2005	December 31, 2004
Cash and cash equivalents	$ 536,949	$ 1,387,161
Accounts receivable, net	$ 1,473,162	$ 1,253,382
Other current assets	$ 444,900	$ 261,546
Property and equipment, net	$ 318,440	$ 387,724
Accounts payable and accrued liabilities	$ 1,744,041	$ 1,204,285
Deferred revenue	$ 1,393,539	$ 961,372
Note and other payables to Webb	$ 151,988	$ 249,249
Stockholders equity	$ 516,115	$ 874,906

For the three months ended March 31, 2005 and 2004, France Telecom accounted for 3% and 76%, respectively, of Jabber s total revenues.

NOTE 5 EXERCISE OF COMMON STOCK PURCHASE WARRANT

On February 15, 2005, the holder of a warrant to purchase 343,750 shares of our common stock exercised the entire warrant under its cash-less exercise provision whereby we issued 122,050 shares of our common stock. The number of shares issued were calculated by multiplying the number of shares exercised by the quotient of the difference between the average closing price five days immediately prior to the exercise date ($0.38) and the exercise price ($0.2425) divided by the average closing price five days immediately prior to the exercise date.

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

GENERAL

Our sole business is the ownership of securities of Jabber, a company we formed in February 2000. Jabber is a commercial developer of extensible instant messaging software for enterprises, government agencies, carriers and service providers and independent distributors of software that require real-time communication and collaboration solutions. Jabber s products are based on the standardized extensible message and presence protocol, XMPP, developed by the Jabber.org open-source movement. Jabber instant messaging solutions differ from packaged and consumer instant messaging solutions in the ability of Jabber instant messaging to support and to be integrated with other applications and services.

On April 8, 2005, Jabber sold $1.5 million worth of Jabber s series E preferred stock. As a result of this transaction, Webb s percentage ownership of Jabber was reduced from approximately 43% to 38% of Jabber s outstanding common stock on an as-if converted basis. The April 8, 2005 financing included an option, which expires on December 28, 2005, to purchase up to an additional $2 million worth of series E preferred stock on the same terms as the April 8, 2005 transaction. In the event that the investor purchases all of the additional series E preferred stock, Webb s ownership interest in Jabber would be reduced to approximately 33% of Jabber s then outstanding common stock on an as-if converted basis. We are currently reviewing SEC Staff Accounting Bulletin No. 51, Accounting for Sales of Stock by a Subsidiary and Accounting Principle Bulletin No. 18, The Equity Method of Accounting for Investments in Common Stock to determine Webb s financial statement impact in the second quarter of 2005, if any, as a result of this transaction.

Webb, as a holding company, has no independent source of revenue and will, therefore, continue to incur losses from its operations. Webb s value is dependent upon the success of Jabber. Jabber s ability to become profitable depends on its ability to market its products and services and generate revenues sufficient to exceed its expenses. Because of the new and evolving nature of instant messaging technologies and Jabber s early stage of development, we cannot be sure that Jabber s revenue model will prove to be viable, whether demand for its products and services will materialize at the prices it expects to charge, or whether its current or future pricing levels will be sustainable.

LIQUIDITY AND CAPITAL RESOURCES

Based on funds available to us at December 31, 2004, our independent auditors expressed doubt about our ability to continue as a going concern if we are unable to raise additional funds.

	March 31, 2005	December 31, 2004
Working capital [1]	$ 168,922	$ 259,740
Cash and cash equivalents	$ 3,854	$ 42,688

	Three Months Ended March 31,	
	2005	2004

Cash used in operating activities	$ (136,095)	$ (268,781)
Cash provided by (used in) investing activities	$ 97,261	$ 36,984

[1] Includes note receivable from Jabber of $151,988 and $249,249 at March 31, 2005 and December 31, 2004, respectively.

Working capital: Working capital is calculated by deducting current liabilities from current assets. Working capital decreased for the first quarter of 2005, as compared with the first quarter of 2004, primarily due to funding our operating activities with cash on-hand at December 31, 2004.

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Cash flows used in operating activities: Cash used in operating activities decreased during the first quarter of 2005, as compared with the first quarter of 2004, primarily due to a decrease in operating expenses in the first quarter of 2005 as compared to the first quarter of 2004.

Cash flows provided by investing activities: Cash provided by investing activities increased in the first quarter of 2005 as a result of more collections on our note and other receivables from Jabber.

We have initiated efforts to raise additional operating capital so that we may maintain our status as a reporting company under the Securities Exchange Act of 1934. We estimate that so long as we remain only a holding company, we will require approximately $110,000 of additional operating capital to sustain our status as a reporting company through the end of 2005 and approximately $400,000 of additional operating capital for each year thereafter that we remain a reporting company. In the event that we are not able to raise additional working capital by July 2005, we will consider terminating our status as a reporting company under the Securities Exchange Act of 1934, in order to sustain our operations until at least December 31, 2005. We estimate that the cost of maintaining our operations as a non-reporting company would be approximately $140,000 per year. There can be no assurance that we will be able to raise additional operating capital or, if we are able to raise operating capital, that the terms upon which such capital is available will be acceptable.

Jabber s financial plan for 2005 projects total revenues of approximately $8 million based on total sales of approximately $10.3 million for software sales, professional services and maintenance and support services, total expenses of approximately $11.7 million and cash equivalents at the end of 2005 of approximately $3.8 million, assuming the sale of an additional $2 million of Jabber s series E preferred stock. Based on Jabber s financial plan for 2005, Jabber will not achieve positive cashflow from operations on a quarter-to-quarter basis until fiscal 2006. Sales represent amounts invoiced to customers during the stated period.

RESULTS OF OPERATIONS

Critical Accounting Policies

Webb s financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the years presented. To the extent there are material differences between these estimates, judgments or assumptions and actual results, Webb s financial statements will be affected. The significant accounting policies that we believe are the most critical to aid in fully understanding and evaluating Webb s reported financial results include accounting for our investment in Jabber and impairment of long-lived assets.

In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management s judgment in its application. There are also areas in which management s judgment in selecting among available alternatives would not produce a materially different result. Management has reviewed these critical accounting policies and related disclosures with our Audit Committee. See Form 10-KSB for the year ended December 31, 2004, Item 7 Financial Statements Note 2 to Notes to Consolidated Financial Statements, which contains additional information regarding Webb s accounting policies and other disclosures required by GAAP.

Accounting for Investment in Jabber

We report our investment in Jabber using the equity method of accounting whereby we record our percentage of Jabber s net income or losses as an increase or a reduction to the carrying value of our investment account on our balance sheet and as income or losses in our results of operations. To the extent that we record losses from Jabber, our investment account will not be reduced below zero, unless at some future date we become obligated

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to fund future Jabber losses, if any. The balance of our investment in Jabber as of March 31, 2005 was zero compared to $422,000 at December 31, 2004.

We will continue to evaluate the facts and circumstances of our relationship with Jabber on an as needed basis in our continuing evaluation of our reporting method related to Jabber. A change in our relationship with Jabber or the issuance of future guidance, if any, on consolidating subsidiaries may change the method we use to report Jabber in our results of operations. We review our investment in Jabber for impairment on a regular basis. In the event the fair value of our investment in Jabber declines to an amount that is less than our carrying value and that decline is other than temporary, we will record an impairment charge to reduce our carrying amount to fair value.

Operating Expenses:

Our sole business is the ownership of securities of Jabber, a company we formed in February 2000. We also conduct corporate activities such as accounting, administration, public reporting and financing activities for both Webb and Jabber. We reduce our expenses by amounts reimbursed to us by Jabber for its share of these costs. Webb s unaudited statements of operations for the three months ended March 31, 2005, are presented below.

	Three Months Ended March 31,	
	2005	**2004**
Operating expenses:		
General and administrative	$ 91,327	$ 185,362
Depreciation		19,361
Loss from operations	(91,327)	(204,723)
Interest income	509	3,625
Loss from investment in Jabber	(422,348)	(178,000)
Net loss	$ (513,166)	$ (379,098)

General and administrative expenses consist primarily of employee compensation, and other costs associated with being a public company, including investor relations, shareholder communications and legal and accounting fees. General and administrative expenses were $91,327 for the first quarter of 2005, compared with $185,362 for the first quarter of 2004. The decrease was primarily from (i) a decrease in employee compensation and related expenses of $58,000; (ii) a decrease in travel costs of $7,000; and (iii) a decrease in accounting and investor relation fees of $58,000. These reductions were partially offset by a decrease in shared costs paid by Jabber of $34,000. We are estimating Webb s general and administrative expenses for the remainder of 2005 to be approximately $200,000 to approximately $310,000, depending on whether or not Webb remains a reporting company under the Securities Exchange Act of 1934 for the full year.

On January 1, 2005, we ceased recording depreciation expense as on December 31, 2004, we sold to Jabber or otherwise disposed of our then remaining property and equipment.

Interest Income:

Interest income was $509 for the first quarter of 2005, compared to $3,625 for the first quarter of 2004. We recorded interest income from Jabber of $509 and $3,401 in the first quarters of 2005 and 2004, respectively.

Loss on investment in Jabber:

At March 31, 2005, we owned 43.4% of Jabber s outstanding stock, on an as-if converted basis. During the first quarter of 2005, we recorded $422,348 in losses from Jabber, compared with $178,000 for the first quarter of 2004. The increase in losses from Jabber was due to $980,000 more in losses incurred by Jabber in the first quarter of 2005 than in the first quarter of 2004. At March 31, 2005, our investment in Jabber was zero. The losses we recorded from out investment in Jabber for the three months ended March 31, 2005, were limited by approximately

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$181,000 as we have no obligation to fund Jabber losses and therefore our investment in Jabber is not reduced below zero.

Jabber s net loss was $1.4 million for the first quarter of 2005, which was $980,000 more when compared to a net loss of $410,000 for the first quarter of 2004. Jabber s net revenues were $971,000 for the first quarter of 2005, compared with $1.6 million for the first quarter of 2004. The revenue mix between license fees and services was 66% and 34%, respectively, for the first quarter of 2005, compared with 54% and 46%, respectively, for the similar 2004 period. France Telecom, a related party, represented 3% of Jabber s net revenues for the first quarter of 2005, compared with 76% for the first quarter of 2004. Jabber s operating expenses were $2.3 million for the first quarter of 2005, compared with $2 million for the first quarter of 2004. The increase in operating expenses was primarily due to increases in cost of revenues and sales and marketing expenses of $198,000 and $210,000, respectively.

At March 31, 2005, Jabber s cash and cash equivalents were $537,000, which represented a decrease of $850,000 over $1.39 million in cash and cash equivalents at December 31, 2004. The decrease was primarily due to cash used to fund Jabber s operating activities in the first three months of 2005.

Net Loss:

Net loss was $513,166 for first quarter of 2005, compared to $379,098 for first quarter of 2004. The increase in losses for 2005 was primarily from an increase of $244,000 in losses we recorded in connection with our investment in Jabber. These were partially offset by a decrease in our operating expenses of $114,000.

FACTORS THAT MAY AFFECT FUTURE RESULTS

Webb, as a holding company, has no independent source of revenue or business other than the ownership of securities of Jabber, Inc., a company formed by Webb in February 2000. Webb currently owns approximately 38% of Jabber s outstanding common stock on an as-if converted basis. Factors that may affect our and Jabber s future results include, but are not limited to, the following items as well as the information in Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations.

Factors Relating to Webb

Our independent auditors have raised doubts about our ability to continue as a going concern. Based upon funds available to us at December 31, 2004, our independent auditors expressed doubt about our ability to continue as a going concern if we are unable to raise additional funds.

Additional funding for Jabber could reduce further our ownership interest in Jabber. Jabber raised $1.5 million of operating capital through a sale of its series E preferred stock on April 8, 2005 in a transaction that included an option to purchase on the same terms up to $2 million worth of additional shares of series E preferred stock. In the event that Jabber obtains additional equity investments by the sale of the additional shares of series E preferred stock or otherwise, Webb s percentage ownership of Jabber would be further reduced.

We expect to continue to incur net losses. We have incurred net losses since we began our business totaling approximately $120.7 million through March 31, 2005, including approximately $67 million of non-cash expenses. We expect to incur additional net losses during fiscal 2005 and thereafter for so long as Webb remains a holding company.

We will need to raise additional working capital to sustain our operations and to remain a reporting company. Webb estimates that it has adequate cash and commitments to sustain its operations to December 2005; provided that we will be required to raise approximately $110,000 by mid-2005 if we are to remain a reporting company under the Securities Exchange Act of 1934. In addition to the $110,000 required to maintain our status as a reporting company to December 31, 2005, we estimate we need to raise approximately $400,000 for each year thereafter to remain a reporting company. We estimate our annual expenses would be approximately $140,000 per year if we cease to be a reporting company. There is no assurance that we will be able to raise additional operating capital.

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Trading in our common stock may diminish if we cease to be a reporting company. If we are not able to raise additional operating capital, we will not be able to maintain our status as a reporting company under the Securities Exchange Act of 1934. In this event, many brokers may be unwilling to engage in transactions in our common stock because there is likely to be substantially less information regarding our operations available to our shareholders and to potential investors, thereby making it more difficult for our shareholders and purchases of our common stock to dispose of their shares.

An investment in our common stock is risky because the price of our stock is highly volatile. Our common stock closed as high as $0.45 per share and as low as $0.20 per share between January 1, 2005 and May 1, 2005. Historically, the over-the-counter markets for securities such as our common stock have experienced extreme price and volume fluctuations. Some of the factors leading to this volatility include:

Price and volume fluctuations in the stock market at large that do not relate to our or Jabber s operating performance;

Fluctuations in Jabber s quarterly revenue and operating results; and

Increases in outstanding shares of common stock upon exercise or conversion of derivative securities.

These factors may continue to affect the price of our common stock in the future.

We have issued options, warrants, and convertible securities to acquire our common stock that could have a dilutive effect on our shareholders. As of May 1, 2005, we had outstanding warrants and options to acquire approximately 1.5 million and 2.5 million shares, respectively, of our common stock, exercisable at prices of $1.00 per share and from $0.55 to $19.06 per share, respectively, with a weighted average exercise price of approximately $1.00 and $1.96 per share, respectively. We had also reserved 734,000 shares of common stock for issuance upon conversion of our series D junior convertible preferred stock. During the terms of these derivative securities, the holders may have the opportunity to profit from an increase in the market price of our common stock with resulting potential dilution to the holders of shares who purchased shares for a price higher than the applicable exercise or conversion price. The increase in the outstanding shares of our common stock because of the exercise or conversion of these derivative securities could result in a significant decrease in the percentage ownership of our common stock by current and future holders of our common stock.

Future sales of our common stock in the public market could depress the price of our common stock. Actual or potential future sales of substantial amounts of common stock in the public market could depress the market price for shares of our common stock and could impair the ability of purchasers of our common stock to recoup their investment or make a profit. At May 1, 2005 these shares consisted of:

Up to 734,000 shares issuable upon conversion of our series D junior convertible preferred stock; and

Approximately 1.5 million and 2.5 million shares issuable to warrant and option holders, respectively.

Factors Relating to Jabber

Jabber s limited operating history makes it difficult to evaluate its business. Jabber was founded in February 2000 and began shipping software in 2001. Jabber has a limited operating history for its business model upon which you may evaluate Jabber. Jabber s business is subject to the risks, exposures and difficulties frequently encountered by early-stage companies with a limited operating history, including:

- Limited ability to respond to competitive developments;
- Exaggerated effect of unfavorable changes in general economic and market conditions; and
- Limited ability to adjust Jabber s business plan to address marketplace and technological changes.

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Jabber may need to raise additional working capital. Jabber s present cash and working capital are, based on current estimates, adequate to sustain its operations until it is able to generate positive cash flow from operations. In the event that Jabber s revenues are less than projected or Jabber desires to increase marketing and business development expenses over projected levels, Jabber likely will need to obtain additional capital to fund its business. In addition, the holder of Jabber s series E preferred stock has an option to purchase up to an additional $2 million worth of the series E preferred stock during the balance of 2005, on the same terms as the shares it purchased on April 8, 2005. There can be no assurance that if Jabber is required to raise additional funds, it will be able to raise the funds or if available, that the funds will be available on terms and conditions acceptable to Jabber s shareholders.

Jabber may not earn revenues sufficient to remain in business. Jabber s ability to become profitable depends on whether it can sell its products and services for more than it costs to produce and support them. Jabber s future sales also need to provide sufficient margins to support its ongoing operating activities. The success of Jabber s revenue model will depend upon many factors, including:

The extent to which consumers and businesses use Jabber s products and services; and

The success of Jabber or its distribution partners in marketing Jabber s products and services.

Because of the new and evolving nature of instant messaging and web services, the early stage of Jabber s products and its limited operating history, we cannot predict whether Jabber s revenue model will prove to be viable, whether demand for Jabber s products and services will materialize at the prices Jabber expects to charge, or whether Jabber s current or future pricing levels will be sustainable.

A limited number of Jabber s customers generate a significant portion of its revenues. A few customers have accounted for a significant portion of Jabber s revenues. We expect that Jabber s 2004 customers will account for a significant percentage of its revenues during 2005. There is no assurance that Jabber will be able to retain major customers or attract additional major customers. The loss of or reduction in demand for Jabber s products or services from major customers could have a material adverse effect on Jabber s operating results and cash flow from operations.

Jabber must continually develop new products that appeal to its customers. Jabber s products are subject to rapid obsolescence and Jabber s future success will depend upon Jabber s ability to develop new products and services that meet changing customer and marketplace requirements. There is no assurance that Jabber will be able to successfully:

Identify new product and service opportunities; or

Develop and introduce new products and services to market in a timely manner.

Even if Jabber is able to identify new opportunities, its working capital constraints may limit its ability to pursue them. If Jabber is unable to identify and develop and introduce new products and services on a timely basis, demand for Jabber s products and services may decline.

Jabber must identify and develop markets for its products and services. A suitable market for Jabber s products and services may not develop or, if it does develop, it may take years for the market to become large enough to support significant business opportunities. Even if Jabber is able to successfully identify, develop, and introduce new products and services there is no assurance that a suitable market for these products and services will materialize. The following factors could affect the success of Jabber s products and services and its ability to address sustainable markets:

The failure of Jabber s business plan to accurately predict the types of products and services the marketplace will demand;

Jabber s limited working capital may not allow it to commit the resources required to adequately support the introduction of new products and services;

The failure of Jabber s business plan to accurately predict the estimated sales cycle, price and acceptance of its products and services; or

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The development by others of products and services that makes Jabber s products and services noncompetitive or obsolete.

There is a lot of competition that could hurt Jabber s revenues or cause its expenses to increase. Jabber s current and prospective competitors include many companies, including Microsoft Corporation and IBM, whose financial, technical, marketing and other resources are substantially greater than Jabber s. Jabber may not have the financial resources, technical expertise or marketing, sales and support capabilities to compete successfully. The presence of these competitors could hurt Jabber s business by causing Jabber to:

Reduce the selling prices for its products and services; or

Increase its spending on marketing, sales and product development.

Jabber may not be able to offset the effects of price reductions or increases in spending. Further, Jabber s financial condition may put it at a competitive disadvantage relative to its competitors.

It usually takes a long time for Jabber to make a sale of its products and services. While Jabber s sales cycle varies from customer to customer, it is long, typically ranging from two to nine months or more. Jabber s sales cycle may also be affected by a prospective customer s budgetary constraints and internal acceptance reviews, over which Jabber has little or no control.

Jabber may be unable to reduce expenses if sales do not occur as expected. Because of Jabber s limited operating history, it does not have significant historical financial data upon which to base its planned operating expenses or to forecast revenues and there can be no assurance that Jabber will be able to meet its revenue or expense projections. Jabber s expense levels are based in part on its expectations of future sales and to a large extent are fixed. Jabber typically operates with little backlog and the sales cycles for its products and services may vary significantly. Jabber may be unable to adjust spending in a timely manner to compensate for any unexpected sales shortfalls. If Jabber were unable to so adjust, any significant shortfall of demand for its products and services in relation to its expectations would result in operating losses or reduced profitability.

Item 3. CONTROLS AND PROCEDURES.

Our Vice President and General Counsel, our only executive officer, has reviewed our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon this review, Mr. Branson believes that our disclosure controls and procedures are effective in ensuring that material information related to Webb is made known to him.

There have been no significant changes in internal control over financial reporting that occurred during the fiscal period covered by this report that have materially affected, or are reasonably likely to materially affect, Webb s internal control over financial reporting.

Our CEO/CFO resigned on September 30, 2004. The certifications provided with this report have been provided by our Vice President and General Counsel. Rules 13a, 14 and 15d-14, pursuant to the Securities and Exchange Act of 1934, provide that when an issuer does not have a CEO/CFO, the person performing similar functions must execute the required certifications. By providing the certifications, our Vice President and General Counsel acknowledges that he is performing CEO/CFO functions for the company for the sole purpose of providing the required certifications and for no other purpose.

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PART II

OTHER INFORMATION

Items 1-5. Not Applicable

Item 6. Exhibits

(a) Listing of Exhibits:

3.1(a)	Articles of Incorporation, as amended, of Webb Interactive Services, Inc. (1)
3.1(b)	Articles of Amendment setting forth the terms of Series D Junior Convertible Preferred Stock (2)
3.2	Bylaws of Webb Interactive Services, Inc. (3)
4.1	Specimen form of Webb Interactive Services, Inc. common stock certificate (4)
4.2	Webb Interactive Services, Inc. Stock Option Plan of 1995 (3)
4.3	Form of Incentive Stock Option Agreement for Webb Interactive Services, Inc. Stock Option Plan of 1995 (3)
4.4	Form of Nonstatutory Stock Option Agreement for Webb Interactive Services, Inc. Stock Option Plan of 1995 (3)
4.5	Webb Interactive Services, Inc. Stock Option Plan of 2000, including forms of Incentive and Nonstatutory Stock Option Agreements (5)
4.6	Form of Stock Purchase Warrant dated February 28, 2001 issued by Webb Interactive Services, Inc. to Castle Creek Technology Partners, LLC (6)
10.1	Form of Nondisclosure and Nonsolicitation Agreement between Webb Interactive Services, Inc. and its employees (1)
10.2	Securities Purchase Agreement dated as of January 17, 2002, between Webb Interactive Services, Inc. and Jona, Inc. Included as an exhibit is a Registration Rights Agreement (2)
10.3	Letter Agreement between Webb Interactive Services, Inc. and Jona, Inc. (7)
10.4	Exchange Agreement dated January 17, 2002 between Webb Interactive Services, Inc. and Castle Creek Technology Partners LLC. Included as an exhibit is a Registration Rights Agreement (2)
10.5	Series D Preferred Stock Purchase Agreement dated March 17, 2003, by and among Jabber, Inc. France Telecom Technologies Investissements, Intel Capital Corporation, and Webb Interactive Services, Inc. (8)
10.6	Jabber, Inc. Certificate of Designation for Series E and D Convertible Preferred Stock (9)
10.7	Exchange Agreement, dated as of October 21, 2003, by and between Webb Interactive Services, Inc. and Jona, Inc. (10)
10.8	Investor Rights Agreement, Right of First Refusal and Co-Sale Agreement and Voting Agreement, all dated April 8, 2005, among Jabber, Inc., Jona, Inc., France Telecom Technologies Investissements and Intel Capital Corporation (9)
31.1	Certification of Chief Executive Officer and Chief Financial Officer*
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

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* Filed herewith. The certifications have been provided by the registrant s Vice President and General Counsel, the registrant s only executive officer. Rules 13a, 14 and 15d-14, pursuant to the Securities Exchange Act of 1934, as amended, provide that when an issuer does not have

a CEO/CFO, the person performing similar functions must execute the required certifications. By providing the certifications, registrant s Vice President and General Counsel acknowledges that he is performing CEO/CFO functions for registrant for the sole purpose of providing the required certifications and for no other purpose.

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(1) Filed with the Registration Statement on Form S-3, filed January 29, 1999, Commission File No. 333-71503.

(2) Filed with the Registration Statement on Form SB-2, filed April 5, 1996, Commission File No. 333-3282-D.

(3) Filed with the Registration Statement on Form S-3, filed September 24, 1999, Commission File No. 333-86465.

(4) Filed with the Form 10-KSB Annual Report for the year ended December 31, 2000, Commission File No. 0-28462.

(5) Filed with the Current Report on Form 8-K, filed January 22, 2002 and amended on January 29, 2002, Commission File No. 0-28462.

(6) Filed with the Current Report on Form 8-K, filed March 1, 2001, Commission File No. 0-28462.

(7) Filed with the Form 10-KSB Annual Report for the year ended December 31, 2001, Commission File No. 0-28462.

(8) Filed with the Current Report on Form 8-K, filed on March 20, 2003, Commission File No. 0-28462.

(9) Filed with the Form 10-KSB Annual Report for the year ended December 31, 2004, Commission File No. 0-28462.

(10) As filed with the Quarterly Report on Form 10-QSB for the quarter ended September 30, 2003, Commission File No. 0-28462.

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Signatures

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	WEBB INTERACTIVE SERVICES, INC.
Date: May 16, 2005	By /s/ Lindley S. Branson Vice President and Corporate Counsel

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