

LIVEDEAL INC
Form 10-Q
February 17, 2009

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, 2008

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

For the transition period from _____ to _____

Commission File Number 0-24217

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)

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

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

Indicate by check mark whether the registrant 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

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Non-Accelerated Filer

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

APPLICABLE ONLY TO CORPORATE ISSUERS

The number of shares of the issuer's common equity outstanding as of February 10, 2009 was 6,066,742 shares of common stock, par value \$0.001.

INDEX TO FORM 10-Q FILING
FOR THE QUARTER ENDED DECEMBER 31, 2008

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PART I – FINANCIAL INFORMATION

ITEM 1.

FINANCIAL STATEMENTS

LIVEDEAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| | December 31, 2008 (unaudited) | September 30, 2008 |
|---|-------------------------------------|-----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 7,569,993 | \$ 4,639,787 |
| Accounts receivable, net | 6,508,868 | 6,880,492 |
| Prepaid expenses and other current assets | 779,610 | 792,309 |
| Customer acquisition costs, net | 160,552 | 642,220 |
| Income taxes receivable | - | 487,532 |
| Deferred tax asset | 843,161 | 949,121 |
| Total current assets | 15,862,184 | 14,391,461 |
| Accounts receivable, long term portion, net | 2,090,971 | 2,011,143 |
| Property and equipment, net | 893,815 | 959,854 |
| Deposits and other assets | 86,944 | 83,547 |
| Intangible assets, net | 6,333,305 | 6,736,078 |
| Goodwill | 11,706,406 | 11,706,406 |
| Deferred tax asset, long term | 4,236,563 | 3,863,502 |
| Total assets | \$ 41,210,188 | \$ 39,751,991 |
| Liabilities and Stockholders' Equity | | |
| Liabilities: | | |
| Accounts payable | \$ 1,001,500 | \$ 1,078,712 |
| Accrued liabilities | 2,817,107 | 1,991,369 |
| Income tax payable | 196,442 | - |
| Current portion of capital lease obligation | 67,272 | 61,149 |
| Total current liabilities | 4,082,321 | 3,131,230 |
| Long term portion of capital lease obligation | 169,609 | 170,838 |
| Total liabilities | 4,251,930 | 3,302,068 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Series E convertible preferred stock, \$0.001 par value, 200,000 shares authorized, 127,840 issued and outstanding, liquidation preference \$38,202 | 10,866 | 10,866 |
| Common stock, \$0.001 par value, 100,000,000 shares authorized, 6,195,683 and 6,513,687 outstanding at December 31, 2008 and September 30, 2008, respectively | 6,196 | 6,514 |
| Paid in capital | 20,505,883 | 20,884,112 |
| Retained earnings | 16,435,313 | 15,548,431 |
| Total stockholders' equity | 36,958,258 | 36,449,923 |

| | | |
|--|---------------|---------------|
| Total liabilities and stockholders' equity | \$ 41,210,188 | \$ 39,751,991 |
|--|---------------|---------------|

See accompanying notes to unaudited condensed consolidated financial statements.

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

| | Three Months ended December 31, | |
|---|------------------------------------|-------------|
| | 2008 | 2007 |
| Net revenues | \$5,163,130 | \$7,068,888 |
| Cost of services | 1,609,125 | 1,005,549 |
| Gross profit | 3,554,005 | 6,063,339 |
| Operating expenses: | | |
| General and administrative expenses | 4,259,026 | 3,394,971 |
| Sales and marketing expenses | 1,808,322 | 2,185,886 |
| Total operating expenses | 6,067,348 | 5,580,857 |
| Operating income (loss) | (2,513,343) | 482,482 |
| Other income (expense): | | |
| Interest income, net | 13,759 | 36,032 |
| Other income (expense) | 3,805,778 | (1,121) |
| Total other income (expense) | 3,819,537 | 34,911 |
| Income before income taxes | 1,306,194 | 517,393 |
| Income tax provision (benefit) | 418,833 | (191,301) |
| Net income | \$887,361 | \$326,092 |
| Net income per common share: | | |
| Basic | \$0.15 | \$0.05 |
| Diluted | \$0.15 | \$0.05 |
| Weighted average common shares outstanding: | | |
| Basic | 6,036,964 | 6,230,395 |
| Diluted | 6,109,473 | 6,424,978 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

| | Three Months Ended December 31, | |
|---|------------------------------------|----------------|
| | 2008 | 2007 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 887,361 | \$ 326,092 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 1,062,015 | 496,842 |
| Non-cash stock compensation expense | 19,856 | - |
| Amortization of deferred stock compensation | 89,077 | 209,079 |
| Deferred income taxes | (267,101) | 4,882 |
| Gain on sale of internet domain name | (3,805,778) | - |
| Provision for uncollectible accounts | 347,712 | 67,693 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (55,916) | (485,229) |
| Prepaid expenses and other current assets | 12,699 | 145,952 |
| Deposits and other assets | (3,397) | 690 |
| Accounts payable | (77,212) | (105,412) |
| Accrued liabilities | 825,738 | (161,249) |
| Income taxes receivable and payable | 683,974 | 202,808 |
| Net cash provided by (used in) operating activities | (280,972) | 702,148 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sale of internet domain name | 3,850,000 | - |
| Additional closing costs related to acquisition of LiveDeal, Inc. | - | (7,000) |
| Additional closing costs related to acquisition of OnCall Subscriber Management, Inc. | - | (16,243) |
| Expenditures for intangible assets | (119,369) | (163,384) |
| Purchases of equipment | (11,567) | (44,730) |
| Net cash provided by (used in) investing activities | 3,719,064 | (231,357) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Series E preferred stock dividends | (479) | (480) |
| Principal repayments on capital lease obligations | (19,927) | - |
| Purchase of treasury stock | (487,480) | (293,832) |
| Net cash used in financing activities | (507,886) | (294,312) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 2,930,206 | 176,479 |
| CASH AND CASH EQUIVALENTS, beginning of period | 4,639,787 | 5,674,533 |
| CASH AND CASH EQUIVALENTS, end of period | \$ 7,569,993 | \$ 5,851,012 |

See accompanying notes to unaudited condensed consolidated financial statements

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LIVEDEAL, INC. AND SUBSIDIARIES
 NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 a classified and Internet Yellow Pages directory platform technology to deliver an affordable way for businesses to extend their marketing reach to local, relevant customers via the Internet through its online property, www.livedeal.com.

The accompanying condensed consolidated balance sheet as of September 30, 2008, which has been derived from audited consolidated financial statements, and the accompanying unaudited condensed consolidated financial statements as of December 31, 2008 and for the three months ended December 31, 2008 and 2007, respectively, 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 generally accepted accounting principles for audited financial statements. In the opinion of the Company’s management, the 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, 2008 are not necessarily indicative of the results to be expected for the year ending September 30, 2009. The footnote disclosures related to the interim financial information included herein are also unaudited. Such financial information should be read in conjunction with the consolidated financial statements and related notes thereto as of September 30, 2008 and for the year then ended included in the Company’s Annual Report on Form 10-K for the year ended September 30, 2008.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant estimates and assumptions have been used 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, estimating forfeitures of stock-based compensation and evaluating the recoverability of deferred tax assets. Actual results could differ from these estimates.

2. BALANCE SHEET INFORMATION

Balance sheet information is as follows:

| | December 31, 2008 | September 30, 2008 |
|---------------------------------------|----------------------|-----------------------|
| Receivables, current, net: | | |
| Accounts receivable, current | \$ 8,342,754 | \$ 8,923,315 |
| Less: Allowance for doubtful accounts | (1,833,886) | (2,042,823) |
| | \$ 6,508,868 | \$ 6,880,492 |
| Receivables, long term, net: | | |
| Accounts receivable, long term | \$ 2,255,895 | \$ 2,171,865 |
| Less: Allowance for doubtful accounts | (164,924) | (160,722) |

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| | | | | |
|---------------------------------------|----|--------------|----|--------------|
| | \$ | 2,090,971 | \$ | 2,011,143 |
| Total receivables, net: | | | | |
| Gross receivables | \$ | 10,598,649 | \$ | 11,095,180 |
| Gross allowance for doubtful accounts | | (1,998,810) | | (2,203,545) |
| | \$ | 8,599,839 | \$ | 8,891,635 |

December 31, September 30,
2008 2008

Components of allowance for doubtful accounts are as follows:

| | | | | |
|---|----|-----------|----|-----------|
| Allowance for dilution and fees on amounts due from billing aggregators | \$ | 1,639,888 | \$ | 1,775,276 |
| Allowance for customer refunds | | 358,922 | | 428,269 |
| | \$ | 1,998,810 | \$ | 2,203,545 |

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LIVEDEAL, INC. AND SUBSIDIARIES
 NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Included in accounts receivable at December 31, 2008 and September 30, 2008 are receivables of \$803,877 and \$806,100, respectively from a LEC aggregator that is currently in bankruptcy proceedings, against which the Company maintains allowances totaling \$723,489 and \$628,449, respectively.

| | December 31, 2008 | September 30, 2008 |
|----------------------------------|----------------------|-----------------------|
| Customer acquisition costs, net: | | |
| Customer acquisition costs | \$ 1,700,000 | \$ 1,700,000 |
| Less: Accumulated amortization | (1,539,448) | (1,057,780) |
| | \$ 160,552 | \$ 642,220 |

| | December 31, 2008 | September 30, 2008 |
|--------------------------------------|----------------------|-----------------------|
| Property and equipment, net: | | |
| Leasehold improvements | \$ 240,002 | \$ 233,970 |
| Furnishings and fixtures | 311,319 | 311,319 |
| Office, computer equipment and other | 990,020 | 961,931 |
| | 1,541,341 | 1,507,220 |
| Less: Accumulated depreciation | (647,526) | (547,366) |
| | \$ 893,815 | \$ 959,854 |

| | December 31, 2008 | September 30, 2008 |
|---|----------------------|-----------------------|
| Intangible assets, net: | | |
| Domain name and marketing related intangibles | \$ 6,699,600 | \$ 7,208,600 |
| Non-compete agreement | 3,465,000 | 3,465,000 |
| Website and technology related intangibles | 4,236,030 | 4,147,459 |
| | 14,400,630 | 14,821,059 |
| Less: Accumulated amortization | (8,067,325) | (8,084,981) |
| | \$ 6,333,305 | \$ 6,736,078 |

On November 5, 2008, the Company entered into an agreement to sell its Internet domain name “www.yip.com” to YellowPages.com for a cash payment of \$3,850,000. Although the Company’s future focus is on the sale of customer acquisition services for small and medium-sized businesses, the Company’s primary source of ongoing revenues is the sale of Internet Advertising Packages, which targeted users of its www.yip.com property. The Company is in the process of transitioning these customers to advertising on www.yellowpages.livedeal.com. However, certain customers have cancelled their service in response to this transition, and there can be no assurance that these cancellations and any future cancellations will not have an adverse effect on the Company’s financial condition or results of operations.

| | December 31, 2008 | September 30, 2008 |
|-----------------------------|----------------------|-----------------------|
| Accrued liabilities: | | |
| Deferred revenue | \$ 1,540,972 | \$ 917,068 |
| Accrued payroll and bonuses | 358,925 | 306,984 |
| Accrued expenses - other | 917,210 | 767,317 |

\$ 2,817,107 \$ 1,991,369

3. STOCK-BASED COMPENSATION

From time to time, the Company grants restricted stock awards and stock options to officers, directors, employees 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.

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LIVEDEAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

During the quarter ended December 31, 2008, the Company granted stock option awards to certain employees and executives and recognized compensation expense of \$19,856 based on the grant date fair value of the awards. The Black Scholes option pricing model was used to calculate the expense with the following weighted-average assumptions:

| | | |
|-------------------------|-----|-------|
| Volatility | 97 | % |
| Risk-free interest rate | 2.6 | % |
| Expected term | 6.0 | years |
| Forfeiture rate | 40 | % |

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. 110. The Company utilized an estimated forfeiture rate of 40% consistent with other stock based compensation awards granted to officers, directors and key employees and is based on both historical and expected forfeiture rates pertaining to such individuals.

During the quarter ended December 31, 2008, the Company recognized \$89,077 of expense relating to the fair market value of restricted stock awards, net of estimated forfeitures, which are being recognized over their respective vesting periods.

During the quarter ended December 31, 2008, the Company had stock option activity summarized as follows:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Fair Value | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value |
|---|---------------------|--|-----------------------------------|---|---------------------------------|
| Outstanding at September 30, 2008 | 5,000 | | | | |
| Granted at market price | 500,000 | \$ 1.61 | \$ 1.26 | | |
| Exercised | - | \$ - | | | |
| Cancelled | - | \$ - | | | |
| Outstanding at December 31, 2008 | 505,000 | | | 9.8 | \$ - |
| Exercisable | 5,000 | \$ 2.78 | | 9.4 | \$ - |

The following table summarizes information about the Company's stock options at December 31, 2008:

| | Exercisable | | Unexercisable | | Total | |
|-----------------------------|-----------------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|
| Range of Exercise Prices | Number Outstanding | Weighted Average | Number Outstanding | Weighted Average | Number Outstanding | Weighted Average |

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| | | Exercise Price | | Exercise Price | | Exercise Price |
|-------------------------------|-------|-------------------|---------|-------------------|---------|-------------------|
| Less than \$3.00 per share | 5,000 | \$ 2.78 | 500,000 | 1.61 | 505,000 | \$ 1.62 |

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

| | |
|--|-----------|
| Outstanding (unvested) at September 30, 2008 | 227,425 |
| Granted | 10,000 |
| Forfeited | (11,000) |
| Vested | (8,000) |
| Outstanding (unvested) at December 31, 2008 | 218,425 |

4. NET INCOME PER SHARE

Net income per share is calculated using the weighted average number of shares of common stock outstanding during the period. Basic weighted average common shares outstanding do not include shares of restricted stock that have not yet vested, although such shares are included as outstanding shares in the Company's unaudited condensed consolidated balance sheet. Diluted net 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 from restricted shares, stock options and convertible preferred stock. The dilutive effect of outstanding restricted shares and stock options is reflected in diluted earnings per share by application of the treasury stock method. Convertible preferred stock is reflected on an if-converted basis. Preferred stock dividends are subtracted from net income to determine the amount available to common stockholders.

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LIVEDEAL, INC. AND SUBSIDIARIES
 NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

| | Three Months Ended December 31, | |
|--|------------------------------------|------------|
| | 2008 | 2007 |
| Net income | \$ 887,361 | \$ 326,092 |
| Less: preferred stock dividends | (479) | (480) |
| Income applicable to common stock | \$ 886,882 | \$ 325,612 |
| Basic weighted average common shares outstanding | 6,036,964 | 6,230,395 |
| Add incremental shares for: | | |
| Unvested restricted stock | 72,509 | 193,612 |
| Stock options | - | - |
| Series E convertible preferred stock | - | 971 |
| Diluted weighted average common shares outstanding | 6,109,473 | 6,424,978 |
| Net income per share: | | |
| Basic | \$ 0.15 | \$ 0.05 |
| Diluted | \$ 0.15 | \$ 0.05 |

The following potentially dilutive securities were excluded from the calculation of diluted net income per share because the effects were antidilutive based on the application of the treasury stock method:

| | Three Months Ended December 31, | |
|--|------------------------------------|--------|
| | 2008 | 2007 |
| Shares of non-vested restricted stock | 49,325 | 54,493 |
| Stock options | 505,000 | - |
| Shares of Series E convertible preferred stock | 127,840 | - |

5. COMMITMENTS AND CONTINGENCIES

Operating Leases and Service Contracts

Future minimum annual payments under operating lease agreements and non-cancelable service contracts for fiscal years ending September 30 are as follows:

| Total | 2009 | Payments Due by Fiscal Year | | | | 2013 | Thereafter |
|-------|------|-----------------------------|------|------|--|------|------------|
| | | 2010 | 2011 | 2012 | | | |

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| | | | | | | | |
|----------------------------------|--------------|--------------|------------|------------|------------|-----------|------|
| Operating lease commitments | \$ 1,994,838 | \$ 629,757 | \$ 555,465 | \$ 415,565 | \$ 315,331 | \$ 78,720 | \$ - |
| Noncancellable service contracts | 595,500 | 495,500 | 100,000 | - | - | - | - |
| | \$ 2,590,338 | \$ 1,125,257 | \$ 655,465 | \$ 415,565 | \$ 315,331 | \$ 78,720 | \$ - |

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LIVEDEAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Capital leases

Future obligations under non-cancelable capital leases are as follows for the fiscal years ended September 30:

| | | |
|---|------------|------------|
| | 2009 | \$57,657 |
| | 2010 | 76,876 |
| | 2011 | 76,876 |
| | 2012 | 44,844 |
| | 2013 | - |
| | Thereafter | - |
| Total minimum lease payments | | 256,254 |
| Less imputed interest | | (19,373) |
| Present value of minimum lease payments | | 236,881 |
| Less: current maturities of capital lease obligations | | (67,272) |
| Noncurrent maturities of capital lease obligations | | \$ 169,609 |

Litigation

Set forth below are descriptions of certain updates that occurred during the first quarter of fiscal 2009 with respect to the litigation matters that were discussed in the Company's Annual Report on Form 10-K for the fiscal year that ended on September 30, 2008:

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 and its wholly owned subsidiary, Telco Billing, Inc., in King County (Washington) Superior Court. GES 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. Legal proceedings in the matter are ongoing, and discovery began in late January 2009.

Complaint filed by Illinois Attorney General against LiveDeal, Inc.

On November 12, 2008, the Illinois Attorney General filed a complaint in the Circuit Court of the Seventh Judicial Circuit of the State of Illinois (Sangamon County) against the Company 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, LiveDeal denied the allegations. On December 12, 2008, the Company removed the litigation to the United States District Court for the District of Central Illinois. On December 16, 2008, the Illinois Attorney General filed a motion to remand the litigation to Illinois state court. The Company filed its response on December 30, 2008, and the motion to remand is pending as of the date of this report.

6.

CONCENTRATION OF CREDIT RISK

The Company maintains cash balances at major nationwide institutions in Arizona and Nevada. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000.

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 two third-party billing companies. The net receivable due from these entities represented 28% and 7%, respectively, of the Company's total net accounts receivable (excluding non-specific reserves) at December 31, 2008. The net receivable due from these entities represented 31% and 13%, respectively, of the Company's total net accounts receivable (excluding non-specific reserves) at September 30, 2008.

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LIVEDEAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("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 affects 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 adoption of the pronouncement did not have a material effect on our financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS No. 159"), 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 adoption of the pronouncement did not have a material effect on our financial position or results of operations.

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 (October 1, 2009 for the Company). 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"). FAS 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.

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LIVEDEAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

In May of 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.

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.

8. SUBSEQUENT EVENTS

In January 2009, the Company’s management, at the direction of the Company’s Audit Committee, commenced an interim reporting period review of the Company’s goodwill and intangible assets for impairment. The facts and circumstances that initiated this review are described below.

In accordance with the provisions of SFAS No. 142, “Goodwill and Other Intangible Assets”, and SFAS No. 144, “Accounting for the Impairment and Disposal of Long-Lived Assets”, the Company evaluates goodwill and other long-lived assets for impairment on an annual basis or whenever facts and circumstances indicate that impairment may exist. Current economic and regulatory forces, both general and specific to the Company’s industry, caused management to consider the Company’s existing business model and strategy including:

1. The current effects of the recession and general economic downturn;
2. The sale of its “www.yip.com” domain name in the first quarter of 2009;
3. The January 2009 resignation of the Company’s president and chief operating officer, who was instrumental in the development of its directory services product offerings;
4. The termination of certain significant directory business contracts;

5. The transition from the initial phase of certain significant directory business contracts; and

6. Continuing losses in the Company's classified businesses.

As a result, the Company's management made significant changes to its business strategy subsequent to the end of the first quarter of fiscal 2009. Management has decided to move the Company's strategic focus away from its directory services and classified businesses due to recent economic events and regulatory pressures. Additionally, the Company is evaluating plans to sell or eventually discontinue its Philippines-based call center which has historically provided telemarketing services to support its directory services business. In light of these changes, the Company determined a triggering event had occurred and initiated an impairment analysis. Based upon the initial analysis, management determined that the following items were impaired:

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LIVEDEAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. The goodwill acquired by the Company in its acquisition of LiveDeal, Inc., the business focus of which is online classified advertising;
2. The goodwill acquired by the Company in its acquisition of 247 Marketing, Inc., the business focus of which is providing telemarketing services based in the Philippines;
3. Intangible assets related to the Company's directory services business, including URLs, internally developed software, and other miscellaneous intangible assets.

Since this determination was made after December 31, 2008, the condensed consolidated financial statements herein do not include the effects of this impairment. The impairments are expected to impact the financial statements to be reported for the Company's second fiscal quarter ending March 31, 2009. The impairment write-downs discussed herein reflect the Company's best estimate of the charges that may be taken during the fiscal quarter ending March 31, 2009. The Company believes that if it were to pursue a formal asset disposition program, it may reasonably expect to recover a higher residual value from the assets in this group than the zero value presentation shown below. However, there is no guarantee that any higher value for these assets could, in fact, be recoverable in the future and, accordingly, the Company has chosen to make the most conservative estimates of their value available to it at this time. Further analysis and finalization of any charge will not be completed until the end of the second fiscal quarter.

The following is a summary of said impaired assets at their net book values as of December 31, 2008:

| | |
|---|---------------|
| Goodwill | \$ 11,706,406 |
| Domain name and marketing related intangibles | 1,971,036 |
| Website and technology related intangibles | 606,162 |
| | \$ 14,283,604 |

In addition to the impairments described above, the Company has revised the useful lives of certain assets that will result in the acceleration of their depreciation and amortization for an aggregate of \$473,060 of net assets during the quarter ending March 31, 2009.

The following unaudited pro forma financial statement information sets forth the estimated impacts of these impairment charges had they been incurred as of December 31, 2008, such financial statements do not include the effects of any accelerated depreciation, as such amounts are treated as a change in estimate and will be recorded on a prospective basis following the change in depreciable lives:

| | December 31, 2008 | | |
|----------------------|-------------------|------------------|---------------|
| | As Reported | Adjustments | As Adjusted |
| Total current assets | \$ 15,862,184 | \$ - | \$ 15,862,184 |
| Total assets | 41,210,188 | (11,695,588) (a) | 29,514,600 |
| Total liabilities | 4,251,930 | - | 4,251,930 |
| Stockholder's equity | 36,958,258 | (11,695,588) (a) | 25,262,670 |

a) Represents the write-off of \$14,283,604 of impaired intangible assets and goodwill, offset by the creation of related deferred tax assets of \$2,588,016. No deferred tax asset was created related to the write-off of the \$7,356,365 of goodwill from the LiveDeal acquisition. As the acquisition of LiveDeal was structured as a stock transaction, the related goodwill is non-deductible for tax purposes.

The impact on results of operations for the quarter ending March 31, 2009, is expected to be a charge of approximately \$11,700,000. Based on the number of shares outstanding as of December 31, 2008, the impact of the charge on earnings per share is expected to be approximately \$(1.94). The impacts on results of operations and earnings per share discussed above are estimates only and are based on current share levels and current estimate of the impairment charge. Changes in such share levels and estimates could impact these pro forma results.

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

For a description of our significant accounting policies and an understanding of the significant factors that influenced our performance during the three months ended December 31, 2008, this "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" (hereafter referred to as "MD&A") should be read in conjunction with the Consolidated Financial Statements, including the related notes, appearing in Part I, Item 1 of this Quarterly Report on Form 10-Q, as well as our Annual Report on Form 10-K for the year ended September 30, 2008.

Forward-Looking Statements

This portion of this Quarterly Report on Form 10-Q, includes statements that constitute "forward-looking statements." These forward-looking statements are often characterized by the terms "may," "believes," "projects," "expects," "anticipates," and do not reflect historical facts. Specific forward-looking statements contained herein include, but are not limited to our expectation that continued investment in online advertising to bring increased traffic to our websites will drive increased revenues; our belief that our existing cash on hand will provide us with sufficient liquidity to meet our operating needs for the next 12 months; the anticipated benefits relating to our acquisition of LiveDeal, Inc.; and our intention to continue to invest in online advertising.

Forward-looking statements involve risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Factors and risks that could affect our results and achievements and cause them to materially differ from those contained in the forward-looking statements include those identified in our Annual Report on Form 10-K for the fiscal year ended September 30, 2008 under Item 1A "Risk Factors", as well as other factors that we are currently unable to identify or quantify, but that may exist in the future.

In addition, the foregoing factors may 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.

Our Company

LiveDeal, Inc. provides local customer acquisition services for small and medium-sized businesses combined with a classified and Internet Yellow Pages directory platform technology to deliver an affordable way for businesses to extend their marketing reach to local, relevant customers via the Internet. Through its online property, www.livedeal.com, LiveDeal delivers local search engine marketing (SEM) through its LiveAdvisor(TM) and LiveClicks(TM) products that combine leading technology with a strong partnership model and an inside sales team to create an efficient platform local businesses need to create and optimize their Internet search advertising campaigns. LiveDeal partners with Google, Yahoo!, MSN, ASK, Miva, Looksmart, Superpages.com and others. LiveDeal, Inc. is headquartered in Las Vegas, Nevada. For more information, please visit www.livedeal.com.

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 Yellow Pages marketplace with millions of goods and services listed for sale, in every city and zip code across the U.S.

Summary Business Description

Internet Advertising Package. 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.

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.

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.

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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.

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.

§ 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 the aggregate, these services represented have grown rapidly, with 100% quarter-over-quarter revenue growth in each of the last three quarters. These services represented 16% of our net revenues in the first quarter of fiscal 2009.

Recent Events & Transactions

Sale of www.yp.com

On November 5, 2008, we entered into an agreement to sell our Internet domain name "www.yp.com" to YellowPages.com for a cash payment of \$3,850,000. Although our future focus is on the sale of customer acquisition services for small and medium-sized businesses, 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.yellowpages.livedeal.com. However, certain customers have cancelled their service in response to this transition, and there can be no assurance that these cancellations and any future cancellations will not have an adverse effect on our financial condition or results of operations.

Management Changes

On January 20, 2009, we announced the following managerial changes, which occurred during and shortly after the three months ended December 31, 2008:

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- Gary Perschbacher was replaced by Rajeev Seshadri as Chief Financial Officer as of January 9, 2009;
- President and Chief Operating Officer, John Raven submitted his resignation effective February 15, 2009;
 - Yishay Yovel was named Vice President of Product Management in October of 2008;
 - Pamela Sziebert was appointed Vice President of Marketing in November of 2008;
- Dean Heistad is the Company's new Vice President of Technology Strategy as of January 5, 2009; and,
- Ruben Atchison joined the Company as Director of Search Engine Marketing as of December 2008.

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All of these management changes come as part of our emerging strategy to deliver the most effective suite of Internet customer acquisition services to small businesses. As the terminations did not occur until the second quarter of fiscal 2009, the financial statements herein do not include such severance and other costs associated with the departures of Messrs. Perschbacher and Raven.

Subsequent Events

In January 2009, management, at the direction of the Company's Audit Committee, commenced an interim reporting period review of the Company's goodwill and intangible assets for impairment. The facts and circumstances that initiated this review are described below.

In accordance with the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets", and SFAS No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets", we evaluate goodwill and other long-lived assets for impairment on an annual basis or whenever facts and circumstances indicate that impairment may exist. Current economic and regulatory forces, both general and specific to our industry, caused management to consider the Company's existing business model and strategy including:

1. The current effects of the recession and general economic downturn;
2. The sale of our "www.yp.com" domain name in the first quarter of 2009;
3. The January 2009 resignation of our president and chief operating officer, who was instrumental in the development of our directory services product offerings;
4. The termination of certain significant directory business contracts;
5. The transition from the initial phase of certain significant directory business contracts; and
6. Continuing losses in our classified businesses.

As a result, management made significant changes to the Company's business strategy subsequent to the end of the first quarter of fiscal 2009. We have decided to move the Company's strategic focus away from our directory services and classified businesses due to recent economic events and regulatory pressures. Additionally, we are evaluating plans to sell or eventually discontinue our Philippines-based call center which has historically provided telemarketing services to support our directory services business. In light of these changes, we determined a triggering event had occurred and initiated an impairment analysis. Based upon the initial analysis, we determined that the following items were impaired:

1. The goodwill acquired in our acquisition of LiveDeal, Inc., the business focus of which is online classified advertising;
2. The goodwill acquired in our acquisition of 247 Marketing, Inc., the business focus of which is providing telemarketing services based in the Philippines;
3. Intangible assets related to our directory services business, including URLs, internally developed software, and other miscellaneous intangible assets.

Since this determination was made after December 31, 2008, the condensed consolidated financial statements herein do not include the effects of this impairment. The impairments are expected to impact the financial statements to be

reported for our second fiscal quarter ending March 31, 2009. The impairment write-downs discussed herein reflect our best estimate of the charges that may be taken during the fiscal quarter ending March 31, 2009. We believe that if we were to pursue a formal asset disposition program, we may reasonably expect to recover a higher residual value from the assets in this group than the zero value presentation shown below. However, there is no guarantee that any higher value for these assets could, in fact, be recoverable in the future and, accordingly, we have chosen to make the most conservative estimates of their value available to us at this time. Further analysis and finalization of any charge will not be completed until the end of the second fiscal quarter.

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The following is a summary of said impaired assets at their net book values as of December 31, 2008:

| | |
|---|---------------|
| Goodwill | \$ 11,706,406 |
| Domain name and marketing related intangibles | 1,971,036 |
| Website and technology related intangibles | 606,162 |
| | \$ 14,283,604 |

In addition to the impairments, described above, we have revised the useful lives of certain assets that will result in the acceleration of their depreciation and amortization for an aggregate of \$473,060 of net assets during the quarter ending March 31, 2009.

The following unaudited pro forma financial statement information sets forth the impacts of these estimated impairment charges had they been incurred as of December 31, 2008, such financial statements do not include the effects of any accelerated depreciation, as such amounts are treated as a change in estimate and will be recorded on a prospective basis following the change in depreciable lives:

| | December 31, 2008 | | |
|----------------------|-------------------|------------------|---------------|
| | As Reported | Adjustments | As Adjusted |
| Total current assets | \$ 15,862,184 | \$ - | \$ 15,862,184 |
| Total assets | 41,210,188 | (11,695,588) (a) | 29,514,600 |
| Total liabilities | 4,251,930 | - | 4,251,930 |
| Stockholder's equity | 36,958,258 | (11,695,588) (a) | 25,262,670 |

a) Represents the write-off of \$14,283,604 of impaired intangible assets and goodwill, offset by the creation of related deferred tax assets of \$2,588,016. No deferred tax asset was created related to the write-off of the \$7,356,365 of goodwill from the LiveDeal acquisition. As the acquisition of LiveDeal was structured as a stock transaction, the related goodwill is non-deductible for tax purposes.

The impact on results of operations for the quarter ending March 31, 2009, is expected to be a charge of approximately \$11,700,000. Based on the number of shares outstanding as of December 31, 2008, the impact of the charge on earnings per share is expected to be approximately \$(1.94). The impacts on results of operations and earnings per share discussed above are estimates only and are based on current share levels and current estimate of the impairment charge. Changes in such share levels and estimates could impact these pro forma results.

Results of Operations

Net Revenues

| | Net Revenues | | | |
|---------------------------------|--------------|--------------|----------------|---------|
| | 2008 | 2007 | Change | Percent |
| Three Months Ended December 31, | \$ 5,163,130 | \$ 7,068,888 | \$ (1,905,758) | (27)% |

Net revenues decreased in the first quarter of fiscal 2009 as compared to the first quarter of fiscal 2008 due primarily to a decrease of approximately \$2,100,000 in sales of our directory service products. Additionally, classified revenues

decreased \$500,000. These decreases highlight a continuing trend amongst our legacy products. However, both of these decreases were partially offset by an increase in our SEM of approximately \$700,000 as a result of expanded marketing efforts related to these products.

Cost of Services

| | Cost of Services | | | |
|------------------------------------|------------------|--------------|------------|---------|
| | 2008 | 2007 | Change | Percent |
| Three Months Ended December 31, | \$ 1,609,125 | \$ 1,005,549 | \$ 603,576 | 60 % |

Cost of services increased in the first quarter of fiscal 2009 as compared to the first quarter of fiscal 2008. We experienced an increase in costs related to our directory services and classifieds of approximately \$155,000 as well as increased costs related to our SEM business of approximately \$449,000. The increase in costs surrounding the SEM business was consistent with our revenue growth in this product line. As a percent of sales, costs associated with the directory business have increased due to increased inquiry and billing fees associated with an increasingly strict regulatory environment.

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Gross Profit

| | Gross Profit | | | |
|--------------------|--------------|--------------|----------------|---------|
| | 2008 | 2007 | Change | Percent |
| Three Months Ended | | | | |
| December 31, | \$ 3,554,005 | \$ 6,063,339 | \$ (2,509,334) | (41)% |

Gross margins decreased to 68.8% of net revenues in the first quarter of fiscal 2009 from 85.8% of net revenues in the first quarter of fiscal 2008. The present product mix is more heavily weighted towards the sales of our LiveClicks and other related products, which currently have a lower gross margin than the historically higher margin directory services business line. We expect this trend to continue but do expect the margins attributable to the LiveClicks and related products to improve as this business matures.

General and Administrative Expenses

| | General and Administrative Expenses | | | |
|--------------------|-------------------------------------|--------------|------------|---------|
| | 2008 | 2007 | Change | Percent |
| Three Months Ended | | | | |
| December 31, | \$ 4,259,026 | \$ 3,394,971 | \$ 864,055 | 25% |

General and administrative expenses increased in the first quarter of fiscal 2009 as compared to the first quarter of fiscal 2008 primarily due to the following:

- Increased compensation costs of approximately \$581,000 primarily attributable to the hiring of additional sales force and technological personnel in light of the development of our Las Vegas operations, partially offset by reduced executive salaries and reduced stock-based compensation charges;
- Increased professional fees of approximately \$174,000 related to increased legal expenses incurred in response to certain legal actions brought against us, fees incurred for Sarbanes-Oxley related consulting fees, and increased recruitment fees to hire key personnel in response to our change in strategic direction;
- An increase of approximately \$81,000 to depreciation and amortization expense relating to additional fixed assets related to the relocation of our corporate headquarters to Las Vegas and additional capitalized software development costs relating to new product offerings; and,
 - An increase in other general and administrative expenses of approximately \$40,000.

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

| | Q1 2009 | Q4 2008 | Q3 2008 | Q2 2008 | Q1 2008 |
|--|-------------|-------------|-------------|-------------|-------------|
| Compensation for employees, leased employees, officers and directors | \$2,508,835 | \$1,810,383 | \$3,181,375 | \$2,377,412 | \$1,928,272 |
| Professional fees | 455,832 | 456,180 | 275,638 | 191,330 | 281,418 |
| Reconfirmation, mailing, billing and other customer-related costs | 6,096 | 48,529 | 18,185 | 27,735 | 17,601 |

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| | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|
| Depreciation and amortization | 559,289 | 588,718 | 505,095 | 487,085 | 478,433 |
| Other general and administrative costs | 728,974 | 643,785 | 842,517 | 761,583 | 689,247 |
| | \$4,259,026 | \$3,547,595 | \$4,822,810 | \$3,845,145 | \$3,394,971 |

Sales and Marketing Expenses

| | 2008 | 2007 | Change | Percent |
|------------------------------------|--------------|--------------|--------------|---------|
| Three Months Ended December 31, | \$ 1,808,322 | \$ 2,185,886 | \$ (377,564) | (17)% |

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Sales and marketing expenses in the first quarter of fiscal 2009 as compared to the first quarter of fiscal 2008 decreased approximately \$378,000 primarily due to the following:

- \$171,000 of decreased online advertising as we focused our online advertising toward LiveClicks and other traffic generating activities, which are more cost effective than our previous online advertising efforts;
- \$166,000 of decreased customer acquisition costs as we began transitioning away from marketing activities geared toward our directory services business; and,
 - a reduction of approximately \$41,000 in branding and other marketing expenses.

Included in sales and marketing expenses for the three months ended December 31, 2008 is depreciation expense of \$19,000 related to our subsidiary in the Philippines that we acquired in the fourth quarter of fiscal 2007.

Operating Income (Loss)

| | 2008 | Operating Income (Loss) | | Percent |
|------------------------------------|----------------|-------------------------|----------------|---------|
| | | 2007 | Change | |
| Three Months Ended December 31, | \$ (2,513,343) | \$ 482,482 | \$ (2,995,825) | (621)% |

The decrease in operating income for the three months ended December 31, 2008 as compared to the three months ended December 31, 2007 is primarily due to decreased gross profit and increased operating expenses as described above.

Total Other Income (Expense)

| | 2008 | Total Other Income (Expense) | | Percent |
|------------------------------------|--------------|------------------------------|--------------|---------|
| | | 2007 | Change | |
| Three Months Ended December 31, | \$ 3,819,537 | \$ 34,911 | \$ 3,784,626 | 10841 % |

During the first quarter of fiscal 2009, we entered into an agreement to sell our Internet domain name "www.yp.com" to YellowPages.com for a cash payment of \$3,850,000. We had net gain from the sale of that asset of \$3,805,778, which is reflected in other income.

Income Tax Provision (Benefit)

| | 2008 | Income Tax Provision (Benefit) | | Percent |
|------------------------------------|------------|--------------------------------|------------|---------|
| | | 2007 | Change | |
| Three Months Ended December 31, | \$ 418,833 | \$ (191,301) | \$ 610,134 | (319)% |

The change in our income tax provision is due primarily to corresponding increases in our pre-tax income. In determining the tax expense, we estimate an effective tax rate based on estimates of expected income and utilization of deferred tax differences.

Net Income (Loss)

| | 2008 | 2007 | Net Income (Loss) Change | Percent |
|------------------------------------|------------|------------|-----------------------------|---------|
| Three Months Ended December 31, | \$ 887,361 | \$ 326,092 | \$ 561,269 | 172 % |

Changes in net income (loss) are primarily attributable to changes in operating income and changes in income tax expense each of which is discussed in more detail in above.

Liquidity and Capital Resources

Net cash used in operating activities was approximately \$281,000 for the first three months of fiscal 2009 as compared to net cash provided by operating activities of approximately \$702,000 for the first three months of fiscal 2008. The decrease in cash generated from operations is primarily due to an increase in net income of approximately \$561,000 offset by the elimination of the \$3,805,778 gain on the sale of our internet domain name that was reflected in net income, but the proceeds from which are shown as an investing activity in the cash flow statement. Both of these items were discussed in greater detail elsewhere in this report.

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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 December 31, 2008, approximately 35% of our gross accounts receivable are due from two aggregators.

With respect to our Telesold Services, we generally receive upfront payments averaging approximately one-sixth of the gross contract amount. Subsequent payments are received on an installment basis over the life of the contract, when the installments due are invoiced to the customer. Most customers purchasing these services elect to use their credit cards to effect payments, and therefore our collections are usually made within a few days of the invoice’s due date.

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 provided by investing activities totaled approximately \$3,719,000 for the three months ended December 31, 2008 compared to net cash used for investing activities of approximately \$231,000 during the three months ended December 31, 2007. The primary source of the cash provided by our investing activities during the first quarter of fiscal 2009 was the sale of our internet domain name previously discussed. Additionally, we had expenditures for purchases of equipment and intellectual property totaling approximately \$131,000, a decrease of approximately \$77,000 compared to the first quarter of fiscal 2008. During the three months ended December 31, 2007, we also had approximately \$23,000 of cash outflows related to the two acquisitions that took place during fiscal 2007.

Net cash used for financing activities was approximately \$508,000 during the first three months of fiscal 2009 compared to approximately \$294,000 for the first three months of fiscal 2008. During the first quarter of fiscal 2009, we repurchased 317,004 shares of our common stock, which were valued at \$487,480 in the aggregate. During the first quarter of fiscal 2008, we made treasury stock repurchases of 76,725 shares valued at \$293,832. During the three months ended December 31, 2008, we made payments on our capital lease obligations for telecommunications equipment of \$19,927. Financing activities also included \$479 and \$480 of preferred stock dividends paid in the first three months of fiscal 2009 and fiscal 2008, respectively.

We had working capital of \$11,779,863 as of December 31, 2008, compared to \$11,260,231 as of September 30, 2008, with current assets increasing by \$1,470,723 and current liabilities increasing by \$951,091 from September 30, 2008 to December 31, 2008. Our cash position increased to \$7,569,993 at December 31, 2008 compared to \$4,639,787 at September 30, 2008 due to the effects of our results of operations and cash flows from the sale of intangible assets and expenditures for equipment.

The following table summarizes our contractual obligations at December 31, 2008 and the effect such obligations are expected to have on our future liquidity and cash flows:

| Total | 2009 | Payments Due by Fiscal Year | | | | | Thereafter |
|-------|------|-----------------------------|------|------|------|--|------------|
| | | 2010 | 2011 | 2012 | 2013 | | |
| | | | | | | | |

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| | | | | | | | |
|----------------------------------|-------------|-------------|-----------|-----------|-----------|----------|-----|
| Operating lease commitments | \$1,994,838 | \$629,757 | \$555,465 | \$415,565 | \$315,331 | \$78,720 | \$- |
| Capital lease commitments | 256,254 | 57,657 | 76,876 | 76,876 | 44,844 | - | - |
| Noncancellable service contracts | 595,500 | 495,500 | 100,000 | - | - | - | - |
| | \$2,846,592 | \$1,182,914 | \$732,341 | \$492,441 | \$360,175 | \$78,720 | \$- |

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 December 31, 2008, we had no other off-balance sheet arrangements, commitments or guarantees that require additional disclosure or measurement.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of December 31, 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 the periods set forth in this report) or commodity price risk.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed with an objective of ensuring that information required to be disclosed in our periodic reports filed with the Securities and Exchange Commission, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission. Disclosure controls are also designed with an objective of ensuring that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, in order to allow timely consideration regarding required disclosures.

The evaluation of our disclosure controls by our principal executive officer and principal financial officer included a review of the controls' objectives and design, the operation of the controls, and the effect of the controls on the information presented in this Quarterly Report. Our management, including our chief executive officer and chief financial officer, does not expect that disclosure controls can or will prevent or detect all errors and all fraud, if any. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Also, projections of any evaluation of the disclosure controls and procedures to future periods are subject to the risk that the disclosure controls and procedures may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on their review and evaluation as of the end of the period covered by this Form 10-Q, and subject to the inherent limitations as described above, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective as of the end of the period covered by this report. They are not aware of any significant changes in our disclosure controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses. During the period covered by this Form 10-Q, there have not been any changes in our internal control over financial reporting that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

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PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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 and its wholly owned subsidiary, Telco Billing, Inc., in King County (Washington) Superior Court. GES 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. Legal proceedings in the matter are ongoing, and discovery began in late January 2009.

Complaint filed by Illinois Attorney General against LiveDeal, Inc.

On November 12, 2008, the Illinois Attorney General filed a complaint in the Circuit Court of the Seventh Judicial Circuit of the State of Illinois (Sangamon County) against the Company 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 par 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, LiveDeal denied the allegations. On December 12, 2008, the Company removed the litigation to the United States District Court for the District of Central Illinois. On December 16, 2008, the Illinois Attorney General filed a motion to remand the litigation to Illinois state court. The Company filed its response on December 30, 2008, and the motion to remand is pending as of the date of this report.

ITEM 1A. RISK FACTORS

There have been no material changes to the factors disclosed in Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended September 30, 2008.

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

Issuer Purchases of Equity Securities

| Period | (a) Total Number of Shares (or Units) Purchased | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs ¹ | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|---------------------|---|--|--|---|
| October 1-31, 2008 | 317,004 | \$ 1.65 | 317,004 | \$ 486,676 |
| November 1-30, 2008 | - | N/A | - | - |
| December 1-31, 2008 | - | N/A | - | - |
| Total | 317,004 | | 317,004 | \$ 486,676 |

1) On May 25, 2007, the Company's Board of Directors authorized a stock repurchase plan allowing repurchases of up to \$1,000,000 of common stock from time to time on the open market. The repurchase plan was increased by another \$500,000 on October 23, 2008. These shares were subsequently retired.

ITEM 6.

EXHIBITS

The following exhibits are either attached hereto or incorporated herein by reference as indicated:

| Exhibit Number | Description |
|----------------|--|
| 3.1 | Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Form 8-K, SEC File No. 000-24217, filed on August 15, 2007). |
| 3.2 | Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to Form 10-K, SEC File No. 000-24217, for the year ended September 30, 2007). |
| <u>10.1</u> | Domain Name Purchase and Transfer Agreement by and between the Company and YellowPages.com LLC |
| <u>10.2</u> | Employment Agreement by and between the Company and Rajeev Seshadri |
| <u>31</u> | Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| <u>32</u> | Section 1350 Certifications |

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SIGNATURES

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

LiveDeal, Inc.

Dated: February 17, /s/ Rajeev Seshadri
2009

Rajeev Seshadri
Chief Financial
Officer
