

LIVEDEAL INC  
Form 10-K  
December 29, 2008

---

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K  
ANNUAL REPORT  
PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the fiscal year ended September 30, 2008

TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the Transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-24217

LiveDeal, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Nevada  
(State or Other Jurisdiction of Incorporation or  
Organization)

85-0206668  
(IRS Employer Identification No.)

2490 East Sunset Road, Suite 100  
Las Vegas, Nevada  
(Address of principal executive offices)

89120  
(Zip Code)

Registrant's telephone number, including area code: (702) 939-0230

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$.001 Par Value  
(Title of Class)

Edgar Filing: LIVEDEAL INC - Form 10-K

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

---

---

1

---

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

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 aggregate market value of the common stock held by non-affiliates computed based on the closing price of such stock on March 31, 2008 was approximately \$18,759,655.

The number of shares outstanding of the registrant's common stock, as of December 1, 2008, was 6,066,742 shares.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement relating to the Registrant's 2009 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

## LIVEDEAL, INC.

## FORM 10-K

For the year ended September 30, 2008

## TABLE OF CONTENTS

	Page
Part I	
Item 1.	<u>Business</u> 4
Item 1A.	<u>Risk Factors</u> 11
Item 1B.	<u>Unresolved Staff Comments</u> 19
Item 2.	<u>Properties</u> 19
Item 3.	<u>Legal Proceedings</u> 20
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u> 20
Part II	
Item 5.	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> 20
Item 6.	<u>Selected Financial Data</u> 23
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 23
Item 7A.	<u>Quantitative and Qualitative Disclosure About Market Risk</u> 31
Item 8.	<u>Financial Statements and Supplementary Data</u> 32
	<u>Report of Independent Registered Public Accounting Firm</u> 33
	<u>Consolidated Financial Statements:</u>
	<u>Consolidated Balance Sheets at September 30, 2008 and 2007</u> 34
	<u>Consolidated Statements of Operations for the Years Ended September 30, 2008 and 2007</u> 35
	<u>Consolidated Statements of Stockholders' Equity for the Years Ended September 30, 2008 and 2007</u> 36
	<u>Consolidated Statements of Cash Flows for the Years Ended September 30, 2008 and 2007</u> 37
	<u>Notes to Consolidated Financial Statements</u> 38
Item 9.	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u> 54
Item 9A.	<u>Controls and Procedures</u> 54
Item 9B.	<u>Other Information</u> 54
Part III	
Item 10.	<u>Directors, Executive Officers and Corporate Governance</u> 56
Item 11.	<u>Executive Compensation</u> 56
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> 56
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u> 56

Item 14.	<u>Principal Accountant Fees and Services</u>	56
Part IV		
Item 15.	<u>Exhibits, Financial Statement Schedules</u>	56
<u>Signatures</u>		61

Table of Contents

PART I

Forward-Looking Statements

Part I of this Annual Report on Form 10-K includes statements that constitute forward-looking statements. These forward-looking statements are often characterized by the terms may, believes, projects, expects, or anticipates, not reflect historical facts. Specific forward-looking statements contained in Part I of this Annual Report include, but are not limited to, our company's (i) belief that local exchange carrier, or LEC billing, will continue to be a significant billing channel in the future; (ii) expectation of increasing revenues through our national accounts programs, fulfillment contracts, web hosting and other arrangements; (iii) belief in the growth in our Telesold Suite Services to continue through fiscal 2009 and to represent a more substantial portion of our revenue in the upcoming fiscal year and going forward; (iv) belief in the growth of Internet usage and the Internet Yellow Page market as described in recent press releases by The Kelsey Group; (v) belief in the growth of the local search and information market as described in recent reports by Borrell Associates; (vi) belief that existing cash on hand will be sufficient to meet our needs for the next 12 months; (vii) belief that recent acquisitions to bring telemarketing services in-house will yield future cost savings and (viii) belief that existing facilities are adequate for our current and anticipated future needs and that our facilities and their contents are adequately covered by insurance.

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 Item 1A. Risk Factors, as well as other factors that we are currently unable to identify or quantify, but may exist in the future.

In addition, the foregoing factors may affect generally our business, results of operations and financial position. Forward-looking statements speak only as of the date the statement was made. We do not undertake and specifically decline any obligation to update any forward-looking statements.

ITEM 1. Business

Our Company

LiveDeal, Inc., a Nevada corporation (formerly known as YP Corp.) (the Company, we, us, or our ) is a provider of Internet directory, classified and audience acquisition services to small businesses. Through our wholly-owned subsidiary, Telco Billing, Inc. ( Telco ), located in Las Vegas, Nevada, we publish a small business directory online at or through the following URL s: [yellowpages.livedeal.com](http://yellowpages.livedeal.com) (and until October, 2008 at the URL [www.YP.com](http://www.YP.com)). The company also publishes an online classified marketplace at the URL [www.livedeal.com](http://www.livedeal.com). Any information contained on the foregoing websites or any other websites referenced in this Annual Report are not a part of this Annual Report.

On June 6, 2007, we completed our acquisition of LiveDeal, Inc, a California corporation ( LiveDeal ). LiveDeal has developed and operates an online local classifieds marketplace, [www.livedeal.com](http://www.livedeal.com) which has millions of goods and services listed for sale across the U.S. LiveDeal offers such classifieds functionality as fraud protection, identity protection, e-commerce, listing enhancements, photos, community-building, package pricing, premium stores, featured Yellow Page business listings and advanced local search capabilities. Additionally, the LiveDeal technology lets consumers search or browse for items in a particular city, state or zip code.

On July 10, 2007, we acquired substantially all of the assets and assumed certain liabilities of OnCall Subscriber Management Inc. a Manila, Philippines-based company that provides telemarketing services. This acquisition allowed us to bring certain marketing efforts in-house, which we expect to yield future cost savings.

Summary Business Description

We have two inter-related primary lines of business: (1) We deliver a suite of audience acquisition services for small businesses, sold via telemarketing and supported by our websites and software that we have developed to manage search and other Internet services efficiently, and (2) we maintain a combined local online classifieds and small business directory marketplace with millions of goods and services listed for sale, in every city and zip code across the U.S.

## Table of Contents

Our websites, by combining the benefits of classifieds, business listings, mobile services, advertising/distribution networks and e-commerce into a single online solution, offer businesses and consumers an affordable and effective solution for creating a web presence and marketing their products and services locally. Using LiveDeal's marketplace, consumers can search or browse for items in a particular city, state or zip code, or reach out on a national or global scope if they so choose.

Our websites also support our audience acquisition services by providing locally and vertically targeted Internet pages that are effective at producing web site traffic, leads and other valuable customer interactions on behalf of our small business customers. Our Telesold audience acquisition services are not limited to our own websites. Our suite currently includes the following activities but the range of activities we deliver is designed to shift over time, based on the needs of our small business customers and the ever-changing state of Internet technology:

§ Website URL acquisition services whereby we obtain website address names on behalf of our small business clients.

§ Website development and deployment services where we create, house and manage websites on behalf of our small business clients.

§ Website traffic and audience development services which provides sophisticated search engine marketing techniques, access to our own websites, partnerships with other websites and other techniques to generate traffic to our customers' websites, whether created and housed by us or not.

§ Website analytics and performance reports that generate information for our customers about activities on their websites and lead activities for their businesses based on Internet activities.

§ Directory services: We provide both basic and enhanced directory listings for our customers on our own directory and on partner directories.

§ Classified services which provide classified and bulk inventory commerce capabilities for our small business customers through our classified marketplace.

## Products and Services

### Website Products

### Business Directory

We use a business model similar to print Yellow Pages publishers for our Yellow Page marketplace. We publish basic directory listings on the Internet free of charge. Our basic listings contain the business name, address and telephone number for almost 17 million U.S. businesses. We strive to maintain a listing for almost every business in America in this format.

We generate revenues from advertisers that desire increased exposure for their businesses. As described below, advertisers pay us monthly fees in the same manner that advertisers pay additional fees to traditional print Yellow Pages providers for enhanced advertisement font, location or display. The users of our website are prospective customers for our advertisers, as well as the other businesses for which we publish basic listings. We also have arrangements with third parties to distribute our advertisers' information to other search engines, thereby enhancing our advertisers' presence on the Internet.



**Benefits to Advertisers.** We provide added value to advertisers that have purchased our Internet Advertising Package ( IAP ) through promotion and branding of our website to bring customers to our advertisers. We believe that the large number of IAPs, which include the Mini-WebPages, provide users of our website with more information about our advertisers and that this feature is more readily available on our website than that of our competitors. We believe that we provide users of our website with the information they are looking for, more quickly and more efficiently. We believe our call center provides the highest level of customer service and therefore provides IAP advertisers with the necessary resources to fully utilize the benefits of the IAP. We also believe the attraction of these users will, over the long-term, result in more sales for our IAP advertisers.

Moreover, we provide additional value through our relationships. We provide the majority of our IAP advertisers additional exposure by circulating their listings to other search engines. The circulated listing competes for appearance in search results across the Internet through a paid advertising agreement with Interchange Corp., which in turn circulates listings to destinations such as epilot.com and local.com. Interchange Corp. has agreements with approximately 300 search partners with over 3 billion searches per month to display advertising. We also have an agreement with Yahoo! Search Services to improve our IAP advertisers appearance in search results at several high-profile sites including www.msn.com, www.altavista.com, www.cnn.com and www.infospace.com. In addition to our paid advertising programs, our preferred listings are syndicated to community portals at www.mycity.com. MyCity.com has a national network of online city guides, focused on delivering local search results.

**Benefits to Users of our Website.** We are a national online Yellow Pages. Users of our website can access information nationally rather than relying exclusively on local listings such as those provided in print Yellow Pages directories. In addition, our product offerings allow users to find and take advantage of our advertisers current special offerings and discounts. Users can access such information easily through their desktop or laptop computers, cellular telephones or hand-held devices, such as personal digital assistants. We believe our offering of a national online Yellow Pages service meets the growing demand for immediate access and the increasing need and trend of Internet users who are more frequently traveling to areas outside the areas serviced by their local print directories. We also believe that our website meets or exceeds the local Yellow Page search capabilities of our major competitors.

## Table of Contents

Internet Advertising Package. Our primary revenue-producing directory product is our Internet Advertising Package, or IAP. Under this package, the advertiser pays for additional exposure by purchasing enhancements to a basic listing, such as a Mini-WebPage. This Mini-WebPage contains, among other useful information, a 40-word description of the business, hours of operation, and detailed contact information. The advertiser can easily access and modify its Mini-WebPage. This product is easily searched by users of our website on their personal computers, as well as cellular telephones and other hand-held devices. In order to provide search traffic to an advertiser's Mini-WebPage, we elevate the advertiser to a preferred listing status at no additional charge. As such, the preferred advertiser enjoys the benefit of having its advertisement displayed in a primary position before all of the basic listings in that particular category when users of our website perform searches on our website. We also provide our IAP advertisers with enhanced presentation and additional unique products, including:

Larger font.

Bolded business name.

A tagline whereby the advertiser can differentiate itself from its competitors.

An audio advertisement.

Map directions.

A Click2Call feature, whereby a user of our website can place a telephone call to one of our advertising customers by clicking the icon that is displayed on the Mini-WebPage. This initiates a telephone call by the advertiser to the user, in a conference call type format. Once both are connected, it functions as a regular telephone call. Because we cover all charges for this telephone call, it is free of charge to both the user and the IAP advertiser. We have an agreement with WebDialogs, Inc. to provide this service.

A link to the advertiser's own webpage and email address.

Additional distribution network for preferred listings. This feature gives additional exposure to our IAP advertisers by placing their preferred listing on several online directory systems. There currently is no charge to the IAP advertiser for these additional channels of distribution.

Directory Pricing. Our IAP advertisers generally pay between \$27.50 and \$39.95 per month. Our IAP accounted for approximately 90% of our net revenues in fiscal 2008. We believe that these prices are comparable to the prices of our competitors and we believe that our site provides superior value to our advertisers when considering the many benefits that they receive, including the Click2Call feature, the Mini-WebPage, mapping directions, links to the advertiser websites, and the speed and ease of use of our website.

Our pricing advantage is significant when compared with printed Yellow Pages. For a Yellow Pages listing with comparable information content, an advertiser would typically pay over \$200 per month. This listing in the printed Yellow Pages would include a business description of comparable size to our IAP offering but would lack our Click2Call feature, mapping directions, and link to the advertiser's website. Our online Yellow Pages provide significant flexibility in terms of changing content and adding special informational items at any time throughout the year. Advertisers in printed Yellow Pages are limited by the publishers' infrequent re-publication schedule if they desire to change their advertisement.

## Online Classifieds

We operate an online classified marketplace at our website LiveDeal.com. We offer our standard non-commercial classified advertisements to users at no charge. However, we offer additional upgrades on a fee-for-service basis to promote these listings. Additionally, commercial businesses utilize our online marketplace to promote their businesses. We offer various online storefronts to commercial businesses which permit these businesses to establish a separate section within our site with their logos, enhanced listings and other features.

Advertisers can also display graphical advertisements on the pages that are viewed by our users across our website. For these advertising services, we earn revenue as impressions are delivered. An impression is delivered when an advertisement appears in pages viewed by users.

**Classified Pricing:** Basic classified advertisements for non-commercial users are free, though we offer a variety of promotional options to improve selling success on a fee for service basis, with such pricing ranging from \$0.50 to \$29.95 per listing. Pricing for storefronts and other commercial services are priced beginning at \$9.95 per month for merchandise accounts and \$76.00 per month for automobile accounts, with additional promotional options offered on a fee-for-service basis. Our pricing is competitive with print classified advertisements.

For the fiscal year ended September 30, 2008, these products accounted for approximately 1% of our net revenues.

## Table of Contents

### Telesold Suite Services

Since February 2008, we have added a new line of business that utilizes, but is not entirely dependent on, our classified and directory websites and billing services. This line of business is based around using telesales and sophisticated Internet audience acquisition technologies to deliver a suite of audience acquisition services to small businesses.

We believe this approach represents an essential element in the local marketplace. Small businesses turned to traditional Yellow Pages and Internet directories as low-cost effective tools for identifying and delivering customers who are geographically appropriate and ready to buy. These traditional approaches retain value for small businesses, but that value is steadily waning as new waves of Internet capabilities come into existence.

The most significant of these is Internet search and the tying of Internet advertising services to search. This development makes it possible, even likely, that customers can find the businesses they need without ever going to a directory. The small business whose website information or advertising message is associated with a successful search becomes the likely recipient of that business. So, utilizing Internet search and related advertising is fast becoming a necessity for small businesses.

Another key Internet development is the rise of locally oriented user review sites and services, such as Yelp.com. At these sites, consumers let each other know about their experiences with local businesses. They rate and comment on the businesses. The sites also tend to provide some aspects of traditional directories as well as new services, such as placing businesses on a local map, providing driving directions, etc. At these sites, as with search, consumers can select businesses for their commerce without ever using a traditional directory.

With the emergence of these new Internet capabilities, and others that are fast emerging, the role of directories, both paper and Internet, is steadily moving toward the back end of a customer acquisition process, where search and review sites dominate the front end, where the greatest value for both customer and business resides.

Small businesses that can take advantage of the emerging Internet capabilities will be able to acquire customers with efficiency never-before-possible; those that cannot will suffer in comparison. So, it is becoming widely recognized among small business owners that mastering the Internet arts is an essential.

But there is a gap. These new Internet services are inherently technological. They require a deep dedication of time, technological skills, language and presentation expertise and other arcane masteries that few small businesspeople have, or have the intention of acquiring. The fact is that, to succeed, a small businessperson needs to remain utterly focused on the fundamentals of his/her business. Hours or days spent in a dark room staring at a bright screen trying to coax software to produce positive effects, is unlikely to produce maximal benefits and is certain to reduce focus on the small business core activities.

Small businesses need a partner with the necessary expertise and understanding to manage emerging Internet audience acquisition services on their behalf. They need this partner to operate quickly, proactively and at the lowest possible cost.

Our Telesold Suite Services approach allows LiveDeal to become this small business audience acquisition partner.

By using sophisticated telesales, rather than the far more expensive and inflexible Yellow Pages field sales model, we are able to reach and serve more businesses at lower cost than competitors.

By using that telesales channel to deliver a suite of services standing at the state of the Internet market, but packaged for comprehensibility and affordability by small businesses, we are bringing small businesses a product that may help them succeed.

By backing these products with the most supple and sophisticated Internet audience acquisition and customer feedback systems, we can achieve stability in margins, pricing and profit from small business Internet services that have been difficult for competitors to attain and sustain.

Our current Telesold Services Suite includes:

§ Website acquisition whereby we obtain website address names on behalf of our small business clients.

§ Website development and deployment services where we create, house and manage websites on behalf of our small business clients.

§ Website traffic and audience development whereby we provide sophisticated search engine marketing techniques, access to our own websites, partnerships with other websites and other techniques to generate traffic to our customers' websites, whether created and housed by us or not.

§ Website analytics and performance reports which generate information for our customers about activities on their websites and lead activities for their businesses based on Internet activities.

## Table of Contents

§ Directory services that provide both basic and enhanced directory listings for our customers on our own directory and on partner directories.

§ Classified services through which we provide classified and bulk inventory commerce capabilities for our small business customers through our classified marketplace.

In aggregate, these services represented 3% of our net revenue for the fiscal year ending September 30, 2008, but are our fastest growing line of services. We expect growth in this line of business to continue through fiscal 2009 and to represent a more substantial portion of our revenue in the upcoming fiscal year and going forward.

### The Internet Yellow Pages and Classified Advertising Market

According to The Kelsey Group and the Yellow Pages Integrated Media Association, or YPIMA, while there are approximately 200 major U.S. Yellow Pages print publishers, an increasingly mobile and computer-sophisticated population is accessing the Yellow Pages by way of the Internet at a sharply increasing rate.

According to a February 2008 press release from The Kelsey Group, advertising revenues from Internet Yellow Pages and Local Search are expected to grow from a combined \$5.8 billion in 2007 to a combined \$15.8 billion globally by 2012, a compound annual growth rate of approximately 22%. Recent studies have shown that while small and mid-size businesses continue to utilize traditional media, they are increasingly turning to targeted, vertical electronic media. The Kelsey Group also reported that by 2011, almost 30% of global Yellow Pages revenues will be online compared with approximately 12% in 2006. They expect that revenues from print Yellow Pages will decline from \$27.5 billion in 2007 to \$25.6 billion by 2012.

We believe Internet Yellow Pages provide the following advantages over print Yellow Pages:

- More current and extensive listing information.
- Immediate access to business listings across the nation from any location.
- Broad accessibility via computers and hand-held devices, such as mobile phones and personal digital assistants.
- Features such as mapping, direct calling to the advertiser, and e-mail at the click of a button also may be available.

Internet Yellow Pages and online classifieds also offer lower costs for a given level of content and the ability to easily access and modify displays and advertisements, which allows for opportunistic or targeted specials or discounts.

Internet usage, in general, has increased dramatically in recent years. According to Internet World Stats, 73.6% of the North American population uses the Internet, a growth of 129.6% from 2000 to 2008. Search engines are a common method by which these users navigate the Internet. Our expanding distribution network seeks to allow our advertisers to benefit from this growth by receiving prominent placement in search engine results.

### The Local Search and Information Market

The local search and information market is seen by analysts as one of the areas of greatest audience growth and opportunity on the Internet.

According to a recent report by Borrell Associates, the local online marketplace is projected to be \$13.1 billion in 2008 and has grown at a compound rate of 48.4% between 2005 and 2008. And, while growth is expected to slow as the market matures, compound growth of 15% will bring the market to more than \$22 billion by 2012. Other forms of Internet advertising and commerce are projected as flat or falling over this same period.

Local remains one of the sweet spots on the Internet.

This is true not only in terms of quantity of activity, but also quality. Visitors to local websites share the qualities small businesses require most: they have trust and they take action. An August 2008 study by the Online Publishers Association found that:

§ Visitors to local media sites are more likely than visitors to other sites to take action after seeing local ads: from making purchases to visiting sites and stores,

§ Local media sites attract valuable audiences who spend more money online than visitors to other local sites,

§ Local sites lead all others in advertising trust, and;

## Table of Contents

§ Local content sites attract a high number of influencers –the first person others come to for local recommendations.

The local Internet marketplace is split among many kinds of companies: newspapers, traditional Yellow Pages, general search sites, and other local media. One of the trends that characterize the market is the increasing dominance of companies focused purely on Internet services, rather than supporting print or other non-net activities. These so-called pure play businesses represent 57% of the market in 2008, according to Borrell Associates and are growing at rates nearly 10 times as fast as more traditional players.

The fastest growing area within local Internet advertising is search advertising. Search was only a bit more than 10% of market spending in 2005, but is projected to be nearly 40% of spending in 2008, a level nearly equal to banner advertising.

Because of the trends in the local advertising market, LiveDeal's current strategy is to operate as a pureplay local Internet partner with a focus on leveraged sales and audience acquisition fulfillment that positions the Company in a unique growth position.

## Marketing

In June 2007, we combined existing businesses in the online classified advertising market (LiveDeal, Inc.) with the online Yellow Page market (the former core YP Corp. business) to provide users with an effective online venue for marketing their products and services locally. We believe that the natural synergies associated with these two businesses will allow us to create a content-rich and efficient marketplace that will drive growth in users and advertisers.

We utilize various online marketing methods to drive users and advertisers to our site. However, our primary marketing method is telemarketing. In fiscal 2007, we acquired an existing telemarketing vendor in the Philippines which added 170 employees and enables us to conduct full-scale telemarketing efforts at a reduced cost. We expect that this acquisition will provide us cost savings in the future.

We utilize our expertise and experience as an Internet company to identify other marketing opportunities. Through our referral networks, we have generated revenue from national accounts programs (whereby revenues are generated on a per click basis), fulfillment contracts, web hosting and other arrangements. We also have entered into various marketing arrangements with other businesses whereby we pay commissions based on sales leads and revenue generated from these businesses. To date, such commissions have not been material. We evaluate such business opportunities on a case-by-case basis and expect to expand future revenues from such marketing efforts.

## Technology and Infrastructure

We have developed technologies to support the timely delivery of information requested by a user of our online businesses. A staff of senior engineers experienced in large-scale distributed web 2.0 applications and computer operation develops and maintains the technology. We believe we are particularly adept at scalable databases, design, data modeling, operations and content management for a large-scale network of high volume websites and distributed Internet fulfillment locations. During the second half of fiscal 2008 we began expanding our Internet product development, search engine marketing ( SEM ) and search engine optimization ( SEO ) capabilities. It is our intention to have SEM, SEO and platforms related to them become a technical core competency of the Company moving into fiscal 2009.

Our technology efforts in fiscal 2008 fell into three key areas: Website development and support; Sales and call center development and support; internal systems development and support. Website development and support has been



driven largely by the technical team acquired in the LiveDeal transaction in 2007, based in Santa Clara. Sales and call center development has been led by a strategic systems development group based in Las Vegas, Nevada. Our internal systems have been overseen by an IT group also based in Las Vegas.

Salient features of LiveDeal technology:

We own source code that includes widely deployed, cost-efficient, stable technology (J2EE, Struts, XML, Spring, Hybernate, JBoss, Apache, etc):

- Linear scaling architecture using low cost commodity hardware:
- An architecture based on redundancy for scalable quick user responses:
- Proven search technology which scales for large volumes:
- Enhanced security using HTTPS, Encryption, and data obfuscation: and
- Internationalized Architecture for quick localization.

## Table of Contents

**Database Management Systems.** At the core of our infrastructure are several high-performance and proprietary database systems containing several giga-bytes of data representing millions of records with hundreds of attributes each, such as business name, telephone number, address, number of employees, description of the business, classifieds listings and feed back reviews. We maintain the data for internal operations on high-performance servers and with large-scale storage systems at our Santa Clara, California facility. To meet the demand for our products and services and to provide the highest level of reliability, we employ technologies and techniques providing data redundancy and clustering. Clustering is the use of several computers deployed in a manner that provides redundancy and additional computer processing power.

**High-Performance Database and Search Engine.** We believe we provide one of the most complete and high-performing directory services in the market today. Our proprietary database enables us to collect and merge data from multiple sources to provide extensive and accurate content for our users. With our technologies, we provide keyword search, synonym matching, automated content delivery, and multiple source data merging in a simple to use paradigm. We believe these technologies simplify the search process and provide the most relevant content to suit our customers and users needs. Ultimately, we expect these technologies to increase recurrent use of our system by users of our directory services.

**Content Syndication, Distribution, and Private Label Networks.** We add value by increasing our IAP advertisers visibility by providing automated conduits and content delivery to numerous search engines besides our own. We can deliver content both on the Internet and on mobile devices such as cell phones and personal digital assistants. Our market position and volume allows us to provide content to any of our strategic alliances, as discussed elsewhere in this Annual Report, at a cost below what would be accomplished if one were to attempt to duplicate our content and distribution network. We have further enhanced the capabilities of this global distribution network with our AdWiz technology, which provides high-volume automated record updates in real-time to our distribution partners and private-label customers.

## Strategic Alliances

In order to service users of our website more effectively and to extend our brand to other Internet sources, we have entered into strategic relationships with business partners that offer content, technology, and distribution capabilities. The following are descriptions of our most significant strategic relationships:

- We have cross-marketing arrangements with reciprocal linking of websites without any compensation to either party. These arrangements increase the page views for our advertisers listings by being listed on the linked websites. These co-promotional arrangements typically are terminable with one month's notice. We have an agreement with Google, Inc. designating us as Certified Reseller of the Google AdWords advertising system. This is the highest possible AdWords designation, and provides us with access to Google training and services that we can then utilize on behalf of our small business clients.
- We have an agreement with Yahoo! Search Services to provide visibility to our website so that we can provide traffic to our advertisers. In exchange for monthly fees, Yahoo! Search Services assists in helping us to be one of the highest placed sites when Yellow Pages searches are done on major search engines, such as MSN and Yahoo!.
- We utilize WebDialogs in a co-promotional effort to provide automatic dialing services to our website users. These services allow these users to place a call to one of our IAP advertisers by simply clicking a button. This function powers our Click2Call feature.
- We will begin featuring Yelp's 1.8 million customer reviews on our online classifieds and Yellow Pages platforms, giving LiveDeal users an enormous wealth of user-generated content about local area businesses.

We are members of the Yellow Pages Association (formerly known as Yellow Pages Integrated Media Association) and the Association of Directory Publishers and have been since 1998. These organizations are trade associations for Yellow Pages publishers or others that promote the quality of published content and advertising methods.

#### Competition

We operate in the highly competitive and rapidly expanding and evolving business-to-business Internet services market. Our largest competitors are local exchange carriers ( LECs ), which are generally known as local telephone companies, and national search engines such as Yahoo! and Google that have recently expanded their presence in the local search market. We compete with other online Yellow Pages services, website operators, advertising networks, and traditional offline media, such as traditional Yellow Pages directory publishers, television, radio, and print share advertising. Our services also compete with many directory website production businesses and Internet information service providers. Our audience acquisition services compete with advertising agencies and other business providing somewhat similar services.

## Table of Contents

The principal competitive factors of the markets in which we compete include personalization of service, ease of use of directories, quality and responsiveness of search results, availability of quality content, value-added products and services, and access to end-users. We compete for advertising listings with the suppliers of Internet navigational and informational services, high-traffic websites, Internet access providers, and other media. This competition could result in significantly lower prices for advertising and reductions in advertising revenues. Increased competition could have a material adverse effect on our business.

Many of our competitors have greater capital resources than we have. These capital resources could allow our competitors to engage in advertising and other promotional activities that will enhance their brand name recognition at levels we cannot match. The LECs and national search engines have advantages in terms of brand name recognition.

We believe that we are in a position to successfully compete in these markets due to our experience at sourcing, selling and servicing large numbers of small business accounts, the comprehensiveness of our database, and the effectiveness of our marketing programs and our distribution network. We also believe that the combination of local classifieds and Internet Yellow Pages provides businesses and consumers a simple and affordable way of creating a web presence and marketing their products and services to local audiences. The addition of our Telesold Suite line of business opens new revenue channels for us and expands our differentiation in the marketplace. We further believe that we can compete effectively by continuing to provide quality services at competitive prices and by actively developing new products and services for customers.

We believe that our telesales capabilities are a competitive advantage. Through our calling centers we can contact more business at lower cost than competitors. This is true both for initial sales and sales support, but for all aspects of customer support. It also provides us with lead generation capabilities many of our competitors lack.

## Employees

As of September 30, 2008, we had 105 full-time and no part-time employees in the United States and 118 full-time and no part time employees in the Philippines. None of our employees are covered by any collective bargaining agreements.

## ITEM 1A. Risk Factors

An investment in our common stock involves a substantial degree of risk. Before making an investment decision, you should give careful consideration to the following risk factors in addition to the other information contained in this report. The following risk factors, however, may not reflect all of the risks associated with our business or an investment in our common stock. The trading price of our common stock could decline significantly due to any of these risks and investors may lose all or part of their investments. In assessing these risks, investors should also refer to the other information contained or incorporated by reference in this Annual Report on Form 10-K, including our September 30, 2008 consolidated financial statements and related notes.

### Risks Related to Our Business

We face intense competition, including from companies with greater resources, which could adversely affect our growth and could lead to decreased revenues.

Several companies, including Google, Microsoft, Verizon, and Yahoo!, currently market Internet Yellow Pages or local search services that directly compete with our services and products. We may not compete effectively with existing and potential competitors for several reasons, including the following:

- some competitors have longer operating histories and greater financial and other resources than we have and are in better financial condition than we are;
- some competitors have better name recognition, as well as larger, more established, and more extensive marketing, customer service, and customer support capabilities than we have;
- some competitors may supply a broader range of services, enabling them to serve more or all of their customers needs. This could limit our sales and strengthen our competitors' existing relationships with their customers, including our current and potential IAP advertisers;
  - some competitors may be able to better adapt to changing market conditions and customer demand; and
- barriers to entry are not significant. As a result, other companies that are not currently involved in the Internet-based Yellow Pages advertising business may enter the market or develop technology that reduces the need for our services.

Table of Contents

Increased competitive pressure could lead to reduced market share, as well as lower prices and reduced margins for our services. If we experience reductions in our revenue for any reason, our margins may continue to decline, which would adversely affect our results of operations. We cannot assure you that we will be able to compete successfully in the future.

Our success depends upon our ability to establish and maintain relationships with our advertisers.

Our ability to generate revenue depends upon our ability to maintain relationships with our existing advertisers, to attract new advertisers to sign up for revenue-generating services, and to generate traffic to our advertisers websites. We primarily use telemarketing efforts to attract new advertisers. These telemarketing efforts may not produce satisfactory results in the future. We attempt to maintain relationships with our advertisers through customer service and delivery of traffic to their businesses. An inability to either attract additional advertisers to use our service or to maintain relationships with our advertisers could have a material adverse effect on our business, prospects, financial condition, and results of operations.

If we do not introduce new or enhanced offerings to our advertisers and users, we may be unable to attract and retain those advertisers and users, which would significantly impede our ability to generate revenue.

We will need to introduce new or enhanced products and services in order to attract and retain advertisers and users and to remain competitive. Our industry has been characterized by rapid technological change, changes in advertiser and user requirements and preferences, and frequent new product and service introductions embodying new technologies. These changes could render our technology, systems, and website obsolete. We may experience difficulties that could delay or prevent us from introducing new products and services. If we do not periodically enhance our existing products and services, develop new technologies that address our advertisers and users needs and preferences, or respond to emerging technological advances and industry standards and practices on a timely and cost-effective basis, our products and services may not be attractive to advertisers and users, which would significantly impede our revenue growth. In addition, our reputation and our brand could be damaged if any new product or service introduction is not favorably received.

Our quarterly results of operations could fluctuate due to factors outside of our control.

Our operating results have historically fluctuated significantly and we have experienced recent declines in net revenues and operating profits. We could continue to experience fluctuations or continued declining operating results due to factors that may or may not be within our control. Such factors include the following:

- fluctuating demand for our services, which may depend on a number of factors including
  - o changes in economic conditions and our IAP advertisers profitability,
  - o varying IAP advertiser response rates to our direct marketing efforts,
  - o our ability to complete direct mailing solicitations on a timely basis each month,
    - o changes in our direct marketing efforts,
    - o IAP advertiser refunds or cancellations, and

our ability to continue to bill through LEC billing, ACH billing or credit card channels rather than through direct invoicing;

- market acceptance of new or enhanced versions of our services or products;
- price competition or pricing changes by us or our competitors;
- new product offerings or other actions by our competitors;
- the ability of our check processing service providers to continue to process and provide billing information regarding our solicitation checks;
- the amount and timing of expenditures for expansion of our operations, including the hiring of new employees, capital expenditures, and related costs;
- technical difficulties or failures affecting our systems or the Internet in general;

Table of Contents

a decline in Internet traffic at our website;

the cost of acquiring, and the availability of, information for our database of potential advertisers; and

the fixed nature of a significant amount of our operating expenses.

The loss of our ability to bill IAP advertisers through our Local Exchange Carriers on the IAP advertisers' telephone bills would adversely impact our results of operations.

We currently bill our advertisers through (i) their local exchange carrier (LEC), (ii) ACH billing, (iii) their credit card or (iv) direct bill invoices.

Similar to the local Regional Bell Operating Companies, we are approved to bill our products and services directly on some of our advertisers' local telephone bill through their LEC, commonly referred to as their local telephone company. We believe that this is an efficient and cost-effective billing method as compared to direct billing methods. LEC billing accounted for approximately 65% of net billings in fiscal 2008.

The existence of the LECs is the result of federal legislation. In the same manner, Congress could pass future legislation that obviates the existence of or the need for the LECs. Additionally, regulatory agencies could limit or prevent our ability to use the LECs to bill our advertisers. The introduction of and advancement of new technologies, such as WiFi technology or other wireless-related technologies, could render unnecessary the existence of fixed telecommunication lines, which also could obviate the need for and access to the LECs. Finally, we have historically been affected by the LECs' internal policies. With respect to certain LECs, such policies are becoming more stringent. Our inability to use the LECs to bill our advertisers through their monthly telephone bills would result in increased dilution and decreased revenues and would have a material adverse impact on our financial condition and results of operations.

Our revenue may decline over time due to the involvement of the CLECs in the local telephone markets.

Due to competition in the telephony industry, many business customers are finding alternative telephone suppliers, such as Competitive Local Exchange Carriers, or CLECs, that offer less expensive alternatives to the LECs. When the LECs effectuate a price increase, many business customers look for an alternative telephone company, which may be a CLEC. When our advertising customers switch service providers from the LECs to a CLEC, we are precluded from billing these customers on their monthly telephone bill and must instead convert them to alternative billing methods such as ACH billing or direct invoicing. This conversion process can be disruptive to our operations and result in lost revenue. We cannot provide any assurances that our efforts will be successful. We may experience future increases in dilution of our customer base that we are able to bill on their monthly telephone bills, which, in turn, may result in decreases in our revenue.

The loss of our ability to bill IAP advertisers through our ACH billing channel would adversely impact our results of operations.

We bill a significant number of our IAP advertisers through our ACH billing channel. ACH transactions are closely regulated by NACHA – The Electronic Payments Association, which develops operating rules and business practices for the Automated Clearing House (ACH) Network and for electronic payments in the areas of Internet commerce and other electronic payment means. Changes in these rules and business practices could compromise our ability to bill a significant number of our advertisers through ACH billing, and we would have to transition these advertisers to other billing channels. Such changes would be disruptive and result in lost revenue.



We depend upon our executive officers and key personnel.

Our performance depends substantially on the performance of our executive officers and other key personnel. The success of our business in the future will depend on our ability to attract, train, retain, and motivate high quality personnel, especially highly qualified technical and managerial personnel. The loss of services of any executive officers or key personnel could have a material adverse effect on our business, results of operations or financial condition. Although we maintain key person life insurance on the lives of our executive officers, such coverage may not be adequate to protect us in the event of loss of such personnel.

Competition for talented personnel is intense, and there is no assurance that we will be able to continue to attract, train, retain or motivate other highly qualified technical and managerial personnel in the future. In addition, market conditions may require us to pay higher compensation to qualified management and technical personnel than we currently anticipate. Any inability to attract and retain qualified management and technical personnel in the future could have a material adverse effect on our business, prospects, financial condition, and results of operations.

Table of Contents

Our ability to efficiently process new advertiser sign-ups and to bill our advertisers monthly depends upon our third party service providers and billing aggregators and processors, respectively.

We currently use third party service providers to provide us with advertiser information at the point of sign-up for our Internet Advertising Package. Our ability to gather information to bill our advertisers at the point of sign-up could be adversely affected if one or more of these providers experiences a disruption in its operations or ceases to do business with us.

We also depend upon our billing aggregators and service providers to efficiently bill and collect monies through our LEC billing and ACH billing channels. We currently have agreements with three billing aggregators and two ACH service providers. Any disruption in these third parties' ability to perform these functions could adversely affect our financial condition and results of operations.

We depend upon third parties to provide certain services and software, and our business may suffer if the relationships upon which we depend fail to produce the expected benefits or are terminated.

We depend upon third-party software to operate certain of our services. The failure of this software to perform as expected would have a material adverse effect on our business. Additionally, although we believe that several alternative sources for this software are available, any failure to obtain and maintain the rights to use such software would have a material adverse effect on our business, prospects, financial condition, and results of operations. We also depend upon third parties to provide services that allow us to connect to the Internet with sufficient capacity and bandwidth so that our business can function properly and our websites can handle current and anticipated traffic. Any restrictions or interruption in our connection to the Internet would have a material adverse effect on our business, prospects, financial condition, and results of operations.

The market for our services is uncertain.

The demand and market acceptance for our services may be subject to a high level of uncertainty. Advertisers and users may not adopt or continue to use Internet-based Yellow Pages services and other online services that we may offer in the future. Advertisers may find Internet Yellow Pages advertising to be less effective for meeting their business needs than traditional methods of Yellow Pages or other advertising and marketing. Our business, prospects, financial condition or results of operations will be materially and adversely affected if potential advertisers do not adopt Internet Yellow Pages as an important component of their advertising expenditures.

We may not be able to secure additional capital to expand our operations.

Although we currently have no material long-term needs for capital expenditures, we will likely be required to make increased capital expenditures to fund our anticipated growth of operations, infrastructure, and personnel. We currently anticipate that our cash on hand as of September 30, 2008, together with cash flows from operations, will be sufficient to meet our anticipated liquidity needs for working capital and capital expenditures over the next 12 months. In the future, however, we may seek additional capital through the issuance of debt or equity depending upon our results of operations, market conditions or unforeseen needs or opportunities. Our future liquidity and capital requirements will depend on numerous factors, including the following:

- the pace of expansion of our operations;
- our need to respond to competitive pressures; and
- future acquisitions of complementary products, technologies or businesses.

Our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties and actual results could vary materially as a result of the factors described above. As we require additional capital resources, we may seek to sell additional equity or debt securities. Debt financing must be repaid at maturity, regardless of whether or not we have sufficient cash resources available at that time to repay the debt. The sale of additional equity or convertible debt securities could result in additional dilution to existing stockholders. We cannot provide assurance that any financing arrangements will be available in amounts or on terms acceptable to us, if at all.

Our business is subject to a strict regulatory environment.

Existing laws and regulations and any future regulation may have a material adverse effect on our business. For example, we believe that our direct marketing programs meet existing requirements of the United States Federal Trade Commission. Any changes to FTC requirements or changes in our direct or other marketing practices, however, could result in our marketing practices failing to comply with FTC regulations.

## Table of Contents

On December 14, 2006, we voluntarily entered into a settlement with thirty-four states' attorneys general to address their concerns regarding our promotional activities, including the use of our check mailer for customer acquisition.

There can be no absolute assurance that the other states or other parties, which were not part of the above-mentioned state consortium, would not attempt to file similar claims against us in the future. However, we believe this risk is somewhat mitigated by the fact that those states did not join the states in filing complaints against us and the fact that we are discontinuing the use of our check activators. Finally, our utilization of ACH billing has exposed us to greater scrutiny by the National Automated Clearing House Association, or NACHA. Future actions from these and other regulatory agencies could expose us to substantial liability in the future, including fines and criminal penalties, preclusion from offering certain products or services, and the prevention or limitation of certain marketing practices.

We may be unable to promote and maintain our brands.

We believe that establishing and maintaining the brand identities of our Internet Yellow Pages services is a critical aspect of attracting and expanding a base of advertisers and users. Promotion and enhancement of our brands will depend largely on our success in continuing to provide high quality service. If advertisers and users do not perceive our existing services to be of high quality, or if we introduce new services or enter into new business ventures that are not favorably received by advertisers and users, we will risk diluting our brand identities and decreasing their attractiveness to existing and potential IAP advertisers.

We may not be able to adequately protect our intellectual property rights.

Our success depends both on our internally developed technology and our third party technology. We rely on a variety of trademarks, service marks, and designs to promote our brand names and identity. We also rely on a combination of contractual provisions, confidentiality procedures, and trademark, copyright, trade secrecy, unfair competition, and other intellectual property laws to protect the proprietary aspects of our products and services. Legal standards relating to the validity, enforceability, and scope of the protection of certain intellectual property rights in Internet-related industries are uncertain and still evolving. The steps we take to protect our intellectual property rights may not be adequate to protect our intellectual property and may not prevent our competitors from gaining access to our intellectual property and proprietary information. In addition, we cannot provide assurance that courts will always uphold our intellectual property rights or enforce the contractual arrangements that we have entered into to protect our proprietary technology.

Third parties may infringe or misappropriate our copyrights, trademarks, service marks, trade dress, and other proprietary rights. Any such infringement or misappropriation could have a material adverse effect on our business, prospects, financial condition, and results of operations. In addition, the relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights is unclear. We may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon or otherwise decrease the value of our trademarks and other proprietary rights, which may result in the dilution of the brand identity of our services.

We may decide to initiate litigation in order to enforce our intellectual property rights, to protect our trade secrets, or to determine the validity and scope of our proprietary rights. Any such litigation could result in substantial expense, may reduce our profits, and may not adequately protect our intellectual property rights. In addition, we may be exposed to future litigation by third parties based on claims that our products or services infringe their intellectual property rights. Any such claim or litigation against us, whether or not successful, could result in substantial costs and harm our reputation. In addition, such claims or litigation could force us to do one or more of the following:

- cease selling or using any of our products that incorporate the challenged intellectual property, which would adversely affect our revenue;

- obtain a license from the holder of the intellectual property right alleged to have been infringed, which license may not be available on reasonable terms, if at all; and
- redesign or, in the case of trademark claims, rename our products or services to avoid infringing the intellectual property rights of third parties, which may not be possible and in any event could be costly and time-consuming.

Even if we were to prevail, such claims or litigation could be time-consuming and expensive to prosecute or defend, and could result in the diversion of our management's time and attention. These expenses and diversion of managerial resources could have a material adverse effect on our business, prospects, financial condition, and results of operations.

Table of Contents

Capacity constraints may require us to expand our infrastructure and IAP advertiser support capabilities.

Our ability to provide high-quality Internet Yellow Pages services largely depends upon the efficient and uninterrupted operation of our computer and communications systems. We may be required to expand our technology, infrastructure, and IAP advertiser support capabilities in order to accommodate any significant increases in the numbers of advertisers and users of our websites. We may not be able to project accurately the rate or timing of increases, if any, in the use of our services or expand and upgrade our systems and infrastructure to accommodate these increases in a timely manner. If we do not expand and upgrade our infrastructure in a timely manner, we could experience temporary capacity constraints that may cause unanticipated system disruptions, slower response times, and lower levels of IAP advertiser service. Our inability to upgrade and expand our infrastructure and IAP advertiser support capabilities as required could impair the reputation of our brand and our services, reduce the volume of users able to access our website, and diminish the attractiveness of our service offerings to our advertisers.

Any expansion of our infrastructure may require us to make significant upfront expenditures for servers, routers, computer equipment, and additional Internet and intranet equipment, as well as to increase bandwidth for Internet connectivity. Any such expansion or enhancement will need to be completed and integrated without system disruptions. An inability to expand our infrastructure or IAP advertiser service capabilities either internally or through third parties, if and when necessary, would materially and adversely affect our business, prospects, financial condition, and results of operations.

Our operation of a subsidiary in the Philippines poses risks and could impact our financial condition.

In fiscal 2007, we acquired Oncall Subscriber Management Inc., which operated a call center in the Philippines, and created a Philippine subsidiary to carry on that business. We entered into those transactions to generate cost savings in connection with our ongoing marketing efforts and do not presently anticipate relying on our foreign operations for a significant portion of our revenues. Still, our operation of a foreign subsidiary poses certain risks to our business, including:

- changes that might result from regulatory requirements, exchange rates, tariffs and/or other economic barriers;
- difficulties in staffing and managing the operations of our Philippine subsidiary;
- differing technology and systems standards;
- conflicting laws and/or political conditions; and
- risks relating to accounting practices and/or tax laws enforced in foreign jurisdictions.

Our divestiture of our Internet property [www.yip.com](http://www.yip.com) could adversely impact our revenues.

On November 5, 2008, we entered into an agreement to sell our Internet domain name [www.yip.com](http://www.yip.com) to YellowPages.com for a cash payment of \$3,850,000. Our primary source of ongoing revenues is the sale of Internet Advertising Packages, which targeted users of our [www.yip.com](http://www.yip.com) property. We are in the process of transitioning these customers to advertising on [www.livedeal.com](http://www.livedeal.com) and are hopeful that any loss of customers resulting from our divestiture of [www.yip.com](http://www.yip.com) will not be significant or adversely impact our future revenues. However, certain customers may cancel their service in response to this transition, and there can be no assurance that such cancellations will not have an adverse effect on our financial condition or results of operations.

Risks Related to the Internet

We may not be able to adapt as the Internet, Internet Yellow Pages services, and IAP advertiser demands continue to evolve.

Our failure to respond in a timely manner to changing market conditions or client requirements could have a material adverse effect on our business, prospects, financial condition, and results of operations. The Internet, e-commerce, and the Internet Yellow Pages industry are characterized by:

- rapid technological change;
- changes in advertiser and user requirements and preferences;
- frequent new product and service introductions embodying new technologies; and
- the emergence of new industry standards and practices that could render our existing service offerings, technology, and hardware and software infrastructure obsolete.

Table of Contents

In order to compete successfully in the future, we must

- enhance our existing services and develop new services and technology that address the increasingly sophisticated and varied needs of our prospective or current IAP advertisers;
- license, develop or acquire technologies useful in our business on a timely basis; and
- respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis.

We may be required to keep pace with rapid technological change in the Internet industry.

In order to remain competitive, we will be required continually to enhance and improve the functionality and features of our existing services, which could require us to invest significant capital. If our competitors introduce new products and services embodying new technologies, or if new industry standards and practices emerge, our existing services, technologies, and systems may become obsolete. We may not have the funds or technical know-how to upgrade our services, technology, and systems. If we face material delays in introducing new services, products, and enhancements, our advertisers and users may forego the use of our services and select those of our competitors, in which event our business, prospects, financial condition, and results of operations could be materially and adversely affected.

Regulation of the Internet may adversely affect our business.

Due to the increasing popularity and use of the Internet and online services such as online Yellow Pages, federal, state, local, and foreign governments may adopt laws and regulations, or amend existing laws and regulations, with respect to the Internet and other online services. These laws and regulations may affect issues such as user privacy, pricing, content, taxation, copyrights, distribution, and quality of products and services. The laws governing the Internet remain largely unsettled, even in areas where legislation has been enacted. It may take years to determine whether and how existing laws, such as those governing intellectual property, privacy, libel, and taxation, apply to the Internet and Internet advertising and directory services. In addition, the growth and development of the market for electronic commerce may prompt calls for more stringent consumer protection laws, both in the United States and abroad, that may impose additional burdens on companies conducting business over the Internet. Any new legislation could hinder the growth in use of the Internet generally or in our industry and could impose additional burdens on companies conducting business online, which could, in turn, decrease the demand for our services, increase our cost of doing business, or otherwise have a material adverse effect on our business, prospects, financial condition, and results of operations.

We may not be able to obtain Internet domain names that we would like to have.

We believe that our existing Internet domain names are an extremely important part of our business. We may desire, or it may be necessary in the future, to use these or other domain names in the United States and abroad. Various Internet regulatory bodies regulate the acquisition and maintenance of domain names in the United States and other countries. These regulations are subject to change. Governing bodies may establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names. As a result, we may be unable to acquire or maintain relevant domain names in all countries in which we plan to conduct business in the future.

The extent to which laws protecting trademarks and similar proprietary rights will be extended to protect domain names currently is not clear. We therefore may be unable to prevent competitors from acquiring domain names that



are similar to, infringe upon or otherwise decrease the value of our domain names, trademarks, trade names, and other proprietary rights. We cannot provide assurance that potential users and advertisers will not confuse our domain names, trademarks, and trade names with other similar names and marks. If that confusion occurs, we may lose business to a competitor and some advertisers and users may have negative experiences with other companies that those advertisers and users erroneously associate with us. The inability to acquire and maintain domain names that we desire to use in our business, and the use of confusingly similar domain names by our competitors, could have a material adverse affect on our business, prospects, financial conditions, and results of operations in the future.

Our business could be negatively impacted if the security of the Internet becomes compromised.

To the extent that our activities involve the storage and transmission of proprietary information about our advertisers or users, security breaches could damage our reputation and expose us to a risk of loss or litigation and possible liability. We may be required to expend significant capital and other resources to protect against security breaches or to minimize problems caused by security breaches. Our security measures may not prevent security breaches. Our failure to prevent these security breaches or a misappropriation of proprietary information may have a material adverse effect on our business, prospects, financial condition, and results of operations.

Table of Contents

Our technical systems could be vulnerable to online security risks, service interruptions or damage to our systems.

Our systems and operations may be vulnerable to damage or interruption from fire, floods, power loss, telecommunications failures, break-ins, sabotage, computer viruses, penetration of our network by unauthorized computer users or hackers, natural disaster, and similar events. Preventing, alleviating, or eliminating computer viruses and other service-related or security problems may require interruptions, delays or cessation of service. We may need to expend significant resources protecting against the threat of security breaches or alleviating potential or actual service interruptions. The occurrence of such unanticipated problems or security breaches could cause material interruptions or delays in our business, loss of data, or misappropriation of proprietary or IAP advertiser-related information or could render us unable to provide services to our IAP advertisers for an indeterminate length of time. The occurrence of any or all of these events could materially and adversely affect our business, prospects, financial condition, and results of operations.

If we are sued for content distributed through, or linked to by, our website or those of our advertisers, we may be required to spend substantial resources to defend ourselves and could be required to pay monetary damages.

We aggregate and distribute third-party data and other content over the Internet. In addition, third-party websites are accessible through our website or those of our advertisers. As a result, we could be subject to legal claims for defamation, negligence, intellectual property infringement, and product or service liability. Other claims may be based on errors or false or misleading information provided on or through our website or websites of our directory licensees. Other claims may be based on links to sexually explicit websites and sexually explicit advertisements. We may need to expend substantial resources to investigate and defend these claims, regardless of whether we successfully defend against them. While we carry general business insurance, the amount of coverage we maintain may not be adequate. In addition, implementing measures to reduce our exposure to this liability may require us to spend substantial resources and limit the attractiveness of our content to users.

Risks Related to Our Securities

Stock prices of technology companies have declined precipitously at times in the past and the trading price of our common stock is likely to be volatile, which could result in substantial losses to investors.

The trading price of our common stock has been volatile over the past few years and investors could experience losses in response to factors including the following, many of which are beyond our control:

- decreased demand in the Internet services sector;
- variations in our operating results;
- announcements of technological innovations or new services by us or our competitors;
- changes in expectations of our future financial performance, including financial estimates by securities analysts and investors;
- our failure to meet analysts' expectations;
- changes in operating and stock price performance of other technology companies similar to us;
- conditions or trends in the technology industry;

additions or departures of key personnel; and

future sales of our common stock.

Domestic and international stock markets often experience significant price and volume fluctuations that are unrelated to the operating performance of companies with securities trading in those markets. These fluctuations, as well as political events, terrorist attacks, threatened or actual war, and general economic conditions unrelated to our performance, may adversely affect the price of our common stock. In the past, securities holders of other companies often have initiated securities class action litigation against those companies following periods of volatility in the market price of those companies' securities. If the market price of our stock fluctuates and our stockholders initiate this type of litigation, we could incur substantial costs and experience a diversion of our management's attention and resources, regardless of the outcome. This could materially and adversely affect our business, prospects, financial condition, and results of operations.

## Table of Contents

Certain provisions of Nevada law and in our charter may prevent or delay a change of control of our company.

We are subject to the Nevada anti-takeover laws regulating corporate takeovers. These anti-takeover laws prevent Nevada corporations from engaging in a merger, consolidation, sales of its stock or assets, and certain other transactions with any stockholder, including all affiliates and associates of the stockholder, who owns 10% or more of the corporation's outstanding voting stock, for three years following the date that the stockholder acquired 10% or more of the corporation's voting stock except in certain situations. In addition, our amended and restated articles of incorporation and bylaws include a number of provisions that may deter or impede hostile takeovers or changes of control or management. These provisions include the following:

- the authority of our board to issue up to 5,000,000 shares of serial preferred stock and to determine the price, rights, preferences, and privileges of these shares, without stockholder approval;
  - all stockholder actions must be effected at a duly called meeting of stockholders and not by written consent unless such action or proposal is first approved by our board of directors;
  - special meetings of the stockholders may be called only by the Chairman of the Board, the Chief Executive Officer, or the President of our company; and
- cumulative voting is not allowed in the election of our directors.

These provisions of Nevada law and our articles and bylaws could prohibit or delay mergers or other takeover or change of control of our company and may discourage attempts by other companies to acquire us, even if such a transaction would be beneficial to our stockholders.

Our common stock may be subject to the penny stock rules as promulgated under the Exchange Act.

In the event that no exclusion from the definition of penny stock under the Exchange Act is available, then any broker engaging in a transaction in our common stock will be required to provide its customers with a risk disclosure document, disclosure of market quotations, if any, disclosure of the compensation of the broker-dealer and its sales person in the transaction, and monthly account statements showing the market values of our securities held in the customer's accounts. The bid and offer quotation and compensation information must be provided prior to effecting the transaction and must be contained on the customer's confirmation of sale. Certain brokers are less willing to engage in transactions involving penny stocks as a result of the additional disclosure requirements described above, which may make it more difficult for holders of our common stock to dispose of their shares.

Our stock price may result in our failure to maintain compliance with NASDAQ Marketplace Rules related to minimum stock price requirements, which could result in NASDAQ delisting our common stock.

NASDAQ Marketplace Rules require us to maintain a closing bid price of \$1.00 per share for our common stock. In the event that our common stock closing bid price falls below \$1.00 per share for 30 consecutive business days, we would likely receive notice from NASDAQ that we are not in compliance with Marketplace Rules, which could ultimately lead to the delisting of our common stock from NASDAQ if we were unable to maintain the requisite minimum stock price during the subsequent probationary period. In the event that we were delisted from NASDAQ, our common stock would become significantly less liquid, which would adversely affect its value. Although our common stock would likely be traded over-the-counter or on pink sheets, these types of listings involve more risk and trade less frequently and in smaller volumes than securities traded on NASDAQ.

ITEM 1B. Unresolved Staff Comments

Not applicable.

ITEM 2. Properties

We entered into a long-term lease, which began in November 2007, for a 12,635 square foot facility in Las Vegas, Nevada that functions as the operating facility for the parent company LiveDeal, Inc. and its subsidiary, Telco Billing, Inc. We pay rent of approximately \$315,000 annually under the lease which expires on December 31, 2012.

We also have a long-term lease for the 16,772 square foot facility in Mesa, Arizona that was formerly used to house our corporate headquarters. We pay rent of approximately \$120,000 annually under this lease, which expires in June 2011. Although we are no longer utilizing this space for our operations, we are responsible for the remaining lease payments.

We have a month-to-month lease for a 7,300 square foot facility in Santa Clara, California that functions as the primary operating facility of our LiveDeal, Inc. subsidiary. We pay rent of approximately \$8,600 per month under that lease.

## Table of Contents

We lease space in the Philippines for our telemarketing activities under an operating lease that expires in February 2010. Monthly rent payments fluctuate between \$10,300 and \$11,500 per month.

We believe that these facilities are adequate for our current and anticipated future needs and that all of these facilities and their contents are adequately covered by insurance.

### ITEM 3. Legal Proceedings

Except as described below, as of September 30, 2008, we were not a party to any pending material legal proceedings other than claims that arise in the normal conduct of our business. While we currently believe that the ultimate outcome of these proceedings will not have a material adverse effect on our consolidated financial condition or results of operations, litigation is subject to inherent uncertainties. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on our net income in the period in which a ruling occurs. Our estimate of the potential impact of the following legal proceedings on our financial position and our results of operation could change in the future.

#### Joe Cunningham v. LiveDeal, Inc. et al.

On July 16, 2008, Joseph Cunningham, a member of LiveDeal's Board of Directors, our former Chairman and a former Chairman of our Audit Committee, filed a complaint with the U.S. Department of Labor's Occupational Safety and Health Administration ("OSHA") alleging that the Company and certain members of its Board of Directors had engaged in discriminatory employment practices in violation of the Sarbanes-Oxley Act of 2002's statutory protections for corporate whistleblowers when the Board of Directors removed him as Chairman on May 22, 2008. In his complaint, Mr. Cunningham asked OSHA to order his appointment as Chief Executive Officer of the Company or, in the alternative, to order his reinstatement as Chairman of the Board. Mr. Cunningham also sought back pay, special damages and litigation costs. As previously disclosed, at the time we received the notice, our Board of Directors had already formed a Special Committee to investigate the matters raised by Mr. Cunningham in a preliminary draft of his OSHA complaint, which his attorney provided to the Company on June 26, 2008. OSHA's and the Special Committee's investigations are ongoing as of the date of this report.

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

On June 6, 2008, Global Education Services, Inc. ("GES") filed a consumer fraud class action lawsuit against the Company in King County (Washington) Superior Court. GES has alleged in its complaint that the Company's use of activator checks violated the Washington Consumer Protection Act. GES is seeking injunctive relief against our use of the checks, as well as a judgment in an amount equal to three times the alleged damages sustained by GES and the members of the class. LiveDeal has denied the allegations.

#### Complaint filed by Illinois Attorney General against LiveDeal, Inc.

On November 12, 2008, the Illinois Attorney General filed a complaint against us requesting money damages and injunctive relief for claims that we employed deceptive and unfair acts and practices in violation of the Illinois Consumer Fraud and Deceptive Business Act in a telemarketing campaign that in part promoted premium Internet Yellow Page listings to Illinois consumers. Based on a preliminary investigation into the sales scripts and automated verification system utilized in the telemarketing campaign, we deny the allegations raised in the complaint and will vigorously defend the claim.

We have not recorded any accruals pertaining to these legal proceedings as they do not meet the criteria for accrual under Statement of Financial Accounting Standards No. 5, Accounting for Contingencies .

ITEM 4. Submission of Matters to a Vote of Security Holders

None.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our Common Stock

On February 1, 2008, we began trading on the NASDAQ Capital Market. Concurrent with this change, our ticker symbol was changed from LVDL.OB to LIVE.

20

---

Table of Contents

The following table sets forth the quarterly high and low bid prices per share of our common stock during the last two fiscal years. The quotes represent inter-dealer quotations, without adjustment for retail mark-up, markdown or commission and may not represent actual transactions.

Fiscal Year	Quarter Ended	High	Low
2007	December 31, 2006	\$ 10.70	\$ 7.20
	March 31, 2007	\$ 12.10	\$ 7.60
	June 30, 2007	\$ 8.70	\$ 6.60
	September 30, 2007	\$ 8.00	\$ 6.00
2008	December 31, 2007	\$ 7.00	\$ 3.30
	March 31, 2008	\$ 5.70	\$ 3.18
	June 30, 2008	\$ 3.94	\$ 2.35
	September 30, 2008	\$ 2.59	\$ 1.40

#### Holders of Record

On December 1, 2008, there were approximately 104 holders of record of our common stock according to our transfer agent. The Company has no record of the number of shareholders who hold their stock in street name with various brokers.

#### Dividend Policy

We have one class of authorized preferred stock (Series E Preferred Stock), of which there are currently 127,840 shares issued and outstanding. Each share of Series E Preferred Stock is entitled to and receives a dividend of \$0.015 per year, payable in quarterly installments of \$0.00375. At September 30, 2008, we had accrued but unpaid dividends totaling approximately \$6,200.

Presently, we do not pay dividends on our common stock. The timing and amount of future dividend payments by our Company, if any, will be determined by our Board of Directors based upon our earnings, capital requirements and financial position, general economic conditions, alternative uses of capital, and other pertinent factors.

#### Issuer Purchases of Equity Securities

On May 25, 2007, the Company's Board of Directors terminated its existing stock repurchase plan and replaced it with a new plan authorizing repurchases of up to \$1,000,000 of common stock from time to time on the open market. The Company acquired 148,820 shares of its common stock at market prices during the year ended September 30, 2008 at an aggregate cost of \$525,844. All of these shares have been retired. As of September 30, 2008, the Company no longer holds shares of treasury stock.

Subsequent to year-end, the Company acquired an additional 317,004 shares of its common stock at an aggregate cost of \$487,480. The repurchase plan was increased by another \$500,000 on October 23, 2008. These shares were subsequently retired.





Table of Contents

Performance Graph

## Table of Contents

### ITEM 6. Selected Financial Data

Not required for smaller reporting companies.

### ITEM 7. 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 fiscal year ended September 30, 2008, this Management's Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements, including the related notes, appearing in Item 8 of this Annual Report.

#### Forward-Looking Statements

This portion of this Annual Report on Form 10-K includes statements that constitute forward-looking statements. These forward-looking statements are often characterized by the terms may, believes, projects, expects, anticipates, and do not reflect historical facts. Specific forward-looking statements contained in this portion of the Annual Report include, but are not limited to our (i) expectation that continued investment in online advertising to bring increased traffic to our websites will drive increased revenues; (ii) expectation that there are no further impacts to our results of operations from the Attorneys' General settlement; (iii) expectation that cost of sales will continue to be directly correlated to our use of the LEC billing channel and (iv) belief that our existing cash on hand will provide us with sufficient liquidity to meet our operating needs for the next twelve months.

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 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 affect generally our business, results of operations, and financial position. Forward-looking statements speak only as of the date the statement was made. We do not undertake and specifically decline any obligation to update any forward-looking statements.

#### Executive Overview

This section presents a discussion of recent developments and summary information regarding our industry and operating trends only. For further information regarding the events summarized herein, you should read this Management's Discussion and Analysis of Financial Condition and Results of Operations in its entirety.

We maintain a combined local online classifieds and Yellow Pages marketplace with millions of goods and services listed for sale, in nearly every city and zip code across the U.S. By combining the benefits of classifieds, business listings, mobile services, advertising/distribution networks and e-commerce into a single online solution, we offer businesses and consumers an affordable and effective solution for creating a web presence and marketing their products and services locally. Through our online property LiveDeal.com, we enable buyers and sellers to find and list business services, merchandise, real estate, automobiles, pets and more in their local communities. Using LiveDeal's marketplace, consumers can search or browse for items in a particular city, state or zip code, or reach out on a national or global scope if they so choose.

Sale of YP.com – domain name

On November 5, 2008, the Company and YellowPages.com LLC (the Purchaser ) entered into a Domain Name Purchase and Transfer Agreement pursuant to which the Company agreed to sell the Internet domain name www.YP.com to the Purchaser in exchange for cash totaling \$3,850,000. Our primary source of ongoing revenues is the sale of Internet Advertising Packages, which targeted users of our www.yp.com property. We are in the process of transitioning these customers to advertising on www.livedeal.com and are hopeful that any loss of customers resulting from our divestiture of www.yp.com will not be significant or adversely impact our future revenues. However, certain customers may cancel their service in response to this transition, and there can be no assurance that such cancellations will not have an adverse effect on our financial condition or results of operations.

C h a n g e   i n   O f f i c e r s   a n d   B o a r d   o f  
Directors

During and subsequent to the year ended September 30, 2008, we experienced the following changes in officers and directors, which have been previously disclosed in filings on Form 8-K:

- Rajesh Navar resigned as President, but remained a member of our Board of Directors;

## Table of Contents

- John Raven assumed the role of President;
- Dan Coury was terminated as our Chief Executive Officer and, in connection with this termination, he resigned as a member of our Board of Directors;
  - Benjamin Milk resigned as a member of our Board of Directors;
    - Michael Edelhart was appointed as Chief Executive Officer and to serve as a director of the Company;
- Rajesh Navar replaced Joe Cunningham as the Chairman of our Board of Directors with Mr. Cunningham remaining as a director of the Company;
- Greg LeClaire was appointed to serve as a director of the Company and as Chairman of our Audit Committee;
- Richard Sommer was appointed to serve as a director of the Company and as Chairman of our Compensation Committee; and
- Sheryle Bolton was appointed to serve as a director of the Company and as a member of the Audit Committee.

Pursuant to the terms of his employment agreement dated September 19, 2006 (the "Employment Agreement"); we paid Mr. Coury (i) his earned but unpaid salary and vacation through May 19, 2008 and (ii) a one-time lump sum payment of \$496,000 in connection with his termination. Of the 155,000 shares of restricted stock of the Company that Mr. Coury owned at the date of his departure, 111,667 shares were immediately vested and the remaining 43,333 shares were forfeited and cancelled. Mr. Coury will also be maintained on our health, dental and disability benefit plans (or reimbursed for similar coverage in the event that we are unable to maintain him on such plans) for a period of 12 months. As required under the Employment Agreement, Mr. Coury provided us with a general release of any and all claims relating to his employment and/or the termination thereof in consideration of the payments described above.

Each of our independent members of our Board receives monthly compensation of \$3,000 per month and our Chairman of the Board of Directors receives \$6,000 per month. Chairpersons of the Audit, Compensation, and Nominating and Governance committees receive additional compensation of \$10,000 per annum, respectively.

In exchange for his role as Chief Executive Officer, Mr. Edelhart receives compensation of \$250,000 annually and will be eligible to receive a bonus of up to \$60,000 per year if the Company achieves certain performance objectives established by the Company's Board of Directors and/or its Compensation Committee.

During the year ended September 30, 2008, Mr. Edelhart received an option to purchase 5,000 shares of the Company's common stock that was fully vested at September 30, 2008. Subsequent to September 30, 2008, Mr. Edelhart also received an option to purchase 150,000 shares of the Company's common stock under the Company's 2003 Stock Plan. The fiscal 2009 option grant, which is subject to shareholder approval, vests in 48 equal monthly installments.

In connection with their respective appointments, Messrs. Edelhart, LeClaire, Sommer and Ms. Bolton each received 10,000 shares of restricted stock that vest over three years from the date of grant.

### Relocation of Certain Functions

During the year ended September 30, 2008, we closed our corporate offices in Mesa, Arizona that housed certain customer service functions, IT functions and corporate administration. The corporate and IT functions are being relocated to our Las Vegas, Nevada office and our customer service functions are being transitioned to our operations in the Philippines. We applied the provisions of SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities in accounting for these events and recorded an expense of \$15,352 related to the disposal of certain assets in connection with this relocation.

### Listing on NASDAQ Capital Market

On February 1, 2008, we began trading on the NASDAQ Capital Market. Concurrent with this change, our ticker symbol was changed from LVDL.OB to LIVE.

Recent Financial Results

The following represents a summary of recent financial results:

	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net revenues	\$ 5,764,347	\$ 5,812,141	\$ 6,637,785	\$ 7,068,888	\$ 7,120,697	\$ 5,989,437	\$ 6,106,544	\$ 7,123,683
Gross margin	\$ 4,604,243	\$ 4,682,770	\$ 5,532,096	\$ 6,063,339	\$ 5,860,893	\$ 5,113,544	\$ 5,148,835	\$ 6,012,813
Operating expenses	\$ 5,103,994	\$ 6,533,673	\$ 5,518,529	\$ 5,580,857	\$ 4,956,357	\$ 4,537,182	\$ 4,043,109	\$ 5,272,758
Operating income (loss)	\$ (499,751)	\$ (1,850,903)	\$ 13,567	\$ 482,482	\$ 904,536	\$ 576,362	\$ 1,105,726	\$ 740,055
Net income (loss)	\$ (277,505)	\$ (1,580,697)	\$ 3,338	\$ 326,092	\$ 376,053	\$ 266,405	\$ 626,262	\$ 485,198

Table of Contents

The following significant items are relevant to our fiscal 2008 and 2007 quarterly operating results:

§ Third quarter of fiscal 2008 – includes \$496,000 of severance costs associated with the termination of our former Chief Executive Officer, and \$439,000 of increased stock based compensation expense associated with the accelerated vesting of stock awards to the former Chief Executive Officer; partially offset by \$281,000 of decreased stock based compensation expense resulting from an increase in the estimated forfeiture rate on awards based on historical forfeiture experience which is considered to be a reasonable approximation of expected future forfeitures.

§ Second quarter of fiscal 2008 – includes a bonus of \$150,000 to our former CEO as stipulated in his employment contract for our listing on the NASDAQ Capital Market, a national exchange.

§ Fourth quarter of fiscal 2007 –

o Includes an increased bad debt reserve of approximately \$377,000 resulting from the Chapter 11 Bankruptcy filing of one of our LEC aggregators, representing our entire pre-petition outstanding receivable balance. The aggregator continues to operate as debtor-in-possession. We have since transitioned this portion of our business to another aggregator.

o Includes the reversal of approximately \$431,000 of accrued bonuses which were not paid as pre-determined financial goals were not met in fiscal 2007

§ Second quarter of fiscal 2007 – includes the reversal of approximately \$200,000 of accrued expenses related to the Attorneys General settlement.

§ First quarter of fiscal 2007 – includes approximately \$1,000,000 of direct response advertising costs incurred in October 2006 for which we derived no benefit based on the Attorneys General settlement that was agreed to in December 2006.

Further explanation of variations in our operating performance is discussed elsewhere in Item 7 of this Annual Report.

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 certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. As such, in accordance with the use of accounting principles generally accepted in the United States of America, our actual realized results may differ 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 following summarizes critical estimates made by management in the preparation of the consolidated financial statements.

**Revenue Recognition.** We generate revenue from customer subscriptions for directory and advertising services. We recognize revenues as services are rendered. In some instances, we receive payments in advance of rendering services, whereupon such revenues are deferred until the related services are rendered. Deferred revenue was \$917,068 and \$323,596 at September 30, 2008 and 2007, respectively. Our billing and collection procedures include significant involvement of outside parties, referred to as aggregators for LEC billing and service providers for ACH billing. Such processes are described below.

ACH Billing– For ACH billing, we submit electronic billing information to our service providers, who in turn use this information as a basis for processing direct bank withdrawals through an Automated Clearing House. We receive information regarding records that are rejected or cannot otherwise be processed on a timely basis, and we recognize revenue only for those items that are processed.

LEC Billing– When a customer subscribes to our service, we create an electronic customer file, which is the basis for the billing. We submit gross billings electronically to third party billing aggregators. These billing aggregators compile and format our electronic customer files and forward the billing records to the appropriate LECs. The billing for our service flows through to monthly bills of the individual LEC customers. The LECs collect our billing and remit amounts to the billing aggregators, which in turn remit funds to us. The following are significant accounting estimates and assumptions used in the revenue recognition process with respect to these billings.

- Customer refunds. We have a customer refund policy that allows the customer to request a refund if they are not satisfied with the service within the first 120 days of the subscription. We accrue for refunds based on historical experience of refunds as a percentage of new billings in that 120-day period. Customer refunds are reserved and charged against gross revenue.



## Table of Contents

- Non-paying customers. There are customers who may not pay the fee for our services even though we believe they are valid subscribers. Included in cost of services is an accrual for estimated non-paying customers that are recorded at the time of billing.
- Unbilled accounts. We recognize revenue during the month for which the service is provided based on net billings accepted by the billing aggregators. We recognize revenue only for accepted records. However, subsequent to this acceptance, there are instances in the LEC billing process where a customer cannot be billed due to changes in telephone numbers, telephone carriers, data synchronization issues, etc. These amounts that ultimately cannot be billed, as well as certain minor billing adjustments by the LECs are commonly referred to as unbilled accounts. Unbilled accounts are estimated at the time of billing and charged to cost of services.
- Fees. Both the aggregator and the LEC charge processing fees. Additionally, the LEC charges fees for responding to billing inquiries by its customers, processing refunds, and other customer-related services. Such fees are estimated at the time of billing and charged to cost of services.

Direct bill customers– If we are unable to bill via any other means, we bill subscribers directly via paper invoices. Our collection rate on these billings is significantly lower than those processed through the LECs. We track collections on direct-billed customers and recognize revenue from those customers based on the historical collection rates.

Fulfillment contracts– Beginning in fiscal 2006, we began entering into contracts with several third parties whereby we provide hosting, customer service and certain administrative functions under revenue sharing agreements. We recognize revenues only for those revenues for which we are entitled to when the related services are performed.

Allowance for Doubtful Accounts. We receive cash through the processes discussed above. Under our contractual arrangements with our third party aggregators and service providers, the LECs and aggregators/service providers deduct from our gross billings amounts for returns, nonpaying customers, dilution and fees to arrive at net proceeds remitted to us. We estimate an allowance for doubtful accounts on the basis of information provided by the billing aggregators and service providers. This information is an indicator of timely payments made by our subscribers. At September 30, 2008 and 2007, the allowance for doubtful accounts was approximately 20% and 22% of gross accounts receivable, respectively. The allowance at September 30, 2007 included a reserve of approximately \$377,000 resulting from the Chapter 11 Bankruptcy filing of one of our LEC aggregators, representing our entire pre-petition outstanding receivable balance. Notwithstanding this additional reserve, our allowance decreased from September 30, 2007 to September 30, 2008 as we have increased our quality control procedures over the submission of our billings to reduce the risk of dilution and non-collectability.

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, other information technology licenses and marketing and technology related intangibles acquired through the acquisition of LiveDeal, Inc. All such 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 AICPA Statement of Position No 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use and Emerging Issues Task Force ( EITF ) No 00-02, Accounting for Website Development Costs , respectively.

We evaluate the recoverability of the carrying amount of intangible assets at least annually and 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. No long-lived assets were impaired during the years ended September 30, 2008 and 2007 based upon management s analysis of expected future cash flows in accordance with the provisions of Statement

of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ( SFAS No. 144 ). In 2008, we also obtained an independent appraisal of our intangible assets and, while the appraisal was based on different appraisal methods than those prescribed under SFAS No. 144, the appraisal supported the conclusion that no impairment exists.

**Goodwill.** We evaluate our goodwill for potential impairment on an annual basis or whenever events or circumstances indicate that an impairment may have occurred in accordance with the provisions of Statement of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets ( SFAS No. 142 ), which requires that goodwill be tested for impairment using a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the estimated fair value of the reporting unit containing our goodwill with the related carrying amount. If the estimated fair value of the reporting unit exceeds its carrying amount, the reporting unit's goodwill is not considered to be impaired and the second step is unnecessary. To date, our goodwill has not been considered to be impaired based on the results of this first step.

**Customer Acquisition Costs.** We acquire customers primarily through outbound call campaigns whereby we incur costs which include the acquisition of calling lists, personnel costs, etc. Customers subscribe to the services by affirmatively responding to those campaigns, which serve as the contract for the subscription. Calling campaign costs are expensed as incurred. We also incur costs to acquire customers in connection with certain fulfillment contracts. Such costs are capitalized and amortized over the guaranteed life of the related revenue stream.

Table of Contents

**Income Taxes.** Income taxes are accounted for using the asset and liability method. 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 of \$4,812,623, and \$5,097,789 at September 30, 2008 and 2007, respectively, which relate to various timing differences between book and tax expense recognition.

We adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) – an interpretation of FASB Statement No. 109, Accounting for Income Taxes (SFAS No. 109) in fiscal 2008, and we engaged an independent accounting firm to perform an analysis of our tax positions. Such investigation did not reveal any significant uncertainties that would affect the carrying value of our deferred tax assets and liabilities at September 30, 2008.

**Stock-Based Compensation.** From time-to-time, we grant restricted stock awards and options to employees, directors, executives, and consultants. 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. The impacts of changes in such estimates on unamortized deferred compensation cost are recorded as an adjustment to compensation expense in the period in which such estimates are revised.

## Results of Operations

## Net Revenues

Year Ended September 30,	Net Revenues	Change from Prior Year	Percent Change from Prior Year
2008	\$ 25,283,161	\$ (1,057,200)	(4.0)%
2007	\$ 26,340,361		

Net revenues in fiscal 2008 decreased by approximately \$1,057,000 due primarily to a decrease in revenues billed through ACH of approximately \$2,982,000 and other miscellaneous decreases of \$463,000, partially offset by an increase of \$1,189,000 in sales of classified, banner and other advertisements, an increase in LEC billings of approximately \$624,000 and an increase in premium sales of \$575,000. The ACH revenues declined in fiscal 2008 as compared to fiscal 2007 due to the effects of the attorneys general settlement in December 2006 which has led to lost customers in this billing channel. We have experienced an increase in LEC billings in fiscal 2008 as compared to fiscal 2007 reflecting the effects of new fulfillment contracts and telemarketing efforts, and our classified and advertising revenues have increased due to the acquisition of LiveDeal Inc, as fiscal 2007 only included LiveDeal revenues beginning with June 6, 2007, the date of acquisition.

Although we have concentrations of risk with our billing aggregators (as described in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report) these aggregators bill via many underlying LECs, thereby reducing our risk associated with credit concentrations. However, there are a few LECs that service a significant number of our customers. To the extent that future changes in their billing practices cause a disruption in

our ability to bill through these channels, our revenues could be adversely affected. The majority of our IAP customers pay between \$27.50 and \$39.95 per month.

#### Cost of Services

Year Ended September 30,	Cost of Services	Change from Prior Year	Percent Change from Prior Year
2008	\$ 4,400,713	\$ 196,437	4.7%
2007	\$ 4,204,276		

Cost of services increased in fiscal 2008 as compared to fiscal 2007 due to an increase in LEC billings, which have higher costs than other billing channels, partially offset by an overall decline in net revenues. Also included in fiscal 2007 is a bad debt reserve of approximately \$377,000 resulting from the Chapter 11 Bankruptcy filing of one of our LEC aggregators, representing our entire pre-petition outstanding receivable balance from this LEC. The following table sets forth billings by channel for each of the following fiscal years:

Table of Contents

	2008	2007
LEC billing	65%	63%
ACH billing	20%	30%
Direct billing, credit card & other	15%	7%

We expect cost of services to continue to be directly correlated to our usage of LEC billing channels.

## Gross Profit

Year Ended September 30,	Gross Profit	Change from Prior Year	Percent Change from Prior Year
2008	\$ 20,882,448	\$ (1,253,637)	(5.7)%
2007	\$ 22,136,085		

The changes in our gross profits were due primarily to changes in revenues and increased cost of sales associated with higher utilization of LEC billing channels. Gross margins were 83% and 84% of net revenues in fiscal 2008 and 2007, respectively.

## General and Administrative Expenses

Year Ended September 30,	General & Administrative Expenses	Change from Prior Year	Percent Change from Prior Year
2008	\$ 15,610,521	\$ 3,091,901	24.7%
2007	\$ 12,518,620		

General and administrative expenses increased in fiscal 2008 as compared to fiscal 2007 due to the following:

- An increase in depreciation and amortization expense of approximately \$500,000 stemming primarily from the effects of the LiveDeal acquisition, which added \$2,200,000 of depreciable and amortizable long-lived and intangible assets, and additional capitalized costs for enhancements to our websites and on-line customer service applications;
  - An increase in compensation expense of approximately \$2,270,000 due to:
    - o Salaries and other compensation expense of \$761,000 associated with the LiveDeal acquisition that took place in June 2007, as 2007 only included LiveDeal expenses beginning with June 6, 2007, the date of acquisition;
    - o \$496,000 of severance costs associated with the termination of our former Chief Executive Officer;
    - o \$439,000 of increased stock based compensation expense associated with the accelerated vesting of stock awards to the former Chief Executive Officer;
    - o

\$1,189,000 of increased compensation costs associated with the development of certain call center functions in our Las Vegas headquarters; partially offset by,

o \$281,000 of decreased stock based compensation expense resulting from an increase in the estimated forfeiture rate on awards based on historical forfeiture experience which is considered to be a reasonable approximation of expected future forfeitures; and

- o \$334,000 of other compensation cost decreases primarily due to reductions in staffing and bonus expense.
- An increase in other general and administrative expenses of approximately \$376,000 primarily due to increased facility, office and other corporate expenses associated with the LiveDeal acquisition, as 2007 only included LiveDeal expenses beginning with June 6, 2007, the date of acquisition; and

Table of Contents

- Other general and administrative cost increases of \$168,000; partially offset by,
- A decrease in professional and consulting fees of approximately \$223,000 as we incurred significant expenses in fiscal 2007 to develop our strategic direction following the effects of the Attorneys General settlement, partially offset by increased legal fees in fiscal 2008 associated with executive turnover and other events.

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

	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Compensation for employees, leased employees, officers and directors	\$ 1,810,383	\$ 3,181,375	\$ 2,377,412	\$ 1,928,272	\$ 1,535,115	\$ 1,760,439	\$ 1,877,103	\$ 1,873,582
Professional fees	456,180	275,638	191,330	281,418	184,507	529,139	319,948	394,028
Reconfirmation, mailing, billing and other customer-related costs	48,529	18,185	27,735	17,601	33,662	24,269	34,042	23,715
Depreciation and amortization	588,718	505,095	487,085	478,433	460,554	396,759	364,724	336,887
Other general and administrative costs	643,785	842,571	761,583	689,247	757,136	522,583	531,915	558,513

## Sales and Marketing Expenses

	Year Ended September 30,	Sales & Marketing Expenses	Change from Prior Year	Percent Change from Prior Year
2008	\$	7,126,532	\$ 635,028	9.8%
2007	\$	6,491,504		

Sales and marketing expenses increased in fiscal 2008 compared to fiscal 2007 due to an increase of approximately \$1,609,000 of increased online marketing costs and \$1,058,000 associated with the amortization of customer acquisition costs of a new wholesale fulfillment contract, partially offset by a reduction of approximately \$1,000,000 of direct response mailing campaign expenses that were discontinued in early fiscal 2007 and decreased telemarketing costs associated with bringing such activities in-house stemming from the acquisition of OnCall Subscriber Management Inc. in fiscal 2007. The increase in online marketing costs is attributable to the acquisition of LiveDeal in June 2007 as such costs were only included in our results beginning with the date of acquisition.

## Litigation and Related Expenses

	Year Ended September	Litigation and Related	Change from Prior	Percent Change from
--	----------------------	------------------------	-------------------	---------------------

Edgar Filing: LIVEDEAL INC - Form 10-K

	30,	Expenses	Year	Prior Year
2008	\$	-	\$ 200,718	(100.0)%
2007	\$	(200,718)		

In fiscal 2008, we had no substantial litigation expenses attributable to any particular pending or threatened litigation and therefore included all legal costs as part of general and administrative expenses. In fiscal 2007, we had no significant outstanding, pending or threatened litigation and we also concluded the Attorneys General settlement in fiscal 2007 and reversed our remaining accruals of approximately \$201,000.

Operating Income (Loss)

	Year Ended	Operating Income	Change from	Percent
	September	(Loss)	Prior Year	Change from
	30,			Prior Year
2008	\$	(1,854,605)	\$ (5,181,284)	(155.7)%
2007	\$	3,326,679		

The decrease in operating income for fiscal 2008 compared to fiscal 2007 is primarily due to decreases in net revenues and increases in costs, general and administrative and sales and marketing expenses as detailed above.



Table of Contents

## Other Income (Expense)

Year Ended September 30,	Total Other Income (Expense)	Change from Prior Year	Percent Change from Prior Year
2008	\$ 137,742	\$ (145,172)	(51.3)%
2007	\$ 282,914		

Other income (expense) consists primarily of interest income on cash and short term investments, and decreased from fiscal 2007 to fiscal 2008 primarily as a result of decreased cash and short term investment balances.

## Income Tax Provision (Benefit)

Year Ended September 30,	Income Tax Provision (Benefit)	Change from Prior Year	Percent Change from Prior Year
2008	\$ (188,091)	\$ (2,043,766)	(110.1)%
2007	\$ 1,855,675		

The change in our income tax provision (benefit) in each of the above years is due primarily to changes in our pre-tax income. However, in fiscal 2008 and 2007, we incurred additional income tax expense of \$517,547 and \$499,885, respectively, due to book-tax differences in the recognition of restricted stock awards. During these periods, a portion of our restricted stock awards had vested and, due to declines in our stock price from grant date to vest date, the tax effects of the vesting of these awards were less than the carrying value of the related deferred tax assets.

## Net Income (Loss)

Year Ended September 30,	Net Income (Loss)	Change from Prior Year	Percent Change from Prior Year
2008	\$ (1,528,772)	\$ (3,282,690)	(187.2)%
2007	\$ 1,753,918		

Changes in net income (loss) are primarily attributable to changes in operating income and changes in income tax expense. As the two years yielded different operating results stemming from the impacts of the Attorneys General settlement, changes in the use of billing channels, changes in marketing strategies and other operating changes, see the respective financial statement line item narratives included herein for a detailed analysis of changes in our results of operations.

## Liquidity and Capital Resources

Net cash provided by operating activities decreased approximately \$432,000, or 24.5%, to \$1,333,000 for the year ended September 30, 2008, compared to \$1,765,000 for the year ended September 30, 2007. Although we incurred a

net loss in fiscal 2008, we generated cash flows from operations as our net loss included approximately \$4,796,000 of non-cash charges including depreciation and amortization, stock based compensation, deferred tax expense and provisions for uncollectible accounts. Our net cash provided by operating activities was also impacted by changes in operating assets and liabilities, the most significant of which in fiscal 2008 was the payment of \$1,700,000 to acquire additional wholesale accounts. In fiscal 2007, we incurred the payment of over \$3,000,000 related to the Attorneys General settlement.

Our primary source of cash inflows is net remittances from our billing channels, including ACH billings and LEC billings. For ACH billings, we generally receive the net proceeds through our billing service processors within 15 days of submission. For LEC billings, we receive collections on accounts receivable through the billing service aggregators under contracts to administer this billing and collection process. The billing service aggregators generally do not remit funds until they are collected. Generally, cash is collected and remitted to us (net of dilution and other fees and expenses) over a 60- to 120-day period subsequent to the billing dates. Additionally, for each monthly billing cycle, the billing aggregators and LECs withhold certain amounts, or holdback reserves, to cover potential future dilution and bad debt expense. These holdback reserves lengthen our cash conversion cycle as they are remitted to us over a 12- to 18-month period of time. We classify these holdback reserves as current or long-term receivables on our consolidated balance sheet, depending on when they are scheduled to be remitted to us. As of September 30, 2008, approximately 52% of our gross accounts receivable are due from three aggregators.

Table of Contents

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

Net cash used in investing activities during fiscal 2008 totaled \$1,817,000 and consisted of purchases of intangibles of \$1,227,000 and purchases of equipment of approximately \$589,000. Net cash used in investing activities totaled \$2,176,000 during fiscal 2007 and consisted of \$4,114,000 of net cash outflows for the acquisitions of LiveDeal, Inc. and OnCall Subscriber Management Inc., \$939,000 of expenditures for software and intangible assets and \$205,000 of purchases of equipment, partially offset by the liquidation of \$3,082,000 of certificates of deposit and other investments.

Net cash used for financing activities was approximately \$551,000 during fiscal 2008 and was primarily attributable to the purchase of treasury stock. Net cash used for financing activities was \$310,000 during fiscal 2007 and consisted primarily of repurchases of stock owned by dissenting shareholders in connection with the acquisition of LiveDeal, Inc.

We had working capital of \$11,260,000 as of September 30, 2008 compared to \$11,632,000 as of September 30, 2007. Our cash position decreased to \$4,640,000 at September 30, 2008 compared to \$5,675,000 at September 30, 2007, as investing and financing outflows exceeded cash flows from operations, each of which is described above.

During 2005, our Board of Directors authorized the repurchase of up to \$3,000,000 of our common stock from time to time on the open market or in privately negotiated transactions. We purchased a total of 85,385 shares at an aggregate cost of \$686,793 under the plan. On May 25, 2007, the Company's Board of Directors terminated the 2005 stock repurchase plan and replaced it with a new plan authorizing repurchases of up to \$1,000,000 of common stock from time to time on the open market or in privately negotiated transactions. We purchased a total of 148,820 shares at an aggregate cost of \$525,844 under the 2007 plan through September 30, 2008. Subsequent to year-end, the Company acquired an additional 317,004 shares of its common stock at an aggregate cost of \$487,480. The repurchase plan was increased by another \$500,000 on October 23, 2008.

We believe that our existing cash on hand and additional cash generated from operations will provide us with sufficient liquidity to meet our operating needs for the next 12 months.

At September 30, 2008, we had no other off-balance sheet arrangements, commitments or guarantees that require additional disclosure or measurement.

**ITEM 7A. Quantitative and Qualitative Disclosure about Market Risk**

As of September 30, 2008, we did not participate in any market risk-sensitive commodity instruments for which fair value disclosure would be required under Statement of Financial Accounting Standards No. 107. We believe that we are not subject in any material way to other forms of market risk, such as foreign currency exchange risk or foreign customer purchases (of which there were none in fiscal 2008 or 2007) or commodity price risk.

Table of Contents

ITEM 8. Financial Statements and Supplementary Data

LIVEDEAL, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of Independent Registered Public Accounting Firm	33
Consolidated Financial Statements:	
Consolidated Balance Sheets at September 30, 2008 and 2007	34
Consolidated Statements of Operations for the years ended September 30, 2008 and 2007	35
Consolidated Statements of Stockholders' Equity for the years ended September 30, 2008 and 2007	36
Consolidated Statements of Cash Flows for the years ended September 30, 2008 and 2007	37
Notes to Consolidated Financial Statements	38

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors

LiveDeal, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of LiveDeal, Inc. and Subsidiaries as of September 30, 2008 and 2007 and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LiveDeal, Inc. and Subsidiaries as of September 30, 2008 and 2007, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Mayer Hoffman McCann P.C.

MAYER HOFFMAN MCCANN P.C.  
Phoenix, Arizona  
December 22, 2008

Table of ContentsLIVEDEAL, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

Assets	September 30,	
	2008	2007
Cash and equivalents	\$ 4,639,787	\$ 5,674,533
Accounts receivable, net	6,880,492	6,919,180
Prepaid expenses and other current assets	792,309	510,609
Customer acquisition costs, net	642,220	-
Income taxes receivable	487,532	316,429
Deferred tax asset	949,121	546,145
Total current assets	14,391,461	13,966,896
Accounts receivable, long term portion, net	2,011,143	1,941,996
Property and equipment, net	959,854	423,563
Deposits and other assets	83,547	103,057
Intangible assets, net	6,736,078	7,372,147
Goodwill	11,706,406	11,683,163
Deferred tax asset, long term	3,863,502	4,551,644
Total assets	\$ 39,751,991	\$ 40,042,466
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 1,078,712	\$ 1,138,265
Accrued liabilities	1,991,369	1,196,330
Current portion of capital lease obligation	61,149	-
Total current liabilities	3,131,230	2,334,595
Capital lease obligation, net of current portion	170,838	-
Total liabilities	3,302,068	2,334,595
<b>Commitments and contingencies</b>		
<b>Stockholders' Equity:</b>		
Series E convertible preferred stock, \$.001 par value, 200,000 shares authorized, 127,840 issued and outstanding, liquidation preference \$38,202	10,866	10,866
Common stock, \$.001 par value, 100,000,000 shares authorized, 6,513,686 and 7,022,242 issued and 6,513,686 and 6,693,676 outstanding in 2008 and 2007	6,514	6,694
Treasury stock (0 and 328,566 shares carried at cost)	-	(2,714,698)
Paid in capital	20,884,112	23,325,888
Retained earnings	15,548,431	17,079,121
Total stockholders' equity	36,449,923	37,707,871
Total liabilities and stockholders' equity	\$ 39,751,991	\$ 40,042,466

See accompanying notes to consolidated financial statements.



Table of Contents

LIVEDEAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended September 30,	
	2008	2007
Net revenues	\$ 25,283,161	\$ 26,340,361
Cost of services	4,400,713	4,204,276
Gross profit	20,882,448	22,136,085
<b>Operating expenses:</b>		
General and administrative expenses	15,610,521	12,518,620
Sales and marketing expenses	7,126,532	6,491,504
Litigation and related expenses	-	(200,718)
Total operating expenses	22,737,053	18,809,406
Operating income (loss)	(1,854,605)	3,326,679
<b>Other income (expense):</b>		
Interest expense	(3,586)	-
Interest income	138,280	271,969
Other income (expense)	3,048	10,945
Total other income (expense)	137,742	282,914
Income (loss) before income taxes	(1,716,863)	3,609,593
Income tax provision (benefit)	(188,091)	1,855,675
Net income (loss)	\$ (1,528,772)	\$ 1,753,918
<b>Net income (loss) per common share:</b>		
Basic	\$ (0.25)	\$ 0.34
Diluted	\$ (0.25)	\$ 0.33
<b>Weighted average common shares outstanding:</b>		
Basic	6,231,610	5,108,551
Diluted	6,231,610	5,336,439

See accompanying notes to consolidated financial statements.



Table of Contents

LIVEDEAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Preferred Stock		Treasury	Paid-In	Deferred	Retained	Total
	Shares	Amount	Shares	Amount	Stock	Capital	Compensation	Earnings	
Balance, September 30, 2006	5,002,159	\$ 5,002	127,840	\$ 10,866	\$ (2,407,158)	\$ 12,294,186	\$ (2,854,122)	\$ 15,327,599	\$ 22,376,000
Issuance of deferred compensation	-	-	-	-	-	(2,854,122)	2,854,122	-	-
Issuance of E preferred stock warrants	-	-	-	-	-	-	-	(2,396)	(2,396)
Common stock issued in restricted stock plan	78,500	79	-	-	-	(79)	-	-	-
Common stock issued in connection with acquisition	1,675,016	1,675	-	-	-	12,326,370	-	-	12,328,045
Shares acquired from deal shareholders	(44,224)	(44)	-	-	(307,540)	44	-	-	(307,500)
Issuance of restricted stock in exchange for services	10,800	11	-	-	-	78,828	-	-	78,839
Restricted stock cancellations	(28,575)	(29)	-	-	-	29	-	-	-
Amortization of deferred compensation	-	-	-	-	-	1,480,632	-	-	1,480,632
Net income	-	-	-	-	-	-	-	1,753,918	1,753,918
Balance, September 30, 2007	6,693,676	6,694	127,840	10,866	(2,714,698)	23,325,888	-	17,079,121	37,707,771
Issuance of E preferred stock warrants	-	-	-	-	-	-	-	(1,918)	(1,918)
Common stock issued in restricted stock plan	53,000	53	-	-	-	(53)	-	-	-
Option grant	-	-	-	-	-	10,155	-	-	10,155
Restricted stock cancellations	(84,169)	(84)	-	-	-	84	-	-	-
Amortization of deferred compensation	-	-	-	-	-	788,431	-	-	788,431
Treasury stock purchases	(148,820)	(149)	-	-	(525,844)	149	-	-	(525,694)
Treasury stock retired	-	-	-	-	3,240,542	(3,240,542)	-	-	-
Net income (loss)	-	-	-	-	-	-	-	(1,528,772)	(1,528,772)
Balance, September 30, 2008	6,513,687	\$ 6,514	127,840	\$ 10,866	\$ -	\$ 20,884,112	\$ -	\$ 15,548,431	\$ 36,449,763

See accompanying notes to consolidated financial statements.

Table of Contents

LIVEDEAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended September 30,	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (1,528,772)	\$ 1,753,918
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,191,237	1,575,488
Amortization of stock-based compensation	788,431	1,480,632
Issuance of common stock as compensation for services	-	78,839
Non-cash stock compensation expense	10,155	-
Non-cash compensation expense to Chief Executive Officer	-	88,680
Deferred income taxes	285,166	1,564,352
(Gain) loss on disposal of equipment	15,352	4,128
Provision for uncollectible accounts	505,812	660,963
Changes in assets and liabilities:		
Accounts receivable	(536,271)	(237,771)
Customer acquisition costs	(1,700,000)	-
Prepaid and other current assets	(281,700)	(252,182)
Deposits and other assets	19,510	(851)
Accounts payable	(59,553)	(718,151)
Accrued liabilities	795,039	(3,654,358)
Income taxes receivable	(171,103)	(578,191)
Net cash provided by operating activities	1,333,303	1,765,496
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of businesses, net of cash acquired	-	(4,114,139)
Expenditures for intangible assets	(1,227,334)	(939,102)
Net purchases/redemptions of certificates of deposits and other investments	-	3,082,053
Purchases of equipment	(589,338)	(204,614)
Net cash used in investing activities	(1,816,672)	(2,175,802)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Series E preferred stock dividends	(1,918)	(2,396)
Principal repayments on capital lease obligations	(23,615)	-
Purchase of treasury stock	(525,844)	(307,540)
Net cash used in financing activities	(551,377)	(309,936)
DECREASE IN CASH AND CASH EQUIVALENTS	(1,034,746)	(720,242)
CASH AND CASH EQUIVALENTS, beginning of year	5,674,533	6,394,775
CASH AND CASH EQUIVALENTS, end of year	\$ 4,639,787	\$ 5,674,533

Supplemental cash flow disclosures:

Cash paid for interest	\$	3,586	\$	-
Cash paid for income taxes	\$	1,860	\$	870,000
Noncash financing and investing activities - acquisition of equipment under capital leases	\$	255,602	\$	-

See accompanying notes to consolidated financial statements.

Table of Contents

1. ORGANIZATION AND BASIS OF PRESENTATION

LiveDeal, Inc. (the Company), formerly YP Corp., YP.Net, Inc. and RIGL Corporation, had previously attempted to develop software solutions for medical practice billing and administration. The Company was not successful in implementing its medical practice billing and administration software products and looked to other business opportunities. The Company acquired Telco Billing, Inc. (Telco) in June 1999, through the issuance of 1,700,000 shares of the Company's common stock (on a post-split adjusted basis). Prior to its acquisition of Telco, the Company had not generated significant or sufficient revenue from planned operations.

Telco was formed in April 1998 to provide advertising and directory listings for businesses on its Internet website in a Yellow Pages format. Telco provides those services to its subscribers for a monthly fee. These services are provided primarily to businesses throughout the United States. Telco became a wholly owned subsidiary of YP Corp. after the June 1999 acquisition.

At the time that the transaction was agreed to, the Company had 12,567,770 common shares issued and outstanding. As a result of the merger transaction with Telco, there were 29,567,770 common shares outstanding, and the former Telco stockholders held approximately 57% of the Company's voting stock. For financial accounting purposes, the acquisition was a reverse acquisition of the Company by Telco, under the purchase method of accounting, and was treated as a recapitalization with Telco as the acquirer. Consistent with reverse acquisition accounting, (i) all of Telco's assets, liabilities, and accumulated deficit were reflected at their combined historical cost (as the accounting acquirer) and (ii) the preexisting outstanding shares of the Company (the accounting acquiree) were reflected at their net asset value as if issued on June 16, 1999.

On June 6, 2007, the Company completed its acquisition of LiveDeal, Inc. (LiveDeal), a California corporation. LiveDeal operates an online local classifieds marketplace, www.livedeal.com, which listed millions of goods and services for sale across the United States. The technology acquired in the acquisition offers such classifieds functionality as fraud protection, identity protection, e-commerce, listing enhancements, photos, community-building, package pricing, premium stores, featured Yellow Page business listings and advanced local search capabilities.

On July 10, 2007, the Company acquired substantially all of the assets and assumed certain liabilities of OnCall Subscriber Management Inc., a Manila, Philippines-based company that provides telemarketing services. The acquisition took place through the Company's wholly-owned subsidiary, 247 Marketing LLC, a Nevada limited liability company.

On August 10, 2007, the Company filed amended and restated articles of incorporation with the Office of the Secretary of State of the State of Nevada, pursuant to which the Company's name was changed to LiveDeal, Inc., effective August 15, 2007. The name change was approved by the Company's Board of Directors pursuant to discretion granted to it by the Company's stockholders at a special meeting on August 2, 2007.

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, 247 Marketing, Telco and Telco of Canada, Inc, the Company's wholly owned subsidiaries, for the years ended September 30, 2008 and 2007. The results of LiveDeal and 247 Marketing are included from their respective acquisition dates of June 6, 2007 and July 10, 2007, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents: This includes all short-term highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less. At times, cash deposits may exceed government-insured limits.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, LiveDeal, 247 Marketing, Telco Billing, Inc. and Telco of Canada, Inc. The results of LiveDeal and 247 Marketing are included from their respective acquisition dates of June 6, 2007 and July 10, 2007, respectively. All significant intercompany accounts and transactions have been eliminated.

## Table of Contents

**Property and Equipment:** Property and equipment is stated at cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets ranging from three to five years. Depreciation expense was \$293,297 and \$155,929 for the years ended September 30, 2008 and 2007, respectively.

**Revenue Recognition:** The Company's revenue is generated by customer subscriptions of directory and advertising services. Revenue is billed and recognized monthly for services subscribed in that specific month. The Company utilizes 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.

In some instances, the Company receives payments in advance of rendering services, whereupon such revenues are deferred until the related services are rendered. Deferred revenue was \$917,068 and \$323,596 at September 30, 2008 and 2007, respectively.

**Allowance for Doubtful Accounts:** The Company maintains an allowance for doubtful accounts, which includes allowances for customer refunds, dilution and fees from LEC billing aggregators and other uncollectible accounts. Reserves are established based on historical experience and known trends. The Company has reduced its allowance for doubtful accounts to 19.9% at September 30, 2008 from 21.7% at September 30, 2007 as the Company has improved its quality control procedures over billing submissions which has reduced the amount of dilution on LEC billings.

**Income Taxes:** Income taxes are accounted for using the asset and liability method. 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.

**Net Income (Loss) Per Share:** Net income (loss) per share is calculated in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, Earnings Per Share. Under the provisions of SFAS No. 128, basic net income per share is computed using the weighted average number of common shares outstanding during the period except that it does not include unvested restricted stock subject to cancellation. Diluted net income per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of warrants, restricted shares and convertible preferred stock. The dilutive effect of outstanding restricted shares and warrants is

reflected in diluted earnings per share by application of the treasury stock method. Convertible preferred stock is reflected on an if-converted basis.

**Foreign Currency Translation:** The Company has determined that the United States Dollar is the functional currency for its foreign operations. Accordingly, gains and losses resulting from the translation of foreign currency amounts to functional currency are included in the statements of operations in the period in which they occur.

**Financial Instruments:** Financial instruments consist primarily of cash, cash equivalents, accounts receivable, advances to affiliates and obligations under accounts payable, accrued expenses and notes payable. The carrying amounts of cash, cash equivalents, accounts receivable, accounts payable, accrued expenses and notes payable approximate fair value because of the short maturity of those instruments. The carrying amount of the advances to affiliates approximates fair value because the Company charges what it believes are market rate interest rates for comparable credit risk instruments. The Company has applied certain assumptions in estimating these fair values. The use of different assumptions or methodologies may have a material effect on the estimates of fair values.

## Table of Contents

**Use of Estimates:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates made in connection with the accompanying consolidated financial statements include the estimate of dilution and fees associated with LEC billings, the estimated reserve for doubtful accounts receivable, estimated customer retention period used for the amortization of customer acquisition costs, estimated forfeiture rates for stock-based compensation, fair values in connection with the analysis of goodwill and long-lived assets for impairment, and estimated useful lives for intangible assets and property and equipment.

**Stock-Based Compensation:** The Company from time-to-time grants 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.

The Company accounts for stock awards issued to non-employees in accordance with the provisions of SFAS No. 123R and Emerging Issues Task Force ( EITF ) Issue No. 96-18, Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services. Under SFAS No. 123R and EITF No. 96-18, stock awards to non-employees are accounted for at fair value at their respective measurement date.

**Internally Developed Software and Website Development Costs:** The Company incurs internal and external costs to develop software and websites to support its core business functions. The Company capitalizes internally generated software and website development costs in accordance with the provisions of the AICPA Statement of Position No 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use and Emerging Issues Task Force ( EITF ) No 00-02, Accounting for Website Development Costs , respectively.

**Impairment of Long-lived Assets:** The Company assesses long-lived assets for impairment in accordance with the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 requires that the Company assess the issue of impairment of a long-lived asset annually or whenever there is an indication that its carrying amount may not be recoverable. The carrying amount of a long lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. The amount of impairment loss, if any, is measured as the difference between the net book value of the asset and its estimated fair value. For purposes of these tests, long-lived assets must be grouped with other assets and liabilities for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The Company most recently completed an impairment evaluation in the fourth quarter of fiscal 2008. No long-lived assets were determined to be impaired during the years ended September 30, 2008 and 2007.

**Goodwill:** We evaluate our goodwill for potential impairment on an annual basis or whenever events or circumstances indicate that an impairment may have occurred in accordance with the provisions of Statement of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets ( SFAS No. 142 ), which requires that goodwill be tested for impairment using a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the estimated fair value of the reporting unit containing our goodwill with the related carrying amount. If the estimated fair value of the reporting unit exceeds its carrying amount, the reporting unit's goodwill is not considered to be impaired and the second step is unnecessary. To date, our goodwill has not been considered to be impaired based on the results of this first step.

**Effects of Reverse Stock Split:** Effective on August 15, 2007, the Company implemented a 1-for-10 reverse stock split with respect to issued and outstanding shares of its common stock. The reverse stock split was approved by the Company's Board of Directors pursuant to discretion granted to it by the Company's stockholders at a special meeting



on August 2, 2007. All per share amounts have been retroactively restated for the effects of this reverse stock split.

Recently Issued Accounting Pronouncements:

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 establishes a framework for measuring fair value under generally accepted accounting procedures and expands disclosures on fair value measurements. This statement applies under previously established valuation pronouncements and does not require the changing of any fair value measurements, though it may cause some valuation procedures to change. Under SFAS No. 157, fair value is established by the price that would be received to sell the item or the amount to be paid to transfer the liability of the asset as opposed to the price to be paid for the asset or received to transfer the liability. Further, it defines fair value as a market specific valuation as opposed to an entity specific valuation, though the statement does recognize that there may be instances when the low amount of market activity for a particular item or liability may challenge an entity's ability to establish a market amount. In the instances that the item is restricted, this pronouncement states that the owner of the asset or liability should take into consideration what effects the restriction would have if viewed from the perspective of the buyer or assumer of the liability. This statement is effective for all assets valued in financial statements for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS No. 157 on its financial position and result of operations.

Table of Contents

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which provides companies with an option to report selected financial assets and liabilities at fair value. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007 with early adoption allowed. The Company has not yet determined the impact, if any, that adopting this standard might have on its financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141(R)) and No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 (SFAS No. 160). SFAS No. 141(R) and SFAS No. 160 are products of a joint project between the FASB and the International Accounting Standards Board. The revised standards continue the movement toward the greater use of fair values in financial reporting. SFAS No. 141(R) will significantly change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. These changes include the expensing of acquisition related costs and restructuring costs when incurred, the recognition of all assets, liabilities and noncontrolling interests at fair value during a step-acquisition, and the recognition of contingent consideration as of the acquisition date if it is more likely than not to be incurred. SFAS No. 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS No. 141(R) and SFAS No. 160 are effective for both public and private companies for fiscal years beginning on or after December 15, 2008 (January 1, 2009 for companies with calendar year-ends). SFAS No. 141(R) will be applied prospectively. SFAS No. 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of SFAS No. 160 shall be applied prospectively. Early adoption is prohibited for both standards. The Company is currently evaluating the effects of these pronouncements on its financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133 ("SFAS 161"). SFAS 161 modifies existing requirements to include qualitative disclosures regarding the objectives and strategies for using derivatives, fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. The pronouncement also requires the cross-referencing of derivative disclosures within the financial statements and notes thereto. The requirements of SFAS 161 are effective for interim and annual periods beginning after November 15, 2008. The Company is currently evaluating the impact of the adoption of SFAS 161 on its financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets ("FSP FAS 142-3")- FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. The intent of the position is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R), and other GAAP. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008. FSP FAS 142-3 is effective for the Company on October 1, 2009. The Company is currently evaluating the impact that the adoption of FSP FAS 142-3 will have on its financial condition, results of operations, and disclosures.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. This statement shall be effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company is currently evaluating the impact that the adoption of

SFAS 162 will have on its financial condition, results of operations, and disclosures.

In May 2008, the FASB issued SFAS No. 163, Accounting for Financial Guarantee Insurance Contracts-an interpretation of FASB Statement No. 60 ("SFAS 163"). The scope of SFAS 163 is limited to financial guarantee insurance (and reinsurance) contracts. The pronouncement is effective for fiscal years beginning after December 31, 2008. The Company does not believe this pronouncement will impact its financial statements.

In May 2008, the FASB issued FASB Staff Position No. APB 14-1 ( FSP ). The FSP specifies that issuers of convertible debt instruments that permit or require the issuer to pay cash upon conversion should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The Company would be required to apply the guidance retrospectively to all past periods presented, even to instruments that have matured, converted, or otherwise been extinguished as of the effective date. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company does not believe this FSP will impact its financial statements.

Table of Contents

In June 2008, the Emerging Issues Task Force ( EITF ) issued Issue No. 07-05, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock ( Issue 07-05 ). EITF No. 07-05 addresses the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, if an instrument (or an embedded feature) that has the characteristics of a derivative instrument is indexed to an entity's own stock, it is still necessary to evaluate whether it is classified in stockholders' equity (or would be classified in stockholders' equity if it were a freestanding instrument). In addition, some instruments that are potentially subject to the guidance in EITF Issue No. 00-19 Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock ( Issue 00-19 ) but do not have all the characteristics of a derivative instrument under paragraphs 6 through 9, it is still necessary to evaluate whether it is classified in stockholders' equity. It is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company has not yet evaluated the impact this EITF will have on its financial statements.

3. ACQUISITIONS

LiveDeal, Inc.

On June 6, 2007, the Company acquired all of the outstanding common and preferred stock of LiveDeal, Inc. ("LiveDeal") in exchange for 1,505,490 shares of Common Stock. In addition, the Company issued an aggregate of 23,155 shares of restricted Common Stock in exchange for the cancellation of all outstanding LiveDeal options and warrants. Finally, the Company agreed to issue an additional 146,371 shares of Company Stock in exchange for the cancellation of \$1,021,666 of LiveDeal debt. Immediately following the transaction, LiveDeal became a wholly-owned subsidiary of the Company.

LiveDeal has developed and operates an online local classifieds marketplace, [www.livedeal.com](http://www.livedeal.com) which has millions of goods and services listed for sale, in almost every city and zip code across the U.S. LiveDeal offers such classifieds functionality as fraud protection, identity protection, e-commerce, listing enhancements, photos, community-building, package pricing, premium stores, featured Yellow Page business listings and advanced local search capabilities. Additionally, the LiveDeal technology lets consumers search or browse for items in a particular city, state or zip code.

At the site, users can search classifieds in any region and can look up businesses in a Yellow Pages database. As with most classified ad sites, users are offered a search window and a listing of subcategories. Sales are made directly between the user (buyer) and seller, and an "email the seller" link is provided to assist in this process.

Among the interesting features of LiveDeal's site is "Local AdWiz", which is a classifieds and Yellow Pages distribution network, turning any web site or blog into a unique and localized classifieds and Yellow Pages site in seconds. AdWiz gives website publishers fresh local content and an instant revenue stream. Local AdWiz pulls from millions of classified and yellow page listings across multiple categories from people in cities and towns all over the U.S. AdWiz enables the listings to be republished dynamically on any website within seconds.

The aggregate purchase price of LiveDeal was \$12,700,695, consisting of approximately \$12,328,045 of stock-based consideration and \$372,650 of acquisition-related expenses. The value of the combined 1,675,016 shares of common stock granted in the transaction was determined based on the average closing market price of the common stock over the two day period before and after the effective date of the acquisition. The purchase price was determined based on an average of valuation estimates utilizing comparable companies, precedent transactions and discounted cash flow techniques. There are no contingent payments or commitments specified in the agreement, except with respect to the employment agreement described in Note 10.

The following table sets forth the allocation of the acquisition cost, including acquisition-related expenses, to the assets acquired and liabilities assumed, based on their estimated fair values:

Current assets	\$ 962,877
Property, plant and equipment	70,000
Goodwill	7,349,366
Intangible assets	2,130,000
Deferred tax assets	3,545,618
Other non-current assets	10,846
Total assets acquired	14,068,707
Current liabilities	1,368,012
Total liabilities assumed	1,368,012
Net assets acquired	\$ 12,700,695

Table of Contents

The Company does not expect the goodwill to be tax-deductible. As the Company only operates in one reportable segment, the entire goodwill balance has been allocated to that segment.

The Company has estimated the fair value of LiveDeal's identifiable intangible assets at \$2,130,000, allocated as follows:

Asset class:	Estimated Fair Value	Average Remaining Useful Life
Marketing-based intangible assets	\$ 1,500,000	20 years
Technology-based intangible assets	630,000	5 years
	\$2,130,000	

Marketing-based intangible assets include trademarks, tradenames and Internet domain names, whereas technology-based intangible assets include computer software, technology, databases, and trade secrets.

In connection with its acquisition of LiveDeal, the Company repurchased an aggregate of 44,224 shares of common stock from dissenting shareholders of LiveDeal. The aggregate purchase price was \$307,540.

#### OnCall Subscriber Management, Inc.

On July 10, 2007, the Company acquired substantially all of the assets and assumed certain liabilities of OnCall Subscriber Management Inc. (a Manila, Philippines-based company), which OnCall purchased recently under option from 24 by 7 Contact Solutions, Inc. The Company completed the acquisition through 247 Marketing, LLC, a wholly owned subsidiary, which established a subsidiary in the Philippines (247 Marketing, Inc.) to operate the business. The acquisition added 170 Philippines-based employees to the Company's workforce.

The aggregate purchase price of the acquisition was approximately \$4,552,600 (including acquisition-related expenses of \$52,600), which was paid in cash during fiscal 2007. The Company allocated \$218,803 of the purchase price to the estimated fair value of the equipment that was acquired and \$4,333,797 to goodwill. The Company does not expect the goodwill to be tax-deductible. As the Company only operates in one reportable segment, the entire goodwill balance has been allocated to that segment.

#### Pro Forma Financial Information

The following table provides pro forma results of operations for the year ended September 30, 2007 as if LiveDeal had been acquired as of the beginning of the fiscal year. The pro forma results include certain purchase accounting adjustments such as the estimated changes in amortization expense on acquired intangible assets, increased compensation expense resulting from the contractual obligation for an executive's salary and the elimination of interest expense on borrowings that were satisfied through the acquisition. However, pro forma results do not include any anticipated cost savings or other effects of the planned integration of LiveDeal. Accordingly, such amounts are not necessarily indicative of the results that would have occurred if the acquisition had occurred on the dates indicated or that may result in the future.

Year ended  
September 30,  
2007

(unaudited)

Net revenues	\$ 28,057,074
Net loss	\$ (1,834,830)
Diluted net loss per share	\$ (0.28)

The Company did not provide pro forma information for the acquisition of OnCall Subscriber Management Inc. as this entity was a carve-out of a larger entity. As such, historical financial information of the acquired entity on a standalone basis is unattainable.

Table of Contents

## 4. BALANCE SHEET INFORMATION

Balance sheet information is as follows:

	September 30,	
	2008	2007
<b>Receivables, current, net</b>		
Accounts receivable, current	8,923,315	\$ 9,221,903
Less: Allowance for doubtful accounts	(2,042,823)	(2,302,723)
	6,880,492	\$ 6,919,180
<b>Receivables, long term, net</b>		
Accounts receivable, long term	2,171,865	\$ 2,101,071
Less: Allowance for doubtful accounts	(160,722)	(159,075)
	2,011,143	\$ 1,941,996
<b>Total receivables, net</b>		
Gross receivables	11,095,180	\$ 11,322,974
Gross allowance for doubtful accounts	(2,203,545)	(2,461,798)
	8,891,635	\$ 8,861,176
Components of allowance for doubtful accounts are as follows:		
Allowance for dilution and fees on amounts due from billing aggregators	1,775,276	\$ 1,888,730
Allowance for customer refunds	428,269	573,068
	2,203,545	\$ 2,461,798
<b>Property and equipment, net</b>		
Leasehold improvements	233,970	\$ 455,286
Furnishings and fixtures	311,319	310,499
Office, computer equipment and other	961,931	1,423,989
	1,507,220	2,189,774
Less: Accumulated depreciation	(547,366)	(1,766,211)
	959,854	\$ 423,563
<b>Intangible assets, net</b>		
Domain name and marketing related intangibles	7,208,600	\$ 7,208,600
Non-compete agreement	3,465,000	3,465,000
Website and technology related intangibles	4,147,459	3,006,093
	14,821,059	13,679,693
Less: Accumulated amortization of intangible	(8,084,981)	(6,307,546)
	6,736,078	\$ 7,372,147
<b>Accrued liabilities</b>		
Litigation accrual	-	\$ -
Deferred revenue	917,068	323,596
Accrued payroll and bonuses	306,984	339,305
Accrued expenses - other	767,317	533,428
	1,991,369	\$ 1,196,330

## 5. ACCOUNTS RECEIVABLE



The Company provides billing information to third party billing companies for the majority of its monthly billings. Two billing channels account for the majority of the Company's accounts receivable. Billings submitted are filtered by these billing companies and the LECs. Net accepted billings are recognized as revenue and accounts receivable. The billing companies remit payments to the Company on the basis of cash ultimately received from the LECs by those billing companies. The billing companies and LECs 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. These balances have been classified as long-term assets in the accompanying consolidated balance sheet.

The Company experiences significant dilution of its gross billings by the billing companies. The Company negotiates collections with the billing companies on the basis of the contracted terms and historical experience. The Company's cash flow may be affected by holdbacks, fees, and other matters, which are determined by the LECs and the billing companies.

Table of Contents

The handling and processing of cash receipts pertaining to trade accounts receivable is maintained primarily by three third-party billing companies. The net receivable due from such billing services providers represented 2%, 35% and 15%, respectively, of the Company's total net accounts receivable at September 30, 2008 and 31%, 23%, and 16%, respectively, of the Company's total net accounts receivable at September 30, 2007.

Subscription receivables that are directly billed by the Company are valued and reported at the estimated future collection amount. Determining the expected collections requires an estimation of both uncollectible accounts and refunds. The net direct-billed subscriptions receivable at both September 30, 2008 and 2007, respectively, were \$150,323.

Certain receivables have been classified as long-term because issues arise whereby the billing companies withhold certain amounts that are repaid over a 12 to 18 month period of time. The breakdown of current and long-term receivables and their respective allowances is in Note 4 above.

## 6. INTANGIBLE ASSETS

The Company's intangible assets consist of licenses for the use of Internet domain names or Universal Resource Locators, or URLs, capitalized website development costs, other information technology licenses and marketing and technology related intangibles acquired through the acquisition of LiveDeal, Inc. All such assets are capitalized at their original cost and amortized over their estimated useful lives.

In connection with the Company's acquisition of Telco, the Company was required to provide an accelerated payment of license fees for the use of the URL Yellow-page.net. The URL is recorded at its cost of \$5,000,000, net of accumulated amortization. The URL is amortized over the twenty-year term of the licensing agreement.

In July 2003, the Company entered into a licensing agreement with a vendor to license the use of the URL www.yip.com in exchange for cash and restricted shares of the Company's common stock. Under the terms of this agreement, the licensor had the option of transferring the rights to the URL and the restricted shares to the Company in exchange for \$300,000. In July 2006, the licensor exercised this option, and transferred ownership of the URL and the restricted shares to the Company. As this option was deemed to be a purchase commitment, no liability was reflected in the Company's financial statements prior to the exercise of the option. The Company capitalized the URL at its net acquisition price, computed as the \$300,000 cash payment less the fair market value of the shares acquired (determined based on the stock price on the date of reacquisition) and will amortize this asset on a straight-line basis over its estimated useful life.

The following summarizes the estimated future amortization expense related to intangible assets:

Years ended September 30,	
2009	\$ 1,984,442
2010	1,410,729
2011	655,838
2012	345,387
2013	261,387
Thereafter	2,078,295
Total	\$ 6,736,078

Total amortization expense related to intangible assets was \$1,840,161 and \$1,419,559 for the years ended September 30, 2008 and 2007.

No long-lived assets were impaired during the years ended September 30, 2008 and 2007 based upon management's analysis of expected future cash flows in accordance with the provisions of Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144). In 2008, the Company also obtained an independent appraisal of its intangible assets and, while the appraisal was based on different appraisal methods than those prescribed under SFAS No. 144, the appraisal supported the conclusion that no impairment exists.

7. CAPITAL LEASES

The Company has entered into two capital leases for communications equipment during the year ended September 30, 2008, with a cost basis of \$255,603 with terms ranging from 45 to 48 months and imputed interest rates ranging from 3.6 to 13.2 percent. All capital leases are secured by the underlying equipment. Equipment acquired under these capital leases is being depreciated over their estimated lives of four years.

Table of Contents

Future minimum lease payments due under the capital lease agreements are as follows for the years ended September 30:

2009	\$ 69,838
2010	69,838
2011	69,838
2012	41,213
2013	-
Thereafter	-
Total minimum lease payments	250,728
Less imputed interest	(18,741)
Present value of minimum lease payments	231,987
Less: current maturities of capital lease obligations	61,149
Noncurrent maturities of capital lease obligations	\$ 170,838

## 8. STOCKHOLDERS EQUITY

### Common Stock Issued for Services

The Company historically has granted shares of its common stock to officers, directors and consultants as payment for services rendered. The value of those shares was determined based on the trading value of the stock at the date at which the counterparties' performance is complete. During the year ended September 30, 2007, the Company issued 10,800 shares to a consulting firm valued at \$78,840 as payment for amounts previously accrued.

### 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 ten-to-one basis together with payment of \$0.45 per converted share.

### Treasury Stock

The Company's treasury stock consists of shares repurchased on the open market or shares received through various agreements with third parties. The value of such shares is determined based on cash paid or quoted market prices. During fiscal 2004, all then-outstanding treasury shares, valued at \$216,000 were retired. On April 1, 2005, the Company acquired 188,957 shares valued at \$1,606,000 as partial settlement of amounts due from affiliates. On May 18, 2005, the Company's Board of Directors authorized a plan to repurchase up to \$3,000,000 of common stock from time to time on the open market or in privately negotiated transactions. In fiscal 2006, the Company acquired 25,260 shares for \$134,000 and in fiscal 2005; the Company acquired 60,125 shares for \$566,000 under this plan. In July 2006, the Company acquired 10,000 shares valued at \$101,000 in connection with the exercise of its option to acquire the URL [www.yp.com](http://www.yp.com) as described in Note 6.

On May 25, 2007, the Company's Board of Directors terminated the May 18, 2005 stock repurchase plan and replaced it with a new plan authorizing repurchases of up to \$1,000,000 of common stock from time to time on the open market or in privately negotiated transactions. This program was expanded subsequent to September 30, 2008 – see Note 17.

#### Dividends

During the years ended September 30, 2008 and 2007 the Company accrued dividends of \$1,918 and \$2,396, respectively, to holders of Series E preferred stock.

Table of Contents

## 9. NET (LOSS)/INCOME PER SHARE

Net (loss)/income per share is calculated using the weighted average number of shares of common stock outstanding during the year. Preferred stock dividends are subtracted from net income to determine the amount available to common stockholders.

The following table presents the computation of basic and diluted income (loss) per share:

	Year Ended September 30, 2008	Year Ended September 30, 2007
Income (loss)	\$ (1,528,772)	\$ 1,753,918
Less: preferred stock dividends	(1,918)	(2,396)
Net income (loss) applicable to common stock	\$ (1,530,690)	\$ 1,751,522
Basic weighted average common shares outstanding:	6,231,610	5,108,551
Add incremental shares for:		
Unvested restricted stock	-	222,359
Series E convertible preferred stock	-	5,529
Outstanding warrants	-	-
Diluted weighted average common shares outstanding:	6,231,610	5,336,439
Net income (loss) per share:		
Basic	\$ (0.25)	\$ 0.34
Diluted	\$ (0.25)	\$ 0.33

The following potentially dilutive securities were excluded from the calculation of net income (loss) per share because the effects are antidilutive:

	September 30, 2008	September 30, 2007
Warrants to purchase shares of common stock	-	-
Series E convertible preferred stock	243	-
Shares of non-vested restricted stock	112,811	63,406
	113,054	63,406

## 10. COMMITMENTS AND CONTINGENCIES

The Company leases its office space and certain equipment under long-term operating leases expiring through fiscal year 2013. Rent expense under these leases was \$819,752 and \$526,617 for the years ended September 30, 2008 and 2007, respectively.

At September 30, 2008, future minimum annual lease payments under operating lease agreements for fiscal years ended September 30 are as follows:

2009	\$ 801,181
2010	510,465

2011	408,065
2012	315,331
2013	78,720
Thereafter	-
	\$ 2,113,763

#### Change in Officers and Employment Agreements

Dan Coury was terminated as our Chief Executive Officer on May 19, 2008 and, in connection with this termination he resigned as a member of our Board of Directors. Pursuant to the terms of his employment agreement dated September 19, 2006 (the "Employment Agreement"); the Company paid Mr. Coury (i) his earned but unpaid salary and vacation through May 19, 2008 and (ii) a one-time lump sum payment of \$496,000 in connection with his termination. Of the 155,000 shares of restricted stock of the Company that Mr. Coury owned at the date of his departure, 111,667 shares were immediately vested and the remaining 43,333 shares were forfeited and cancelled. Mr. Coury will also be maintained on the Company's health, dental and disability benefit plans (or reimbursed for similar coverage in the event that the Company is unable to maintain him on such plans) for a period of 12 months. As required under the Employment Agreement, Mr. Coury provided the Company with a general release of any and all claims relating to his employment and/or the termination thereof in consideration of the payments described above.

## Table of Contents

On May 22, 2008, the Company's Board of Directors appointed Mr. Rajesh Navar as its chairman and Mr. Navar resigned his position as President of the Company.

On June 1, 2008, Michael Edelhart was appointed as Chief Executive Officer and to serve as a director of the Company. In exchange for his role as Chief Executive Officer, Mr. Edelhart receives compensation of \$250,000 annually and will be eligible to receive a bonus of up to \$60,000 per year if the Company achieves certain performance objectives established by the Company's Board of Directors and/or its Compensation Committee. During the year ended September 30, 2008, Mr. Edelhart received an option to purchase 5,000 shares of the Company's common stock that was fully vested at September 30, 2008. Subsequent to September 30, 2008, Mr. Edelhart also received an option to purchase 150,000 shares of the Company's common stock under the Company's 2003 Stock Plan. The fiscal 2009 option grant, which is subject to shareholder approval, vests in 48 equal monthly installments.

## Litigation

The Company is party to certain legal proceedings incidental to the conduct of its business. Management believes that the outcome of pending legal proceedings will not, either individually or in the aggregate, have a material adverse effect on its business, financial position, and results of operations, cash flows or liquidity.

Except as described below, as of September 30, 2008, the Company was not a party to any pending material legal proceedings other than claims that arise in the normal conduct of its business. While management currently believes that the ultimate outcome of these proceedings will not have a material adverse effect on its consolidated financial condition or results of operations, litigation is subject to inherent uncertainties. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on the Company's net income in the period in which a ruling occurs. The Company's estimate of the potential impact of the following legal proceedings on its financial position and its results of operation could change in the future.

The Company has not recorded any accruals pertaining to its legal proceedings as they do not meet the criteria for accrual under Statement of Financial Accounting Standards No. 5, Accounting for Contingencies .

### Joe Cunningham v. LiveDeal, Inc. et al.

On July 16, 2008, Joseph Cunningham, a member of LiveDeal's Board of Directors, its former Chairman, and a former Chairman of its Audit Committee, filed a complaint with the U.S. Department of Labor's Occupational Safety and Health Administration ("OSHA") alleging that the Company and certain members of its Board of Directors had engaged in discriminatory employment practices in violation of the Sarbanes-Oxley Act of 2002's statutory protections for corporate whistleblowers when the Board of Directors removed him as Chairman on May 22, 2008. In his complaint, Mr. Cunningham asked OSHA to order his appointment as Chief Executive Officer of the Company or, in the alternative, to order his reinstatement as Chairman of the Board. Mr. Cunningham also sought back pay, special damages and litigation costs. As previously disclosed, at the time the Company received the notice, its Board of Directors had already formed a Special Committee to investigate the matters raised by Mr. Cunningham in a preliminary draft of his OSHA complaint, which his attorney provided to the Company on June 26, 2008. OSHA's and the Special Committee's investigations are ongoing as of the date of this report.

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

On June 6, 2008, Global Education Services, Inc. ("GES") filed a consumer fraud class action lawsuit against the Company in King County (Washington) Superior Court. GES has alleged in its complaint that the Company's use of activator checks violated the Washington Consumer Protection Act. GES is seeking injunctive relief against the Company's use of the checks, as well as a judgment in an amount equal to three times the alleged damages sustained



by GES and the members of the class. LiveDeal has denied the allegations.

Complaint filed by Illinois Attorney General against LiveDeal, Inc.

On November 12, 2008, the Illinois Attorney General filed a complaint against the Company requesting money damages and injunctive relief for claims that LiveDeal employed deceptive and unfair acts and practices in violation of the Illinois Consumer Fraud and Deceptive Business Act in a telemarketing campaign that in part promoted premium Internet Yellow Page listings to Illinois consumers. Based on a preliminary investigation into the sales scripts and automated verification system utilized in the telemarketing campaign, the Company denies the allegations raised in the complaint and will vigorously defend the claim.

Table of Contents

## Other Contractual Commitments

During the third quarter of fiscal 2006, the Company entered into a contractual arrangement with a consulting firm to provide strategic and operational related consulting services. Under the terms of the agreement, the Company is obligated to make future payments through July 2009 that vary based on the Company's billed customer count subject to a minimum of \$20,000 per month. Current payments are approximately \$100,000 per month. Future amounts payable under this agreement have not been accrued in the accompanying consolidated financial statements as such payments are for future services.

## 11. PROVISION FOR INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Income taxes for years ended September 30, is summarized as follows:

	2008	2007
Current provision (benefit)	\$ (470,728)	\$ 291,273
Deferred (benefit) provision	282,637	1,564,402
Net income tax (benefit) provision	\$ (188,091)	\$ 1,855,675

A reconciliation of the differences between the effective and statutory income tax rates for years ended September 30, is as follows:

	2008		2007	
	Amount	Percent	Amount	Percent
Federal statutory rates	\$ (583,733)	34%	\$ 1,227,262	34%
State income taxes	(57,707)	3%	121,282	3%
Write off of deferred tax asset related to vested restricted stock	517,547	(30)%	499,885	14%
Other	(64,198)	4%	7,246	0%
Effective rate	\$ (188,091)	11%	\$ 1,855,675	51%

Table of Contents

At September 30, deferred income tax assets and liabilities were comprised of:

	2008	2007
Deferred income tax asset, current:		
Book to tax differences in accounts receivable	\$ 884,368	\$ 546,145
Book to tax differences in accrued expenses	64,754	-
Total deferred income tax asset, current	949,121	546,145
Deferred income tax asset, long-term:		
Net operating loss carryforwards	3,481,786	3,545,618
Book to tax differences for stock based compensation	204,805	951,246
Book to tax differences in intangible assets	1,342,998	121,613
Book to tax differences in depreciation	(1,166,088)	(66,833)
Total deferred income tax asset, long-term	3,863,502	4,551,644
Total deferred income tax asset	\$ 4,812,623	\$ 5,097,789

## 12. CONCENTRATION OF CREDIT RISK

The Company maintains cash balances at banks in Arizona and Nevada. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 as of September 30, 2008.

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 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 net receivable due from such billing services providers represented 2%, 35% and 15%, respectively, of the Company's total net accounts receivable at September 30, 2008 and 31%, 23%, and 16%, respectively, of the Company's total net accounts receivable at September 30, 2007..

## 13. STOCK-BASED COMPENSATION

During the year ended September 30, 2003, the Company's board of directors and a majority of its stockholders voted to terminate the Company's 2002 Employees, Officers & Directors Stock Option Plan and approved the Company's 2003 Stock Plan. The 300,000 shares of Company common stock previously allocated to the 2002 Plan were re-allocated to the 2003 Plan. During the year ended September 30, 2004, an additional 200,000 shares were authorized by the board of directors and approved by the Company's stockholders to be issued under the 2003 Plan. All Company personnel and contractors are eligible to participate in the plan.

As of September 30, 2008, there were 586,192 shares authorized under the 2003 Plan that were granted and remain outstanding, of which 381,267 have vested and 204,925 are in the form of restricted stock. These shares of restricted stock were granted to the Company's service providers, executives and directors. Of the 204,925 shares, 176,350 shares vest on a cliff basis 3 years from the date of grant, 6,250 shares vest on a cliff basis 5 years from the date of grant, and 22,325 vest on a cliff basis 10 years from the date of grant. Certain market performance criteria may accelerate the vesting of a portion of these awards if the stock price exceeds \$50 per share. As of September 30, 2008,

total unrecognized compensation cost related to unvested awards was \$581,709. The weighted average period over which such compensation cost is to be recognized is 1.80 years. Additionally, the Company has 22,500 shares of unvested restricted stock awards related to the LiveDeal acquisition that were issued outside of the 2003 Plan which vest in June 2010.

Table of Contents

The following table sets forth the activity with respect to compensation-related restricted stock grants:

Outstanding (unvested) at September 30, 2006	535,607
Granted	78,500
Forfeited	(28,575)
Vested	(143,625)
Outstanding (unvested) at September 30, 2007	441,907
Granted	53,000
Forfeited	(84,169)
Vested	(183,313)
Outstanding (unvested) at September 30, 2008	227,425

The vesting of substantially all shares of restricted stock accelerates upon a change of control, as defined in the 2003 Plan. Compensation expense is determined at the date of grant, is equal to the stock price at the date of grant, and is deferred and recognized on a straight-line basis over the vesting period. The weighted-average grant-date fair value of awards issued during the years ended September 30, 2008 and 2007 was \$3.30 and \$7.45 per share, respectively. The weighted-average grant-date fair value of the shares outstanding is \$8.32 per share.

During the years ended September 30, 2008 and 2007 the Company recognized compensation expense of \$788,431 and \$1,480,632, respectively, under the 2003 Plan and other restricted stock issuances.

During the year ended September 30, 2008, the Company's Chief Executive Officer received an option to purchase 5,000 shares of the Company's common stock that was fully vested at September 30, 2008. The Company recognized compensation expense of \$10,155 during the year ended September 30, 2008 based on the grant date fair value of the award using the Black Scholes option pricing model with the following assumptions:

Volatility	95.9%
Risk-free interest rate	2.2%
	5.0
Expected term	years

The volatility used was based on historical volatility of the Company's common stock, which management considers to be the best indicator of expected future volatility. The risk free interest rate was determined based on treasury securities with maturities equal to the expected term of the underlying award. The expected term was determined based on the simplified method outlined in Staff Accounting Bulletin No. 107.

There was no unrecognized stock compensation associated with stock option awards as all awards were fully vested at September 30, 2008. The following summarizes stock option activity:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Fair Value	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at September 30, 2007	-				

Edgar Filing: LIVEDEAL INC - Form 10-K

Granted at market price	5,000	\$	2.78	\$	2.03
Exercised	-	\$	-		
Cancelled	-	\$	-		
Outstanding at September 30, 2008	5,000			9.8	\$ -
Exercisable	5,000	\$	2.78	9.8	\$ -

Upon the exercise of stock options, the Company may issue new shares or, if circumstances permit, issue shares held as treasury stock.

14.

EMPLOYEE BENEFIT PLAN

The Company maintains a 401(k) profit sharing plan for its employees and service providers who are eligible to participate in the plan upon reaching age 21 and completion of three months of service. The Company made contributions of \$109,919 and \$34,159 to the plan for the years ended September 30, 2008 and 2007, respectively.

51

---

Table of Contents

15. OTHER INCOME (EXPENSE)

There were no significant items in other income (expense) in the year ended September 30, 2008.

16. SEGMENT REPORTING

The Company operates one reportable segment – online marketplace and Yellow Page services.

At September 30, 2008 and 2007, the Company's long-lived assets included property and equipment with a net book value of \$136,451 and \$205,743, respectively that reside in the Philippines. All other long-lived assets reside in the United States.

17.SUBSEQUENT EVENTS

On November 5, 2008, the Company entered into an agreement to sell its Internet domain name [www.yip.com](http://www.yip.com) to YellowPages.com for a cash payment of \$3,850,000. The Company's primary source of ongoing revenues is the sale of Internet Advertising Packages, which targeted users of its [www.yip.com](http://www.yip.com) property. The Company is in the process of transitioning these customers to advertising on [www.livedeal.com](http://www.livedeal.com) and are hopeful that any loss of customers resulting from its divestiture of [www.yip.com](http://www.yip.com) will not be significant or adversely impact our future revenues. However, certain customers may cancel their service in response to this transition, and there can be no assurance that such cancellations will not have an adverse effect on the Company's financial condition or results of operations.

Subsequent to year-end, the Company acquired an additional 317,004 shares of its common stock at an aggregate cost of \$487,480. The repurchase plan was increased by another \$500,000 on October 23, 2008. These shares were subsequently retired.

On November 30, 2008, each of the following agreements was terminated pursuant to notices of termination delivered to the Company by its respective counterparties:

- Fulfillment and Marketing Agreement dated October 10, 2007, by and between the Company and Sharednet.
- Fulfillment and Marketing Agreement dated October 16, 2007, by and between the Company and OneSource Web Hosting.
- Fulfillment and Marketing Agreement dated October 10, 2007, by and between the Company and Blabble Networks.

Under the agreements, the Company provided certain fulfillment and directory services to the customers of Sharednet, OneSource Web Hosting and Blabble Networks, respectively (collectively, the "Wholesalers"). In exchange for such services, the Wholesalers remitted all related fees collected (less their 10% commission) to the Company. Such fees accounted for approximately \$5.3 million, or 18%, of the Company's net revenues in fiscal 2008. The agreements accounted for 12,000 of the Company's 65,000 customers.

In their notices of termination, the Wholesalers claimed that the Company breached the agreements by not providing proper customer support services. The Company did not incur any material early termination penalties in connection with the terminations described above.

Table of Contents

## 18. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly financial information for 2008 and 2007 follows:

	Quarter Ended			
	December 31, 2007	March 31, 2008	June 30, 2008	September 30, 2008
Net revenues	\$ 7,068,888	\$ 6,637,785	\$ 5,812,141	\$ 5,764,347
Gross profit	6,063,339	5,532,096	4,682,770	4,604,243
Net income (loss)	326,092	3,338	(1,580,697)	(277,505)
Earnings per share information:				
Basic income per share	\$ 0.05	\$ -	\$ (0.25)	\$ (0.04)
Diluted income per share	\$ 0.05	\$ -	\$ (0.25)	\$ (0.04)

	Quarter Ended			
	December 31, 2006 (as restated)	March 31, 2007 (as restated)	June 30, 2007 (as restated)	September 30, 2007
Net revenues	\$ 7,123,683	\$ 6,106,544	\$ 5,989,437	\$ 7,120,697
Gross profit	6,012,813	5,148,835	5,113,544	5,860,893
Net income	485,198	626,262	266,405	376,053
Earnings per share information:				
Basic income per share	\$ 0.11	\$ 0.14	\$ 0.05	\$ 0.06
Diluted income per share	\$ 0.11	\$ 0.13	\$ 0.05	\$ 0.06



Table of Contents

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

ITEM 9A. 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 and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based upon that evaluation, our Chief Executive Officer and Chief Financial 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 Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the required time periods and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting.

In our efforts to continuously improve our internal controls, we have made some improvements to our internal control structure effective for the preparation of our financial statements for the year ended September 30, 2008, including the adoption of a formal accounting policies and procedures manual, and increased documentation surrounding certain authorization and review controls.

Management's Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of September 30, 2008.

In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control — Integrated Framework. Based on our assessment using those criteria, our management concluded that our internal control over financial reporting was effective as of September 30, 2008.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report. Accordingly, our management's assessment of the effectiveness of our internal control over financial reporting as of September 30, 2008 has not been audited by our auditors, Mayer Hoffman McCann P.C. or any other independent registered accounting firm.

ITEM 9B. Other Information

On November 30, 2008, each of the following agreements was terminated pursuant to notices of termination delivered to the Company by its respective counterparties:

- Fulfillment and Marketing Agreement dated October 10, 2007, by and between the Company and Sharednet.
- Fulfillment and Marketing Agreement dated October 16, 2007, by and between the Company and OneSource Web Hosting.
- Fulfillment and Marketing Agreement dated October 10, 2007, by and between the Company and Blabble Networks.

Under the agreements, the Company provided certain fulfillment and directory services to the customers of Sharednet, OneSource Web Hosting and Blabble Networks, respectively (collectively, the "Wholesalers"). In exchange for such services, the Wholesalers remitted all related fees collected (less their 10% commission) to the Company. Such fees accounted for approximately \$5.3 million, or 18%, of the Company's net revenues in fiscal 2008. The agreements accounted for 12,000 of the Company's 65,000 customers.

Table of Contents

In their notices of termination, the Wholesalers claimed that the Company breached the agreements by not providing proper customer support services. The Company did not incur any material early termination penalties in connection with the terminations described above.

55

---

Table of Contents

PART III

Certain information required by Part III is omitted from this Annual Report on Form 10-K because we will file our definitive Proxy Statement for our 2009 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A of the Exchange Act (the 2009 Proxy Statement ) not later than 120 days after the end of the fiscal year covered by this Annual Report. Certain information included in the 2009 Proxy Statement is incorporated herein by reference.

ITEM 10. Directors, Executive Officers and Corporate Governance

The information required by this Item will be disclosed in our 2009 Proxy Statement and is incorporated herein by reference.

The Company has adopted a Code of Ethics that applies to its officers, directors and employees.

ITEM 11. Executive Compensation

The information required by this Item will be disclosed in our 2009 Proxy Statement and is incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item will be disclosed in our 2009 Proxy Statement and is incorporated herein by reference.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item will be disclosed in our 2009 Proxy Statement and is incorporated herein by reference.

ITEM 14. Principal Accountant Fees and Services

The information required by this Item will be disclosed in our 2009 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. Exhibits and Financial Statement Schedule

(1) Financial Statements are listed on the Index to Consolidated Financial Statements on page 40 of this Annual Report.

(2) The following represents financial statement schedules required to be filed with this Annual Report:

Table of Contents

## SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON SCHEDULE

To the Stockholders and Board of Directors

## LIVEDEAL, INC. AND SUBSIDIARIES

We have audited the consolidated financial statements of LiveDeal, Inc. and Subsidiaries as of September 30, 2008 and 2007 and for the years then ended and have issued our report thereon dated December 22, 2008. Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The information included in the accompanying Schedule II–Valuation and Qualifying Accounts is presented for purposes of complying with the Securities and Exchange Commission’s rules and is not a required part of the basic consolidated financial statements. Such information for the years ended September 30, 2008 and 2007 has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

/s/ Mayer Hoffman McCann P.C.

MAYER HOFFMAN MCCANN P.C.

Phoenix, Arizona

December 22, 2008

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions/Writeoffs	Balance at End of Period
Allowance for dilution and fees on amounts due from billing aggregators					
Year ended September 30, 2007	\$ 2,465,423	\$ 5,183,515	\$	\$ (5,760,208)	\$ 1,888,730
Year ended September 30, 2008	\$ 1,888,730	\$ 3,999,980	\$	\$ (4,113,434)	\$ 1,775,276
Allowance for customer refunds					
Year ended September 30, 2007	\$ 803,526	\$ 2,281,995	\$	\$ (2,512,453)	\$ 573,068
Year ended September 30, 2008	\$ 573,068	\$ 3,357,512	\$	\$ (3,502,311)	\$ 428,269

Table of Contents

(3) The following exhibits are filed with or incorporated by reference into this Annual Report.

Exhibit Number	Description	Previously Filed as Exhibit	File Number	Date Previously Filed
3.1	Amended and Restated Articles of Incorporation	Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on August 15, 2007	000-24217	8/15/07
3.2	Amended and Restated Bylaws	Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2007	00-24217	12/20/07
10.1	LiveDeal, Inc. Amended and Restated 2003 Stock Plan*	Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2007	00-24217	12/20/07
10.2	Form of 2003 Stock Plan Restricted Stock Agreement*	Exhibit 10 to the Registrant's Quarterly Report on Form 10-QSB for the fiscal quarter ending March 31, 2005	000-24217	5/16/05
<u>10.3</u>	Form of 2003 Stock Plan Stock Option Agreement*	Attached hereto	-	-
10.4	Standard Industrial/Commercial Multi-Tenant Lease for Mesa facility, dated June 1, 1998, between the Registrant and Art Grandlich, d/b/a McKellips Corporate Square	Exhibit 10.5 to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1999	000-24217	9/19/00
10.4.1	Amendment No. 1 to Standard Industrial/Commercial Multi-Tenant Lease for Mesa facility, dated August 17, 1998, between the Registrant and Arthur Grandlich, d/b/a McKellips Corporate Square	Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2006	000-24217	12/29/06
10.4.2	Amendment No. 2 to Standard Industrial/Commercial Multi-Tenant Lease for Mesa facility, dated January 7, 2003, between the Registrant and Arthur Grandlich, d/b/a McKellips Corporate Square	Exhibit 10.14 to Amendment No. 2 to the Registrant's Annual Report on Form 10-KSB/A for the fiscal year ended September 30, 2002	000-24217	7/8/03
10.4.3			000-24217	12/29/06

Edgar Filing: LIVEDEAL INC - Form 10-K

	A m e n d m e n t N o . 3 t o S t a n d a r d Industrial/Commercial Multi-Tenant Lease for Mesa facility, dated March 23, 2006, between the Registrant and J3 Harmon, LLC, successor in interest to The Estate of Arthur Grandlich	Exhibit 10.4.2 to the Registrant s Annual Report on Form 10-K for the fiscal year ended September 30, 2006		
10.4.4	A m e n d m e n t N o . 4 t o S t a n d a r d Industrial/Commercial Multi-Tenant Lease for Mesa facility, dated April 12, 2006, between the Registrant and J3 Harmon, LLC, successor in interest to The Estate of Arthur Grandlich	Exhibit 10.4.3 to the Registrant s Annual Report on Form 10-K for the fiscal year ended September 30, 2006	000-24217	12/29/06

Table of Contents

10.5	Standard Industrial Lease for Nevada facility, dated September 3, 2003, between the Registrant and Tomorrow 33 Convention, LP	Exhibit 10.4 to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 2003	000-24217	12/31/03
10.6	Amendment No. 1 to Standard Industrial Lease for Nevada facility, dated October 4, 2006, between the Registrant and Tomorrow 33 Convention, LP	Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2006	000-24217	12/29/06
10.7	Employment Agreement, dated September 19, 2006, between the Registrant and Gary L. Perschbacher*	Exhibit 10.10 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2006	000-24217	12/29/06
10.8	Employment Agreement, dated February 6, 2006, between the Registrant and John Raven*	Exhibit 10.1 to the Registrant's Current Report on Form 8-K	000-24217	2/21/06
10.8.1	First Amendment to Employment Agreement, dated September 19, 2006, between the Registrant and John Raven*	Exhibit 10.13.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2006	000-24217	12/29/06



Table of Contents

10.9	Master Services Agreement, dated August 1, 2002, between the Registrant and eBillit, Inc.	Exhibit 10.24 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-QSB/A for the fiscal quarter ended March 31, 2003	000-24217	7/8/03
10.10	Billings and Related Services Agreement, dated September 1, 2001, between the Registrant and ACI Communications, Inc.	Exhibit 10.33 to Amendment No. 2 to the Registrant's Annual Report on Form 10-KSB/A for the fiscal year ended September 30, 2002	000-24217	7/8/03
10.11	Asset Purchase Agreement dated as of July 10, 2007, relating to the Registrant's acquisition of the assets of Oncall Subscriber Management Inc.	Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on July 16, 2007	000-24217	7/16/07
10.12	Escrow Agreement dated as of July 10, 2007, relating to the Registrant's acquisition of the assets of Oncall Subscriber Management Inc.	Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on July 16, 2007	000-24217	7/16/07
<u>10.13</u>	Amended and Restated Employment Agreement, dated October 1, 2008, between the Registrant and Michael Edelhart*	Attached hereto		
<u>10.14</u>	Non-Qualified Stock Option Agreement, dated November 10, 2008, between the Registrant and Michael Edelhart	Attached hereto	-	-
14	Code of Business Conduct and Ethics, Adopted December 31, 2003	Exhibit 14 to the Registrant's Quarterly Report on Form 10-QSB for the period ended March 31, 2004	000-24217	5/13/04
<u>21</u>	Company Subsidiaries	Attached hereto		
<u>23</u>	Consent of Mayer Hoffman McCann P.C.	Attached hereto		
<u>31</u>	Certifications pursuant to SEC Release No. 33-8238, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Attached hereto		
<u>32</u>	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Attached hereto		

\* Management contract or compensatory plan or arrangement

60

---

Table of Contents

## SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: December 29, 2008

/s/Michael Edelhart  
Michael Edelhart  
Chief Executive Officer

## BOARD OF DIRECTORS

Signature	Title	Date
/s/ Michael Edelhart Michael Edelhart	Chief Executive Officer (Principal Executive Officer)	December 29, 2008
/s/ Gary L. Perschbacher Gary L. Perschbacher	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	December 29, 2008
/s/ Richard D. Butler. Richard D. Butler	Director	December 29, 2008
/s/ Sheryle Bolton Sheryle Bolton	Director	December 29, 2008
/s/ Thomas Clarke, Jr. Thomas Clark, Jr	Director	December 29, 2008
Joseph Cunningham	Director	[Date Blank]
/s/ John Evans. John Evans	Director	December 29, 2008
/s/ Greg LeClaire Greg LeClaire	Director	December 29, 2008
/s/ Rajesh Navar Rajesh Navar	Chairman of the Board	December 29, 2008
/s/ Richard Sommer Richard Sommer	Director	December 29, 2008