

LIVEDEAL INC
Form 10-Q
May 14, 2015
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

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.)

325 E. Warm Springs Road, Suite 102

89119

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Las Vegas, Nevada

(Zip Code)

(Address of principal executive offices)

(702) 939-0231

(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 May 13, 2015 was 16,143,353.

INDEX TO FORM 10-Q FILING

FOR THE QUARTER ENDED MARCH 31, 2015

TABLE OF CONTENTS

PART I

FINANCIAL INFORMATION

| | Page |
|--|------|
| Item 1. Financial Statements | 3 |
| Condensed Consolidated Balance Sheets as of March 31, 2015 (Unaudited) and September 30, 2014 | 3 |
| Condensed Consolidated Statements of Operations (Unaudited) for the Three and Six months ended March 31, 2015 and 2014 | 4 |
| Condensed Consolidated Statements of Cash Flows (Unaudited) for the Six months ended March 31, 2015 and 2014 | 5 |
| Notes to Condensed Consolidated Financial Statements (Unaudited) | 6 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 21 |
| Item 3. Quantitative and Qualitative Disclosures about Market Risk | 28 |
| Item 4. Controls and Procedures | 28 |

PART II

OTHER INFORMATION

| | |
|---|----|
| Item 1. Legal Proceedings | 29 |
| Unregistered Sales of Equity Securities and Use of Proceeds | 29 |

| | | |
|------------|---------------------------------|----|
| Item 2. | | |
| Item 3. | Defaults Upon Senior Securities | 29 |
| Item 4. | Mine Safety Disclosures | 29 |
| Item 5. | Other Information | 29 |
| Item 6. | Exhibits | 30 |
| Signatures | | 31 |

PART I – FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****LIVEDEAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

| | March 31, 2015 (unaudited) | September 30, 2014 |
|---|---|-----------------------------------|
| Assets | | |
| Cash and cash equivalents | \$7,189,182 | \$8,114,682 |
| Accounts receivable, net | 869,740 | 854,583 |
| Inventory | 2,827,672 | 4,277,145 |
| Prepaid expenses and other current assets | 363,023 | 583,647 |
| Total current assets | 11,249,617 | 13,830,057 |
| Property and equipment, net | 153,547 | 153,114 |
| Deposits and other assets | 64,800 | 65,161 |
| Intangible assets, net | 4,308,834 | 3,071,210 |
| Goodwill | 1,169,904 | 1,169,904 |
| Total assets | \$16,946,702 | \$18,289,446 |
| Liabilities and Stockholders' Equity | | |
| Liabilities: | | |
| Accounts payable | \$1,170,159 | \$2,282,887 |
| Accrued liabilities | 2,530,880 | 1,046,030 |
| Derivative liability | – | 83,580 |
| Note payable, net of debt discount | 480,962 | 920,360 |
| Total current liabilities | 4,182,001 | 4,332,857 |
| Long-term loans | 229,299 | 638,969 |
| Commitments and contingencies | 242,500 | 251,000 |
| Total Liabilities | 4,653,800 | 5,222,826 |
| Stockholders' equity: | | |
| Series E convertible preferred stock, \$0.001 par value, 200,000 shares authorized, 127,840 shares issued and outstanding at March 31, 2015 and September 30, 2014, liquidation preference \$38,203 | 10,866 | 10,866 |
| | 16,147 | 14,531 |

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Common stock, \$0.001 par value, 30,000,000 shares authorized, 16,141,805 and 14,525,248 shares issued and outstanding at March 31, 2015 and September 30, 2014, respectively

| | | |
|--|--------------|--------------|
| Paid in capital | 50,306,458 | 45,038,176 |
| Accumulated deficit | (38,040,569) | (31,996,953) |
| Total stockholders' equity | 12,292,902 | 13,066,620 |
| Total liabilities and stockholders' equity | \$16,946,702 | \$18,289,446 |

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

LIVEDEAL, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(UNAUDITED)**

| | Three Month Ended March 31, | | Six Month Ended March 31, | |
|---|--|--------------|--------------------------------------|----------------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenues | \$4,263,979 | \$678,033 | \$12,271,031 | \$1,271,491 |
| Cost of revenues | 2,328,883 | 245,678 | 7,098,979 | 367,007 |
| Gross profit | 1,935,096 | 432,355 | 5,172,052 | 904,484 |
| Operating expenses: | | | | |
| General and administrative expenses | 1,570,731 | 1,180,876 | 3,488,099 | 2,051,576 |
| Sales and marketing expenses | 1,453,705 | 222,434 | 3,641,182 | 249,506 |
| Total operating expenses | 3,024,436 | 1,403,310 | 7,129,281 | 2,301,082 |
| Operating loss | (1,089,340) | (970,955) | (1,957,229) | (1,396,598) |
| Other expense: | | | | |
| Interest expense, net | (5,314) | (110,858) | (4,196,944) | (111,374) |
| Other income | (566) | 140,387 | 27,939 | 158,387 |
| Gain on derivative liability | – | (34,434) | 83,580 | (34,434) |
| Total other expense, net | (5,880) | (4,905) | (4,085,425) | 12,579 |
| Net loss | \$(1,095,220) | \$(975,860) | \$(6,042,654) | \$(1,384,019) |
| Loss per share - basic and diluted: | \$(0.07) | \$(0.07) | \$(0.39) | \$(0.11) |
| Weighted average common shares outstanding: | | | | |
| Basic and diluted | 16,045,823 | 13,144,063 | 15,573,357 | 12,225,987 |

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

LIVEDEAL, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

| | Six Months Ended | |
|---|-------------------------|---------------|
| | March 31, | |
| | 2015 | 2014 |
| OPERATING ACTIVITIES: | | |
| Net loss | \$(6,042,654) | \$(1,384,019) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 332,147 | 211,237 |
| Non-cash interest expense associated with convertible debt and warrants | 2,191,273 | 113,971 |
| Non-cash interest expense associated with loan fees | 2,004,202 | – |
| Non-cash change in fair value of derivative liability | (83,580) | 34,434 |
| Stock based compensation expense | 48,399 | 105,860 |
| Non-cash issuance of common stock for services | 89,627 | 69,108 |
| Gain on disposal of property and equipment | – | (207) |
| Provision for uncollectible accounts | 1,767 | (32,667) |
| Reserve for obsolete inventory | 194,636 | – |
| Changes in assets and liabilities: | | |
| Accounts receivable | (16,924) | (163,994) |
| Prepaid expenses and other current assets | 220,624 | (464,699) |
| Inventory | 1,254,837 | 4,627 |
| Deposits and other assets | 361 | 2,700 |
| Accounts payable | (1,112,728) | (127,676) |
| Accrued liabilities | (24,612) | 128,183 |
| Net cash used in operating activities | (942,625) | (1,503,142) |
| INVESTING ACTIVITIES: | | |
| Acquisition of business | – | (200,000) |
| Expenditures for intangible assets | (37,047) | (3,563) |
| Proceeds from the sale of property and equipment | – | 1,400 |
| Purchases of property and equipment | (33,157) | (6,167) |
| Net cash used in investing activities | (70,204) | (208,330) |
| FINANCING ACTIVITIES: | | |
| Issuance of common stock for cash, net of issuance costs | 538,441 | 9,696,013 |
| Payments on notes payable | (551,112) | – |
| Proceeds from issuance of convertible debt | 100,000 | 823,595 |
| Net cash provided by financing activities | 87,329 | 10,519,608 |

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| | | |
|--|-------------|-------------|
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (925,500) | 8,808,136 |
| CASH AND CASH EQUIVALENTS, beginning of period | 8,114,682 | 761,458 |
| CASH AND CASH EQUIVALENTS, end of period | \$7,189,182 | \$9,569,594 |
| Supplemental cash flow disclosures: | | |
| Interest paid | \$17,732 | \$754 |
| Income taxes paid | \$- | \$- |
| Noncash financing and investing activities: | | |
| Recognition of contingent beneficial conversion feature | \$100,000 | \$500,000 |
| Conversion of notes payable and accrued interest into common stock | \$635,756 | \$- |
| Accrued and unpaid dividends | \$962 | \$959 |

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

LIVEDEAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED MARCH 31, 2015 AND 2014

(unaudited)

Note 1: Organization and Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of LiveDeal, Inc. (formerly, “YP Corp.”), a Nevada corporation, and its wholly owned subsidiaries (collectively the “Company”). The Company provides specialized online marketing solutions to small-to-medium sized local businesses, or SMBs, that boost customer awareness and merchant visibility. The Company offers affordable tools for SMBs to extend their marketing reach to relevant prospective customers via the internet. The Company also provides SMBs promotional marketing with the ability to offer special deals and activities through LiveDeal.com, mobile applications for iOS and Android users and our online publishing partners.

The accompanying unaudited Condensed Consolidated Balance Sheet as of March 31, 2015, which has been derived from our audited Consolidated Financial Statements, and the accompanying unaudited 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 (“GAAP”) 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 six months ended March 31, 2015 are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2015. 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, 2014 and for the fiscal year then ended included in the Company’s Annual Report on Form 10-K filed with the SEC on December 29, 2014.

The preparation of financial statements in accordance with GAAP 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.

All data for common stock, options and warrants have been adjusted to reflect the 3-for-1 forward stock split (which took effect on February 11, 2014) for all periods presented. In addition, all common stock prices, and per share data for all periods presented have been adjusted to reflect the 3-for-1 forward stock split.

Note 2: Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements represent the consolidated financial position and results of operations of the Company and include the accounts and results of operations of the Company, LiveDeal, Inc., Local Marketing Experts, Inc., Velocity Marketing Concepts, Inc., 247 Marketing Inc., Telco Billing, Inc., Telco of Canada, Inc., Velocity Local Inc., Modern Everyday, Inc. and its wholly owned subsidiaries, Modern Everyday, LLC and Super Nova, LLC, Live Goods, LLC and its wholly owned subsidiaries, DealTicker, Inc.. The results of operations for Live Goods, LLC DealTicker, Inc. and Modern Everyday, Inc. have only been included since the date of acquisition of March 7, 2014, May 5, 2014 and August 24, 2014, respectively. All intercompany transactions and balances have been eliminated in consolidation.

Revenue Recognition

Directory Services

Revenue is billed and recognized monthly for services subscribed in that specific month. The Company has historically utilized outside billing companies to perform billing services through two primary channels:

- direct ACH withdrawals; and
- inclusion on the customer's local telephone bill provided by their Local Exchange Carriers, or LECs.

For billings via ACH withdrawals, revenue is recognized when such billings are accepted. For billings via LECs, the Company recognizes revenue based on net billings accepted by the LECs. Due to the periods of time for which adjustments may be reported by the LECs and the billing companies, the Company estimates and accrues for dilution and fees reported subsequent to year-end for initial billings related to services provided for periods within the fiscal year. Such dilution and fees are reported in cost of services in the accompanying consolidated statements of operations. Customer refunds are recorded as an offset to gross revenue.

Revenue for billings to certain customers that are billed directly by the Company and not through the outside billing companies is recognized based on estimated future collections. The Company continuously reviews this estimate for reasonableness based on its collection experience.

Deals Revenue

The Company recognizes revenue from its sales through its strategic publishing partners of discounted goods and services offered by its merchant clients (“Deals”) when the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred; the selling price is fixed or determinable; and collectability is reasonably assured. These criteria are met when the number of customers who purchase the daily deal exceeds the predetermined threshold, where, if applicable, the Deal has been electronically delivered to the purchaser and a listing of Deals sold has been made available to the merchant. At that time, the Company's obligations to the merchant, for which it is serving as an agent, are substantially complete. The Company's remaining obligations, which are limited to remitting payment to the merchant, are inconsequential or perfunctory. The Company records as revenue an amount equal to the net amount it retains from the sale of Deals after paying an agreed upon percentage of the purchase price to the featured merchant excluding any applicable taxes. Revenue is recorded on a net basis because the Company is acting as an agent of the merchant in the transaction.

Deferred Revenue

In some instances, the Company receives payments in advance of rendering services, whereupon such revenues are deferred until the related services are rendered.

Product Revenue

The Company derives product revenue primarily from direct revenue and fulfillment partner revenue from product sales. Product revenue is recognized when the following revenue recognition criteria are met: (1) persuasive evidence

of an arrangement exists; (2) delivery has occurred or the service has been provided; (3) the selling price or fee revenue earned is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured. Revenue related to product sales is recognized when the above four criteria are met.

The Company evaluates the criteria outlined in ASC Topic 605-45, *Principal Agent Considerations*, in determining whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned as commissions. When the Company is the primary obligor in a transaction, are subject to inventory risk, have latitude in establishing prices and selecting suppliers, or have several but not all of these indicators, revenue is recorded gross. If we are not the primary obligor in the transaction and amounts earned are determined using a fixed percentage, revenue is recorded on a net basis. Currently, all direct revenue and fulfillment partner revenue is recorded on a gross basis, as the Company is the primary obligor. The Company presents revenue net of sales taxes.

Inventory

Inventory is valued at the lower of the inventory's cost (first in, first out basis) or the current market price of the inventory. Management compares the cost of inventory with its market value and an allowance is made to write down inventory to market value, if lower. All inventory at March 31, 2015 consists of finished goods inventory. At March 31, 2015 and September 30, 2014, the allowance for obsolete inventory was \$447,205 and \$252,569, respectively.

Segment Reporting

ASC Topic 280, "Segment Reporting," requires use of the "management approach" model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. The Company determined it has two reportable segments (See Note 18).

Derivative Financial Instruments

The Company evaluates all of its agreements to determine if such instruments have derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statements of operations. For stock-based derivative financial instruments, the Company uses a weighted average Black-Scholes-Merton option pricing model to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

Recently Issued Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360)." ASU 2014-08 amends the requirements for reporting discontinued operations and requires additional disclosures about discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations or that have a major effect on the Company's operations and financial results should be presented as discontinued operations. This new accounting guidance is effective for annual periods beginning after December 15, 2014. The adoption of this guidance is not expected to have a material impact on the Company's consolidated results of operations or financial condition.

In May 2014, the ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most current revenue recognition guidance. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 will be effective for the Company in the first quarter of its fiscal year ending June 30, 2018. The Company is currently in the process of evaluating the impact of adoption of this ASU on its consolidated financial statements.

In June 2014, the FASB issued Accounting Standards Update No. 2014-12, *Compensation — Stock Compensation (Topic 718), Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force)* (ASU 2014-12). The guidance applies to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. For all entities, the amendments in this Update are

effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The effective date is the same for both public business entities and all other entities. The Company is currently evaluating the impact of adopting ASU 2014-12 on the Company's results of operations or financial condition.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* (ASU 2014-15). The guidance in ASU 2014-15 sets forth management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern as well as required disclosures. ASU 2014-15 indicates that, when preparing financial statements for interim and annual financial statements, management should evaluate whether conditions or events, in the aggregate, raise substantial doubt about the entity's ability to continue as a going concern for one year from the date the financial statements are issued or are available to be issued. This evaluation should include consideration of conditions and events that are either known or are reasonably knowable at the date the financial statements are issued or are available to be issued, as well as whether it is probable that management's plans to address the substantial doubt will be implemented and, if so, whether it is probable that the plans will alleviate the substantial doubt. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods and annual periods thereafter. Early application is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In January 2015, the FASB issued Accounting Standards Update No. 2015-01, *Income Statement – Extraordinary and Unusual Items (Subtopic 225-20), Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items* (ASU 2015-01). The amendment eliminates from U.S. GAAP the concept of extraordinary items. This guidance is effective for the Company in the first quarter of fiscal 2017. Early adoption is permitted and allows the Company to apply the amendment prospectively or retrospectively. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

Other recent accounting pronouncements issued by the FASB, including its Emerging Issues Task Force, the American Institute of Certified Public Accountants, and the Securities and Exchange Commission did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

Note 3: Balance Sheet Information

Balance sheet information is as follows:

| | March 31, 2015 | September 30, 2014 |
|---|---------------------------|-----------------------------------|
| Receivables, current, net: | | |
| Accounts receivable, current | \$ 1,599,944 | \$ 1,611,269 |
| Less: Allowance for doubtful accounts | (730,204) | (756,686) |
| | \$ 869,740 | \$ 854,583 |
| Receivables, long term, net: | | |
| Accounts receivable, long term | \$ 344,572 | \$ 344,572 |
| Less: Allowance for doubtful accounts | (344,572) | (344,572) |
| | \$ - | \$ - |
| Total receivables, net: | | |
| Gross receivables | \$ 1,944,516 | \$ 1,955,841 |
| Less: Allowance for doubtful accounts | (1,074,776) | (1,101,258) |
| | \$ 869,740 | \$ 854,583 |
| Components of allowance for doubtful accounts are as follows: | | |
| Allowance for dilution and fees on amounts due from billing aggregators | \$ 1,063,617 | \$ 1,063,633 |
| Allowance for customer refunds | 1,750 | 2,107 |
| Allowance for other trade receivables | 9,409 | 35,518 |
| | \$ 1,074,776 | \$ 1,101,258 |
| Property and equipment, net: | | |
| Furnishings and fixtures | \$ 173,371 | \$ 162,642 |
| Office, computer equipment and other | 213,346 | 192,063 |
| | 386,717 | 354,705 |
| Less: Accumulated depreciation | (233,170) | (201,591) |
| | \$ 153,547 | \$ 153,114 |
| Intangible assets, net: | | |
| Domain name and marketing related intangibles | \$ 1,521,015 | \$ 1,521,015 |
| Website and technology related intangibles | 2,851,716 | 2,863,509 |
| Software | 1,500,000 | - |
| Covenant not to compete | 120,000 | 120,000 |
| | 5,992,731 | 4,504,524 |
| Less: Accumulated amortization | (1,683,897) | (1,433,314) |
| | \$ 4,308,834 | \$ 3,071,210 |
| Accrued liabilities: | | |

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| | | |
|---|-------------|--------------|
| Accrued payroll and bonuses | \$ 110,566 | \$ 107,224 |
| Accruals under revenue sharing agreements | 688 | 688 |
| Deferred revenue | 538,765 | 548,004 |
| Accrued software costs | 1,500,000 | – |
| Accrued expenses - other | 380,861 | 390,114 |
| | \$2,530,880 | \$ 1,046,030 |

Note 4: Intangible Assets

The Company's intangible assets consist of licenses for the use of Internet domain names, Universal Resource Locators, or URLs, capitalized website development costs, other information technology licenses, software, a covenant not to compete, and marketing and technology related intangibles acquired through the acquisition of LiveDeal, Inc. In addition as a result of the acquisition of MEI, the Company recorded goodwill of \$1,169,904. All such assets are capitalized at their original cost and amortized over their estimated useful lives as follows: domain name and marketing - 3 to 20 years; website and technology - 3 to 5 years; software -- 5 years, and covenant not to compete – 4 years. Goodwill is not amortized, but evaluated for impairment on at least an annual basis.

During the six months ended March 31, 2015, the Company purchased software for \$1,500,000. The Company has the option to pay for the software in cash or in 800,000 shares of the Company's common stock during the six month period after acquiring the software. At March 31, 2015, the Company had not made any payments towards the purchase of this software and has reflected the \$1,500,000 purchase price for the software in accrued liabilities in the accompanying condensed consolidated balance sheet.

The following summarizes estimated future amortization expense related to intangible assets for the twelve month periods ending March 31,:

| | |
|------------|-------------|
| 2016 | \$567,241 |
| 2017 | 793,696 |
| 2018 | 630,071 |
| 2019 | 541,215 |
| 2020 | 492,465 |
| Thereafter | 1,284,146 |
| | \$4,308,834 |

Total amortization expense related to intangible assets was \$299,423 and \$192,854 for the six months ended March 31, 2015 and 2014, respectively.

Note 5: Debt*ICG Convertible Note Transaction*

On April 3, 2012 (“Closing Date”), the Company entered into a Note Purchase Agreement (the “ICG Purchase Agreement”) with Isaac Capital Group, LLC (“ICG”), a related party, 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 the Company’s Board. Prior to this transaction, Mr. Isaac owned 1,209,675 shares, or 16.8% of the Company’s outstanding common stock. The ICG Purchase Agreement and the Notes, which are unsecured, provide that all amounts payable by the Company to ICG under the Notes were due and payable on April 3, 2013 (“Maturity Date”), provided that the Company had the option in its discretion to extend the Maturity Date by up to one (1) year if no Event of Default (as defined in the ICG Purchase Agreement) had occurred and was continuing, and the Company is in material compliance with its agreements and covenants under the Purchase Agreement and the Notes, as of the Maturity Date. The Company exercised such option prior to the Maturity Date.

Effective as of April 3, 2012, the Company and ICG amended the ICG Purchase Agreement to clarify ambiguities related to the warrant issuance timing and the conversion price of a Note, and to amend various anti-dilution features. These changes were consistent with the intent of the parties at the time they entered into the ICG Purchase Agreement and are consistent with the Company’s past practices related to the Notes and warrants. In particular, the amendment clarifies that the warrants will be issued upon conversion (rather than upon issuance) of the Notes and provides that the conversion price of a Note shall be based upon a floor price of \$0.33 per share, regardless if the Company’s stock is trading below that amount at the time ICG elects to convert a Note.

The ICG Purchase Agreement and the Notes, as amended, provided that:

· The Notes accrued interest at an annual interest rate equal to 8%. All interest was payable on the Maturity Date or upon the conversion of the applicable Note.

· The Company had the option to prepay each Note, in whole or in part, at any time without premium or penalty.

If ICG elected 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 was subject to adjustment in the event of stock splits or combinations, stock dividends, certain *pro rata* distributions, and certain fundamental transactions. Each Contingent Warrant was 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 price being subject to adjustment under the same conditions as the number of shares for which the warrant is exercisable.) The Contingent Warrants provided that they would be exercised in whole or in part and include a cashless exercise feature.

The Notes provided that, upon the occurrence of any Event of Default, all amounts payable to ICG would become immediately due and payable without any demand or notice.

The Company would 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) was 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 ICG 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 ICG 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 triggered 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 ICG 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 ("Note No. 1") on the Closing Date. Because the conversion price of \$0.84 was 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 on the Closing Date. The discount to Note No. 1 is being amortized to interest expense until maturity or its earlier repayment or conversion.

As mentioned above, the ICG Purchase Agreement, as amended, contained contingent provisions for the adjustment of the conversion ratio and conversion price, and the issuance of Contingent Warrants upon conversion.

On September 10, 2012, ICG elected to convert Note No. 1 with a conversion price of \$0.79 per share, resulting in the issuance of 327,417 shares. In accordance with the terms of the agreement, warrants to acquire 327,417 shares were issued upon conversion with an exercise price of (\$0.79 x 120%) \$0.95 per share. Upon conversion of Note No. 1, the remaining debt discount of \$97,222 was immediately recognized as interest expense. The fair value of the warrants issued in connection with the debt conversion of Note No. 1 was \$322,927 and was immediately recognized as interest expense.

On December 11, 2012, the Company issued a second Note to ICG in the principal amount of \$250,000 ("Note No. 2"), pursuant to the ICG Purchase Agreement. Because the conversion price of \$0.67 was less than the stock price, this gave rise to a beneficial conversion feature valued at \$200,738. The Company recognized this beneficial conversion feature as a debt discount and additional paid in capital on December 11, 2012. On December 17, 2012, ICG elected

to convert Note No. 2, resulting in the issuance of 371,487 shares of the Company's common stock and a warrant to acquire 371,487 additional shares of the Company's common stock at an exercise price of \$0.81 per share. Upon conversion of the Note No. 2, the remaining debt discount of \$196,556 was immediately recognized as interest expense. The fair value of the warrants issued in connection with the conversion of Note No. 2 was \$550,016 and was immediately recognized as interest expense.

On March 22, 2013 and March 25, 2013, the Company issued a third and fourth Note to ICG in the principal amount of \$500,000 ("Note No. 3") and \$250,000 ("Note No. 4"), respectively, pursuant to the ICG Purchase Agreement. Because the conversion price of \$0.46 was less than the stock price, this gave rise to beneficial conversion features valued at \$401,386. The Company recognized this beneficial conversion feature as a debt discount and additional paid in capital on March 25, 2013. On March 27, 2013, ICG elected to convert Note Nos. 3 and 4, resulting in the issuance of 1,631,886 shares of the Company's common stock and a warrant to acquire 1,631,886 additional shares of the Company's common stock at an exercise price of \$0.55 per share. Upon conversion of Note Nos. 3 and 4, the remaining debt discount of \$396,977 was immediately recognized as interest expense. The fair value of the warrants issued in connection with the conversion of Note Nos. 3 and 4 was \$1,299,884 and was immediately recognized as interest expense.

On March 28, 2013, the Company issued a fifth Note to ICG in the principal amount of \$250,000 ("Note No. 5"), pursuant to the ICG Purchase Agreement. Because the conversion price of \$0.47 was less than the stock price, this gave rise to a beneficial conversion feature valued at \$250,000. The Company recognized this beneficial conversion feature as a debt discount and additional paid in capital on March 28, 2013. On March 28, 2013, ICG elected to convert Note No. 5, resulting in the issuance of 535,716 additional shares of the Company's common stock and a warrant to acquire 535,716 shares at an exercise price of \$0.56 per share. Upon conversion of Note No. 5, the debt discount of 250,000 was immediately recognized as interest expense. The fair value of the warrants issued in connection with the conversion of Note No. 5 was \$589,442 and was immediately recognized as interest expense.

On January 23, 2014, the Company issued a Note to ICG in the principal amount of \$500,000 (“Note No. 6”). Because the conversion price of \$2.29 was less than the stock price, this gave rise to a beneficial conversion feature valued at \$500,000. The Company recognized this beneficial conversion feature as a debt discount and additional paid in capital. The debt discount is being amortized over the one year term. On December 3, 2014, ICG converted Note No. 6 into 674,370 shares of common stock, therefore the remaining debt discount of \$158,219 was written off and recognized as interest expense. In addition, upon the conversion of Note No. 6, the Company issued to ICG a warrant to acquire 674,370 additional shares of the Company’s common stock at an exercise price of \$0.95 per share. The fair value of the warrants issued in connection with the conversion of note was \$1,853,473 and was immediately recognized as interest expense.

Kingston Convertible Note Transaction (\$10 Million Line of Credit)

On January 7, 2014, the Company entered into a Note Purchase Agreement (the “Kingston Purchase Agreement”) with Kingston Diversified Holdings LLC (“Kingston”), pursuant to which the Investor agreed to purchase for cash up to \$5,000,000 in aggregate principal amount of the Company’s Convertible Notes (“Notes”). The Kingston Purchase Agreement and the Notes, which are unsecured, provide that all amounts payable by the Company to Kingston under the Notes will be due and payable on the second (2nd) anniversary of the date of the Kingston Purchase Agreement (the “Maturity Date”).

The Kingston Purchase Agreement and the Notes provide that:

Either the Company or Kingston will have the right to cause the sale and issuance of Notes pursuant to the Kingston Purchase Agreement, provided that NASDAQ’s approval of the Kingston Purchase Agreement and transactions contemplated thereby is a condition precedent to each party’s right to cause any borrowings to occur under the Kingston Purchase Agreement.

~~Each Note must be in a principal amount of at least \$100,000.~~

The Notes are issuable at a 5% discount and 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.~~

~~The Company or Kingston may elect at any time on or before the Maturity Date to convert the principal and accrued but unpaid interest due under any Note into shares of the Company’s common stock. The conversion price applicable to any such conversion will be an amount equal to 70% of the lesser of: (i) the closing bid price of the common stock on the date of the Kingston Purchase Agreement (i.e., \$3.12 per share); or (ii) the 10-day volume weighted average closing bid price for the common stock, as listed on NASDAQ for the 10 business days immediately preceding the date of conversion (the “Average Price”); provided, however, that in no event will the Average Price per share be less than \$0.33. For example, if the Average Price is \$0.17 per share, then for purposes of calculating the conversion~~

price, the Average Price per share would be \$0.33 per share instead of \$0.17 per share.

If either party elects to convert all or any portion of any Note, the Company must issue to Kingston 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 *pro rata* distributions, and certain fundamental transactions. 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 110% of the conversion price of the applicable Note (with the exercise price 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 Kingston will become immediately due and payable without any demand or notice. 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 (i) is required to provide certain financial and other information to Kingston 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 Kingston 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 Kingston Purchase Agreement, and (v) must not enter into certain types of transactions, including dispositions of its assets or business.

The Company agreed to use commercially reasonable efforts to obtain, as promptly as practicable, any approvals of the Company's stockholders required under applicable law or NASDAQ Listing Rules in connection with the transactions contemplated by the Kingston Purchase Agreement. Unless and until any such stockholder approvals are obtained, in no event will Kingston be entitled to convert any Notes and/or exercise any Contingent Warrants to the extent that any such conversion or exercise would result in Kingston acquiring in such transactions a number of shares of the Company's common stock exceeding 19.99% of the number of shares of common stock issued and outstanding immediately prior to the Company's entry into the Kingston Purchase Agreement.

Kingston will be entitled to certain anti-dilution adjustments if the Company issues shares of its common stock at a lower price per share than the applicable conversion price for any Note(s) issued pursuant to the Kingston Purchase Agreement. If any such dilutive issuance occurs prior to the conversion of one or more Notes, the conversion price for such Note(s) will be adjusted downward pursuant to its terms (subject to a floor of \$0.23 per share). If any such dilutive issuance occurs after the conversion of one or more Notes, Kingston will be entitled to be issued additional shares of common stock for no consideration, and to an adjustment of the exercise price payable under the applicable Contingent Warrant(s). With respect to each Note actually issued pursuant to the Kingston Purchase Agreement, Kingston's anti-dilution rights will expire two (2) years following the date of issuance.

On October 29, 2014, the Company entered into an amended convertible note purchase agreement with Kingston whereby the Company and Kingston agreed to (i) increase the maximum principal amount of the notes from \$5 million to \$10 million in principal amount, (ii) eliminate the original issue discount provision of the Agreement and replaces it with an execution payment equal to 5% of the maximum loan amount, and (iii) provides certain additional adjustments to the note conversion price and to the warrant exercise price.

On October 16, 2014, the Company issued a Note to Kingston in the principal amount of \$100,000. Because the conversion price of \$0.79 was less than the stock price on the date of issuance, this gave rise to a beneficial conversion feature valued at \$100,000. The Company recognized this beneficial conversion feature as a debt discount and additional paid in capital. The debt discount is being amortized over the one year term. On November 17, 2014, Kingston converted the note into 127,008 shares of common stock, therefore the debt discount of \$100,000 was written off and recognized as interest expense.

In addition, as a result of the October 29, 2014 amendment, the Company was required to issue to Kingston, the original issue discount payment equal to 5% of the maximum loan in shares of the Company's common stock based upon the conversion price of the first conversion which was \$0.79 per shares. The issued 630,252 shares of common stock that had a fair value of \$2,004,202 which was immediately recognized as interest expense.

February 2014 Convertible Note Transaction

On February 27, 2014, the Company issued a one year convertible note to an otherwise unaffiliated, non-institutional third party in the principal amount of \$323,595. The note (i) is unsecured, (ii) bears interest at the rate of six percent

per annum, and (iii) was issued without any original issue discount.

The principal is convertible into shares of the Company's common stock at any time and from time-to-time at the instance of either the Company or the holder. The per-share conversion price is an amount equal to ninety percent (90%) of the 10-day volume weighted average closing bid price for the Company's common stock, as reported by The NASDAQ Stock Market, Inc. for the ten (10) trading days immediately preceding the date of the notice of conversion, subject to downward adjustment in the event that the Company issues any securities at a price per share lower than the then-current conversion price; provided, however, that in no event shall the conversion price per share be less than \$1.00. The Company provided the holder with certain negative covenants and events of default, each standard for transactions of this nature.

Due to the "reset" and "dilutive issuance" clause in this note relating to the conversion price from dilutive share issuance, the Company has determined that the conversion feature is considered a derivative liability for the Company, which is detailed in Note 6.

The Company determined an initial derivative liability value of \$139,852, which is recorded as a derivative liability as of the date of issuance while also recording an \$139,852 debt discount on its balance sheet in relation to the bifurcation of the embedded conversion options of the note. The debt discount is being amortized over the one year term. The note was repaid during the six months ended March 31, 2015, therefore the remaining unamortized debt discount of \$57,665 was written off to interest expense. Also, as a result of the note being repaid, the derivative liability associated with this convertible note was reduced to \$0. The Company recorded \$83,580 of non-cash "change in fair value of derivative" income during the six months ended March 31, 2015.

Credit line

In connection with the purchase of Modern Everyday, Inc., the Company assumed a credit line from a bank. The credit line is collateralized by all the assets of Modern Everyday, Inc., accrues interest at prime plus 2% and is due on September 28, 2019.

Notes payable of Modern Everyday, Inc.

In connection with the purchase of Modern Everyday, Inc., the Company assumed certain notes payable. Subsequent to the closing of the acquisition, the Company repaid \$582,348 of these notes payable.

Outstanding debt at March 31, 2015 and September 30, 2014 consisted of the following:

| | March 31, 2015 | September 30, 2014 |
|--|-------------------------------|-----------------------------------|
| Note payable to individual, payable on demand, interest at 10.0% per annum, unsecured | \$91,336 | \$90,168 |
| Convertible note payable to individual, due February 27, 2015, interest at 6.0% per annum, unsecured | – | 335,245 |
| Convertible note payable to ICG, due January 23, 2015, interest at 8.0% per annum, unsecured | – | 527,889 |
| Acquisition note payable, \$200,000 due February 28, 2015 and \$400,000 due February 28, 2016, non-interest bearing with interest imputed at 2.87% per annum | 389,626 | 581,707 |
| Credit line due 1/1/2024, with interest rate of 2.75% | 229,299 | 240,204 |
| Less Debt Discount | – | (215,884) |
| Total Debt | 710,261 | 1,559,329 |
| Current portion | 480,962 | 920,360 |
| Long-term portion | \$229,299 | \$638,969 |

Note 6: Derivative Liability

The February 2014 Convertible Note discussed in Note 5 has a reset provision and a dilutive issuance clause that gave rise to a derivative liability.

The fair value of the derivative liability is recorded and shown separately under current liabilities. Changes in the fair value of the derivative liability are recorded in the condensed consolidated statement of income under other income (expense).

The Company evaluates all of its agreements to determine if such instruments have derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statements of operations. For stock-based derivative financial instruments, the Company uses a weighted average Black-Scholes-Merton option pricing model to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

The following table represents the Company's derivative liability activity for both the embedded conversion features for the six months ended March 31, 2015:

| | |
|---|----------|
| Derivative liability balance, September 30, 2014 | \$83,580 |
| Issuance of derivative liability during the six months ended March 31, 2015 | – |
| Change in derivative liability during the six months ended March 31, 2015 | (83,580) |
| Derivative liability balance, March 31, 2015 | \$– |

Note 7: Equity

During the six months ended March 31, 2015, the Company issued:

29,927 shares of common stock for services rendered valued at \$89,627. The value was based on the market value of the Company's common stock on the date of issuance;

155,000 shares of common stock for net cash proceeds of \$538,441;

801,378 share of common stock for the conversion of convertible notes and accrued interest of \$635,756;

630,252 shares of common stock as payment for the original issue discount fees associated with the Kingston agreement. The value of the shares of \$2,004,202 was based on the market value of the Company's common stock at the date of issuance.

At-The-Market Offerings of Common Stock (Chardan Capital Markets LLC)

On January 7, 2014, the Company entered into an Engagement Agreement (the "January 2014 Engagement Agreement") with Chardan Capital Markets LLC ("Chardan") pursuant to which the Company agreed to issue and sell up to a maximum aggregate amount of 1,980,000 shares of its common stock from time to time through Chardan as its sales agent, under its shelf Registration Statement on Form S-3 (File No. 333-187397) (the "First Registration Statement") previously filed with the SEC. During the quarter that ended on March 31, 2014, the Company sold 2,214,612 shares of its common stock under the First Registration Statement, resulting in gross proceeds of \$10,000,000, in an at-the-market offering, in which Chardan was its agent. The Company received net proceeds of \$9,696,013. The Company paid Chardan a total commission of \$299,882 pursuant to the January 2014 Engagement Agreement.

On May 16, 2014, the Company entered into an Engagement Agreement (the "May 2014 Engagement Agreement") with Chardan pursuant to which the Company may issue and sell up to a maximum aggregate amount of 10,000,000 shares of its common stock from time to time through Chardan as its sales agent, under its shelf Registration Statement on Form S-3 (File No. 333-193971) (the "Second Registration Statement") previously filed with the SEC, pursuant to which any shares that are issued under the May 2014 Engagement Agreement will be sold.

Upon delivery of a placement notice by the Company, and subject to the terms and conditions of the May 2014 Engagement Agreement, Chardan may sell the common stock by any method that is deemed to be an "at-the-market"

offering as defined in Rule 415 promulgated under the Securities Act of 1933, as amended (the “Securities Act”), including by means of ordinary brokers’ transactions at market prices on the NASDAQ Capital Market, in block transactions, through privately negotiated transactions, or as otherwise agreed by Chardan and the Company. Chardan will act as sales agent on a commercially reasonable efforts basis consistent with its normal trading and sales practices and applicable state and federal law, rules and regulations and the rules of NASDAQ.

The offering pursuant to the May 2014 Engagement Agreement will terminate upon the earlier of (i) the sale of all shares of common stock subject to the May 2014 Engagement Agreement, or (ii) termination of the May 2014 Engagement Agreement as permitted therein. The Engagement Agreement may be terminated by Chardan or us at any time upon 15 days’ written notice to the other party.

The Company will pay Chardan a commission equal to up to 3% of the gross proceeds from the sale of the common stock sold through Chardan pursuant to the May 2014 Engagement Agreement and reimburse Chardan up to \$15,000 in expenses. No assurance can be given that the Company will sell any shares under the May 2014 Engagement Agreement, or, if the Company does, as to the price or amount of shares that we will sell, or the dates on which any such sales will take place.

For the quarter ended June 30, 2014, the Company sold 790,236 shares of its common stock under the Second Registration Statement, resulting in gross proceeds of \$3,599,774, in an at-the-market offering, in which Chardan was its agent. The Company received net proceeds of \$3,491,702. The Company paid Chardan a total commission of \$107,993 pursuant to the May 2014 Engagement Agreement.

For the quarter ended September 30, 2014, the Company sold 110,300 shares of its common stock under the Second Registration Statement, resulting in gross proceeds of \$508,598, in an at-the-market offering, in which Chardan was its agent. The Company received net proceeds of \$493,340. The Company paid Chardan a total commission of \$15,258 pursuant to the May 2014 Engagement Agreement.

For the quarter ended March 31, 2015, the Company sold 155,000 shares of its common stock under the Second Registration Statement, resulting in gross proceeds of \$546,652, in an at-the-market offering, in which Chardan was its agent. The Company received net proceeds of \$538,441. The Company paid Chardan a total commission of \$8,211 pursuant to the May 2014 Engagement Agreement.

2014 Omnibus Equity Incentive Plan

On January 7, 2014, our Board of Directors adopted the 2014 Omnibus Equity Incentive Plan (the “2014 Plan”), which authorizes the issuance of distribution equivalent rights, incentive stock options, non-qualified stock options, performance stock, performance units, restricted ordinary shares, restricted stock units, stock appreciation rights, tandem stock appreciation rights and unrestricted ordinary shares to our officers, employees, directors, consultants and advisors. The Company has reserved up to 1,800,000 shares of common stock for issuance under the 2014 Plan. As required under Nasdaq Listing Rule 5635(c), the Company included a proposal at its 2014 Annual Meeting of Stockholders, which was held on July 11, 2014, to obtain approval of the 2014 Plan. The 2014 Plan was approved.

3-for-1 Forward Stock Split

On January 16, 2014, our Board of Directors approved a 3-for-1 forward stock split with respect to the Company’s common stock. Stockholders received three shares of common stock for every one share of common stock owned on the record date of February 3, 2014. The forward stock split was effective as of the close of trading on February 11, 2014. The additional shares were distributed as of the close of business on February 11, 2014. In connection with the forward stock split, the Company’s authorized shares of common stock also increased from 10,000,000 shares to 30,000,000 shares. All data for common stock, options and warrants have been adjusted to reflect the 3-for-1 forward stock split for all periods presented. In addition, all common stock prices, and per share data for all periods presented have been adjusted to reflect the 3-for-1 forward stock split.

Series E Convertible Preferred Stock

During the year ended September 30, 2002, pursuant to an existing tender offer, holders of 13,184 shares of the Company’s common stock exchanged said shares for 131,840 shares of Series E Convertible Preferred Stock, at the then \$0.85 market value of the common stock. The shares carry a \$0.30 per share liquidation preference and accrue dividends at the rate of 5% per annum on the liquidation preference per share, payable quarterly from legally available funds. If such funds are not available, dividends shall continue to accumulate until they can be paid from legally available funds. Holders of the preferred shares are entitled, after two years from issuance, to convert them into common shares on a hundred-to-one basis together with payment of \$0.45 per converted share.

Dividends

During each of the six months ended March 31, 2015 and 2014, the Company accrued dividends of \$962 and \$960, respectively, payable to holders of Series E preferred stock.

Note 8: Warrants

The Company issued several Notes in prior periods and converted them resulting in the issuance of warrants. The following table summarizes information about the Company's warrants at March 31, 2015:

| | Number of Units | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (in years) | Intrinsic Value |
|--|--------------------|--|---|--------------------|
| Outstanding at September 30, 2014 | 2,866,506 | \$ 0.63 | 3.39 | |
| Granted | 674,370 | 0.95 | | |
| Exercised | — | | | |
| Outstanding at March 31, 2015 | 3,540,876 | 0.69 | 3.23 | \$8,703,619 |
| Exercisable at March 31, 2015 | 3,540,876 | 0.69 | 3.23 | \$8,703,619 |

Most of the above warrants were issued in connection with conversion of convertible notes (See Note 5). When the debt is converted and warrants are issued, the Company determines the fair value of the warrants using the Black-Scholes model and takes a charge to interest expense at the date of issuance.

Note 9: Stock Options

From time to time, the Company grants stock options and restricted stock awards 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 following table summarizes stock option activity for the six months ended March 31, 2015:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Intrinsic Value |
|--|------------------------|--|---|--------------------|
| Outstanding at September 30, 2014 | 600,000 | \$ 2.76 | | \$- |
| Granted | - | | | |
| Exercised | - | | | |
| Forfeited | - | | | |
| Outstanding at March 31, 2015 | 600,000 | \$ 2.76 | 4.26 | 375,625 |
| Exercisable at March 31, 2015 | 337,500 | \$ 2.04 | 3.84 | 375,625 |

The Company recognized compensation expense of \$48,399 and \$105,860 during the six months ended March 31, 2015, 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.

At March 31, 2015, the Company had \$51,685 of unrecognized compensation expense (net of estimated forfeitures) associated with stock option awards which the Company expects will be recognized through June 2017.

The following table summarizes information about the Company's non-vested shares as of March 31, 2015:

| Non-vested Shares | Number of Shares | Weighted-Average Grant-Date Fair Value |
|--|---------------------------------|---|
| Nonvested at September 30, 2014 | 450,000 | \$ 0.73 |
| Granted | – | |
| Vested | (187,500) | |
| Nonvested at March 31, 2015 | 262,500 | \$ 0.73 |

Note 10: 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 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.

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

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--|---|---------------|---------------------------------------|-----------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net loss applicable to common stock | \$ (1,095,220) | \$ (975,861) | \$ (6,042,654) | \$ (1,384,019) |
| Less: preferred stock dividends | (479) | (479) | (962) | (959) |
| Net loss applicable to common stock | \$ (1,095,699) | \$ (976,340) | \$ (6,043,616) | \$ (1,384,978) |
| Weighted average common shares outstanding - basic and diluted | 16,045,823 | 13,144,063 | 15,573,357 | 12,225,987 |
| Loss per share - basic and diluted: | \$ (0.07) | \$ (0.07) | \$ (0.39) | \$ (0.11) |

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 Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|-------------|---------------------------------------|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Options to purchase shares of common stock | 600,000 | 675,000 | 600,000 | 675,000 |
| Warrants to purchase shares of common stock | 3,540,876 | 2,866,506 | 3,540,876 | 2,866,506 |
| Series E convertible preferred stock | 127,840 | 127,840 | 127,840 | 127,840 |
| Shares of non-vested restricted stock | – | 21,000 | – | 21,000 |
| Total potentially dilutive shares | 4,268,716 | 3,690,346 | 4,268,716 | 3,690,346 |

Note 11: Income Taxes

At March 31, 2015, 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 six months ended March 31, 2015, 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 12: Related Party Transactions

Convertible Notes with ICG

As described in Note 5, during 2012 and 2013 the Company entered into a Note Purchase Agreement with ICG, an entity owned by Jon Isaac, the Company's President and Chief Executive Officer and a director of the Company, and subsequently issued a series of Subordinated Convertible Notes thereunder to ICG. In connection with these transactions, the Company received gross proceeds of \$500,000 and \$1,250,000 during the year ended September 30, 2014 and 2013, respectively.

Under the terms of the Note Purchase Agreement and the Subordinated Convertible Notes, ICG executed its conversion option on all then-outstanding notes during the quarter ended December 31, 2012. In exchange for the conversion of \$250,000 of convertible notes during the quarter ended December 31, 2012, ICG received an aggregate of 371,487 of shares of common stock and, upon conversion ICG also received warrants to acquire an additional 371,487 shares of common stock.

Because the conversion price under ICG's notes was less than the fair market value of the stock on the date of issuance, the Company recognized a beneficial conversion feature which was treated as a debt discount and amortized on a straight line basis as interest expense until the date of conversion, at which time all remaining debt discount was recognized as interest expense. Additionally, the fair value of the warrants that were contingently issuable to ICG upon conversion were recognized as additional interest expense.

On January 23, 2014, the Company issued a Note to ICG in the principal amount of \$500,000.

During the six months ended March 31, 2015 and 2014, the Company recognized total interest expense of \$2,018,803 and \$7,556, respectively, associated with the ICG notes.

Note 13: Commitments and Contingencies

Purchase price contingency

In connection with acquisition of Modern Everyday, Inc., the Company issued 50,000 shares of the Company's common stock as part of the consideration for the acquisition. The Company has guaranteed the holder of the 50,000 shares that the value of those shares will be at least \$8.00 per shares 30 months after the acquisition date. The Company has agreed to compensate the holder, if the share price is less than \$8.00 at the 30 months anniversary of the acquisition, the difference between \$8.00 and the share price at the 30 month anniversary times the number of shares still owned by the holder. As of March 31, 2015, the Company as recorded a liability of \$242,500 related to this guarantee. The value of these shares was included as part of the purchase price consideration. The Company will adjust this guarantee at the end of each balance sheet date based on the current price of the Company's common stock.

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 the Company 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 the Company's consolidated financial position as of March 31, 2015, results of operations, cash flows or liquidity of the Company.

J3 Harmon LLC v. LiveDeal, Inc.

On February 9, 2012, J3 Harmon LLC, which we refer to as J3, filed a lawsuit against us in the Superior Court for Maricopa County in the State of Arizona, alleging breach of a commercial lease agreement. J3 sought damages for alleged unpaid rents during the lease term as well as alleged damages for storage costs after the expiration of the lease term. We denied the allegations and asserted various affirmative defenses. In September 2012, the Maricopa County Superior Court entered a judgment in favor of J3 in the sum of \$62,886. The Company appealed this judgment.

On October 1, 2013, the Arizona Court of Appeals affirmed in part and reversed in part on the principal damages and remanded the matter for judgment. Subsequently, the Maricopa County Superior Court entered Judgment on Mandate

against the Company in the principal sum of \$46,636 and attorneys' fees of \$5,624, with post-judgment interest from October 3, 2012. There is no further basis for appeal by the Company. As of March 31, 2015, the payment of this judgment has not been paid and the Company recorded an accrual of \$52,261 related to this matter.

Note 14: Concentration of Credit Risk

The Company maintains cash balances at banks in California and Nevada. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution as of March 31, 2015. At times, balances may exceed federally insured limits.

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily trade accounts receivable. The trade accounts receivable are due primarily from business customers over widespread geographical locations within the Local Exchange Carrier ("LEC") billing areas across the United States. The Company historically has experienced significant dilution and customer credits due to billing difficulties and uncollectible trade accounts receivable. The Company estimates and provides an allowance for uncollectible accounts receivable. The handling and processing of cash receipts pertaining to trade accounts receivable is maintained primarily by three third-party billing companies. The Company is dependent upon these billing companies for collection of its accounts receivable. The billing companies and LEC's charge fees for their services, which are netted against the gross accounts receivable balance. The billing companies also apply holdbacks to the remittances for potentially uncollectible accounts. These amounts will vary due to numerous factors and the Company may not be certain as to the actual amounts on any specific billing submittal until several months after that submittal. The Company estimates the amount of these charges and holdbacks based on historical experience and subsequent information received from the billing companies. The Company also estimates uncollectible account balances and provides an allowance for such estimates. The billing companies retain certain holdbacks that may not be collected by the Company for a period extending beyond one year. Additionally, certain other billings' channels consisting of billings submitted to LEC Processors through third parties were discontinued. As such, a significant portion of the receivables at March 31, 2015 and September 30, 2014 pertaining to LEC service providers represent the holdbacks described above.

The Company has concentrations of receivables with respect to certain wholesale accounts and remaining holdbacks with LEC service providers. Three such entities accounted for 21%, 13% and 9% of gross receivables at March 31, 2015 and 23%, 14%, and 10% of gross receivables at September 30, 2014, respectively.

Note 15: Segment Reporting

The Company operates in two segments which are characterized as: (1) legacy and merchants' services and (2) online marketplace platform. The legacy and merchants' services consists of LEC business and Velocity Local and the online marketplace platform consists of livedeal.com and the recent acquisitions of consumer products entities.

The following tables summarize segment information for the three and six months ended March 31, 2015 and 2014:

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--------------------------------------|---|---------------|---------------------------------------|---------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net revenues | | | | |
| Marketplace platform | \$3,879,696 | \$163,000 | \$11,476,764 | \$164,392 |
| Services | 384,283 | 515,033 | 794,267 | 1,107,099 |
| | \$4,263,979 | \$678,033 | \$12,271,031 | \$1,271,491 |
| Gross profit | | | | |
| Marketplace platform | \$1,579,215 | \$11,590 | \$4,459,138 | \$11,399 |
| Services | 355,881 | 420,765 | 712,914 | 893,085 |
| | \$1,935,096 | \$432,355 | \$5,172,052 | \$904,484 |
| Operating income (loss) | | | | |
| Marketplace platform | \$(1,381,317) | \$(1,210,514) | \$(2,539,747) | \$(1,878,002) |
| Services | 291,977 | 239,558 | 582,518 | 481,404 |
| | \$(1,089,340) | \$(970,956) | \$(1,957,229) | \$(1,396,598) |
| Depreciation and amortization | | | | |
| Marketplace platform | \$160,932 | \$97,305 | \$325,454 | \$202,015 |
| Services | 6,693 | 9,222 | 6,693 | 9,222 |
| | \$167,625 | \$106,527 | \$332,147 | \$211,237 |
| Interest Expenses | | | | |
| Marketplace platform | \$5,314 | \$111,374 | \$4,196,944 | \$111,374 |
| Services | — | (516) | — | — |
| | \$5,314 | \$110,858 | \$4,196,944 | \$111,374 |
| Net income (loss) | | | | |
| Marketplace platform | \$(1,387,197) | \$(1,221,695) | \$(6,625,172) | \$(1,867,847) |
| Services | 291,977 | 245,834 | 582,518 | 483,828 |
| | \$(1,095,220) | \$(975,861) | \$(6,042,654) | \$(1,384,019) |

As of **As of**

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| | March 31, 2015 | September 30, 2014 |
|--------------------------|---------------------------|-----------------------------------|
| Total Assets | | |
| Marketplace platform | \$16,789,865 | \$18,118,425 |
| Services | 156,837 | 171,021 |
| | \$16,946,702 | \$18,289,446 |
| | | |
| Intangible assets | | |
| Marketplace platform | \$5,473,527 | \$4,234,692 |
| Services | 5,211 | 6,422 |
| | \$5,478,738 | \$4,241,114 |

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 six months ended March 31, 2015, 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, 2014.

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) belief in the continued growth of internet usage, particularly via mobile devices, and demand for web-based marketing; (ii) belief in the continued growth in the demand for local search and information, (iii) belief that small and medium businesses will continue to outsource their online marketing efforts to third parties; (iv) belief that we can cost-effectively expand into other cities due to the scalability of the LiveDeal.com platform; (v) belief that the cash on hand and additional cash generated from operations together with potential sources of cash through issuance of debt or equity will provide the company with sufficient liquidity for the next 12 months; and (vi) belief that the outcome of pending legal proceedings will not have a material adverse effect on business, financial position and results of operations, cash flow or liquidity.

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, 2013 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 or any other websites referenced in this Quarterly Report are not part of this Quarterly Report.

Our Company

LiveDeal, Inc., which, together with its subsidiaries, we refer to as the “Company”, “LiveDeal”, “we”, “us” or “our”, provides specialized online marketing solutions to small-to-medium sized local businesses, or SMBs, that boost customer awareness and merchant visibility. We offer affordable tools for SMBs to extend their marketing reach to relevant prospective customers via the internet. We also provide SMBs promotional marketing with the ability to offer special deals and activities through LiveDeal.com, mobile applications for iOS and Android users and our online publishing partners.

Our principal offices are located at 325 E. Warm Springs Road, Suite 102, Las Vegas, Nevada 89119, our telephone number is (702) 939-0231, and our corporate website (which does not form part of this report) is located at www.livedeal.com. Our common stock trades on the NASDAQ Capital Market under the symbol “LIVE”.

We provide specialized online marketing solutions that boost customer awareness and merchant visibility on the internet and through mobile applications. This fiscal year, we identified two operating segments based on our major lines of business, which we refer to as our “Legacy/Merchants’ Services” segment and our “Online Marketplace Platform” segment. In addition, we incorporated Live Goods, LLC (“Live Goods”), as our wholly-owned subsidiary, which we have used to acquire companies under our online marketplace platform segment.

We incurred a net loss of \$6.0 million for the six months ended March 31, 2015. We had an operating cash outflow of approximately \$(0.95) million for the six months ended March 31, 2015. We sold shares of our common stock during the six months ended March 31, 2015 and the year ended September 30, 2014 for \$0.54 million and \$13.7 million, respectively. We had cash of \$7.2 million as of March 31, 2015. Management believes our cash on hand and additional cash generated from operations together with potential sources of cash such through the issuance of debt or equity will provide us with sufficient liquidity for the next 12 months.

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 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.

Online Marketplace Platform Segment

The years ended 2013 and 2014 marked a swift transition for us. We not only launched LiveDeal.com, which marked the redefinition of our strategy and direction toward an online platform, but we also acquired DealTicker™ and Modern Everyday, Inc., and all the assets of furniture retailer, DA Stores, LLC, which expanded our footprint of our online marketplace to offer consumer goods in addition to our restaurant services. By leveraging the consumer base, intellectual property and relationships that these acquisitions have solidified for their online businesses, we expect LiveDeal.com to become a vertically integrated one-stop shop for all the needs of the everyday consumer.

In September 2013, we launched LiveDeal.com. LiveDeal.com is a unique, real-time “deal engine” connecting merchants with consumers. Currently, we provide marketing solutions to a growing base of restaurants to boost customer awareness and merchant visibility on the Internet. We believe that we have developed the first-of-its-kind web/mobile platform providing restaurants with full control and flexibility to instantly publish customized offers whenever they wish to attract customers. Restaurants can sign up to use the LiveDeal platform at our website.

Highlights of LiveDeal.com include:

- an intuitive interface enabling restaurants to create limited-time offers and publish them immediately, or on a preset schedule that is fully customizable;
- state-of-the-art scheduling technology giving restaurants the freedom to choose the days, times and duration of the offers, enabling them to create offers that entice consumers to visit their establishment during their slower periods;
- advanced publishing options allowing restaurants to manage traffic by limiting the number of available vouchers to consumers;
- superior geo-location technology allowing multi-location restaurants to segment offers by location, attracting customers to slower locations while eliminating potential over-crowding at busier sites;
- innovating proprietary restaurant indexing methodology; and
- a user-friendly mobile and desktop web interface allowing consumers to easily browse, download, and instantly redeem “live” offers found on LiveDeal.com based on their location.

In 2014, the Livedeal.com iOS mobile App was approved by Apple for inclusion in Apple’s App Store, and the Android App became available to the public in the Google Play Store.

We believe one of the primary challenges facing the dining industry is the inefficient and limited number of ways restaurants are able to market offers and promotions to their potential customers. Daily deal companies typically dictate offer terms, such as the discount amount and redemption details. This not only erodes potential profits for restaurant owners but could also drive traffic during already-busy periods for the restaurants. LiveDeal’s model benefits both the restaurant and the consumer because it provides the restaurant the opportunity to create any offer

they choose, limit the number of potential claimants of their promotion, publish the offer on days and at times of their choosing, and provides customers with relevant offers they can easily and quickly redeem while creating a cost-effective model for LiveDeal to grow and easily scale its operations. We expect to initially derive revenues through premium placement on the site, and we are also exploring various options for monetizing the website.

The Company, best known for migrating print yellow pages to the Internet in 1994, began to develop the model for LiveDeal.com after having worked closely with well-known publishers in the daily deal market. In mid-2013, we tested the beta platform in a number of cities, and the model has been well received by restaurants, consumers, and various restaurant associations. We launched LiveDeal.com in the San Diego and Los Angeles, California markets in September 2013 and December 2013, respectively. This year we launched a massive advertising campaign directed at over 35 cities to support the restaurant owners who have created more than 10,000 deals in over 8,000 restaurants in those cities. The Company believes it can cost-effectively expand into other cities due to the scalability of the LiveDeal.com platform, as restaurants can curate deals through our account managers or create specials on their own. In addition, individual customers transact directly with the restaurant, eliminating the need for the Company to act as an intermediary in the sale.

In order to leverage our consumer base, during fiscal 2014 we acquired three business that offer consumer products. We plan to incorporate the sale of consumer products into our livedeal.com website to make it a vertically integrated one-stop shop for all the needs of the everyday consumer. Below is a brief description of the businesses purchased in fiscal 2014:

Modern Everyday, Inc.,

Modern Everyday, Inc. (“MEI”), acquired in August 2014, has both a retail location and a web presence providing consumers with products that range from kitchen and dining products, apparel and sporting goods to children's toys and beauty products. Modern Everyday also has proprietary software that will give us the capability to track products and predict consumer behavior and spending habits.

DA Stores Asset Acquisition

On March 7, 2014, Live Goods acquired substantially all of the assets of DA Stores, LLC, a furniture retailer. The acquisition of the assets is intended to assist in the implementation of our consumer goods online platform. We acquired inventory and equipment, furniture, software, hardware, and domain names.

DealTicker™

On May 6, 2014, Live Goods acquired all of the issued and outstanding shares in the capital of DealTicker Inc., a Canadian corporation (“DealTicker”) from its shareholders. DealTicker is an online platform company in the retail industry offering discounted products and services in the US and Canada. For strategic reasons, we have subsequently closed the operations of DealTicker.

Legacy and Merchants’ Services Segment

We developed and market a suite of products and services designed to meet the online marketing needs of SMBs at affordable prices. In August 2012, we commenced sourcing local deal and activities to strategic publishing partners under our LiveDeal® brand, which we refer to as promotional marketing. In November 2012, we commenced the sale of marketing tools that help local businesses manage their online presence under our Velocity Local™ brand, which we refer to as online presence marketing. Our target customers for our Velocity Local™ and our LiveDeal® brands are SMB owners who work long hours to deliver real value to their customers in their own communities that do not have the time or expertise to develop the powerful, multi-faceted, online marketing and advertising programs necessary for successful online marketing. Our offerings draw on a decade of experience servicing SMBs in the internet technology environment.

We continue to generate a significant portion of our revenue from servicing our existing customers under our legacy product offerings, primarily our InstantProfile® line of products and services. Because of the change in our business strategy and product lines, we no longer accept new customers under our legacy product offerings.

Critical Accounting Estimates and Assumptions

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make many estimates and assumptions that may materially affect both our consolidated financial statements and related disclosures, such as reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period, and the comparability of the information presented over different reporting periods. Estimates and assumptions are based on management's experience and other information available prior to the issuance of our financial statements. Our actual realized results may differ materially from management's initial estimates as reported. Summaries of our significant accounting policies are detailed in the notes to the consolidated financial statements, which are an integral component of this filing.

The discussion in this section of "critical" accounting estimates and assumptions is according to the disclosure guidelines of the SEC, wherein:

the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and

- the impact of the estimates and assumptions on our financial condition or operating performance is material.

Besides those meeting these "critical" criteria, we make many other accounting estimates and assumptions in preparing our financial statements and related disclosures. Although not associated with "highly uncertain matters," these estimates and assumptions are also subject to revision as circumstances warrant, and materially different results may sometimes occur.

The following summarizes "critical" estimates and assumptions made by management in the preparation of the consolidated financial statements and related disclosures.

Revenue Recognition

Directory Services

Revenue is billed and recognized monthly for services subscribed in that specific month. We have historically utilized outside billing companies to perform billing services through two primary channels:

- direct ACH withdrawals; and
- inclusion on the customer's local telephone bill provided by their Local Exchange Carriers, or LECs.

For billings via ACH withdrawals, revenue is recognized when such billings are accepted. For billings via LECs, we recognize revenue based on net billings accepted by the LECs. Due to the periods of time for which adjustments may be reported by the LECs and the billing companies, we estimate and accrue for dilution and fees reported subsequent to year-end for initial billings related to services provided for periods within the fiscal year. Such dilution and fees are reported in cost of services in the accompanying consolidated statements of operations. Customer refunds are recorded as an offset to gross revenue.

Revenue for billings to certain customers that are billed directly by us and not through the outside billing companies is recognized based on estimated future collections. We continuously reviews this estimate for reasonableness based on its collection experience.

Deals Revenue

We recognize revenue from sales through our strategic publishing partners of discounted goods and services offered by our merchant clients ("Deals") when the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred; the selling price is fixed or determinable; and collectability is reasonably assured. These criteria are met when the number of customers who purchase the daily deal exceeds the predetermined threshold, where, if applicable, the Deal has been electronically delivered to the purchaser and a listing of Deals sold has been made available to the merchant. At that time, our obligations to the merchant, for which we are serving as an agent, are substantially complete. Our remaining obligations, which are limited to remitting payment to the merchant, are inconsequential or perfunctory. We record as revenue an amount equal to the net amount it retains from the sale of Deals after paying an agreed upon percentage of the purchase price to the featured merchant excluding any applicable taxes. Revenue is recorded on a net basis because we are acting as an agent of the merchant in the transaction.

Product Revenue

We derive product revenue primarily from direct revenue and fulfillment partner revenue from product sales. Product revenue is recognized when the following revenue recognition criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or the service has been provided; (3) the selling price or fee revenue earned is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured. Revenue related to product sales is recognized when the above four criteria are met.

We evaluate the criteria outlined in ASC Topic 605-45, *Principal Agent Considerations*, in determining whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned as commissions. When we are the primary obligor in a transaction, are subject to inventory risk, have latitude in establishing prices and selecting suppliers, or have several but not all of these indicators, revenue is recorded gross. If we are not the primary obligor in the transaction and amounts earned are determined using a fixed percentage, revenue is recorded on a net basis. Currently, all direct revenue and fulfillment partner revenue is recorded on a gross basis, as we are the primary obligor. We present revenue net of sales taxes.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts, which includes allowances for customer refunds, dilution and fees from LEC billing aggregators and other uncollectible accounts. The determination of the allowance for doubtful accounts is dependent on many factors, including regulatory activity, changes in fee schedules by LEC service providers and recent historical trends.

Carrying Value of Intangible Assets

Our intangible assets consist of licenses for the use of internet domain names or universal resource locators, or URLs, capitalized website development costs and software, other information technology licenses, customer lists, non-compete agreements and marketing and technology-related intangibles acquired through acquisitions. All these assets are capitalized at their original cost (or at fair value for assets acquired through business combinations) and amortized over their estimated useful lives. We capitalize internally generated software and website development costs in accordance with the provisions of the FASB Accounting Standards Codification (“ASC”) ASC 350, “Intangibles – Goodwill and Other”.

We evaluate the recoverability of the carrying amount of intangible assets whenever events or changes in circumstances indicate that the carrying amount of these assets may not be fully recoverable. In the event of such

changes, impairment would be assessed if the expected undiscounted net cash flows derived for the asset are less than its carrying amount.

Stock-Based Compensation

From time to time we grant restricted stock awards and options to employees and executives. Such 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 vesting period.

Income Taxes

Income taxes are accounted for using the asset and liability method as prescribed by ASC 740 "Income Taxes". Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance would be provided for those deferred tax assets for which if it is more likely than not that the related benefit will not be realized.

We have estimated net deferred income tax assets (net of valuation allowances) of \$0 at March 31, 2015 and September 30, 2014. A full valuation allowance has been established against all net deferred tax assets as of March 31, 2015 and September 30, 2014 based on estimates of recoverability. While we have optimistic plans for our new business strategy, we determined that such a valuation allowance was necessary given the current and expected near term losses and the uncertainty with respect to our ability to generate sufficient profits from our new business lines. Therefore, we established a valuation allowance for all deferred tax assets in excess of those expected to be realizable through the application of operating loss carrybacks.

Results of Operations

The following sets forth a discussion of our financial results for the three and six months ended March 31, 2015 as compared to the three and six months ended March 31, 2014. 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. Generally, the significant changes in the results of operations when compared to the prior periods as noted below is a result of the acquisitions we made in fiscal 2014.

Net Revenues

| | Revenues | | | |
|--------------------------------|--------------|-------------|--------------|---------|
| | 2015 | 2014 | Change | Percent |
| Three Months Ended December 31 | \$4,263,979 | \$678,033 | \$3,585,946 | 529% |
| Six Months Ended March 31 | \$12,271,031 | \$1,271,491 | \$10,999,540 | 865% |

Net revenues for the three and six months ended March 31, 2015 increased by \$3,585,946 and \$10,999,540, respectively, as compared to the three and six months ended March 31, 2014, primarily due to the acquisition we made in fiscal 2014. Revenue from our online marketplace platform segment increased from \$163,000 and \$164,392 for the three and six months ended March 31, 2014 to \$3,879,696 and \$11,476,764 for the three and six months ended March 31, 2015. We expect revenue from this segment to increase in the future. Revenue from our legacy and merchants' services segment decreased from \$515,033 and \$1,107,099 for the three and six months ended March 31, 2014 to \$384,283 and \$794,267 for the three and six months ended March 31, 2015. We expect revenue from this segment to continue to decrease in the future.

Cost of Revenues

| | Cost of Revenues | | | |
|--------------------------------|------------------|-----------|-------------|---------|
| | 2015 | 2014 | Change | Percent |
| Three Months Ended December 31 | \$2,328,883 | \$245,678 | \$2,083,205 | 848% |
| Six Months Ended March 31 | \$7,098,979 | \$367,007 | \$6,731,972 | 1834% |

Cost of revenues increased for the three and six months ended March 31, 2015 as compared to the three and six months ended March 31, 2014, primarily due to increase in revenue from as a result of our acquisitions in the second half of fiscal 2014. Cost of services were 57.9% and 28.9% of net revenues for the six months ended March 31, 2015 and 2014, respectively, an increase of 29.0%

Gross Profit

| | Gross Profit | | | |
|--------------------------------|--------------|-----------|-------------|---------|
| | 2015 | 2014 | Change | Percent |
| Three Months Ended December 31 | \$1,935,096 | \$432,355 | \$1,502,741 | 348% |
| Six Months Ended March 31 | \$5,172,052 | \$904,484 | \$4,267,568 | 472% |

Gross profit increased for the three and six months ended March 31, 2015 by \$1,502,741 and \$4,267,568, as compared to the three and six months ended March 31, 2014, respectively, primarily due to the increase in revenues described above. The gross profit percentage for six months ended March 31, 2015 was 42.1% compared to 71.1% for the six months ended March 31, 2014. Our gross profit percentage from our legacy and merchants' services and online marketplace platform segments were 38.9% and 89.8, respectively for the six months ended March 31, 2015.

General and Administrative Expenses

| | General and Administrative Expenses | | | |
|--------------------------------|-------------------------------------|-------------|-------------|---------|
| | 2015 | 2014 | Change | Percent |
| Three Months Ended December 31 | \$1,570,731 | \$1,180,876 | \$389,855 | 33% |
| Six Months Ended March 31 | \$3,488,099 | \$2,051,576 | \$1,436,523 | 70% |

General and administrative expenses increased for the three and six months ended March 31, 2015 as compared to three and six months ended March 31, 2014 is principally a result of the three acquisitions that we made during fiscal 2014 which include increases payroll and related benefits, professional fees, rent and utilities, services and fees, office and supplies expenses, and other corporate expenses associated with our office operations.

Sales and Marketing Expenses

| | Sales and Marketing Expenses | | | |
|--------------------------------|------------------------------|-----------|-------------|---------|
| | 2015 | 2014 | Change | Percent |
| Three Months Ended December 31 | \$1,453,705 | \$222,434 | \$1,231,271 | 554% |
| Six Months Ended March 31 | \$3,641,182 | \$249,506 | \$3,391,676 | 1359% |

Sales and marketing expensed increased for the three and six months ended March 31, 2015 as compared to three and six months ended March 31, 2014 primarily due to expenses associated with marketing activities of our recently purchased acquisitions.

Operating Loss

| | Operating Loss | | | |
|--------------------------------|-----------------------|---------------|-------------|---------|
| | 2015 | 2014 | Change | Percent |
| Three Months Ended December 31 | \$(1,089,340) | \$(970,955) | \$(118,385) | 37% |
| Six Months Ended March 31 | \$(1,957,229) | \$(1,396,598) | \$(560,631) | 37% |

The increase in operating loss for the three and six months ended March 31, 2015 as compared to three and six months ended March 31, 2014 resulted from a variety of factors, including increases in, general and administrative expenses and sales and marketing expenses, resulting from our recent acquisitions of three businesses.

Total Other Income (Expense)

| | Total Other Income (Expense) | | | |
|--------------------------------|-------------------------------------|------------|---------------|----------|
| | 2015 | 2014 | Change | Percent |
| Three Months Ended December 31 | \$(5,880) | \$(4,905) | \$(975) | 20% |
| Six Months Ended March 31 | \$(4,085,425) | \$12,579 | \$(4,098,004) | (32578)% |

The large increase in other expense in the six months ended March 31, 2015 as compared to six months ended March 31, 2014 was primarily due to interest expense incurred during the six months ended March 31, 2015, relating to the amortization of debt discounts, the issuance of warrants upon the conversion of debt and the issuance of common stock for the original issue discount on a \$10 million credit facility.

Net Loss

| | Net Loss | | | |
|--------------------------------|-----------------|---------------|---------------|---------|
| | 2015 | 2014 | Change | Percent |
| Three Months Ended December 31 | \$(1,095,220) | \$(975,860) | \$(119,360) | 12% |
| Six Months Ended March 31 | \$(6,042,654) | \$(1,384,019) | \$(4,658,635) | 337% |

The Increase in the net loss for the three and six months ended March 31, 2015, as compared to the net loss for the three and six months ended March 31, 2014 was primarily attributable to changes in other expense, as described above.

Liquidity and Capital Resources*Cash Flows from Operating Activities*

Net cash used in operating activities was \$942,625 for the six months ended March 31, 2015 as compared to \$1,503,142 for the same period in 2014. This change was due to an increase of \$4,658,635 in our net loss, partially offset by an increase of non-cash expenses of \$4,583,835 which during the six months ended March 31, 2015 included

\$2,191,73 of interest expense associated with convertible debt and warrants, \$2,004,202 of interest expense associated with loan fees, depreciation expense, stock compensation and bad debt expense. Cash flows from operations were also impacted by a decrease of approximately \$1,137,053 in changes in working capital and other assets in the six months ended March 31, 2015 as compared to the same period in 2014. This working capital variance resulted primarily from the changes in accounts receivable, accounts payable 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. 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.

Cash Flows from Investing Activities

Our cash flows used in investing activities during the six months ended March 31, 2015 consisted of \$37,047 of expenditures for intangible assets and \$33,157 of purchases of equipment. Our cash flows used in investing activities during the six months ended March 31, 2014 consisted of \$200,000 for the acquisition of a business, \$3,563 of expenditures for intangible assets and \$6,617 of purchases of equipment.

Cash Flows from Financing Activities

Our cash flows from financing activities during the six months ended March 31, 2015 consisted of \$538,441 from the sale of shares of our common stock, \$100,000 from issuances of convertible debt offset by repayment of a note payable of \$551,112.

Working Capital

We had working capital of \$7,067,616 as of March 31, 2015 compared to working capital of \$9,497,200 as of September 30, 2014 with current assets decreasing by \$2,580,440 and current liabilities decreasing by \$150,856 from September 30, 2014 to March 31, 2015. Such changes in working capital are primarily attributable to the increase in our operating net loss and the results of our financing activities.

At-The-Market Offerings of Common Stock (Chardan Capital Markets LLC)

During the year ended September 30, 2014, we sold 3,115,147 shares of our common stock, resulting in gross proceeds of \$14,093,582, in an at-the-market offering, in which Chardan Capital Markets LLC (“Chardan”) was our agent. We received net proceeds of \$13,681,054. We paid Chardan a total commission of \$412,528 in connection with such sales. During the quarter ended March 31, 2015, we sold 155,000 shares of our common stock resulting in gross

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proceeds of \$546,652, in an at-the-market offering, in which Chardan was our agent. The Company received net proceeds of \$538,441. The Company paid Chardan a total commission of \$8,211 in connection with such sales.

Future Sources of Cash; New Products and Services

We will require additional capital to finance our planned business operations as we continue to build and market our LiveDeal.com and Velocity Local™ offerings, working capital to fund our growing operations, and develop other new products. In addition, we may require additional capital to finance acquisitions or other strategic investments in our business. Other sources of financing may include stock issuances; additional loans (for example, through our sale and issuance of convertible notes pursuant to the \$10 million line of credit that we entered into in January 2014, as amended); or other forms of financing. Any financing obtained may further dilute or otherwise impair the ownership interest of our existing stockholders. If we are unable to generate positive cash flows or raise additional capital in a timely manner or on acceptable terms, we may (i) not be able to make acquisitions or other strategic investments in our business, (ii) modify, delay or abandon some or all of our business plans, and/or (iii) be forced to cease operations.

Although we stopped new Velocity product sales on July 15, 2011, we continued to service existing customers acquired under our Directory Services and InstantProfile product and service lines and we are simultaneously exploring other strategic alternatives. In August 2012, we commenced sourcing local deals and activities to strategic publishing partners under our LiveDeal® brand, and in November 2012, we commenced the sale of marketing tools that help local businesses manage their online presence under our Velocity Local™ brand. In September 2013, we launched LiveDeal.com, which redefined our strategy and direction, centering its focus on the new LiveDeal.com platform and growing the base of restaurants utilizing the LiveDeal platform to attract new customers. LiveDeal.com is a unique, real-time “deal engine” connecting merchants with consumers. There can be no assurance that that these new product lines will generate sufficient revenue or that we will achieve profitability, positive operating cash flows, or sufficient cash flows for operations.

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.

Off-Balance Sheet Arrangements

At March 31, 2015, we had no off-balance sheet arrangements, commitments or guarantees that require additional disclosure or measurement.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

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. 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 March 31, 2015 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 March 31, 2015, our annual results of operations or cash flows, or our liquidity.

J3 Harmon LLC v. LiveDeal, Inc.

On February 9, 2012, J3 Harmon LLC, which we refer to as J3, filed a lawsuit against us in the Superior Court for Maricopa County in the State of Arizona, alleging breach of a commercial lease agreement. J3 sought damages for alleged unpaid rents during the lease term as well as alleged damages for storage costs after the expiration of the lease term. We denied the allegations and asserted various affirmative defenses. In September 2012, the Maricopa County Superior Court entered a judgment in favor of J3 in the sum of \$62,886. We appealed this judgment.

On October 1, 2013, the Arizona Court of Appeals affirmed in part and reversed in part on the principal damages and remanded the matter for judgment. Subsequently, the Maricopa County Superior Court entered Judgment on Mandate against the Company in the principal sum of \$46,636.31 and attorneys' fees of \$5,624.40, with post-judgment interest from October 3, 2012. There is no further basis for appeal by the Company. The Company anticipates paying the judgment during the fiscal quarter ending September 30, 2014 and, upon such payment, the matter will be resolved. As of March 31, 2015, we maintained an accrual of \$52,261 related to this matter.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

None

ITEM 5. OTHER INFORMATION

None

29

ITEM 6. EXHIBITS

The following exhibits are being filed herewith:

| <u>Exhibit Number</u> | <u>Description</u> |
|-----------------------|--|
| 31.1 | Certification of Jon Isaac pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Jon Isaac pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | 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 |

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: May 14, 2015 /s/ *Jon Isaac*
Jon Isaac
President and
Chief
Executive
Officer

(Principal
Executive
Officer and
Principal
Financial
Officer)

