

LIVEDEAL INC
Form 10-Q
February 14, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2013

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

For the transition period from _____ to _____

Commission File Number 001-33937

LiveDeal, Inc.

(Exact name of registrant as specified in its charter)

Nevada

85-0206668

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

325 E. Warm Springs Road, Suite 102

Las Vegas, Nevada

(Address of principal executive offices)

89119

(Zip Code)

(702) 939-0231

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☐

Accelerated filer ☐

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

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

The number of shares of the issuer's common stock, par value \$.001 per share, outstanding as of February 6, 2014 was 13,577,327 (after giving effect to the 3-for-1 forward stock split that took effect on February 11, 2014).

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FOR THE QUARTER ENDED DECEMBER 31, 2013

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

	December 31, 2013	September 30, 2013
Assets		
Cash and cash equivalents	\$511,565	\$761,458
Accounts receivable, net	140,547	174,901
Prepaid expenses and other current assets	81,167	67,126
Total current assets	733,279	1,003,485
Accounts receivable, long term portion, net	44,638	44,639
Property and equipment, net	68,485	71,162
Deposits and other assets	25,563	25,563
Intangible assets, net	2,753,098	2,848,401
Total assets	\$3,625,063	\$3,993,250
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	\$515,113	\$524,053
Accrued liabilities	260,480	299,464
Total liabilities	775,593	823,517
Stockholders' equity:		
Series E convertible preferred stock, \$0.001 par value, 200,000 shares authorized, 127,840 issued and outstanding, liquidation preference \$38,202	10,866	10,866
Common stock, \$0.001 par value, 30,000,000 shares authorized, 11,356,461 and 11,335,674 shares issued and outstanding at December 31, 2013 and September 30, 2013, respectively	11,356	11,335
Paid in capital	30,569,533	30,481,179
Accumulated deficit	(27,742,285)	(27,333,647)
Total stockholders' equity	2,849,470	3,169,733
Total liabilities and stockholders' equity	\$3,625,063	\$3,993,250

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

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

	Three Months Ended December 31,	
	2013	2012
Net revenues	\$593,458	\$572,535
Cost of services	121,329	102,636
Gross profit	472,129	469,899
Operating expenses:		
General and administrative expenses	870,699	762,376
Sales and marketing expenses	27,072	19,441
Total operating expenses	897,771	781,817
Operating loss	(425,642)	(311,918)
Other expense:		
Interest expense, net	(516)	(750,554)
Other income	18,000	—
Total other expense, net	17,484	(750,554)
Loss from continuing operations	(408,158)	(1,062,472)
Discontinued operations		
Income from discontinued component, including disposal costs	—	1,963
Income from discontinued operations	—	1,963
Net loss	\$(408,158)	\$(1,060,509)
Earnings per share - basic and diluted:		
Loss from continuing operations	\$(0.04)	\$(0.13)
Discontinued operations	—	—
Net loss	\$(0.04)	\$(0.13)
Weighted average common shares outstanding:		
Basic and diluted	10,735,676	7,961,811

Weighted average number of shares used to compute basic and diluted loss per share is the same as the effect of potential dilutive securities is anti-dilutive.

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

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

	Three Months Ended December 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(408,158)	\$(1,060,509)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	104,710	63,567
Non-cash interest expense associated with convertible debt and warrants	–	750,754
Stock based compensation expense	65,875	–
Issuance of common stock for services	22,506	30,000
Provision for uncollectible accounts	(24,072)	4,016
Loss on disposal of property and equipment	–	1,407
Changes in assets and liabilities:		
Accounts receivable	58,426	56,478
Prepaid expenses and other current assets	(14,041)	(297,307)
Deposits and other assets	–	13,542
Accounts payable	(8,947)	73,050
Accrued liabilities	(39,462)	103,630
Net cash used in operating activities	(243,163)	(261,372)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for intangible assets	(563)	(109,500)
Purchases of property and equipment	(6,167)	(15,813)
Net cash used in investing activities	(6,730)	(125,313)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of convertible debt and warrants	–	250,000
Net cash provided by financing activities	–	250,000
DECREASE IN CASH AND CASH EQUIVALENTS	(249,893)	(136,685)
CASH AND CASH EQUIVALENTS, beginning of period	761,458	1,305,785
CASH AND CASH EQUIVALENTS, end of period	\$511,565	\$1,169,100
Supplemental cash flow disclosures:		

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Noncash financing and investing activities:

Conversion of notes payable and accrued interest into common stock		\$250,333
Accrued and unpaid dividends	\$480	\$479
Interest paid	\$686	

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

LIVEDEAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED DECEMBER 31, 2013 AND 2012

Note 1: Organization and Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of LiveDeal, Inc. (formerly, “YP Corp.”), a Nevada corporation, and its wholly owned subsidiaries (collectively the “Company”). The Company delivers local customer acquisition services for small and medium-sized businesses combined with online listing services to deliver an affordable way for businesses to extend their marketing reach to local, relevant customers via the Internet.

The accompanying unaudited Condensed Consolidated Balance Sheet as of September 30, 2013, which has been derived from our audited Consolidated Financial Statements, and the accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (“GAAP”) for audited financial statements. In the opinion of the Company’s management, this interim information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The results of operations for the three months ended December 31, 2013 are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2014. The accompanying note disclosures related to the interim financial information included herein are also unaudited. This financial information should be read in conjunction with the consolidated financial statements and related notes thereto as of September 30, 2013 and for the fiscal year then ended included in the Company’s Annual Report on Form 10-K filed with the SEC on January 10, 2014.

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

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

All data for common stock, options and warrants have been adjusted to reflect the 3-for-1 forward stock split for all periods presented. In addition, all common stock prices, and per share data for all periods presented have been adjusted to reflect the 3-for-1 forward stock split. The 3-for-1 forward stock split record date was February 3, 2014 and it was effective February 11, 2014, after the market closed. See Note 15 for details.

Note 2: Balance Sheet Information

Balance sheet information is as follows:

	December 31, 2013	September 30, 2013
Receivables, current, net:		
Accounts receivable, current	\$848,999	\$904,197
Less: Allowance for doubtful accounts	(708,452)	(729,296)
	\$140,547	\$174,901
Receivables, long term, net:		
Accounts receivable, long term	\$363,540	\$374,708
Less: Allowance for doubtful accounts	(318,902)	(330,069)
	\$44,638	\$44,639
Total receivables, net:		
Gross receivables	\$1,212,539	\$1,278,905
Less: Allowance for doubtful accounts	(1,027,354)	(1,059,365)
	\$185,185	\$219,540

Components of allowance for doubtful accounts are as follows:

	December 31, 2013	September 30, 2013
Allowance for dilution and fees on amounts due from billing aggregators	\$1,007,961	\$730,777
Allowance for customer refunds	2,428	6,281
	\$1,010,389	\$737,058

	December 31, 2013	September 30, 2013
Property and equipment, net:		
Furnishings and fixtures	\$101,611	\$101,611
Office, computer equipment and other	410,747	404,580
	512,358	506,191
Less: Accumulated depreciation	(443,873)	(435,029)

\$68,485 \$71,162

	December 31, 2013	September 30, 2013
Intangible assets, net:		
Domain name and marketing related intangibles	\$1,513,708	\$1,513,708
Website and technology related intangibles	2,336,291	2,335,728
	3,849,999	3,849,436
Less: Accumulated amortization	(1,096,901)	(1,001,035)
	\$2,753,098	\$2,848,401

	December 31, 2013	September 30, 2013
Accrued liabilities:		
Deferred revenue	\$1,962	\$2,829
Accrued payroll and bonuses	27,951	27,330
Accruals under revenue sharing agreements	1,480	44,167
Accrued expenses - other	229,087	225,138
	\$260,480	\$299,464

Note 3: Going Concern

The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. For the three months ended December 31, 2013 and 2012, the Company had a net loss of \$408,158 and \$1,060,509, respectively. These circumstances result in substantial doubt as to the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon the Company's ability to generate sufficient revenues to operate profitably or raise additional capital through debt financing and/or through sales of common stock. The failure to achieve the necessary levels of profitability and obtain the additional funding would be detrimental to the Company. The accompanying condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

Because of the infancy of the Company's new lines of business, the Company has yet to generate significant revenue from its online presence marketing or promotional marketing lines of business. Given that the Company has not been accepting new customers for its legacy product offerings since July 2011 and that it did not launch its new product offerings until August 2012, the Company's revenues declined for fiscal 2013 as compared to fiscal 2012 as the Company continued to build a foundation for its new products and services and position the Company for future growth through its LiveDeal.com and Velocity LocalTM offerings.

Management has taken the following steps to revise its operating and financial requirements, which it believes are sufficient to provide the Company with the ability to continue as a going concern. Management devoted considerable effort from inception through the period ended December 31, 2013, towards (i) establishment of sales distribution channels for its products, (ii) management of accrued expenses and accounts payable, and (iii) building and marketing its LiveDeal.com and Velocity LocalTM offerings and developing other new products. In addition, the Company recently sold 2,214,612 shares of our common stock, resulting in gross proceeds of \$10,000,000, in an at-the-market offering, in which Chardan Capital Markets LLC was our agent. The shares were sold under our Registration Statement on Form S-3 (Reg. No. 333-187397) , which was declared effective on May 3, 2013.

The Company will require additional capital to finance its planned business operations as it continues to build and market its LiveDeal.com and Velocity LocalTM offerings and develop other new products. In addition, the Company may require additional capital to finance acquisitions or other strategic investments in its business. Other sources of financing may include stock issuances; additional loans (for example, through our sale and issuance of convertible notes pursuant to the \$5 million line of credit that we entered into in January 2014); or other forms of financing. Any financing obtained may further dilute or otherwise impair the ownership interest of the Company's existing stockholders. If the Company is unable to generate positive cash flows or raise additional capital in a timely manner or on acceptable terms, the Company may (i) not be able to make acquisitions or other strategic investments in its business, (ii) modify, delay or abandon some or all of its business plans, and/or (iii) be forced to cease operations.

Management believes that the above actions will allow the Company to continue operations for the next 12 months.

Note 4: Stock-based Compensation

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

Stock Options

The following table summarizes stock option activity for the three months ended December 31, 2013:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Intrinsic Value
Outstanding at September 30, 2013	675,000	\$ 2.82		
Granted	—	\$ —		
Exercised	—			
Forfeited	—			
Outstanding at December 31, 2013	675,000	\$ 2.82	5.6	—
Exercisable at December 31, 2013	75,000	\$ 3.33	0.4	—

The Company recognized compensation expense of \$65,875 and \$0 during the three months ended December 31, 2013 and 2012, respectively, related to stock option awards granted to certain employees and executives based on the grant date fair value of the awards, net of estimated forfeitures. The Company used the