

LIVEDEAL INC  
Form 10-Q  
August 14, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended June 30, 2012

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-33937

**LiveDeal, Inc.**

(Exact name of registrant as specified in its charter)

Nevada

85-0206668

(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

**6240 McLeod Drive, Suite 120**

89120

Las Vegas, Nevada

(Zip Code)

(Address of principal executive offices)

**(702) 939-0230**

(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  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (do not check if a smaller reporting company) Smaller reporting company

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

The number of shares of the issuer's common stock, par value \$.001 per share, outstanding as of August 1, 2012 was 2,434,119.

**INDEX TO FORM 10-Q FILING  
FOR THE QUARTER ENDED JUNE 30, 2012**

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## **Note About Forward-Looking Statements**

This Quarterly Report on Form 10-Q includes statements that constitute “forward-looking statements.” These forward-looking statements are often characterized by the terms “may,” “believes,” “projects,” “intends,” “plans,” “expects,” “anticipates,” and do not reflect historical facts. Specific forward-looking statements contained in this portion of the Quarterly Report include, but are not limited to our (i) expectation that continued growth in business demand for online advertising and websites will drive increased revenues; (ii) expectation that cost of sales will continue to be directly correlated to our use of our internal fulfillment of customers costs, (iii) belief that our existing cash on hand, together with additional cash generated from operations or obtained from other sources, such sources of cash possibly including stock issuances and loans will provide us with sufficient liquidity to meet our operating needs for the next 12 months, (iv) belief that our gross profit margin and selling, general and administrative costs will support the Company’s business plans and opportunities and (v) plans to expand into new lines of business.

Forward-looking statements involve risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Factors and risks that could affect our results and achievements and cause them to materially differ from those contained in the forward-looking statements include those identified in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011 under Item 1A “Risk Factors”, as well as other factors that we are currently unable to identify or quantify, but that may exist in the future.

In addition, the foregoing factors may generally affect our business, results of operations and financial position. Forward-looking statements speak only as of the date the statements were made. We do not undertake and specifically decline any obligation to update any forward-looking statements. Any information contained on our website [www.livedeal.com](http://www.livedeal.com) or any other websites referenced in this Quarterly Report are not part of this Quarterly Report.

**PART I – FINANCIAL INFORMATION**

## ITEM 1. FINANCIAL STATEMENTS

## LIVEDEAL, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

|  | June 30,<br>2012 | September 30,<br>2011 |
|--|------------------|-----------------------|
| Assets   |                  |                       |
| Cash and cash equivalents  | \$1,735,335      | \$244,470             |
| Accounts receivable, net   | 521,245          | 654,856               |
| Prepaid expenses and other current assets  | 87,176           | 113,323               |
| Total current assets   | 2,343,756        | 1,012,649             |
| Accounts receivable, long term portion, net  | 356,394          | 371,438               |
| Property and equipment, net  | 63,712           | 171,201               |
| Deposits and other assets  | 33,207           | 31,007                |
| Intangible assets, net   | 1,347,955        | 1,222,334             |
| Total assets   | \$4,145,024      | \$2,808,629           |
| Liabilities and Stockholders' Equity   |                  |                       |
| Liabilities:   |                  |                       |
| Accounts payable   | \$832,276        | \$600,908             |
| Accrued liabilities  | 530,045          | 424,595               |
| Notes payable  | 129,944          | 1,000,000             |
| Current portion of capital lease obligation  | –                | 36,992                |
| Total current liabilities  | 1,492,265        | 2,062,495             |
| Total liabilities  | 1,492,265        | 2,062,495             |
| Commitments and contingencies  |                  |                       |
| Stockholders' equity:  |                  |                       |
| Series E convertible preferred stock, \$0.001 par value, 200,000 shares authorized, 127,840 issued and outstanding, liquidation preference \$38,202  | 10,866           | 10,866                |
| Common stock, \$0.001 par value, 10,000,000 shares authorized, 2,433,442 and 698,491 shares issued, 2,433,442 and 694,239 shares outstanding at June 30, 2012 and September 30, 2011, respectively | 2,433            | 698                   |
| Treasury stock (0 and 4,252 shares, respectively, carried at cost)   | –                | (70,923 )             |
| Paid in capital  | 23,380,882       | 20,813,082            |

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|  |              |              |
|--|--------------|--------------|
| Accumulated deficit                        | (20,741,422) | (20,007,589) |
| Total stockholders' equity                 | 2,652,759    | 746,134      |
| Total liabilities and stockholders' equity | \$4,145,024  | \$2,808,629  |

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

## LIVEDEAL, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

|   | <b>Three Months Ended</b> |               | <b>Nine Months Ended</b> |               |
|---|---------------------------|---------------|--------------------------|---------------|
|   | <b>June 30,</b>           |               | <b>June 30,</b>          |               |
|   | <b>2012</b>               | <b>2011</b>   | <b>2012</b>              | <b>2011</b>   |
| Net revenues  | \$777,857                 | \$1,124,976   | \$2,450,971              | \$3,237,763   |
| Cost of services  | 108,661                   | 1,048,229     | 571,088                  | 3,455,589     |
| Gross profit  | 669,196                   | 76,747        | 1,879,883                | (217,826 )    |
| Operating expenses:   |                           |               |                          |               |
| General and administrative expenses                                 | 742,353                   | 1,172,531     | 2,330,595                | 4,756,487     |
| Sales and marketing expenses  | 1,712                     | 19,543        | 2,291                    | 56,318        |
| Total operating expenses  | 744,065                   | 1,192,074     | 2,332,886                | 4,812,805     |
| Operating loss  | (74,869 )                 | (1,115,327)   | (453,003 )               | (5,030,631)   |
| Other income (expense):   |                           |               |                          |               |
| Interest income (expense), net                                      | (64,845 )                 | (24,151 )     | (149,401 )               | (22,899 )     |
| Other income (expense)  | (150,000 )                | (11,455 )     | (141,750 )               | (11,455 )     |
| Total other income (expense)  | (214,845 )                | (35,606 )     | (291,151 )               | (34,354 )     |
| Loss before income taxes  | (289,714 )                | (1,150,933)   | (744,154 )               | (5,064,985)   |
| Income tax provision (benefit)                                      | -                         | -             | -                        | -             |
| Loss from continuing operations                                     | (289,714 )                | (1,150,933)   | (744,154 )               | (5,064,985)   |
| Discontinued operations   |                           |               |                          |               |
| Income (loss) from discontinued component, including disposal costs | 7,944                     | 7,561         | 11,753                   | (123,486 )    |
| Income tax provision (benefit)                                      | -                         | -             | -                        | -             |
| Income (loss) from discontinued operations                          | 7,944                     | 7,561         | 11,753                   | (123,486 )    |
| Net loss  | \$(281,770 )              | \$(1,143,372) | \$(732,401 )             | \$(5,188,471) |
| Earnings per share - basic and diluted:                             |                           |               |                          |               |
| Loss from continuing operations                                     | \$(0.12 )                 | \$(1.69 )     | \$(0.39 )                | \$(7.68 )     |
| Discontinued operations   | 0.00                      | 0.01          | 0.01                     | (0.19 )       |
| Net loss  | \$(0.12 )                 | \$(1.68 )     | \$(0.38 )                | \$(7.87 )     |
| Weighted average common shares outstanding:                         |                           |               |                          |               |
| Basic   | 2,402,168                 | 682,374       | 1,928,589                | 659,296       |
| Diluted   | 2,402,168                 | 682,374       | 1,928,589                | 659,296       |

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

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## LIVEDEAL, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

|   | Nine Months Ended June 30, |                    |
|---|----------------------------|--------------------|
|   | 2012                       | 2011               |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                |                            |                    |
| Net loss  | \$(732,401 )               | \$(5,188,471)      |
| Adjustments to reconcile net loss to net cash used in operating activities: |                            |                    |
| Depreciation and amortization   | 192,340                    | 474,958            |
| Stock based compensation expense  | 123,797                    | 36,338             |
| Amortization of deferred stock compensation                                 | –                          | 17,885             |
| Amortization of debt discount   | 41,667                     | –                  |
| Provision for uncollectible accounts  | 43,911                     | 376,395            |
| Non-cash impairment of goodwill and intangibles                             | –                          | 367,588            |
| Loss/(gain) on disposal of property and equipment                           | (8,169 )                   | 39,134             |
| Changes in assets and liabilities:  |                            |                    |
| Accounts receivable   | 104,744                    | (253,451 )         |
| Prepaid expenses and other current assets                                   | 26,147                     | 74,636             |
| Deposits and other assets   | (2,200 )                   | 10,492             |
| Accounts payable  | 231,368                    | 310,435            |
| Accrued liabilities   | 108,956                    | (246,344 )         |
| Net cash provided by/(used in) operating activities                         | 130,160                    | (3,980,405)        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                |                            |                    |
| Redemption of certificates of deposits                                      | –                          | 101,293            |
| Expenditures for intangible assets  | (201,627 )                 | –                  |
| Purchases of property and equipment   | (676 )                     | (3,880 )           |
| Net cash provided by/(used in) investing activities                         | (202,303 )                 | 97,413             |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                |                            |                    |
| Proceeds from notes payable   | –                          | 1,000,000          |
| Payments on notes payable   | (1,000,000)                | –                  |
| Principal repayments on capital lease obligations                           | (36,992 )                  | (46,003 )          |
| Issuance of common stock for cash   | 2,350,000                  | 300,000            |
| Proceeds from issuance of convertible debt and warrants                     | 250,000                    | –                  |
| Net cash provided by financing activities                                   | 1,563,008                  | 1,253,997          |
| <b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>                     | <b>1,490,865</b>           | <b>(2,628,995)</b> |

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|  |             |           |
|--|-------------|-----------|
| CASH AND CASH EQUIVALENTS, beginning of period | 244,470     | 3,227,374 |
| CASH AND CASH EQUIVALENTS, end of period       | \$1,735,335 | \$598,379 |
| Supplemental cash flow disclosures:            |             |           |
| Noncash financing and investing activities:    |             |           |
| Accrued and unpaid dividends                   | \$1,438     | \$1,438   |
| Interest paid                                  | \$104,132   | \$25,845  |
| Income tax paid (received)                     | \$-         | \$-       |

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

## Note 1: Organization and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of LiveDeal, Inc., a Nevada corporation, and its wholly owned subsidiaries (collectively, the “Company”, “LiveDeal”, “we”, “us”, or “our”). The Company primarily provides online marketing internet directory service for small businesses. Through its wholly owned subsidiary Velocity Marketing Concepts, Inc., LiveDeal offers an affordable way for businesses to extend their marketing reach to local, relevant customers and to manage their online presence.

The accompanying condensed consolidated balance sheet as of September 30, 2011, which has been derived from our audited consolidated financial statements, and the accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for audited financial statements. In the opinion of the Company’s management, this interim information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The results of operations for the three and nine months ended June 30, 2012 are not necessarily indicative of the results to be expected for the year ending September 30, 2012. The accompanying note disclosures related to the interim financial information included herein are also unaudited. This financial information should be read in conjunction with the consolidated financial statements and related notes thereto as of September 30, 2011 and for the year then ended included in the Company’s Annual Report on Form 10-K for the year ended September 30, 2011.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant estimates and assumptions have been made by management throughout the preparation of the condensed consolidated financial statements, including in conjunction with establishing allowances for customer refunds, non-paying customers, dilution and fees, analyzing the recoverability of the carrying amount of intangible assets, evaluating the merits of pending litigation, estimating forfeitures of stock-based compensation, valuing beneficial conversion features in convertible debt, and evaluating the recoverability of deferred tax assets. Actual results could differ from these estimates.

While the Company believes that its existing cash on hand is sufficient to finance our operations for the next twelve months, there can be no assurance that we will generate profitability or positive operating cash flows in the near future. To the extent that we cannot achieve profitability or positive operating cash flows, our business will be materially and adversely affected. Further, our business is likely to experience significant volatility in its revenues, operating losses, personnel involved, products or services for sale, and other business parameters, as management implements and revises our strategies and responds to operating results and market conditions.

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Effective August 10, 2011, the Company implemented a 20-for-19 forward stock split with respect to issued and outstanding shares of its common stock via a stock dividend. All share and per share amounts have been retroactively restated for the effects of this stock split.

**Note 2: Balance Sheet Information**

Balance sheet information is as follows:

|                                       | June 30,<br>2012<br>(unaudited) | September<br>30,<br>2011 |
|---------------------------------------|---------------------------------|--------------------------|
| Receivables, current, net:            |                                 |                          |
| Accounts receivable, current          | \$ 1,998,429                    | \$ 2,080,747             |
| Less: Allowance for doubtful accounts | (1,477,184)                     | (1,425,891)              |
|                                       | \$ 521,245                      | \$ 654,856               |
| Receivables, long term, net:          |                                 |                          |
| Accounts receivable, long term        | \$ 490,356                      | \$ 569,178               |
| Less: Allowance for doubtful accounts | (133,962 )                      | (197,740 )               |
|                                       | \$ 356,394                      | \$ 371,438               |
| Total receivables, net:               |                                 |                          |
| Gross receivables                     | \$ 2,488,785                    | \$ 2,649,925             |
| Less: Allowance for doubtful accounts | (1,611,146)                     | (1,623,631)              |
|                                       | \$ 877,639                      | \$ 1,026,294             |

Components of allowance for doubtful accounts are as follows:

|   | June 30,<br>2012<br>(unaudited) | September 30,<br>2011 |
|---|---------------------------------|-----------------------|
| Allowance for dilution and fees on amounts due from billing aggregators | \$ 1,599,466                    | \$ 1,477,769          |
| Allowance for customer refunds  | 11,680                          | 145,862               |
|   | \$ 1,611,146                    | \$ 1,623,631          |

|                                      | June 30,<br>2012<br>(unaudited) | September 30,<br>2011 |
|--------------------------------------|---------------------------------|-----------------------|
| Property and equipment, net:         |                                 |                       |
| Leasehold improvements               | \$ 201,476                      | \$ 201,476            |
| Furnishings and fixtures             | 233,577                         | 233,577               |
| Office, computer equipment and other | 427,607                         | 426,931               |
|                                      | 862,660                         | 861,984               |
| Less: Accumulated depreciation       | (798,948 )                      | (690,783 )            |
|                                      | 63,712                          | \$ 171,201            |

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|   | June 30,<br>2012<br>(unaudited) | September 30,<br>2011 |
|---|---------------------------------|-----------------------|
| Intangible assets, net:                       |                                 |                       |
| Domain name and marketing related intangibles | \$ 1,511,650                    | \$ 1,509,600          |
| Non-compete agreements                        | 559,686                         | 351,941               |
| Website and technology related intangibles    | 2,071,336                       | 1,861,541             |
|   | (723,381 )                      | (639,207 )            |
| Less: Accumulated amortization                | \$ 1,347,955                    | \$ 1,222,334          |

|   | June 30,<br>2012<br>(unaudited) | September 30,<br>2011 |
|---|---------------------------------|-----------------------|
| Accrued liabilities:                      |                                 |                       |
| Deferred revenue                          | \$2,577                         | \$14,553              |
| Accrued payroll and bonuses               | 33,585                          | 63,043                |
| Accruals for service contracts            | 56,328                          | 86,550                |
| Accruals under revenue sharing agreements | 437,555                         | 260,449               |
| Accrued expenses - other                  | \$530,045                       | \$424,595             |

### Note 3: Restructuring Activities

On November 30, 2010, the Company's Board of Directors (the "Board") approved a reduction in force that resulted in the termination of 36 employees, or approximately 60% of its workforce, effective December 1, 2010. The reduction in force was related to the Company's ongoing restructuring and cost reduction efforts and strategy of focusing its resources on the development and expansion of its core InstantProfile product, the successor to the Company's LEC-billed directory product. All terminated employees were involved in the marketing and sale of the Company's InstantPromote product by LiveDeal's subsidiary, Local Marketing Experts, Inc.

During the three and nine months ended June 30, 2011, the Company incurred expenses of \$0 and \$99,319, respectively, in connection with the reduction in force, of which \$37,500 were incurred for one-time employee termination benefits payable in cash. The remaining expenses related to salaries and wages payable in cash to the affected employees. The Company did not incur any expenses in the three and nine months ended June 30, 2012 in connection with any restructuring activities.

### Note 4: Discontinued Operations

As part of the Company's strategy to evaluate each of its business segments as separate entities, management noted that the direct sales business segment had incurred operating losses and declining revenues and did not fit with the Company's change in strategic direction. Accordingly, in March 2011, the Company made the strategic decision to discontinue its direct sales business and product offerings. Prior financial statements have been restated to present the direct sales business segment as a discontinued operation.

The direct sales business segment accounted for no net revenues for both the three and nine months ended June 30, 2012 and \$105,293 and \$1,341,430 of net revenues for the three and nine months ended June 30, 2011, respectively. These revenues are included as part of income from discontinued operations, in the accompanying unaudited interim condensed consolidated statements of operations.

**Note 5: Stock-based Compensation**

From time to time, the Company grants restricted stock awards and stock options to officers, directors, employees and consultants. These awards are valued based on the grant date fair value of the instruments, net of estimated forfeitures. The value of each award is amortized on a straight-line basis over the requisite service period.

*Stock Options*

The Company recognized compensation expense of \$13,154 and \$16,942 during the three and nine months ended June 30, 2012, respectively, and \$12,839 and \$36,338 during the three and nine months ended June 30, 2011, respectively, related to stock option awards granted to certain employees and executives based on the grant date fair value of the awards, net of estimated forfeitures. The Company used the estimated forfeiture rate of awards of 50% based on actual forfeiture experience and other factors.



The following represents a summary of stock option activity for the nine months ended June 30, 2012:

|                                   | Number<br>of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life |
|-----------------------------------|------------------------|--|---|
| Outstanding at September 30, 2011 | 24,013                 | \$ 3.64                                  |   |
| Granted at market price           | –                      |  |   |
| Exercised                         | –                      |  |   |
| Forfeited                         | (13,487)               | \$ 3.53                                  |   |
| Outstanding at June 30, 2012      | 10,526                 | \$ 3.77                                  | 8.9   |
| Exercisable                       | 10,526                 | \$ 3.77                                  | 8.9   |

On January 13, 2012, the Company terminated the employment of its President and Chief Executive Officer. Pursuant to the terms of his employment with the Company, the termination resulted in the forfeiture of all 13,487 of his unvested stock options.

On May 20, 2012, the employment of Larry Tomsic, the Company's Chief Financial Officer, terminated. In exchange for services performed during this quarter, the Company agreed to accelerate the vesting of Mr. Tomsic's existing options to purchase an aggregate of 10,526 shares of the Company's common stock. In accordance with the provisions of his option agreements, all his options will lapse unless they are exercised within 90 days of the termination date.

#### *Restricted Stock Awards*

The Company has previously granted shares of restricted stock to certain individuals. The following table sets forth changes in compensation-related restricted stock awards during the nine months ended June 30, 2012:

|  |         |
|--|---------|
| Outstanding (unvested) at September 30, 2011 | 1,342   |
| Granted                                      | –       |
| Forfeited                                    | (26 )   |
| Vested                                       | (1,053) |
| Outstanding (unvested) at June 30, 2012      | 263     |

Because the number of shares of the Company's outstanding unvested restricted stock became immaterial, the Company recognized all remaining expense associated with these unvested awards (net of estimated forfeitures) during the three months ended December 31, 2010.

*Stock Awards Granted to Directors*

In September 2011, in an effort to preserve cash, our Board, after consultation with the Compensation Committee, determined to compensate members of the Board for their monthly retainer and other services as directors and/or members of the Board's various standing committees through the award of shares of the Company's common stock under the Company's Amended and Restated 2003 Stock Plan (the "2003 Stock Plan"). Under the terms of this arrangement, each non-employee director receives a monthly award of a number of fully vested shares of the Company's common stock equal to their monthly board of director fees divided by the closing market price of the Company's common stock on the grant date. The Company granted an aggregate of 4,581 and 44,922 shares of common stock and recognized expense of \$23,800 and \$106,900 related to this arrangement during the three and nine months ended June 30, 2012, respectively. No such grants were made and no such expense was recognized during the three and nine months ended June 30, 2011.

**Note 6: Debt**

On April 3, 2012 (the "Closing Date"), the Company entered into a Note and Warrant Purchase Agreement (the "Purchase Agreement") with Isaac Capital Group LLC ("ICG"), pursuant to which ICG agreed to purchase for cash up to \$2,000,000 in aggregate principal amount of the Company's unsecured Subordinated Convertible Notes ("Notes"). ICG is owned by Jon Isaac, the Company's President and Chief Executive Officer and a director on our Board, and prior to this transaction owned 403,225 shares, or 16.8% of the Company's outstanding common stock. The Purchase Agreement and the Notes, which are unsecured, provide that all amounts payable by LiveDeal to ICG under the Notes will be due and payable on April 3, 2013 (the "Maturity Date"), provided that LiveDeal has the option in its discretion to extend the Maturity Date by up to one year if no Event of Default (as defined in the Purchase Agreement) has occurred and is continuing, and LiveDeal is in material compliance with its agreements and covenants under the Purchase Agreement and the Notes, as of the Maturity Date.

The Purchase Agreement and the Notes provide that:

- The Notes will accrue interest at an annual interest rate equal to 8%. All interest will be payable on the Maturity Date or upon the conversion of the applicable Note.
- The Company has the option to prepay each Note, in whole or in part, at any time without premium or penalty.
- Either the Company or ICG may elect at any time to convert all or any portion of any Note (including all principal and accrued interest) into a number of shares of the Company's common stock equal to the dollar amount being converted divided by the conversion price. Subject to adjustment for stock splits and combinations, share reclassifications, certain fundamental transactions and share issuances, the conversion price will be equal to 60% of the lesser of (i) \$3.96, which was the closing bid price of the Company's common stock on the Closing Date and (ii) the 10-day weighted average closing bid price of the Company's common stock for the 10 business days immediately preceding the date of the applicable notice of conversion.
- If ICG elects to convert all or any portion of any Note, the Company must issue to ICG on the date of the conversion a warrant ("Contingent Warrant") to purchase a number of shares of the Company's common stock equal to the number of shares issuable upon conversion. This number of shares is subject to adjustment in the event of stock splits or combinations, stock dividends, certain stock issuances, certain fundamental transactions, and the like. Each Contingent Warrant will be exercisable for a period of five (5) years following the date of its issuance at an exercise price equal to 120% of the conversion price of the applicable Note (with the exercise being subject to adjustment under the same conditions as the number of shares for which the warrant is exercisable.) The Contingent Warrants provide that they may be exercised in whole or in part and include a cashless exercise feature.
- The Notes provide that, upon the occurrence of any Event of Default, all amounts payable to ICG will become immediately due and payable without any demand or notice.
- The Company may issue additional Notes in an aggregate principal amount of up to \$1,750,000 to ICG from time to time upon notice to ICG prior to April 3, 2013, provided that each Note must be in a principal amount of at least \$100,000.
- The Company (i) is required to provide certain financial and other information to ICG from time to time, (ii) must maintain its corporate existence, business, assets, properties, insurance and records in accordance with the requirements set forth in the Purchase Agreement, (iii) with certain exceptions, must not incur or suffer to exist any liens or other encumbrances with respect to the Company's property or assets, (iv) must not make certain loans or investments except in compliance with the terms of the Purchase Agreement, and (v) must not enter into certain types of transactions, including dispositions of its assets or business.

The events of default ("Events of Default") which trigger the acceleration of the Notes include (among other things): (i) the Company's failure to make any payment required under the Notes when due (subject to a three-day cure period), (ii) the Company's failure to comply with its covenants and agreements under the Purchase Agreement, the Notes and any other transaction documents, and (iii) the occurrence of a change of control with respect to the Company.

The Company issued an initial Note in the principal amount of \$250,000 to ICG on the Closing Date. Because the conversion price is less than the stock price, this gave rise to a beneficial conversion feature valued at \$166,667. The Company recognized this beneficial conversion feature as a debt discount and additional paid in capital. The discount to the Note is being amortized to interest expense until maturity or its earlier repayment or conversion. During the three and nine months ended June 30, 2012, the Company recognized \$41,667 of interest expense associated with amortized debt discount.

As mentioned above, the Purchase Agreement contains contingent provisions for the adjustment of the conversion ratio and conversion price, and the issuance of Contingent Warrants upon conversion. These items are not accounted for until such contingencies are resolved.

The Company intends to use the proceeds of the initial Note for working capital and other general corporate purposes.

## Note 7: Equity

### December 2011 Equity Issuance

On December 12, 2011, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with each of Isaac Capital Group LLC ("ICG"), John Kocmur ("Kocmur"), Kingston Diversified Holdings LLC ("Kingston"), Augustus Gardini, L.P. ("Augustus") and Lausanne LLC ("Lausanne" and collectively with ICG, Kocmur, Kingston and Augustus, the "Purchasers") pursuant to which the Company's issued and sold an aggregate of 1,612,899 shares (the "Shares") of the Company's common stock for an aggregate purchase price equal to \$2.0 million. Each of ICG, Kocmur and Kingston (the "Lead Purchasers") invested \$500,000 and were issued 403,225 shares of the Company's Common Stock, and each of Augustus and Lausanne invested \$250,000 and were issued 201,612 shares of the Company's Common Stock.

Pursuant to the Purchase Agreement:

- The per share purchase price was \$1.24, which was the closing bid price of the Company's common stock, as reported by the NASDAQ Capital Market, on December 12, 2011, the date of the closing of the purchase and sale.
- Each Lead Purchaser was given the right, until the date that purchaser beneficially owns less than five percent (5%) of the Company's issued and outstanding common stock, to nominate one director for election by the Company's stockholders at each meeting of the stockholders at which directors are to be elected, and to designate a replacement director to fill any vacancy if the director previously designated or nominated by that purchaser ceases for any reason to be a director.

### March 2012 Equity Issuance

In March 2012, the Company issued 45,180 shares of its common stock in exchange for the received payment of \$150,000.

### June 2012 Equity Issuance

In June 2012, the Company issued 36,364 shares of its common stock in exchange for the received payment of \$200,000.

Increase in Shares Under Amended and Restated 2003 Stock Plan

At the 2012 annual meeting of the Company's Stockholders, the stockholders approved a proposal to increase the number of shares of the Company's common stock available for issuance under the Company's Amended and Restated 2003 Stock Plan from 140,000 to 340,000.

**Note 8: Net Loss Per Share**

Net loss per share is calculated using the weighted average number of shares of common stock outstanding during the applicable period. Basic weighted average common shares outstanding do not include shares of restricted stock that have not yet vested, although such shares are included as outstanding shares in the Company's unaudited interim condensed consolidated balance sheet. Diluted net loss per share is computed using the weighted average number of common shares outstanding and if dilutive, potential common shares outstanding during the period. Potential common shares consist of the additional common shares issuable in respect of restricted share awards, stock options and convertible preferred stock. Preferred stock dividends are subtracted from net loss to determine the amount available to common stockholders.

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The following table presents the computation of basic and diluted net loss per share:

|  | Three Months Ended June 30, |               | Nine Months Ended June 30, |                |
|--|-----------------------------|---------------|----------------------------|----------------|
|  | 2012                        | 2011          | 2012                       | 2011           |
| Loss from continuing operations                                | \$(289,714 )                | \$(1,150,933) | \$(744,154 )               | \$(5,064,985 ) |
| Less: preferred stock dividends                                | (479 )                      | (479 )        | (1,438 )                   | (1,438 )       |
| Loss from continuing operations applicable to common stock     | (290,193 )                  | (1,151,412)   | (745,592 )                 | (5,066,423 )   |
| Income (loss) from discontinued operations                     | 7,944                       | 7,561         | 11,753                     | (123,486 )     |
| Net loss applicable to common stock                            | \$(282,249 )                | \$(1,143,851) | \$(733,839 )               | \$(5,189,909 ) |
| Weighted average common shares outstanding - basic and diluted | 2,402,168                   | 682,374       | 1,928,589                  | 659,296        |
| Earnings per share - basic and diluted:                        |                             |               |                            |                |
| Loss from continuing operations                                | \$(0.12 )                   | \$(1.69 )     | \$(0.39 )                  | \$(7.68 )      |
| Discontinued operations  | 0.00                        | 0.01          | 0.01                       | (0.19 )        |
| Net loss   | \$(0.12 )                   | \$(1.68 )     | \$(0.38 )                  | \$(7.87 )      |

The following potentially dilutive securities were excluded from the calculation of diluted net loss per share because the effects were anti-dilutive based on the application of the treasury stock method and because the Company incurred net losses during the period:

|   | Three and Nine Months Ended June 30, |         |
|---|--------------------------------------|---------|
|   | 2012                                 | 2011    |
| Options to purchase shares of common stock  | 10,526                               | 12,813  |
| Warrants to purchase shares of common stock | 98,971                               | –       |
| Series E convertible preferred stock        | 127,840                              | 127,840 |
| Shares of non-vested restricted stock       | 1,342                                | 2,283   |
|   | 252,167                              | 142,936 |

**Note 9: Income Taxes**

At June 30, 2012, the Company maintained a valuation allowance against its deferred tax assets. The Company determined this valuation allowance was necessary given the current and expected near term losses and the uncertainty with respect to the Company's ability to generate sufficient profits from its new business model.

During the three and nine months ended June 30, 2012, the Company did not incur any income tax benefit associated with its net loss due to the establishment of a valuation allowance against deferred tax assets generated during the period.

**Note 10: Commitments and Contingencies**

Operating Leases and Service Contracts

As of June 30, 2012, future minimum annual payments under operating lease agreements and non-cancelable service contracts for fiscal years ending September 30 are as follows:

|                                 | Payments Due by Fiscal Year |          |           |          |         |       |            |
|---------------------------------|-----------------------------|----------|-----------|----------|---------|-------|------------|
|                                 | Total                       | 2012     | 2013      | 2014     | 2015    | 2016  | Thereafter |
| Operating lease commitments     | \$241,472                   | \$98,482 | \$115,996 | \$25,190 | \$1,031 | \$773 | \$-        |
| Noncancelable service contracts | -                           | -        | -         | -        | -       | -     | -          |
|                                 | \$241,472                   | \$98,482 | \$115,996 | \$25,190 | \$1,031 | \$773 | \$-        |



### Capital leases

As of June 30, 2012, the Company had no future obligations under non-cancelable capital leases.

### Litigation

The Company is party to certain legal proceedings from time to time incidental to the conduct of its business. These proceedings could result in fines, penalties, compensatory or treble damages or non-monetary relief. The nature of legal proceedings is such that we cannot assure the outcome of any particular matter, and an unfavorable ruling or development could have a materially adverse effect on our consolidated financial position, results of operations and cash flows in the period in which a ruling or settlement occurs. However, based on information available to the Company's management to date and other than as noted below, the Company's management does not expect that the outcome of any matter pending against us is likely to have a materially adverse effect on our consolidated financial position as of June 30, 2012, our annual results of operations or cash flows, or our liquidity.

#### *Global Education Services, Inc. v. LiveDeal, Inc.*

On June 6, 2008, Global Education Services, Inc. ("GES") filed a consumer fraud class action lawsuit against the Company in King County (Washington) Superior Court alleging that the Company's use of activator checks violated the Washington Consumer Protection Act. GES sought injunctive relief against the Company's use of activator checks, as well as damages in an amount equal to three times the damages allegedly sustained by the putative members of the class. LiveDeal denied the allegations and defended the litigation. The parties reached a tentative settlement in the third quarter of fiscal 2012 and expects to file motions with the court jointly with the class representative and class counsel for preliminary and final approval once the settlement documents have been completed. The Company accrued \$150,000 in the third quarter of fiscal 2012 in conjunction with this tentative settlement which is reflected as part of other income (expense) in the accompanying unaudited interim condensed consolidated statements of operations.

#### **Note 11: Concentration of Credit Risk**

The Company maintains cash balances at major banking institutions in California and Nevada. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per bank, but bank balances generally exceed the FDIC limit.

The Company has concentrations of receivables with respect to certain wholesale accounts and remaining holdbacks with Local Exchange Carrier (“LEC”) service providers. Three such entities accounted for 37%, 27% and 14% of gross receivables at June 30, 2012 and 31%, 25%, and 20% of gross receivables at September 30, 2011, respectively.

#### **Note 12: Segment Reporting**

The Company has historically had two reportable operating segments: Directory Services and Direct Sales - Customer Acquisition Services. During fiscal 2011, the Company discontinued its direct sales operations as described in Note 4 above. Accordingly, the Company’s continuing operations consist of only one business segment.

All of the Company’s revenues are derived from sales to external customers, from operations in the United States, and no single customer accounts for more than 10% of the Company’s revenues.

#### **Note 13: Recent Accounting Pronouncements**

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements (“ASU 2011-04”) in GAAP and International Financial Reporting Standards (“IFRS”). Under ASU 2011-04, the guidance amends certain accounting and disclosure requirements related to fair value measurements to ensure that fair value has the same meaning in GAAP and IFRS and that their respective fair value measurement and disclosure requirements are the same. ASU 2011-04 is effective for public entities during interim and annual periods beginning after December 15, 2011. The Company does not believe that the adoption of this guidance will have a material impact on the Company’s consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, "Presentation of Comprehensive Income" ("ASU 2011-05"). ASU 2011-05 requires companies to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The provisions of ASU 2011-05 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Since ASU 2011-05 only amends the disclosure requirements concerning comprehensive income, the adoption of ASU 2011-05 will not affect the consolidated financial position, results of operations or cash flows of the Company.

#### **Note 14: Subsequent Events**

The Company recently announced its plan to implement a new business line primarily focused on developing mobile solutions to exploit local commerce opportunities. The Company plans to develop strategic relationships with larger, well-known companies in the industry that can add value to our local merchant customer base, and to leverage these strategic relationships and alliances to move quickly to market a suite of state-of-the-art local commerce solutions. The Company plans to target its existing subscribers, as well as new customers, for our new product line offerings.

In connection with the Company's new business strategy, on August 9, 2012, the Company entered into an agreement to acquire substantially all of the assets of Live Openly, Inc., a California corporation engaged in sourcing, publishing and selling discounted offers for goods and services through local retail merchants, for a purchase price of 75,000 shares of the Company's common stock. The acquisition is subject to customary closing conditions and is expected to close in the fourth quarter on a date to be agreed by both parties.

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

For a description of our significant accounting policies and an understanding of the significant factors that influenced our performance during the three and nine months ended June 30, 2012, this "Management's Discussion and Analysis of Financial Condition and Results of Operations" (hereafter referred to as "MD&A") should be read in conjunction with the condensed consolidated financial statements, including the related notes, appearing in Part I, Item 1 of this Quarterly Report on Form 10-Q, as well as our Annual Report on Form 10-K for the fiscal year ended September 30, 2011.

### **Our Company**

LiveDeal, Inc. primarily provides local internet marketing services for small businesses. LiveDeal, through our wholly owned subsidiary (Velocity Marketing Concepts, Inc.), offers an affordable way for small businesses to extend their marketing reach to local, relevant customers via the Internet.

We use the latest technologies to deliver best-in-breed online marketing solutions to our small business customers. We have online advertising solutions to help small businesses grow their company and realize online success.

### *Summary Business Description*

We deliver affordable acquisition services to the small business segment through the InstantAgency® Suite of products and services. These products are currently sold through Velocity Marketing Concepts which targets complimentary aspects of the small business market.

The InstantAgency products include:

InstantProfile distributes a small business' key contact and service information to the top Internet destinations (based on popularity), including search engines, internet directories, and social media networks. This gives the advertiser the ability to manage their business information in one location and maximize their reach to the many destinations a consumer may search for local business services.

InstantProfile's social media platform, InstantBUZZ, not only creates a presence for the advertiser in select social media networks, it also allows the advertiser to use one location to broadcast their messages across their entire social media network. By leveraging this automation, our customers avoid the need to manage multiple logins for individual websites and duplicate submissions, thereby decreasing the time required to broadcast their messages through multiple social media channels.

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Additionally, InstantProfile customers enjoy a suite of communication tools that assist them in communicating directly with their customers and employees. These communication tools include a conferencing solution to host calls with up to 10 participants and an online electronic fax solution with unlimited faxes included.

The key attribute the InstantAgency® products and services all have in common is high value, low cost marketing options that service the many needs of the small business customer. The suite of products and services was strategically chosen to be entry level products and services that can grow with a small business as it grows. For those starting with the more customized products and services, InstantAgency® can continue to drive more online visitors and callers and in turn customers based on the customer budget. Our strategic advantage is the ability to service the small business customer regardless of their budget or online knowledge.

We plan to implement a new business line primarily focused on developing mobile solutions to exploit local commerce opportunities. We plan to develop strategic relationships with larger, well-known companies in the industry that can add value to our local merchant customer base, and to leverage these strategic relationships and alliances to move quickly to market a suite of state-of-the-art local commerce solutions. We plan to target our existing subscribers, as well as new customers, for our new product offerings.

## **Recent Developments**

### *Financial Performance*

We have embarked on a significant change in business strategy to maintain our legacy business (directory services offering) and update it to meet current market requirements and move ahead of our competitors in this market segment. We have continued to experience a decline in revenues due to the stop in new sales in July 2011. However, we have also reduced our costs of sales, primarily due to fulfillment cost reductions, ongoing costs and expenses and reduced ongoing operating losses. Our losses have decreased from \$1,143,377 and \$5,188,471, for the three and nine months ended June 30, 2011 to \$281,770 and \$732,401 for the three and nine months ended June 30, 2012 respectively.

### *Discontinued Operations*

As part of our strategy to evaluate each of our business segments as separate entities, management noted that the direct sales business segment had incurred operating losses and declining revenues and did not fit with our change in strategic direction. Accordingly, in March 2011, we made the strategic decision to discontinue our direct sales

business and product offerings. Prior financial statements have been restated to present the direct sales business segment as a discontinued operation.

The direct sales business segment accounted for no net revenues for the three and nine months ended June 30, 2012 and \$105,293 and \$1,341,430 of net revenues for the three and nine months ended June 30, 2011, respectively. Net revenues from this business segment are now included as part of income from discontinued operations in the accompanying unaudited interim condensed consolidated statements of operations.

#### *Restructuring Activities*

On November 30, 2010, the Board approved a reduction in force that resulted in the termination of 36 of our employees or approximately 60% of our workforce, effective December 1, 2010. The reduction in force was related to our ongoing restructuring and cost reduction efforts and strategy of focusing our resources on the development and expansion of our core InstantProfile product, the successor to our LEC-billed directory product. All terminated employees were involved in the marketing and sale of our InstantPromote product by its subsidiary, Local Marketing Experts, Inc.

During the three and nine months ended June 30, 2011, we incurred expenses of \$0 and \$99,319 respectively, in connection with this reduction in force. Of the \$99,319 incurred in the fiscal quarter ended December 31, 2010, \$37,500 were incurred for one-time employee termination benefits payable in cash and the remaining expenses related to salaries and wages payable in cash to the affected employees. No expenses were incurred in the three or nine months ended June 30, 2012 in connection with the restructuring activities.

#### *Termination of Principal Officer*

On May 20, 2012, the Company's employment agreement with Lawrence W. Tomsic, our Chief Financial Officer, expired in accordance with its terms. Both parties agreed not to extend the employment agreement. During the three months ended June 30, 2012, the Company accelerated the unvested portion of Mr. Tomsic's stock options as described above in Note 5 (Stock-based compensation) to the Company's unaudited interim condensed consolidated financial statements.

#### *Change of Address of Principal Executive Offices*

We have changed the address of our principal executive offices to 6240 McLeod Drive, Suite 120, Las Vegas, Nevada, 89120. Our telephone number remains (702) 939-0230.

#### *Acquisition of LiveOpenly, Inc.*

In connection with our new business strategy, on August 9, 2012, we entered into an agreement to acquire substantially all of the assets of LiveOpenly, Inc., a California corporation engaged in sourcing, publishing and selling discounted offers for goods and services through local retail merchants, for a purchase price of 75,000 shares of our common stock. The acquisition is subject to customary closing conditions and is expected to close at a future date to be agreed by both parties. We are in the process of evaluating the accounting treatment of this transaction.

### **Results of Operations**

The following sets forth a discussion of our financial results for the three and nine months ended June 30, 2012 as compared to the three and nine months ended June 30, 2011. In evaluating our business, management reviews several key performance indicators including new customers, total customers in each line of business, revenues per customer,



and customer retention rates. However, given the changing nature of our business strategy, we do not believe that presentation of these metrics would reveal any meaningful trends in our operations that are not otherwise apparent from the discussion of our financial results below.

### *Net Revenues*

|                             | <b>Net Revenues</b> |             |             |         |
|-----------------------------|---------------------|-------------|-------------|---------|
|                             | 2012                | 2011        | Change      | Percent |
| Three Months Ended June 30, | \$777,857           | \$1,124,976 | \$(347,119) | (31)%   |
| Nine Months Ended June 30,  | \$2,450,971         | \$3,237,763 | \$(786,792) | (24)%   |

Net revenues decreased in the third quarter and first nine months of fiscal 2012 as compared to the third quarter and first nine months of fiscal 2011 primarily due to the fact that new sales were paused July 15, 2011 when we began exploring new sales programs and improving our marketing and fulfillment services.

### *Cost of Services*

|                             | <b>Cost of Services</b> |             |               |         |
|-----------------------------|-------------------------|-------------|---------------|---------|
|                             | 2012                    | 2011        | Change        | Percent |
| Three Months Ended June 30, | \$108,661               | \$1,048,229 | \$(939,568)   | (90)%   |
| Nine Months Ended June 30,  | \$571,088               | \$3,455,589 | \$(2,884,501) | (83)%   |

Cost of services decreased in the third quarter and first nine months of fiscal 2012 as compared to the third quarter and first nine months of fiscal 2011 primarily due to decreased costs associated with the decline in the number of our customers and the provisioning of fulfillment activities which are now done by us rather than outside vendors.

*Gross Profit*

|                             | <b>Gross Profit</b> |             |             |         |
|-----------------------------|---------------------|-------------|-------------|---------|
|                             | 2012                | 2011        | Change      | Percent |
| Three Months Ended June 30, | \$669,196           | \$76,747    | \$592,449   | 772 %   |
| Nine Months Ended June 30,  | \$1,879,883         | \$(217,826) | \$2,097,709 | 963 %   |

Gross profit increased in the third quarter and first nine months of fiscal 2012 as compared to the third quarter and first nine months of fiscal 2011 primarily due to the decreased cost of fulfillment services as described above.

*General and Administrative Expenses*

|                             | <b>General and Administrative Expenses</b> |             |               |         |
|-----------------------------|--|-------------|---------------|---------|
|                             | 2012                                       | 2011        | Change        | Percent |
| Three Months Ended June 30, | \$742,353                                  | \$1,172,531 | \$(430,178 )  | (37 )%  |
| Nine Months Ended June 30,  | \$2,330,595                                | \$4,756,487 | \$(2,425,892) | (51 )%  |

General and administrative expenses decreased in the third quarter of fiscal 2012 as compared to the third quarter of fiscal 2011 primarily due to the following:

Decreased compensation costs of approximately \$44,000 reflecting the reduction of employees from 21 at June 30, 2011 to 13 at June 30, 2012;

Other expense decreases of \$94,000, including, but not limited to, rent and utilities, services and fees, office and supplies expenses, office closure expenses, travel and entertainment and other corporate expenses associated with our office closures, reductions in force and other cost containment initiatives;

Decreased professional fees of approximately \$268,000 related to reductions in IT consulting fees of \$63,000 (due to the movement of IT functions to virtual servers), legal fees of \$160,000 (due to the reduction of litigation), accounting fees of \$11,000, marketing consultant fees of \$13,000, outside sales service costs of \$40,000 (due to the termination of third party sales consultants), partially offset by an increase in other miscellaneous consultants costs of \$19,000; and

Decreased depreciation and amortization expense of \$24,000.

General and administrative expenses decreased in the first nine months of fiscal 2012 as compared to the first nine months of fiscal 2011 primarily due to the following:

Decreased compensation costs of approximately \$880,000 reflecting the reduction of employees at June 30, 2011 and June 30, 2012;

Other expense decreases of \$372,000, including, but not limited to, rent and utilities, services and fees, office and supplies expenses, office closure expenses, travel and entertainment and other corporate expenses associated with our office closures, reductions in force and other cost containment initiatives;

Decreased professional fees of approximately \$891,000 related to reduction in IT consulting fees of \$207,000 (due to the movement of IT functions to virtual servers), legal fees of \$352,000 (due to the reduction of litigation), accounting fees of \$25,000, marketing consultant fees of \$41,000, outside sales service costs of \$221,000 (due to the termination of third party sales consultants) and other miscellaneous consultants costs of \$45,000; and

Decreased depreciation and amortization expense of \$283,000.

The following table sets forth our recent operating performance for general and administrative expenses:

|   | Q3 2012   | Q2 2012   | Q1 2012   | Q4 2011   | Q3 2011   |
|---|-----------|-----------|-----------|-----------|-----------|
| Compensation for employees,<br>officers and directors | \$378,700 | \$295,333 | \$341,325 | \$340,888 | \$422,901 |
| Professional fees                                     | 110,706   | 226,403   | 143,805   | 360,221   | 378,960   |
| Depreciation and amortization                         | 55,669    | 67,391    | 69,281    | 88,868    | 79,227    |
| Other general and administrative costs                | 197,278   | 232,307   | 212,397   | 174,887   | 291,448   |

### *Sales and Marketing Expenses*

|                             | <b>Sales and Marketing Expenses</b> |          |            |         |
|-----------------------------|-------------------------------------|----------|------------|---------|
|                             | 2012                                | 2011     | Change     | Percent |
| Three Months Ended June 30, | \$1,712                             | \$19,543 | \$(17,831) | (91)%   |
| Nine Months Ended June 30,  | \$2,291                             | \$56,318 | \$(54,027) | (96)%   |

Sales and marketing expenses decreased in the third quarter and first nine months of fiscal 2012 as compared to the third quarter and first nine months of fiscal 2011 primarily due to the reduction in spending for marketing materials. This reduction is in conjunction with the pausing of new sales effective July 2011.

### *Operating Loss*

|                             | <b>Operating Loss</b> |               |             |         |
|-----------------------------|-----------------------|---------------|-------------|---------|
|                             | 2012                  | 2011          | Change      | Percent |
| Three Months Ended June 30, | \$(74,869)            | \$(1,115,327) | \$1,040,458 | (93)%   |
| Nine Months Ended June 30,  | \$(453,003)           | \$(5,030,631) | \$4,577,628 | (91)%   |

The reduction in operating loss for the third quarter and first nine months of fiscal 2012 as compared to the third quarter and first nine months of 2011 reflect a variety of changes in net revenues, cost of sales, general and administrative expenses and sales and marketing expenses, each of which is described above.

*Total Other Income (Expense)*

|                             | <b>Total Other Income (Expense)</b> |            |             |         |
|-----------------------------|-------------------------------------|------------|-------------|---------|
|                             | 2012                                | 2011       | Change      | Percent |
| Three Months Ended June 30, | \$(214,845)                         | \$(35,606) | \$(179,239) | (503)%  |
| Nine Months Ended June 30,  | \$(291,151)                         | \$(34,354) | \$(256,797) | (748)%  |

In the third quarter of fiscal 2012, the Company accrued \$150,000 in conjunction with the settlement of the GES litigation. See Note 10 (Commitments and Contingencies) to our unaudited interim condensed consolidated financial statements above for additional information. For the third quarter and the first nine months of fiscal 2012, the Company incurred \$65,000 and \$151,000 in interest expense, respectively, primarily for an outstanding loan.

*Income from Discontinued Operations*

|                             | <b>Income (Loss) from Discontinued Operations</b> |             |           |         |
|-----------------------------|---|-------------|-----------|---------|
|                             | 2012  | 2011        | Change    | Percent |
| Three Months Ended June 30, | \$7,944   | \$7,561     | \$383     | (5 )%   |
| Nine Months Ended June 30,  | \$11,753  | \$(123,486) | \$135,239 | 110 %   |

In March 2011, we decided to discontinue the direct sales business and closed that business segment in May 2011 and reflected the change for previously reported periods. For more information, see discussions under the heading “Recent Developments-Discontinued Operations” above. The decline in loss between the nine months ended June 30, 2012 as compared to the nine months ended June 30, 2011 reflects a decline in expenses as we discontinued that business in May 2011.

*Net Loss*

|                             | <b>Net Loss</b> |               |             |         |
|-----------------------------|-----------------|---------------|-------------|---------|
|                             | 2012            | 2011          | Change      | Percent |
| Three Months Ended June 30, | \$(281,770)     | \$(1,143,372) | \$861,602   | (75 %)  |
| Nine Months Ended June 30,  | \$(732,401)     | \$(5,188,471) | \$4,456,070 | (86 %)  |

The reduction in net loss for the third quarter and first nine months of fiscal 2012 as compared to the third quarter and first nine months of 2011 are primarily attributable to changes in operating income, other income (expense) and discontinued operations, each of which is described above.

**Liquidity and Capital Resources**

Net cash generated in operating activities was approximately \$130,000 for the first nine months of fiscal 2012 as compared to cash used in operating activities of approximately \$3,980,000 for the first nine months of fiscal 2011, an improvement of \$4,110,000. A decrease of approximately \$4,456,000 in our net loss accounted for the majority of this variance. The cash impacts of the decreased net loss were partially offset by a reduction of non-cash expenses of \$918,000 including depreciation expense, stock compensation and bad debt expense. Changes in working capital and other current assets caused an increase in operating cash flows of \$469,000 during the first nine months of fiscal 2012 as compared to a decrease in operating cash flows of \$104,000 for the first nine months of 2011. This working capital variance resulted primarily from the changes in accounts receivable and accrued liabilities. Our primary source of cash inflows has historically been net remittances from directory services customers processed in the form of ACH billings and LEC billings.

We discontinued the direct sales services business in March 2011 as discussed above under the heading “Recent Developments-Discontinued Operations”. We previously received upfront payments averaging approximately one-sixth of the gross contract amount. Subsequent payments were received on an installment basis after the application of the initial payment amounts and were billed ratably over the remaining life of the contract.

Our most significant cash outflows include payments for general operating expenses, including payroll costs, and general and administrative expenses that typically occur within close proximity of expense recognition.

In the first nine months of fiscal 2012, we invested \$202,000 in intangible assets, primarily trade names and software development. In the first nine months of fiscal 2011, we redeemed \$101,000 of certificates of deposits.

During the first nine months of fiscal 2012, our cash flows from financing activities consisted of \$2,350,000 received from the issuance of stock to investors and \$250,000 received from the issuance of convertible debt, partially offset by \$37,000 of payments on capital lease obligations and \$1,000,000 of repayments of notes payable. During the first nine months of fiscal 2011, our cash flows from financing activities consisted of \$300,000 received from the issuance of stock to investors, \$1,000,000 received from the issuance of notes payable and payments of \$46,000 on capital lease obligations.

We had working capital of \$851,000 as of June 30, 2012 compared to \$(1,050,000) as of September 30, 2011 with current assets increasing by \$1,331,000 and current liabilities decreasing by \$570,000 from September 30, 2011 to June 30, 2012. Increases in working capital are primarily attributable to the proceeds received from the issuance of stock to our investors and proceeds received from the issuance of convertible debt partially offset by our operating net loss.

While we believe that our existing cash on hand is sufficient to finance our operations for the next twelve months, there can be no assurance that we will generate profitability or positive operating cash flows in the near future. To the extent that we cannot achieve profitability or positive operating cash flows, our business will be materially and adversely affected. Further, our business is likely to experience significant volatility in our revenues, operating losses, personnel involved, products or services for sale, and other business parameters, as management implements our new strategies and responds to operating results.

*Contractual Obligations*

The following table summarizes our contractual obligations at June 30, 2012 and the effect such obligations are expected to have on our future liquidity and cash flows:

|                                  | Payments Due by Fiscal Year |          |           |          |         |       |            |
|----------------------------------|-----------------------------|----------|-----------|----------|---------|-------|------------|
|                                  | Total                       | 2012     | 2013      | 2014     | 2015    | 2016  | Thereafter |
| Operating lease commitments      | \$241,472                   | \$98,482 | \$115,996 | \$25,190 | \$1,031 | \$773 | \$-        |
| Noncancellable service contracts | -                           | -        | -         | -        | -       | -     | -          |
|                                  | \$241,472                   | \$98,482 | \$115,996 | \$25,190 | \$1,031 | \$773 | \$-        |

*Off-Balance Sheet Arrangements*

At June 30, 2012, we had no off-balance sheet arrangements, commitments or guarantees that require additional disclosure or measurement.



#### ITEM 4. CONTROLS AND PROCEDURES

*Evaluation of Disclosure Controls and Procedures.* We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (our principal executive officer and principal financial officer) of the effectiveness of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 (“Exchange Act”) Rules 13a-15(e) and 15d-15(e)). Based upon that evaluation, our Chief Executive Officer concluded that, as of the end of the period covered in this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized and reported within the required time periods and is accumulated and communicated to our management, including our Chief Executive Officer, as appropriate to allow timely decisions regarding required disclosure.

*Changes in Internal Controls Over Financial Reporting.* On May 20, 2012, our employment agreement with Lawrence W. Tomsic, our Chief Financial Officer, expired in accordance with its terms. The parties elected not to extend the employment relationship and amicable parted ways. We are in the process of recruiting a replacement Chief Financial Officer. On a temporary basis, the lack of a Chief Financial Officer increases the risk of ineffective financial oversight of the Company’s accounting and financial processes. However, the Company has taken steps to mitigate this risk, including further involvement by the Chief Executive Officer in financial matters and the retention of an external CPA firm to assist in the analysis of certain accounting matters and in the preparation of the Company’s quarterly filings with the Securities and Exchange Commission.

Except with respect to the departure of the Chief Financial Officer described above, there have been no changes to our internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the fiscal quarter ended June 30, 2012 which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

The Company is party to certain legal proceedings from time to time incidental to the conduct of its business. These proceedings could result in fines, penalties, compensatory or treble damages or non-monetary relief. The nature of legal proceedings is such that we cannot assure the outcome of any particular matter, and an unfavorable ruling or development could have a materially adverse effect on our consolidated financial position, results of operations and cash flows in the period in which a ruling or settlement occurs. However, based on information available to the Company's management to date and other than as noted below, the Company's management does not expect that the outcome of any matter pending against us is likely to have a materially adverse effect on our consolidated financial position as of June 30, 2012, our annual results of operations or cash flows, or our liquidity.

#### **Global Education Services, Inc. v. LiveDeal, Inc.**

On June 6, 2008, Global Education Services, Inc. ("GES") filed a consumer fraud class action lawsuit against the Company in King County (Washington) Superior Court alleging that the Company's use of activator checks violated the Washington Consumer Protection Act. GES sought injunctive relief against the Company's use of activator checks, as well as damages in an amount equal to three times the damages allegedly sustained by the putative members of the class. LiveDeal denied the allegations and defended the litigation. The parties reached a tentative settlement in the third quarter of fiscal 2012 and the Company expects to file motions with the court for preliminary and final approval once the settlement documents have been completed. The Company has accrued \$150,000 in the third quarter of fiscal 2012 in conjunction with the settlement.

### **ITEM 1A. RISK FACTORS**

#### **Risks Related to Our Business**

##### **We may lose our LEC billing channels**

The largest LEC billing companies have issued a notice to all clearinghouses that they will cease billing for third parties as of December 28, 2012. We anticipate that the three remaining LEC's which have not announced that they

will terminate their LEC billing contracts will also cease processing for third parties as of the end of this calendar year. We plan to continue to bill our LEC billing customers by switching to alternative billing methods we currently use for our other customers. The change in billing methods may adversely impact our business by increasing cancellation and refund requests from our LEC billing companies.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES

In June, 2012, we sold 36,364 shares of our common stock in exchange for \$200,000. We offered and sold these shares without registration under the Securities Act of 1933 to an accredited investor in reliance upon the exemption from the registration contained in Section 4(2) of the Securities Act and Rule 506 of Regulation D thereunder. The shares may not be offered or sold in the United States in the absence of an effective registration statement or exemption from the registration requirements under the Securities Act. An appropriate legend has been placed on the share certificate we issued.

## ITEM 5. OTHER INFORMATION

On August 9, 2012, the Company entered into an Asset Purchase Agreement, dated as of July 30, 2012, with LiveOpenly, Inc., a California corporation, which is primarily engaged in sourcing discounted offers for goods and services through local retail merchants. Pursuant to the terms and subject to the conditions of the agreement, the Company will acquire substantially all of the assets of LiveOpenly in exchange for 75,000 shares of the Company's common stock. The parties have made customary representations, warranties and covenants in the agreement. Consummation of the acquisition is subject to certain closing conditions, including, among others, that LiveOpenly obtain any necessary consents to the assignment of its assets to the Company. The parties expect the acquisition to close in the fourth quarter of fiscal 2012, subject to the satisfaction or waiver of the various closing conditions in the purchase agreement. A copy of the asset purchase agreement, and the exhibits thereto, are attached as an exhibit hereto. The foregoing description of the asset purchase agreement is qualified in its entirety by reference to the full text thereof.

ITEM 6. EXHIBITS

The following exhibits are being filed herewith:

Exhibit Number   Description

|         |  |
|---------|--|
| 2.1     | Asset Purchase Agreement between LiveDeal, Inc. and LiveOpenly, Inc.                 |
| 31      | Certification of Jon Isaac pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32      | Section 1350 Certification of Jon Isaac  |
| 101.INS | XBRL Instance Document*  |
| 101.SCH | XBRL Schema Document*  |
| 101.CAL | XBRL Calculation Linkbase Document*  |
| 101.DEF | XBRL Definition Linkbase Document*   |
| 101.LAB | XBRL Label Linkbase Document*  |
| 101.PRE | XBRL Presentation Linkbase Document*   |

\*Pursuant to Rule 405(a)(2) of Regulation S-T, the Company will furnish the XBRL Interactive Data Files with detailed footnote tagging as Exhibit 101 in an amendment to this Form 10-Q within the permitted 30-day grace period for the first quarterly period in which detailed footnote tagging is required after the filing date of this Form 10-Q.

SIGNATURES

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

LiveDeal,  
Inc.

Dated: August 14, 2012 /s/ Jon Isaac  
Jon Isaac  
Chief  
Executive  
Officer and  
President