

LIVEDEAL INC  
Form 10-K  
December 23, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

(Mark one)

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

For the fiscal year ended September 30, 2009

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

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

Commission File Number: 0-24217

LiveDeal, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Nevada  
(State or Other Jurisdiction of Incorporation  
or  
Organization)

85-0206668

(IRS Employer Identification No.)

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

89120  
(Zip Code)

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

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

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

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

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

Edgar Filing: LIVEDEAL INC - Form 10-K

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The aggregate market value of the registrant's common stock held by non-affiliates computed based on the closing price of such stock on March 31, 2009 was approximately \$11,743,548.

The number of shares outstanding of the registrant's common stock, as of December 7, 2009, was 6,095,040 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement relating to the Registrant's 2010 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

## LIVEDEAL, INC.

## FORM 10-K

For the year ended September 30, 2009

TABLE OF CONTENTS  
(Edgar service provider to update pages)

	Page
<b>Part I</b>	
<u>Item 1.</u>	<u>Business</u> 3
<u>Item 1A.</u>	<u>Risk Factors</u> 9
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u> 16
<u>Item 2.</u>	<u>Properties</u> 17
<u>Item 3.</u>	<u>Legal Proceedings</u> 17
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u> 18
<b>Part II</b>	
<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> 18
<u>Item 6.</u>	<u>Selected Financial Data</u> 20
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 20
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 31
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u> 32
	<u>Report of Independent Registered Public Accounting Firm</u> 33
	<u>Consolidated Financial Statements:</u>
	<u>Consolidated Balance Sheets at September 30, 2009 and 2008</u> 34
	<u>Consolidated Statements of Operations for the Years Ended September 30, 2009 and 2008</u> 35
	<u>Consolidated Statements of Stockholders' Equity for the Years Ended September 30, 2009 and 2008</u> 36
	<u>Consolidated Statements of Cash Flows for the Years Ended September 30, 2009 and 2008</u> 37
	<u>Notes to Consolidated Financial Statements</u> 38
<u>Item 9.</u>	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u> 56
<u>Item 9T.</u>	<u>Controls and Procedures</u> 56
<u>Item 9B.</u>	<u>Other Information</u> 63
<b>Part III</b>	
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u> 57
<u>Item 11.</u>	<u>Executive Compensation</u> 57
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> 57
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u> 57

<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	57
<u>Part IV</u>		
<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules</u>	57
<u>Signatures</u>		63

Table of Contents

PART I

Forward-Looking Statements

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

Forward-looking statements involve risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Factors and risks that could affect our results and achievements and cause them to materially differ from those contained in the forward-looking statements include those identified in Item 1A. Risk Factors, as well as other factors that we are currently unable to identify or quantify, but may exist in the future.

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

ITEM 1. Business

Our Company

LiveDeal, Inc., a Nevada corporation (formerly known as YP Corp.) (the “Company,” “we,” “us,” or “our”) is a provider of Internet directory, classified and audience acquisition services to small businesses. Through our wholly-owned subsidiary, Telco Billing, Inc. (“Telco”), located in Las Vegas, Nevada, we publish a small business directory online at [www.yellowpages.livedeal.com](http://www.yellowpages.livedeal.com). Any information contained on such website or any other websites referenced in this Annual Report are not a part of this Annual Report.

Summary Business Description

We have two inter-related primary lines of business: (1) we deliver a suite of audience acquisition services for small businesses, sold via telemarketing and supported by our websites and software that we have developed to manage search and other Internet services efficiently, and (2) we maintain an Internet Yellow Pages service for every city and zip code across the U.S.

Our websites, by combining the benefits of business listings, mobile services, advertising/distribution networks and e-commerce into a single online solution, offer businesses and consumers an affordable and effective solution for creating a web presence and marketing their products and services locally.

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

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

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

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

## Table of Contents

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

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

### Business Directory

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

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

Benefits to Advertisers. We provide added value to advertisers that have purchased our Internet Advertising Package ("IAP") through promotion and branding of our website to bring customers to our advertisers. We believe that the large number of IAPs, which include the Mini-WebPages described in more detail below, 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 longterm, result in more sales for our IAP advertisers.

Moreover, we provide additional value through our relationships. We provide the majority of our IAP advertisers additional exposure by circulating their listings to other search engines. We provide a listing service that also ensures that our business listing customers are listed on hundreds of sites including Google, Yahoo, MSN and others through an agreement with InfoUSA. We also have an agreement with Yahoo! Search Services to improve our IAP advertisers' appearance in search results at several high-profile sites.

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

### Products and Services

Internet Advertising Package. Our primary revenue-producing directory product is our IAP. Under this package, the advertiser pays for additional exposure by purchasing enhancements to a basic listing, such as a Mini-WebPage. This Mini-WebPage contains, among other useful information, a 40-word description of the business, hours of operation, and detailed contact information. The advertiser can easily access and modify its Mini-WebPage. This product is

easily searched by users of our website on their personal computers, as well as cellular telephones and other hand-held devices. In order to provide search traffic to an advertiser's Mini-WebPage, we elevate the advertiser to a preferred listing status at no additional charge. As such, the preferred advertiser enjoys the benefit of having its advertisement displayed in a primary position before all of the basic listings in that particular category when users of our website perform searches on our website. We also provide our IAP advertisers with enhanced presentation and additional unique products, including:

Larger font.

Bolded business name.

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

Submission of location to search engines.

Map directions.

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

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



## Table of Contents

Our IAP advertisers generally pay between \$27.50 and \$39.95 per month. Our IAP accounted for approximately 69% of our net revenues in fiscal 2009.

**Directory Billing.** Our billing process allows us to deliver high levels of service to our customers through convenient and timely billing and payment options. We currently bill our advertisers through (i) their local exchange carrier (“LEC”), (ii) Automated Clearing House (“ACH”) billing, (iii) their credit card or (iv) direct bill invoices.

Similar to the local Regional Bell Operating Companies, we are approved to bill our products and services directly on some of our advertisers’ local telephone bill through their LEC, commonly referred to as their local telephone company. We believe that this is an efficient and cost-effective billing method as compared to direct billing methods.

In order to bill our advertisers through their LECs, we are required to use one or more billing service aggregators. These aggregators have been approved by various LECs to provide billing, collection, and related services through the LECs. Under these agreements, our service aggregators bill and collect our charges to our advertisers through LEC billing and remit to us the proceeds, net of fees, bad debt reserves, customer returns, and unbillable accounts, typically within 90 days of submission.

We also use billing service providers to process billings via recurring direct bank account withdrawal options through ACH billings. These service providers process direct bank withdrawals through an Automated Clearing House and remit the proceeds, net of fees and refunds to advertisers that cancel their service, typically within 15 days of settlement.

Under our contractual agreements with our LEC billing service aggregators, these third parties are entitled to withhold certain amounts from our net proceeds to serve as a security deposit or “holdbacks” or “reserves.” Such amounts are generally remitted to us over a 12-18 month period, depending on the terms of the respective agreements. An ACH processor maintains a fixed security deposit as a reserve.

**Directory Pricing.** We generally price our IAP product between \$27.50 and \$39.95 per month, which includes all of the service benefits previously described. We believe that these prices are comparable to the prices of our competitors, and we believe that our site provides superior value to our advertisers when considering the many benefits that they receive, including the Mini-WebPage, mapping directions, links to the advertiser websites, and the speed and ease of use of our website.

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

**Direct Sales, also known as Telesold Suite Services.** Since February 2008, we have added a new line of business that utilizes, but is not entirely dependent on, our directory websites and billing services. This line of business is based on using telesales and sophisticated Internet audience acquisition technologies to deliver a suite of audience acquisition services to small businesses.

We believe this approach represents an essential element in the local marketplace. Small businesses turned to traditional Yellow Pages and Internet directories as low-cost effective tools for identifying and delivering customers

who are geographically appropriate and ready to buy. These traditional approaches retain value for small businesses, but that value is steadily waning as new waves of Internet capabilities come into existence.

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

Another key Internet development is the rise of locally oriented user review sites and services, such as Yelp.com. At these sites, consumers let each other know about their experiences with local businesses. They rate and comment on the businesses. The sites also tend to provide some aspects of traditional directories as well as new services, such as placing businesses on a local map, providing driving directions, etc. At these sites, as with online search engines, 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.

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

## Table of Contents

But there is a gap. These new Internet services are inherently technological. They require a deep dedication of time, technological skills, language and presentation expertise and other masteries that few small businesspeople have, or have the intention of acquiring. We recognize that, to succeed, a small businessperson needs to remain intensely focused on the fundamentals of his/her business. Small businesses therefore need a partner with the necessary expertise and understanding to manage emerging Internet audience acquisition services on their behalf. They need this partner to operate quickly, proactively and at the lowest possible cost.

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

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

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

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

Our current Telesold Services Suite includes:

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

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

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

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

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

In the aggregate, these services represented 31% of our net revenue in fiscal 2009. However, these services grew from nominal levels to approximately \$800,000 in monthly contractual amounts by the end of fiscal 2009 (which may not correlate with revenue recognition due to timing of revenue recognition). We expect growth in this line of business to continue through fiscal 2010 and to continue to represent a substantial portion of our revenue in the upcoming fiscal year and going forward.

### The Internet Yellow Pages Advertising Market

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

According to a Borrell Associates forecast, local online advertising will grow 12% to \$14.2 billion in 2009. According to Borell Associates, online media buys currently hold a 13.8 percent share of all local advertising, and Borell believes it will peak at a 16 percent share by 2013.

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

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

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

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

## Table of Contents

### Marketing

In May 2009, we closed our classifieds website and concentrated our marketing resources in developing our search engine marketing (SEM) services required by our Telesold business. Earlier, we had discontinued our use of telemarketing to acquire new IAP customers, and discontinued our overseas telemarketing facility. We also sold our primary URL, www.yip.com, as well as a portion of our customer list. Further, certain fulfillment contracts were terminated during the fiscal year.

We utilize various online marketing methods to drive users and advertisers to our site. However, our primary marketing method is telemarketing.

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

### Technology and Infrastructure

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

Our technology efforts in fiscal 2009 fell into three key areas: website development and support; sales and call center development and support and internal systems development and support.

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

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

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

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

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

## Table of Contents

### Strategic Alliances

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

- We have cross-marketing arrangements with reciprocal linking of websites without any compensation to either party. These arrangements increase the page views for our advertisers' listings by being listed on the linked websites. These co-promotional arrangements typically are terminable with one month's notice. We have an agreement with Google, Inc. designating us as an Authorized Reseller of the Google AdWords advertising system, which also provides us with access to Google training and services that we can then utilize on behalf of our small business clients.
- We have an agreement with Yahoo! Search Services to provide visibility to our website so that we can provide traffic to our advertisers. In exchange for monthly fees, Yahoo! Search Services assists in helping us to be one of the highest placed sites when Yellow Pages searches are done on major search engines, such as MSN and Yahoo!.
- We began featuring Yelp's 1.8 million customer reviews on our Yellow Pages platforms, giving LiveDeal users an enormous wealth of user-generated content about local area businesses.

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

### Competition

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

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

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

We believe that we are in a position to successfully compete in these markets due to our experience at sourcing, selling and servicing large numbers of small business accounts, the comprehensiveness of our database, and the

effectiveness of our marketing programs and our distribution network. We also believe that our Internet Yellow Pages provides businesses and consumers a simple and affordable way of creating a web presence and marketing their products and services to local audiences. The addition of our Telesold Suite line of business opens new revenue channels for us and expands our differentiation in the marketplace. We further believe that we can compete effectively by continuing to provide quality services at competitive prices and by actively developing new products and services for customers.

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

#### Employees

As of September 30, 2009, we had 117 full-time and no part-time employees in the United States. None of our employees are covered by any collective bargaining agreements.



Table of Contents

ITEM 1A. Risk Factors

An investment in our common stock involves a substantial degree of risk. Before making an investment decision, you should give careful consideration to the following risk factors in addition to the other information contained in this report. The following risk factors, however, may not reflect all of the risks associated with our business or an investment in our common stock. The trading price of our common stock could decline significantly due to any of these risks and investors may lose all or part of their investments. In assessing these risks, investors should also refer to the other information contained or incorporated by reference in this Annual Report on Form 10-K, including our September 30, 2009 consolidated financial statements and related notes.

Risks Related to Our Business

Our new business strategy is unproven.

Our new strategic focus is on delivering a suite of Internet-based, local search-driven, customer acquisition services for small businesses, sold via telemarketing and supported by our websites and internally developed software. This strategy is unproven at this time and will require continued expenditures to develop products and offerings and develop marketing and support functions. These expenditures may not be offset by corresponding increases in revenues, leading to adverse impacts on our financial condition and results of operations.

The demand and market acceptance for our services may be subject to a high level of uncertainty. Advertisers and users may not adopt or continue to use our Internet-based marketing services and other online services that we may offer in the future. Advertisers may find our Internet-based marketing services to be less effective for meeting their business needs than other methods of advertising and marketing. Our business, prospects, financial condition or results of operations will be materially and adversely affected if we do not execute our strategy or our services are not adopted by a sufficient number of advertisers.

We will incur operating losses and significant volatility in operations while we develop our new business segment.

During the fiscal year ended September 30, 2009, we incurred substantial operating losses as we transitioned our business toward our new strategic focus. We will continue to incur operating losses as we develop our new business segment which will be financed through existing cash on hand. While we believe our existing cash on hand is sufficient to finance our operations for the next twelve months, there can be no assurance that we will achieve profitability or positive operating cash flows. To the extent that we cannot achieve profitability or positive operating cash flows, our business will be materially and adversely affected. Further, this new business segment 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 its strategies and responds to operating results from this new business segment.

We have sold a significant portion of our assets and customer list associated with our directory services business.

During fiscal 2009, as part of our changing business strategy, we sold our primary URL, [www.yip.com](http://www.yip.com), as well as a portion of our customer list. Further, certain fulfillment contracts were terminated during the fiscal year. These transactions will result in a significant loss of future revenue which could adversely impact our financial condition and results of operations.

As a result of the cessation of billing of the accounts subject to these sales or terminations of billing contracts during this fiscal year, the reserves held by the LEC processors, and carried by us as accounts receivable, were no longer increasing as a result of continued billing for services provided to customers. Further, the LEC processors continue to

deduct their expenses from these reserves. We have made reasonable estimates of these potential expenses over the expected period of collection of these reserve amounts held-back by the LEC processors. However, it is possible that the actual expenses billed by the LEC processors in the future could vary significantly from the estimates made by the Company, thereby affecting the amounts collectible from the booked accounts receivable.

The discontinuance of our classifieds business could adversely impact our financial condition.

We recently made the strategic decision to discontinue our classifieds business and product offerings which have historically generated a majority of our revenues. This discontinuance not only will reduce our revenues that were generated from this product line but could also cause erosion of our Yellow Pages customer base, particularly with respect to those customers who sought an integrated Yellow Pages and classifieds product. Further, we made cash outlays to wind down our business including the termination of affected employees and office closures. This loss of revenues combined with the wind-down costs could have an adverse impact on our financial condition and results of operations in the short-term.

The closure of our Philippines-based call center operations could adversely impact our financial condition.

During fiscal 2009, we discontinued the operations of our Philippines-based call center, which had historically provided telemarketing services to support our directory services business. To the extent that we incur additional closure costs or that the execution of our current or future business strategies necessitates that we develop similar functions in the future to support our directory services business, our business could be adversely affected.

## Table of Contents

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

Search engine optimization and online marketing services are emerging fields with a considerable amount of competitors in each field. Additionally, major Internet companies, including Google, Microsoft, Verizon, and Yahoo!, currently market Internet Yellow Pages, local search services and other products that directly compete with our legacy business as well as our new product offerings. We may not compete effectively with existing and potential competitors for several reasons, including the following:

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

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

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

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

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

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

significantly impede our revenue growth. In addition, our reputation and our brand could be damaged if any new product or service introduction is not favorably received.

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

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

- fluctuating demand for our services, which may depend on a number of factors including:
  - o changes in economic conditions and our IAP advertisers' profitability,
  - o IAP advertiser refunds or cancellations, and
  - o our ability to continue to bill through existing means;

Table of Contents

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

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

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

We depend upon our executive officers and key personnel.

Our performance depends substantially on the performance of our executive officers and other key personnel. The success of our business in the future will depend on our ability to attract, train, retain, and motivate high quality personnel, especially highly qualified technical and managerial personnel. The loss of services of any executive officers or key personnel could have a material adverse effect on our business, results of operations or financial condition.

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

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

We depend upon third-party software to operate certain of our services. The failure of this software to perform as expected would have a material adverse effect on our business. Additionally, although we believe that several alternative sources for this software are available, any failure to obtain and maintain the rights to use such software would have a material adverse effect on our business, prospects, financial condition, and results of operations. We

also depend upon third parties to provide services that allow us to connect to the Internet with sufficient capacity and bandwidth so that our business can function properly and our websites can handle current and anticipated traffic. Any restrictions or interruption in our connection to the Internet would have a material adverse effect on our business, prospects, financial condition, and results of operations.

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

Although we currently have no material long-term needs for capital expenditures, we will likely be required to make increased capital expenditures to fund our anticipated growth of operations, infrastructure, and personnel. We currently anticipate that our cash on hand as of September 30, 2009, together with cash flows from operations, will be sufficient to meet our anticipated liquidity needs for working capital and capital expenditures over the next 12 months. In the future, however, we may seek additional capital through the issuance of debt or equity depending upon our results of operations, market conditions or unforeseen needs or opportunities. Our future liquidity and capital requirements will depend on numerous factors, including the following:

11

---

Table of Contents

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

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

Our business is subject to a strict regulatory environment.

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

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

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

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

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

Third parties may infringe or misappropriate our copyrights, trademarks, service marks, trade dress, and other proprietary rights. Any such infringement or misappropriation could have a material adverse effect on our business, prospects, financial condition, and results of operations. In addition, the relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights is unclear. We may be unable to prevent

third parties from acquiring domain names that are similar to, infringe upon or otherwise decrease the value of our trademarks and other proprietary rights, which may result in the dilution of the brand identity of our services.

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

- cease selling or using any of our products that incorporate the challenged intellectual property, which would adversely affect our revenue;
- obtain a license from the holder of the intellectual property right alleged to have been infringed, which license may not be available on reasonable terms, if at all; and



Table of Contents

·redesign or, in the case of trademark claims, rename our products or services to avoid infringing the intellectual property rights of third parties, which may not be possible and in any event could be costly and time-consuming.

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

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

Our ability to provide high-quality services largely depends upon the efficient and uninterrupted operation of our computer and communications systems. We may be required to expand our technology, infrastructure, and customer support capabilities in order to accommodate any significant growth in customers. We may not be able to project accurately the rate or timing of increases, if any, in the use of our services or expand and upgrade our systems and infrastructure to accommodate these increases in a timely manner. Our inability to upgrade and expand our infrastructure and customer support capabilities as required could impair the reputation of our brand and our services and diminish the attractiveness of our service offerings to our advertisers.

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

Current economic conditions may adversely affect our industry, business and results of operations.

The U.S. and global economy is currently undergoing a recession and a period of unprecedented volatility. It is unclear how prolonged this recession will be and how it will affect our industry in particular. Many believe that the general future economic environment may continue to be less favorable than that of recent years. If the challenging economic conditions in the U.S. and other key countries persist or worsen, our customers may delay or reduce spending. This could result in reductions in sales of our products and services, longer sales cycles and increased price competition. Any of these events would likely harm our business, results of operations and financial condition.

We may have an adverse resolution of litigation that may harm our operating results or financial condition.

At times, we are a party to lawsuits in the normal course of our business. Litigation can be expensive, lengthy, and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of a particular lawsuit could have a material adverse effect on our business, operating results, or financial condition.

We have made strategic acquisitions and divestitures in the past few years and may complete similar transactions in the future and cannot assure you that any future transactions will be successful.

We regularly look for opportunities to support our new business strategy through appropriate acquisitions, divestitures and/or strategic alliances. There can be no assurance that we will be successful in identifying appropriate transaction partners or integrating the results of any such transactions in a way that ultimately supports our business strategy. Any such transactions could also involve the dilutive issuance of equity securities and/or the incurrence of debt. In addition, future strategic transactions may involve numerous other risks, including but not limited to:

- exposure to unanticipated liabilities of an acquired company (or acquired assets);
- the potential loss of key customers or key personnel in connection with, or as the result of, a transaction;
- the recording of goodwill and intangible assets that will be subject to impairment testing on a regular basis and potential periodic impairment charges;
- the diversion of the attention of our management team from other business concerns, including the day-to-day management of our Company and/or the internal growth strategies that they are currently implementing; and
- the risk of entering into markets or producing products where we have limited or no experience, including the integration of the purchased technologies and products with our technologies and products.

Table of Contents

Risks Related to the Internet

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

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

- rapid technological change;

- changes in advertiser and user requirements and preferences;

- frequent new product and service introductions embodying new technologies; and

- the emergence of new industry standards and practices that could render our existing service offerings, technology, and hardware and software infrastructure obsolete.

In order to compete successfully in the future, we must:

- enhance our existing services and develop new services and technology that address the increasingly sophisticated and varied needs of our prospective or current IAP advertisers;

- license, develop or acquire technologies useful in our business on a timely basis; and

- respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis.

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

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

Regulation of the Internet may adversely affect our business.

Due to the increasing popularity and use of the Internet and online services such as online Yellow Pages, federal, state, local, and foreign governments may adopt laws and regulations, or amend existing laws and regulations, with respect to the Internet and other online services. These laws and regulations may affect issues such as user privacy, pricing, content, taxation, copyrights, distribution, and quality of products and services. The laws governing the Internet remain largely unsettled, even in areas where legislation has been enacted. It may take years to determine whether and how existing laws, such as those governing intellectual property, privacy, libel, and taxation, apply to the Internet and Internet advertising and directory services. In addition, the growth and development of the market for electronic commerce may prompt calls for more stringent consumer protection laws, both in the United States and

abroad, that may impose additional burdens on companies conducting business over the Internet. Any new legislation could hinder the growth in use of the Internet generally or in our industry and could impose additional burdens on companies conducting business online, which could, in turn, decrease the demand for our services, increase our cost of doing business, or otherwise have a material adverse effect on our business, prospects, financial condition, and results of operations.

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

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

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

Table of Contents

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

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

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

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

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

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

Risks Related to Our Securities

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

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

· decreased demand in the Internet services sector;

· variations in our operating results;

· announcements of technological innovations or new services by us or our competitors;

- changes in expectations of our future financial performance, including financial estimates by securities analysts and investors;

- our failure to meet analysts' expectations;

- changes in operating and stock price performance of other technology companies similar to us;

- conditions or trends in the technology industry;

Table of Contents

· additions or departures of key personnel; and

· future sales of our common stock.

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

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

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

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

· cumulative voting is not allowed in the election of our directors.

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

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

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

which may make it more difficult for holders of our common stock to dispose of their shares.

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

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

ITEM 1B. Unresolved Staff Comments

Not applicable.



## Table of Contents

### ITEM 2. Properties

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

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

We have a short-term lease on a residential facility in Las Vegas that is used to house personnel who travel to Las Vegas on Company business. We have a minimum commitment of approximately \$15,000 in rent during the remaining term of the lease, which expires on January 31, 2010.

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

### ITEM 3. Legal Proceedings

Except as described below, as of September 30, 2009, we were not a party to any pending material legal proceedings other than claims that arise in the normal conduct of our business. While we currently believe that the ultimate outcome of these proceedings will not have a material adverse effect on our consolidated financial condition or results of operations, litigation is subject to inherent uncertainties. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on our net income in the period in which a ruling occurs. Our estimate of the potential impact of the following legal proceedings on our financial position and our results of operation could change in the future.

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

On July 16, 2008, Joseph Cunningham, who was at the time a member of LiveDeal's Board of Directors, filed a complaint with the U.S. Department of Labor's Occupational Safety and Health Administration ("OSHA") alleging that the Company and certain members of its Board of Directors had engaged in discriminatory employment practices in violation of the Sarbanes-Oxley Act of 2002's statutory protections for corporate whistleblowers when the Board of Directors removed him as Chairman on May 22, 2008. In his complaint, Mr. Cunningham asked OSHA to order his appointment as Chief Executive Officer of the Company or, in the alternative, to order his reinstatement as Chairman of the Board. Mr. Cunningham also sought back pay, special damages and litigation costs. The Company has not received any correspondence from OSHA, and there have been no other developments in the matter, since December 2008.

#### State of Washington v. LiveDeal, Inc. et al.

On December 16, 2006, the State of Washington Attorney General's office entered into a Consent Decree with LiveDeal, Inc. (known at the time as YP Corp.) and its subsidiary, Telco Billing, Inc. Pursuant to the Consent Decree, the Company agreed to provide certain confidential, trade secret information to the Attorney General's office as part of the settlement of a regulatory dispute between the State of Washington and the Company.

On July 14, 2009, the Attorney General's office contacted the Company to request certain confidential, trade secret information to which it was entitled under the Consent Decree. The Company acknowledged its obligation to provide the requested information but asked the Attorney General's office to verify that it would not provide such information to third parties. When the Company was informed by opposing legal counsel in a private litigation matter that the Attorney General's office intended to provide its confidential, trade secret information to such counsel's client and other third parties immediately upon receipt, the Company began taking certain steps to protect the sensitive information while complying with its obligations under the Consent Decree.

Following unsuccessful settlement discussions in which the Attorney General's office refused to enter into any agreement not to share the confidential information with third parties (including the Company's opponents in pending private litigation), the Company sought a protective order in the State of Washington's King County Superior Court (Case No. 06-2-39213-2 SEA) on September 8, 2009, which was denied on November 16, 2009. The Company is appealing that decision with in State of Washington's Court of Appeals (Division I, Case No. 64539-1) and has filed a motion to stay the effect of the November 16, 2009 ruling. The appeal is pending.

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

On June 6, 2008, Global Education Services, Inc. ("GES") filed a consumer fraud class action lawsuit against the Company in King County (Washington) Superior Court. GES has alleged in its complaint that the Company's use of activator checks violated the Washington Consumer Protection Act. GES is seeking injunctive relief against our use of the checks, as well as a judgment in an amount equal to three times the alleged damages sustained by GES and the members of the class. LiveDeal has denied the allegations. The parties have filed dispositive motions and anticipate a ruling on such motions in early 2010.

Table of Contents

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

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

## LiveDeal, Inc. v. On-Call Superior Management (“OSM”) and SMeVentures, Inc. (“SMe”)

On April 6, 2009, LiveDeal filed a declaratory judgment to a termination of contract claim and a complaint on May 29, 2009 against OSM and SMeVentures, Philippines call center managers with which the Company had entered into contracts in November of 2007 and earlier, to provide inbound and outbound telemarketing services, respectively, alleging breach of contract. OSM and SMe have counterclaimed, alleging breach of contract. Recent settlement discussions have not resolved the matter and legal proceedings (including discovery) are ongoing.

As of September 30, 2009, we have not recorded any accruals pertaining to these legal proceedings because they do not meet the criteria for accrual under Statement of Financial Accounting Standards No. 5, “Accounting for Contingencies”.

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

None.

## PART II

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

## Our Common Stock

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

The following table sets forth the quarterly high and low sale prices per share of our common stock during the last two fiscal years.

Fiscal Year	Quarter Ended	High	Low
2008	December 31, 2007	\$ 7.00	\$ 3.30
	March 31, 2008	\$ 5.70	\$ 3.18
	June 30, 2008	\$ 3.94	\$ 2.35
	September 30, 2008	\$ 2.59	\$ 1.40
2009	December 31, 2008	\$ 2.00	\$ 1.02
	March 31, 2009	\$ 2.20	\$ 1.24
	June 30, 2009	\$ 2.10	\$ 1.00
	September 30, 2009	\$ 1.70	\$ 1.01

#### Holders of Record

On December 1, 2009, there were approximately 319 holders of record of our common stock according to our transfer agent. The Company has no record of the number of stockholders who hold their stock in “street name” with various brokers.

#### Dividend Policy

We have one class of authorized preferred stock (Series E Preferred Stock), of which there are currently 127,840 shares issued and outstanding. Each share of Series E Preferred Stock is entitled to and receives a dividend of \$0.015 per year. At September 30, 2009, we had accrued but unpaid dividends totaling approximately \$8,200.

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

Table of Contents

Issuer Purchases of Equity Securities

On May 25, 2007, the Company's Board of Directors terminated its existing stock repurchase plan and replaced it with a new plan authorizing repurchases of up to \$1,000,000 of common stock from time to time on the open market. The Company acquired 148,820 shares of its common stock at market prices during the year ended September 30, 2008 at an aggregate cost of \$525,844. All of these shares have been retired.

During the year ended September 30, 2009, the repurchase plan was increased by another \$500,000, and the Company acquired an aggregate of 346,110 shares of its common stock at market prices at an aggregate cost of \$532,521. All but 29,106 shares of repurchased common stock were retired as of September 30, 2009.

Securities Authorized for Issuance Under Equity Compensation Plans

Reference is made to Note 13 of the notes to our consolidated financial statements for certain disclosures about the Company's equity compensation plans.

Table of Contents

## Performance Graph

Compare 5-Year Cumulative Total Return  
Among LiveDeal, Inc., Wilshire 5000 Index

And Dow Jones Internet Index

Assumes \$100 Invested on September 30, 2004  
Assumes Dividends, if any, Reinvested  
Fiscal Year Ended September 30, 2009

	9/30/2004	9/30/2005	9/30/2006	9/30/2007	9/30/2008	9/30/2009
LiveDeal, Inc.	\$ 100.00	\$ 83.06	\$ 86.87	\$ 63.10	\$ 14.32	\$ 15.27
Wilshire 5000 Index	\$ 100.00	\$ 112.79	\$ 122.49	\$ 140.99	\$ 108.99	\$ 100.15
Dow Jones Internet Services Index	\$ 100.00	\$ 126.26	\$ 155.70	\$ 182.75	\$ 151.33	\$ 173.07

## ITEM 6. Selected Financial Data

Not required for smaller reporting companies.

## ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

For a description of our significant accounting policies and an understanding of the significant factors that influenced our performance during the fiscal year ended September 30, 2009, this "Management's Discussion and Analysis" should be read in conjunction with the Consolidated Financial Statements, including the related notes, appearing in Item 8 of this Annual Report.

## Forward-Looking Statements

This portion of this Annual Report on Form 10-K includes statements that constitute "forward-looking statements." These forward-looking statements are often characterized by the terms "may," "believes," "projects," "expects," "anticipates," and do not reflect historical facts. Specific forward-looking statements contained in this portion of the Annual Report include, but are not limited to our (i) expectation that continued investment in online advertising to bring increased traffic to our websites will drive increased revenues; (ii) expectation that there are no further impacts to our results of operations from the Attorneys' General settlement; (iii) expectation that cost of sales will continue to be directly correlated to our use of the LEC billing channel and (iv) belief that our existing cash on hand will provide us with sufficient liquidity to meet our operating needs for the next 12 months.

Forward-looking statements involve risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Factors and risks that could affect our results and achievements and cause them to materially differ from those contained in the forward-looking statements include those identified in Item 1A. Risk Factors, as well as other factors that we are currently unable to identify or quantify, but that may exist in the future.

## Table of Contents

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

### Executive Overview

#### Our Company

LiveDeal, Inc. provides local customer acquisition services for small businesses combined with an Internet Yellow Pages directory 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](http://www.livedeal.com), LiveDeal delivers local search engine marketing (SEM) such as its LiveClicks™ and LiveAdvisor™ 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 and others. LiveDeal, Inc. is headquartered in Las Vegas, Nevada. For more information, please visit [www.livedeal.com](http://www.livedeal.com). Through its wholly-owned subsidiary, Telco Billing, Inc., LiveDeal publishes a small business directory online at [www.yellowpages.livedeal.com](http://www.yellowpages.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 an Internet Yellow Pages service for every city and zip code across the U.S.

#### Summary Business Description

Direct Sales Services also known as Telesold Suite Services. Since February 2008, we have added a new line of business that utilizes, but is not entirely dependent on, our directory websites and billing services. This line of business is based around using telesales and sophisticated Internet customer acquisition technologies to deliver a suite of customer acquisition services to small businesses.

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

Another key Internet development is the rise of locally oriented user review sites and services, such as [Yelp.com](http://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 Internet 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 becoming a less preferred customer acquisition process, where search and review sites are becoming the new standard, where we believe the greatest value for both customer and business resides.

Our websites, by combining the benefits of business listings, mobile services, advertising/distribution networks and e-commerce into a single online solution, offer businesses and consumers an affordable and effective solution for

creating a web presence and marketing their products and services locally.

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

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

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

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



## Table of Contents

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

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

In the aggregate, the contribution of these services to our overall revenues has grown rapidly and represented 31% of our net revenues in fiscal 2009 as compared to 3% of our net revenues in the fiscal 2008. In the fourth quarter of fiscal 2009, these services represented 58% of net revenues.

### Business Directory

We use a business model similar to print Yellow Pages publishers for our Yellow Page directory. We publish basic directory listings on the Internet free of charge. Our basic listings contain the business name, address and telephone number for almost 17 million U.S. businesses. We strive to maintain a listing for almost every business in America in this format and we generate revenue from the sale of various advertising packages to listed businesses. As we have shifted our business strategy away from this line of business and sold our primary URL and a portion of our customer list, we expect to experience declining future revenues from this segment.

### Recent Events & Transactions

### Financial Performance

We have embarked on a significant change in business strategy to deemphasize our legacy business (directory services offering) and focus on our new line of business consisting of Internet-based customer acquisition strategies for small businesses. We have also completed transactions that have allowed us to monetize certain assets associated with our directory services business, including the sale of a portion of our customer list and our primary URL, www.yip.com, each of which is described elsewhere in this section. As a result, we have experienced a decline in revenues and gross profit over the last several quarters. During this time our revenues from our new customer acquisition services business segment has grown to \$1,402,888, which represented 58% of net revenues during the fourth quarter of fiscal 2009, up from \$343,240 or 6% of net revenues in the fourth quarter of fiscal 2008. While we have yet to achieve sufficient sales in our new business to allow us to achieve operating profitability, we achieved significant growth in revenues in this business segment during fiscal 2009.

### Change in Business Strategy

In and around February 2009, we evaluated our business and adopted a new business strategy that moved away from our Yellow Pages business to one which addressed each of our business segments as separate entities. This evaluation was necessitated by the growth in our Direct Sales - Customer Acquisition Services business lines that provide Internet-based customer acquisition strategies for small business, as well as declining revenues from our traditional business line (i.e. directory services). Additionally, current economic and regulatory forces, both general and specific to our industry, impacted our consideration of our existing business model and strategy. Some of these factors include the following:

- The current effects of the recession and general economic downturn;
- Our perception that the general economic downturn could lead our business customers to seek lower-cost customer acquisition methods, primarily through the Internet;

- The sale of our “www.yip.com” domain name in the first quarter of fiscal 2009, which domain name was associated with our traditional business;
  - The reconstitution of our management team with additional capability in Internet-based technologies;
  - The termination of certain significant directory business contracts related to the traditional business;
  - The sale of certain of our traditional business assets including certain of our customer lists; and
    - Continuing losses in our classifieds business.

As a result, we made significant changes to our business strategy during the second quarter of fiscal 2009. We decided to move our strategic focus away from our directory services and Classified businesses. Additionally, we discontinued the operations of our Philippines-based call center which had historically provided telemarketing services to support our directory services business - specifically those directory services which were sold during the second quarter of fiscal 2009. These strategic changes impacted our financial statements during the second quarter of fiscal 2009 in the following manner:

- Impairment charges of \$16,111,494 were recorded related to the write-down of our goodwill and other intangible assets;

## Table of Contents

- We commenced a plan to discontinue our classifieds business and initiated shutdown activities;
- We sold our a customer list associated with its directory services business and recorded a gain of \$3,040,952; and
  - We established a valuation allowance of \$10,586,854 related to our deferred tax assets.

Our new strategic focus is on delivering a suite of Internet-based, local search driven, customer acquisition services for small businesses, sold via telemarketing and supported by our websites and internally developed software.

### 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, we still receive revenues from the sale of Internet Advertising Packages, which targeted users of our www.yp.com property. We have transitioned these customers to advertising on www.yellowpages.livedeal.com.

### 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:

- Rajeev Seshadri replaced Gary Perschbacher as Chief Financial Officer effective January 20, 2009; and
- John Raven submitted his resignation as President and Chief Operating Officer effective February 15, 2009.

On May 19, 2009, Richard F. Sommer was appointed as our new President and Chief Executive Officer ("CEO"), effective immediately, to replace Mike Edelhart, the outgoing CEO, whose employment as CEO terminated the same day. Mr. Sommer has served as a member of our Board of Directors since June 2008. Following his appointment as President and Chief Executive Officer, Mr. Sommer remained a director but has no longer been a member of our Compensation Committee or Corporate Governance and Nominating Committee, both of which are required to consist only of independent directors under NASDAQ Listing Rules.

Mr. Sommer, 46, is a former Chief Executive Officer of ZipRealty and served on the Board of Directors of ZipRealty from September 2006 until December 15, 2008. Prior to joining ZipRealty, Mr. Sommer was the Chief Executive Officer of HomeGain.com. In addition to his leadership of HomeGain, Mr. Sommer served as Senior Vice President of Business Development for the mortgage banking division of IndyMac Bank. He also served as President and Managing Director of international real estate operations for Realtor.com. Mr. Sommer also co-founded and was President and Chief Executive Officer of Accordus, a technology infrastructure company serving the health care products industry. From 1988 until 1998, Mr. Sommer was founder, President and Chief Executive Officer of De La Cruz Occupational Healthcare. He began his career with McKinsey & Co. Mr. Sommer graduated cum laude in 1983 from Princeton University with a degree in politics and was a Rhodes Scholar at Oxford University, where he earned a Master's Degree in international political economy. In 1990, Mr. Sommer earned a law degree from the Stanford Law School.

In connection with Mr. Edelhart's termination, we entered into a separation agreement dated July 8, 2009 that provided for a one-time payment of \$62,500 to Mr. Edelhart together with a payment for accrued vacation and certain other expenses. We recognized expenses totaling \$93,195 associated with Mr. Edelhart's departure during the quarter ended June 30, 2009. As of September 30, 2009, we had an outstanding liability of \$13,289 related to unpaid termination

costs.

Also, in connection with the restructuring activities described below and as part of refinements to our business strategy, certain managerial positions were eliminated in June 2009, including the positions of Vice President of Product Management and Vice President of Technology Strategy, respectively. See “Restructuring Activities” below.

#### Impairment of Goodwill and Other Intangibles

In and around February 2009, in connection with the strategic changes described above and at the direction of our Audit Committee, we commenced an interim reporting period review of our goodwill and intangible assets for impairment. We evaluate goodwill and other long-lived assets for impairment on an annual basis or whenever facts and circumstances indicate that impairment may exist. Economic and regulatory forces, both general and specific to our industry, caused management to consider our existing business model and strategy as described in “Change in Business Strategy” included herein.

In light of the changes in our business, we determined that a triggering event had occurred and initiated an impairment analysis. Based upon the analysis, management determined that the following items were impaired:

Table of Contents

- The goodwill acquired in our acquisition of LiveDeal, Inc., the business focus of which was online classified advertising;
- The goodwill acquired in our acquisition of a Philippines call-center, OnCall Subscriber Management, the business focus of which was providing telemarketing services to acquire customers for our directory services business;
- Assets related to our call-center operations and non-compete agreements that were effectively made obsolete by the sale of a portion of our customer list associated with our directory services business; and
- Intangible assets related to our directory services business, including URLs, internally developed software, and other miscellaneous intangible assets.

The following is a summary of these impaired assets and their net book values, which were fully written off in the second quarter of fiscal 2009:

	Continuing Operations	Discontinued Operations	Total Impairment
Goodwill	\$ 4,350,041	\$ 7,356,365	\$ 11,706,406
Domain name and marketing related intangibles	1,879,054	-	1,879,054
Assets related to customer list	1,259,680	-	1,259,680
Website and technology related intangibles	377,334	889,020	1,266,354
	\$ 7,866,109	\$ 8,245,385	\$ 16,111,494

Included in the assets that became obsolete through the sale of a portion of our customer list were \$722,103 related to non-compete agreements and \$537,577 of assets associated with the Philippines call-center.

We performed an initial assessment of impairment prior to filing our Form 10-Q for the period ended December 31, 2008, and disclosed an estimated impairment charge of \$14,300,000. We reevaluated these amounts and increased the corresponding impairment charge to \$14,676,568 after identifying additional impaired website and technology related intangible assets related to the items identified earlier. Since that time, we sold a portion of our customer list, which resulted in an additional impairment charge of approximately \$1,400,000, consisting of approximately \$175,000 of website and technology related intangibles and \$1,200,000 of other assets made obsolete as described above. We performed an annual goodwill and intangible assets impairment review in connection with our fiscal year-end financial closing for 2009. Management's analysis considered input from an independent third party business appraisal firm. Management confirmed the results of the impairment review performed in the quarter ended March 31, 2009. The annual impairment review assigned certain of the goodwill and intangible assets to the Company's classifieds business whose discontinuation was initiated in the quarter ended March 31, 2009. The impairment charges associated with the classifieds business are now included as part of discontinued operations in the accompanying statement of operations.

#### Sale of Customer List and Other Income

On March 9, 2009, in connection with our shift in strategic focus away from our classified and directory services business, we entered into an agreement to sell a portion of our customer list associated with our directory services business. This customer list was sold for \$3,093,202, of which \$2,783,097 was paid by the buyer and received during the second quarter of fiscal 2009 with the remaining amount held back in escrow pending the resolution of potential claims, if any. Such claims are contractually limited to the amount held in escrow (\$154,617 as of September 30,

2009) , and are expected to be settled in fiscal 2010. Net of certain accruals for transaction costs and transaction-related contingencies, we recorded a gain of \$3,040,952, which is reflected in other income.

We also amended another directory services contract in consideration of accelerated payments on our outstanding accounts receivable and some anticipated future billings that resulted in an increase in other income of \$642,268 for the three and nine months ended June 30, 2009, respectively. Together with the partial customer list sale described above, these customers and contract accounted for \$5,146,073 of revenue in fiscal 2009. As a result of these transactions, we have no future service obligations to these customers and no longer expect to generate future revenues from these sources.

#### Discontinued Operations

As part of the Company's strategy to evaluate each of its business segments as separate entities, management noted that the classifieds business has incurred significant operating losses and determined that it did not fit with the Company's change in strategic direction. Accordingly, in and around February 2009, we made the strategic decision to discontinue our classifieds business and product offerings. We initiated shutdown activities in March 2009 (including the notification of certain impacted vendors and employees) and concluded such activities by the end of June 2009, including the shutdown of the website previously used for classifieds activities. Accordingly, we do not expect any future revenues from this business segment and are reflecting the results of the classifieds business as discontinued operations. Prior year financial statements have been restated to present the classifieds operations as a discontinued operation.

## Table of Contents

The classifieds business accounted for \$227,575 and \$1,862,503 of net revenues in the fiscal years ended September 30, 2009 and 2008, respectively, which are now included as part of loss from discontinued operations in the accompanying consolidated statements of operations.

### Restructuring Activities

On June 9, 2009, we implemented a restructuring plan previously approved by our Board of Directors that included a reduction in force that resulted in the termination of approximately 13% of our workforce. As part of this plan, we also initiated activities to close certain of our facilities. We took these actions in order to reduce costs and improve our cost structure in the current operating environment and in light of changes in our strategic focus. Substantially all restructuring activities were completed in July 2009.

In connection with these activities, we incurred expenses, consisting primarily of cash expenditures, of \$327,408 which have been reflected as part of general and administrative expenses in the accompanying consolidated statement of operations for the year ended September 30, 2009. Of the restructuring charges incurred, \$277,059 related to severance costs and \$50,349 related to office closure costs. As of September 30, 2009, we had an outstanding liability of \$13,289 related to unpaid office closure costs. All restructuring costs were related to the consolidation of operations at our Las Vegas, Nevada facility.

### Other Contractual Agreements

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

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

Under the agreements, we provided certain fulfillment and directory services to the customers of Sharednet, OneSource Web Hosting and Blabble Networks, respectively (collectively, the "Wholesalers"). In exchange for such services, the Wholesalers remitted 90% of the related fees collected to us. Such fees accounted for approximately \$5.3 million, or 18%, of our net revenues in fiscal 2008. The agreements accounted for about 12,000 of our approximately 65,000 customers as of that date.

### Critical Accounting Estimates and Assumptions

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. As such, in accordance with the use of accounting principles generally accepted in the United States of America, our actual realized results may differ from management's initial estimates as reported. Summaries of our significant accounting policies are detailed in the notes to the consolidated financial statements, which are an integral component of this filing.

The following summarizes critical estimates made by management in the preparation of the consolidated financial statements.

Revenue Recognition.

Direct Sales – Customer Acquisition Services. Our direct sales contracts typically involve upfront billing for an initial payment followed by monthly billings over the contractual period. We recognize revenue on a straight line basis over the contractual period. Billings in excess of recognized revenue are included as deferred revenue in the accompanying consolidated balance sheets.

Previously, we recognized the value of the noncancelable portion of the Direct Sales' customer contract as a receivable and billed the customer for the amount of the contract over the period of the contract. We only recognized a portion of the contract value as revenue each month, approximately pro-rating the contract to a monthly amount, with the remainder of the noncancelable portion of the contract maintained as a deferred revenue liability. In the quarter ended June 30, 2009, we corrected our balance sheet presentation related to our direct sales contracts to include in accounts receivable only those amounts that are outstanding receivables after having been billed in accordance with the terms of the contract.



## Table of Contents

**Directory Services.** We generate revenue from customer subscriptions for directory and advertising services. We recognize revenues as services are rendered. In some instances, we receive payments in advance of rendering services, whereupon such revenues are deferred until the related services are rendered. Our billing and collection procedures include significant involvement of outside parties, referred to as aggregators for LEC billing and service providers for ACH billing. We provide allowances for customer refunds, non-paying customers and fees which are estimated at the time of billing.

**Allowance for Doubtful Accounts.** We estimate allowances for doubtful accounts for accounts that are billed directly by us as well as those serviced by third party aggregators and service providers (Processors).

During fiscal 2009, several revenue streams that were billed through our various LEC sales channels were terminated either as a result of a sale of assets or upon the cessation of billing agreements. We reflect the amounts held in reserve by the Processors as accounts receivable in the accompanying consolidated balance sheet. During the period that we received settlements from our billings through these LEC channels, the level of the reserves held by the Processors changed accordingly and the Processors often calculated the holdback amounts from the settlements due to us as 'rolling reserves' that we believe are actuarially estimated by them based on the level of business, the expectation of future billings from which to replenish such reserves, and other factors. The costs and expenses related to such settlements and reserve holdback amounts were recorded as expenses during the period that the settlements were received. With the cessation of such settlements, the costs and expenses are now related to the maintenance of the reserves held by the Processors. The reserves now held are not changing due to the cessation of billing activities by us, and accordingly, we have now made estimates of the costs and expenses that we are likely to incur to collect the holdback amounts held as reserves. These estimates lead to an accrual of expected costs over the expected length of the collection period of the accounts receivable and, therefore, to an increase in the allowances, instead of recording such expenses as period costs as they are actually incurred as would have been the case if we continued to have regular billings through the Processors.

The allowance at September 30, 2009 included a reserve allowance of \$723,489 resulting from the Chapter 11 Bankruptcy filing of one of our LEC aggregators, representing a reduction in the estimated collectability of our entire pre-petition outstanding receivable balance of \$777,755. The aggregate of accounts receivable balances from the LEC operations that do not have billing activity as of September 30, 2009 was \$3,554,149, and the aggregate of corresponding allowances was \$2,032,385. These aggregate amounts include the accounts receivable balances and allowances for the accounts held by the Chapter 11 trustee.

**Carrying Value of Intangible Assets.** Our intangible assets consist of licenses for the use of Internet domain names or Universal Resource Locators, or URLs, capitalized website development costs, other information technology licenses and marketing and technology related intangibles acquired through the acquisition of LiveDeal, Inc. All such assets are capitalized at their original cost (or at fair value for assets acquired through business combinations) and amortized over their estimated useful lives. We capitalize internally generated software and website development costs in accordance with the provisions of the FASB Accounting Standards Codification ("ASC") ASC 350, "Intangibles – Goodwill and Other".

We evaluate the recoverability of the carrying amount of intangible assets at least annually and whenever events or changes in circumstances indicate that the carrying amount of these assets may not be fully recoverable. In the event of such changes, impairment would be assessed if the expected undiscounted net cash flows derived for the asset are less than its carrying amount.

An impairment was estimated and recorded as first described our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009 and described elsewhere in this Form 10-K. In 2009, the Company performed an intangible assets evaluation using the appraisal methods as prescribed under the provisions of ASC 360, "Property

Plant and Equipment”, which prescribes methods for determining impairment of long-lived assets. Management’s review considered input from an independent third party business appraisal firm

Goodwill. We evaluate our goodwill for potential impairment on an annual basis or whenever events or circumstances indicate that an impairment may have occurred in accordance with the provisions of ASC 350, which requires that goodwill be tested for impairment using a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the estimated fair value of the reporting unit containing our goodwill with the related carrying amount. If the estimated fair value of the reporting unit exceeds its carrying amount, the reporting unit’s goodwill is not considered to be impaired and the second step is unnecessary. As a result of this analysis, first described in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009 and described elsewhere in this Form 10-K, it was determined that the entire goodwill balance attributable to the Company’s acquisitions of OnCall Subscriber Management and LiveDeal, Inc. were impaired.

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

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

Table of Contents

We have estimated net deferred income tax assets (net of valuation allowances) of \$0 and \$4,812,623 at September 30, 2009 and 2008, respectively, which relate to various timing differences between book and tax expense recognition. A full valuation allowance has been established against all net deferred tax assets as of September 30, 2009 based on estimates of recoverability. While we have optimistic plans for our new business strategy, we determined that such a valuation allowance was necessary given the current and expected near term losses and the uncertainty with respect to our ability to generate sufficient profits from our new business model. Therefore, we established a valuation allowance for all deferred tax assets in excess of those expected to be realizable through the application of operating loss carrybacks.

We performed an analysis of uncertain tax positions and we did not identify any significant uncertainties that would affect the carrying value of our deferred tax assets and liabilities or our income taxes receivable at September 30, 2009.

**Stock-Based Compensation.** From time to time, we grant restricted stock awards and options to employees, directors, executives, and consultants. Such awards are valued based on the grant date fair-value of the instruments, net of estimated forfeitures. The value of each award is amortized on a straight-line basis over the vesting period. The impacts of changes in such estimates on unamortized deferred compensation cost are recorded as an adjustment to compensation expense in the period in which such estimates are revised.

## Results of Operations

## Net Revenues

Year Ended September 30,	Net Revenues	Change from Prior Year	Percent Change from Prior Year
2009	\$ 13,438,655	\$ (9,982,003)	(42.6)%
2008	\$ 23,420,658		

Net revenues in fiscal 2009 decreased by approximately \$9,982,000, due primarily to our change in business strategy away from our directory services business and the sales of our www.yip.com URL and a portion of our customer list in fiscal 2009, which was partially offset by an increase in revenues from our customer acquisition services business segment. Net revenues in our directory services business decreased by approximately \$13,448,000 to \$9,331,000 in fiscal 2009 as compared to \$22,779,000 in fiscal 2008. Net revenues in our customer acquisition services business segment increased by approximately \$3,467,000 to \$4,108,000 in fiscal 2009 as compared to \$641,000 in fiscal 2008. The increase in net revenues from our customer acquisition services reflects a change in business strategy and our focus toward developing this portion of our business. We expect that revenues from our directory services business will continue to decline in the future as we focus our efforts toward our new business segment. Although we anticipate our revenues from customer acquisition services will continue to grow, this business is unproven at this time and there can be no assurance that we will meet our objectives of revenue growth and profitability.

## Cost of Services

Year Ended September 30,	Cost of Services	Change from Prior Year	Percent Change from Prior Year
2009	\$ 6,391,778	\$ 2,050,524	47.2%
2008	\$ 4,341,254		

Cost of services increased in fiscal 2009 as compared to fiscal 2008, as a result of increasing per-customer costs in our directory services business and the growth in net revenues in our customer acquisition services business which has higher costs as compared to our directory services segment.

Cost of services in our customer acquisition services business were approximately \$2,768,000 in fiscal 2009 as compared to \$548,000 in fiscal 2008 which reflects our growth in revenues in this business segment. See discussion of gross margins elsewhere in this section.

Cost of services in our directory services business were approximately \$3,624,000 in fiscal 2009 as compared to \$3,793,000 in fiscal 2008 despite a 60% reduction in revenues. During 2009, we experienced cost increases in our directory services business on a per customer basis due to increased regulatory requirements and an increase in per-customer charges billed to us from our third party service providers. These factors contributed to our strategic shift away from directory services as our primary line of business.

Table of Contents

## Gross Profit

Year Ended September 30,	Gross Profit	Change from Prior Year	Percent Change from Prior Year
2009	\$ 7,046,877	\$ (12,032,527)	(63.1)%
2008	\$ 19,079,404		

Gross profit decreased approximately \$12,033,000 in fiscal 2009 as compared to fiscal 2008 reflecting a decrease in net revenues and a decline in gross margins in our directory services business. The following table sets forth changes in our gross margin by business segment.

	Year ended September 30,	
	2009	2008
Customer acquisition services -		
Gross profit	\$ 1,339,997	\$ 93,759
Gross margin	32.6%	14.6%
Directory services -		
Gross profit	\$ 5,706,880	\$ 18,985,644
Gross margin	61.2%	83.3%

## General and Administrative Expenses

Year Ended September 30,	General & Administrative Expenses	Change from Prior Year	Percent Change from Prior Year
2009	\$ 15,179,981	\$ (415,190)	(2.7)%
2008	\$ 15,595,171		

General and administrative expenses decreased in fiscal 2009 as compared to fiscal 2008 due to the following:

- A decrease in depreciation and amortization expense of approximately \$542,000 due primarily to the effects of the impairment of depreciable intangible assets that occurred in the second quarter of fiscal 2009;
- A decrease in investor relations expenses of approximately \$245,000 stemming from cost containment initiatives;
- A decrease in customer related expenses of approximately \$106,000 due to the decline in business activities associated with our directory services business as a result of our change in business strategy;
- A decrease in rent and office expenses of approximately \$234,000 as a result of the closure of our Santa Clara facility and other cost-containment initiatives;
- A decrease in compensation expense of approximately \$20,000 which was comprised of a decrease of \$915,000 of stock based compensation resulting from the effects of true-ups of our estimated forfeiture rate and a reduction in the use of stock awards as part of our compensation, partially offset by an increase of \$895,000 of compensation, payroll and benefits expenses associated with additional staffing in sales and technology development to support our

change in business strategy;

- A decrease of other G&A expenses of approximately \$118,000, partially offset by
- An increase in software expense of approximately \$427,000 representing non-capitalizable costs associated with our new product offerings in our customer acquisition services segment;
- An increase in professional and consulting fees of approximately \$423,000 attributable to legal costs incurred to defend the Company against certain claims in fiscal 2009.

Table of Contents

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

	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Compensation for employees, leased employees, officers and directors	\$ 2,054,709	\$ 2,392,081	\$ 2,311,056	\$ 2,508,835	\$ 1,810,383	\$ 3,181,375	\$ 2,377,412	\$ 1,928,272
Professional fees	336,273	421,700	411,564	455,832	456,180	275,638	191,330	281,418
Depreciation and amortization	211,336	186,077	560,383	559,289	588,718	505,095	487,085	478,433
Other general and administrative costs	451,300	813,124	771,352	735,070	707,665	845,351	789,318	706,848

## Sales and Marketing Expenses

Year Ended September 30,	Sales & Marketing Expenses	Change from Prior Year	Percent Change from Prior Year
2009	\$ 2,457,063	\$ (2,777,086)	(53.1)%
2008	\$ 5,234,149		

Sales and marketing expenses decreased in fiscal 2009 as compared to fiscal 2008 due to the following:

- \$2,980,000 of decreased telemarketing and other customer acquisition costs as we began transitioning away from marketing activities geared toward our directory services business; and
- \$252,000 of reduced branding, online advertising and other sales and marketing expenses; partially offset by
- \$455,000 of increased expenditures for click traffic that we believe is more cost effective than online advertising.

## Impairment of Goodwill and Intangible Assets

Year Ended September 30,	Impairment of Goodwill and Intangible Assets	Change from Prior Year	Percent Change from Prior Year
2009	\$ 7,866,109	\$ 7,866,109	n/a
2008	\$ -		

As described previously, we incurred an impairment charge in the second quarter of fiscal 2009 to write-down goodwill and other intangible assets. No such charges were incurred in fiscal 2008.

## Operating Loss

Year Ended September 30,	Operating Loss	Change from Prior Year	Percent Change from Prior Year
2009	\$ (18,456,276)	\$ (16,706,360)	954.7%
2008	\$ (1,749,916)		

The increase in our operating loss for fiscal 2009 as compared to fiscal 2008 is primarily due to the impairment charge, decreased gross profit and changes in operating expenses, each of which is described above.

## Total Other Income (Expense)

Year Ended September 30,	Total Other Income (Expense)	Change from Prior Year	Percent Change from Prior Year
2009	\$ 7,527,934	\$ 7,405,544	6050.8%
2008	\$ 122,390		

During the second quarter of fiscal 2009, we entered into an agreement to sell a portion of our customer list associated with our directory services business, resulting in a gain of \$2,816,000, which was increased to \$3,041,000 in the fourth quarter of fiscal 2009 through the adjustment of certain accruals associated with the transaction. We also amended another directory services contract in consideration of accelerated payments on our outstanding accounts receivables and some anticipated future billings that resulted in an increase in other income of \$642,000 in fiscal 2009.



Table of Contents

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 \$3,806,000, which is reflected in other income.

The remaining activity in fiscal 2009 and fiscal 2008 consisted primarily of interest income on cash balances and short-term investments.

## Income Tax Provision (Benefit)

Year Ended September 30,	Income Tax Provision (Benefit)	Change from Prior Year	Percent Change from Prior Year
2009	\$ 3,393,515	\$ 3,548,230	2293.4%
2008	\$ (154,715)		

The change in our income tax provision (benefit) is due primarily to the establishment of a \$10,586,854 valuation allowance established during fiscal 2009 against our net deferred tax assets, partially offset by changes in our pretax net loss and miscellaneous permanent differences. While we have optimistic plans for our new business strategy, we determined that such a valuation allowance was necessary given the current and expected near term losses and the uncertainty with respect to our ability to generate sufficient profits from our new business model. Therefore, we established a valuation allowance for all deferred tax assets in excess of those expected to be realizable through the application of operating loss carrybacks.

## Loss from Discontinued Operations

Year Ended September 30,	Loss from Discontinued Operations	Change from Prior Year	Percent Change from Prior Year
2009	\$ (8,269,443)	\$ (8,213,482)	14677.2%
2008	\$ (55,961)		

During the second quarter of fiscal 2009, we discontinued our classifieds business, as described above. All prior periods have been restated to reflect the classifieds operating results, net of tax, as discontinued operations. Included in the loss for fiscal 2009 is the impairment of goodwill and other intangibles as previously described.

## Net Loss

Year Ended September 30,	Net Loss	Change from Prior Year	Percent Change from Prior Year
2009	\$ (22,591,300)	\$ (21,062,528)	1377.7%
2008	\$ (1,528,772)		

Changes in net loss are primarily attributable to changes in operating income, income tax expense and discontinued operations, each of which is described above.

## Liquidity and Capital Resources

Net cash generated by operating activities decreased approximately \$4,295,000, or 322%, to (\$2,963,000) for the year ended September 30, 2009, compared to \$1,331,000 for the year ended September 30, 2008. The increase of cash used in operations is primarily due to a decrease in gross profit of \$12,033,000 reflecting declines in our legacy businesses, partially offset by \$3,098,000 of increased collections of accounts receivable, \$2,777,000 of reduced sales and marketing expenses, \$1,700,000 of reduced customer acquisition costs, and \$163,000 of changes in other operating expenses and working capital balances.

Our primary source of cash inflows has historically been net remittances from directory services customers processed in the form of ACH billings and LEC billings. In the nine months ended September 30, 2009, we have been transitioning away from directory services toward our Direct Sales Services, whose billings experience shorter collection times. Accordingly we have been able to reduce our collection times and our outstanding accounts receivable balances. As of September 30, 2009, no single customer accounted for greater than 10% of accounts receivable.

Table of Contents

With respect to our Direct Sales Services, we generally receive upfront payments averaging approximately one-sixth of the gross contract amount. Subsequent payments are received on an installment basis after the application of the initial payment amounts and are billed ratably over the remaining life of the contract. 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 installment due date.

With respect to our discontinued operations, our historical cash flows have approximated our income (loss) from discontinued operations as set forth on our consolidated statements of operations, except with respect to impairment charges that were recorded during the second quarter of fiscal 2009.

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 during fiscal 2009 totaled approximately \$6,494,000 as compared to cash outflows of \$1,817,000 during fiscal 2008. The primary sources of the cash provided by our investing activities in fiscal 2009 were the sale of our Internet domain name www.yip.com, the sale of a portion of our customer list related to our directory services business, and an amendment to an existing directory services contract, which provided aggregate cash inflows of \$7,430,000. Additionally, in fiscal 2009, we had expenditures for purchases of equipment and intangible assets totaling approximately \$836,000. During the year ended September 30, 2009, we also invested \$100,000 in certificates of deposit. During the year ended September 30, 2008, we had \$1,227,000 of cash outflows for intangible assets related to our website and internally developed software and \$589,000 of purchases of equipment.

Net cash used for financing activities was approximately \$603,000 during fiscal 2009 and was attributable to \$533,000 of treasury stock repurchases and \$70,000 of principal repayments on capital lease obligations. Net cash used for financing activities was \$549,000 during fiscal 2008 and included \$526,000 of treasury stock repurchases and \$23,000 of principal repayments on capital lease obligations.

We had working capital of \$9,251,000 as of September 30, 2009 compared to \$11,260,000 as of September 30, 2008. Our cash position increased to \$7,568,000 at September 30, 2009 compared to \$4,640,000 at September 30, 2008, as we had a significant decline in cash flows from operations, partially offset by cash provided by investing activities as we monetized several of our assets associated with our legacy business, including our primary URL and a portion of our customer list.

On May 25, 2007, the Company's Board of Directors terminated the previously enacted 2005 stock repurchase plan and replaced it with a new plan authorizing repurchases of up to \$1,000,000 of common stock from time to time on the open market or in privately negotiated transactions. We purchased a total of 148,820 shares at an aggregate cost of \$525,844 under the 2007 plan through September 30, 2008. The repurchase plan was increased by another \$500,000 on October 23, 2008, and we acquired an aggregate of 346,110 shares of common stock for an aggregate repurchase price of \$532,521 during fiscal 2009.

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.

The following table summarizes our contractual obligations at September 30, 2009 and the effect such obligations are expected to have on our future liquidity and cash flows:

Total	Payments Due by Fiscal Year					Thereafter
	2010	2011	2012	2013	2014	

Operating lease commitments	\$ 1,315,693	\$ 497,117	\$ 424,525	\$ 315,331	\$ 78,720	\$ -	\$ -
Capital lease commitments	198,644	76,876	76,876	44,892	-	-	-
Noncancellable service contracts	1,029,362	647,251	361,111	21,000	-	-	-
	\$ 2,543,699	\$ 1,221,244	\$ 862,512	\$ 381,223	\$ 78,720	\$ -	\$ -

At September 30, 2009, we had no other off-balance sheet arrangements, commitments or guarantees that require additional disclosure or measurement.

#### ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

As of September 30, 2009, we did not participate in any market risk-sensitive commodity instruments for which fair value disclosure would be required. We believe that we are not subject in any material way to other forms of market risk, such as foreign currency exchange risk or foreign customer purchases (of which there were none in fiscal 2009 or 2008) or commodity price risk.

Table of Contents

ITEM 8. Financial Statements and Supplementary Data

LIVEDEAL, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	33
<u>Consolidated Financial Statements:</u>	
<u>Consolidated Balance Sheets at September 30, 2009 and 2008</u>	34
<u>Consolidated Statements of Operations for the years ended September 30, 2009 and 2008</u>	35
<u>Consolidated Statements of Stockholders' Equity for the years ended September 30, 2009 and 2008</u>	36
<u>Consolidated Statements of Cash Flows for the years ended September 30, 2009 and 2008</u>	37
<u>Notes to Consolidated Financial Statements</u>	38

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors

LiveDeal, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of LiveDeal, Inc. and Subsidiaries as of September 30, 2009 and 2008 and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LiveDeal, Inc. and Subsidiaries as of September 30, 2009 and 2008, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the consolidated financial statements, the consolidated balance sheet as of September 30, 2008 has been restated.

/s/ Mayer Hoffman McCann P.C.

MAYER HOFFMAN MCCANN P.C.

Phoenix, Arizona

December 23, 2009

Table of ContentsLIVEDEAL, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	September 30, 2009	2008 (as restated, see Note 3)
<b>Assets</b>		
Cash and cash equivalents	\$ 7,568,030	\$ 4,639,787
Certificates of deposit	100,000	-
Accounts receivable, net	1,478,183	6,326,272
Prepaid expenses and other current assets	326,442	792,309
Customer acquisition costs, net	-	642,220
Income taxes receivable	1,490,835	487,532
Deferred tax asset, net of valuation allowance	-	949,121
<b>Total current assets</b>	<b>10,963,490</b>	<b>13,837,241</b>
Accounts receivable, long term portion, net	1,039,403	2,011,143
Property and equipment, net	615,906	959,854
Deposits and other assets	81,212	83,547
Intangible assets, net	2,336,714	6,736,078
Goodwill	-	11,706,406
Deferred tax asset, long term, net of valuation allowance	-	3,863,502
<b>Total assets</b>	<b>\$ 15,036,725</b>	<b>\$ 39,197,771</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 549,681	\$ 1,078,712
Accrued liabilities	1,092,811	1,437,149
Current portion of capital lease obligation	69,612	61,149
<b>Total current liabilities</b>	<b>1,712,104</b>	<b>2,577,010</b>
Long term portion of capital lease obligation	117,073	170,838
<b>Total liabilities</b>	<b>1,829,177</b>	<b>2,747,848</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
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, 6,133,433 issued and 6,104,327 outstanding at September 30, 2009 and 6,513,687 issued and outstanding at September 30, 2008	6,133	6,514
Treasury stock (29,106 and 0 shares carried at cost) at September 30, 2009 and 2008, respectively	(45,041)	-
Paid in capital	20,280,377	20,884,112
Retained earnings (accumulated deficit)	(7,044,787)	15,548,431
<b>Total stockholders' equity</b>	<b>13,207,548</b>	<b>36,449,923</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 15,036,725</b>	<b>\$ 39,197,771</b>

See accompanying notes to consolidated financial statements.



Table of Contents

LIVEDEAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended September 30,	
	2009	2008
Net revenues	\$ 13,438,655	\$ 23,420,658
Cost of services	6,391,778	4,341,254
Gross profit	7,046,877	19,079,404
<b>Operating expenses:</b>		
General and administrative expenses	15,179,981	15,595,171
Impairment of goodwill	4,350,041	-
Impairment of intangible assets	3,516,068	-
Sales and marketing expenses	2,457,063	5,234,149
Total operating expenses	25,503,153	20,829,320
Operating loss	(18,456,276)	(1,749,916)
<b>Other income (expense):</b>		
Interest income, net	37,686	134,694
Other income (expense)	7,490,248	(12,304)
Total other income (expense)	7,527,934	122,390
Loss before income taxes	(10,928,342)	(1,627,526)
Income tax provision (benefit)	3,393,515	(154,715)
Loss from continuing operations	(14,321,857)	(1,472,811)
<b>Discontinued operations</b>		
Loss from discontinued component, including disposal costs	(8,329,470)	(89,337)
Income tax benefit	(60,027)	(33,376)
Loss from discontinued operations	(8,269,443)	(55,961)
Net loss	\$ (22,591,300)	\$ (1,528,772)
<b>Earnings per share - Basic:</b>		
Loss from continuing operations	\$ (2.38)	\$ (0.24)
Discontinued operations	(1.38)	(0.01)
Net loss	\$ (3.76)	\$ (0.25)
<b>Earnings per share - Diluted:</b>		
Loss from continuing operations	\$ (2.38)	\$ (0.24)
Discontinued operations	(1.38)	(0.01)
Net loss	\$ (3.76)	\$ (0.25)
<b>Weighted average common shares outstanding:</b>		
Basic	6,005,664	6,231,610
Diluted	6,005,664	6,231,610

See accompanying notes to consolidated financial statements.



Table of Contents

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

	Common Stock		Preferred Stock		Treasury	Paid-In	Retained	Total
	Shares	Amount	Shares	Amount	Stock	Capital	Earnings	
Balance, September 30, 2007	6,693,676	\$ 6,694	127,840	\$ 10,866	\$(2,714,698)	\$ 23,325,888	\$ 17,079,121	\$ 37,707,871
Series E preferred stock dividends	-	-	-	-	-	-	(1,918)	(1,918)
Common stock issued in restricted stock plan	53,000	53	-	-	-	(53)	-	-
Stock based compensation - stock options	-	-	-	-	-	10,155	-	10,155
Restricted stock cancellations	(84,169)	(84)	-	-	-	84	-	-
Amortization of deferred stock compensation	-	-	-	-	-	788,431	-	788,431
Treasury stock purchases	(148,820)	(149)	-	-	(525,844)	149	-	(525,844)
Treasury stock retired	-	-	-	-	3,240,542	(3,240,542)	-	-
Net income (loss)	-	-	-	-	-	-	(1,528,772)	(1,528,772)
Balance, September 30, 2008	6,513,687	6,514	127,840	10,866	-	20,884,112	15,548,431	36,449,923
Series E preferred stock dividends	-	-	-	-	-	-	(1,918)	(1,918)
Common stock issued in restricted stock plan	20,000	20	-	-	-	(20)	-	-

Edgar Filing: LIVEDEAL INC - Form 10-K

Stock based compensation - stock options	-	-	-	-	-	82,036	-	82,036
Restricted stock cancellations	(83,250)	(84)	-	-	-	84	-	-
Amortization of deferred stock compensation	-	-	-	-	-	(198,672)	-	(198,672)
Treasury stock purchases	-	-	-	-	(532,521)	-	-	(532,521)
Treasury stock retired	(317,004)	(317)	-	-	487,480	(487,163)	-	-
Net income (loss)	-	-	-	-	-	-	(22,591,300)	(22,591,300)
Balance, September 30, 2009	6,133,433	\$ 6,133	127,840	\$ 10,866	\$ (45,041)	\$ 20,280,377	\$ (7,044,787)	\$ 13,207,548

See accompanying notes to consolidated financial statements.

Table of Contents

LIVEDEAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended September 30, 2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (22,591,300)	\$ (1,528,772)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,297,626	3,191,237
Non-cash stock compensation expense	82,036	10,155
Amortization of stock-based compensation	(198,672)	788,431
Deferred income taxes	4,812,623	285,166
Provision for uncollectible accounts	2,703,067	505,812
Noncash impairment of goodwill and other intangibles	16,111,494	-
Gain on sale of customer list	(3,040,952)	-
Gain on sale of internet domain name	(3,805,778)	-
Gain on amendment of directory services contract	(642,268)	-
(Gain) loss on disposal of equipment	36,693	15,352
Changes in assets and liabilities:		
Accounts receivable	3,116,762	17,949
Customer acquisition costs	-	(1,700,000)
Prepaid and other current assets	10,352	(281,700)
Deposits and other assets	2,335	19,510
Accounts payable	(529,031)	(59,553)
Accrued liabilities	(324,867)	238,901
Income taxes receivable	(1,003,303)	(171,103)
<b>Net cash provided by (used in) operating activities</b>	<b>(2,963,183)</b>	<b>1,331,385</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of internet domain name	3,850,000	-
Proceeds from sale of customer list	2,937,501	-
Proceeds from amendment of directory services contract	642,268	-
Expenditures for intangible assets	(734,878)	(1,227,334)
Investment in certificates of deposits	(100,000)	-
Purchases of equipment	(100,821)	(589,338)
<b>Net cash provided by (used in) investing activities</b>	<b>6,494,070</b>	<b>(1,816,672)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal repayments on capital lease obligations	(70,123)	(23,615)
Purchase of treasury stock	(532,521)	(525,844)
<b>Net cash used in financing activities</b>	<b>(602,644)</b>	<b>(549,459)</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>2,928,243</b>	<b>(1,034,746)</b>

CASH AND CASH EQUIVALENTS, beginning of year	4,639,787	5,674,533
CASH AND CASH EQUIVALENTS, end of year	\$ 7,568,030	\$ 4,639,787
Supplemental cash flow disclosures:		
Cash paid for interest	\$ -	\$ 3,586
Cash paid for income taxes	\$ 1,860	\$ 1,860
Noncash financing and investing activities:		
Acquisition of equipment under capital leases	\$ 24,821	\$ 255,602
Accrued and unpaid dividends	\$ 1,918	\$ 1,918

See accompanying notes to consolidated financial statements.

Table of Contents

1. ORGANIZATION AND BASIS OF PRESENTATION

The accompanying 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 an Internet Yellow Pages directory 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.

In and around February 2009, the Company re-evaluated its business and adopted a new business strategy that moved away from the integration of the Yellow Pages and classifieds businesses to one which addressed each of its business segments as separate entities. This re-evaluation was necessitated by the growth of the Company’s Direct Sales – Customer Acquisition Services business line that provides Internet-based customer acquisition strategies for small business, as well as declining revenues from the Company’s traditional business lines (i.e. directory services and classifieds). Additionally, current economic and regulatory forces, both general and specific to the Company’s industry, impacted management’s considerations of the Company’s existing business model and strategy. Some of these factors included the following:

1. The current effects of the recession and general economic downturn;
2. Management’s perception that the general economic downturn could lead the Company’s business customers to seek lower-cost customer acquisition methods, primarily through the Internet;
3. The sale of the Company’s “www.yp.com” domain name in the first quarter of 2009, which domain name was associated with the Company’s traditional business;
4. The reconstitution of the Company’s management team with additional capability in Internet-based technologies;
5. The termination of certain significant directory business contracts related to the traditional business;
6. The sale of certain of the Company’s traditional business assets, including certain of its customer lists; and
7. Continuing losses in the Company’s classifieds business

As a result, the Company’s management made significant changes to its business strategy during the second quarter of fiscal 2009. Management has decided to move the Company’s strategic focus away from its directory services and classified businesses and focus its efforts on being the small businesses “internet partner” who helps small businesses use the internet and technology to bring them customers and grow their business. Additionally, the Company discontinued the operations of its Philippines-based call center, which has historically provided telemarketing services to support its directory services business, specifically those directory services which were sold during the quarter ended March 31, 2009. These strategic changes impacted the Company’s consolidated financial statements in the following manner:

1. Impairment charges of \$16,111,494 were recorded related to the write-down of the Company’s goodwill and other intangible assets as discussed in Note 5;
2. The Company commenced a plan to discontinue its classifieds business and initiated shutdown activities, as discussed in Note 6, and has reflected the operating results of this line of business as discontinued operations in the accompanying consolidated statements of operations;

3. The Company sold a portion of its customer list associated with its directory services business and recorded a gain of \$3,040,952, as discussed in Note 15; and
4. The Company established a valuation allowance of \$10,586,854 related to its deferred tax assets, as described in Note 11.

The Company's new strategic focus is on delivering a suite of Internet-based, local search driven, customer acquisition services for small businesses, sold via telemarketing and supported by its websites and internally developed software.

The following sets forth historical transactions with respect to the Company's organizational development:

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



Table of Contents

- At the time that the transaction was agreed to, the Company had 12,567,770 common shares issued and outstanding. As a result of the merger transaction with Telco, there were 29,567,770 common shares outstanding, and the former Telco stockholders held approximately 57% of the Company's voting stock. For financial accounting purposes, the acquisition was a reverse acquisition of the Company by Telco, under the purchase method of accounting, and was treated as a recapitalization with Telco as the acquirer. Consistent with reverse acquisition accounting, (i) all of Telco's assets, liabilities, and accumulated deficit were reflected at their combined historical cost (as the accounting acquirer) and (ii) the preexisting outstanding shares of the Company (the accounting acquiree) were reflected at their net asset value as if issued on June 16, 1999.
- On June 6, 2007, the Company completed its acquisition of LiveDeal, Inc. ("LiveDeal"), a California corporation. LiveDeal operated an online local classifieds marketplace, [www.livedeal.com](http://www.livedeal.com), which listed millions of goods and services for sale across the United States. The technology acquired in the acquisition offered such classifieds functionality as fraud protection, identity protection, e-commerce, listing enhancements, photos, community-building, package pricing, premium stores, featured Yellow Page business listings and advanced local search capabilities. This business has since been discontinued – see Note 6.
- On July 10, 2007, the Company acquired substantially all of the assets and assumed certain liabilities of OnCall Subscriber Management Inc., a Manila, Philippines-based company that provided telemarketing services. The acquisition took place through the Company's wholly-owned subsidiary, 247 Marketing LLC, a Nevada limited liability company.
- On August 10, 2007, the Company filed amended and restated articles of incorporation with the Office of the Secretary of State of the State of Nevada, pursuant to which the Company's name was changed to LiveDeal, Inc., effective August 15, 2007. The name change was approved by the Company's Board of Directors pursuant to discretion granted to it by the Company's stockholders at a special meeting on August 2, 2007.

The accompanying consolidated financial statements represent the consolidated financial position and results of operations of the Company and include the accounts and results of operations of the Company, LiveDeal, 247 Marketing, Telco and Telco of Canada, Inc, the Company's wholly owned subsidiaries, for the years ended September 30, 2009 and 2008 (as restated) (see Note 3). All intercompany transactions and balances have been eliminated in consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**Principles of Consolidation:** The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, LiveDeal, 247 Marketing, Telco Billing, Inc. and Telco of Canada, Inc. All significant intercompany accounts and transactions have been eliminated.

**Property and Equipment:** Property and equipment is stated at cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets ranging from three to five years. Depreciation expense was \$432,897 and \$293,297 for the years ended September 30, 2009 and 2008, respectively.

**Revenue Recognition:**

Direct Sales – Customer Acquisition Services.

Our direct sales contracts typically involve upfront billing for an initial payment followed by monthly billings over the contractual period. We recognize revenue on a straight line basis over the contractual period. Billings in excess of recognized revenue are included as deferred revenue in the accompanying consolidated balance sheets.

Previously, we recognized the value of the noncancelable portion of the Direct Sales' customer contract as a receivable and billed the customer for the amount of the contract over the period of the contract. The Company only recognized a portion of the contract value as revenue each month, approximately pro-rating the contract to a monthly amount, with the remainder of the noncancelable portion of the contract maintained as a deferred revenue liability. In the quarter ended June 30, 2009, the Company corrected its balance sheet presentation related to its direct sales contracts to include in accounts receivable only those amounts that are outstanding receivables after having been billed in accordance with the terms of the contract (See Note 3).

## Table of Contents

### Directory Services

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

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

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

During the second quarter of fiscal 2009, the Company sold its customer list pertaining to its direct customers billed through LECs. The Company continues to service some wholesale accounts through LEC billing channels.

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

### Deferred Revenues

In some instances, the Company receives payments in advance of rendering services, whereupon such revenues are deferred until the related services are rendered. Deferred revenue was \$148,916 and \$362,848 at September 30, 2009 and 2008, respectively.

**Allowance for Doubtful Accounts:** The Company maintains an allowance for doubtful accounts, which includes allowances for customer refunds, dilution and fees from LEC billing aggregators and other uncollectible accounts. The Company has increased its allowances for doubtful accounts to 52.8% of gross accounts receivable at September 30, 2009 as compared to 20.9% of gross accounts receivable at September 30, 2008. This increase is attributable to many factors, including regulatory activity which has increased the amount of refunds, increasing fees from LEC service providers and the Company's change in business strategy, as ongoing revenue submissions and settlements with respect to the Company's LEC customers have ceased and bad debts, allowances and fees are deducted from existing holdback amounts.

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

**Net Income (Loss) Per Share:** Net income (loss) per share is calculated in accordance with FASB Accounting Standards Codification ("ASC") 260, "Earnings Per Share". Under ASC 260 basic net income per share is computed using

the weighted average number of common shares outstanding during the period except that it does not include unvested restricted stock subject to cancellation. Diluted net income per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of warrants, restricted shares and convertible preferred stock. The dilutive effect of outstanding restricted shares and warrants is reflected in diluted earnings per share by application of the treasury stock method. Convertible preferred stock is reflected on an if-converted basis.

**Foreign Currency Translation:** The Company has determined that the United States Dollar is the functional currency for its foreign operations. Accordingly, gains and losses resulting from the translation of foreign currency amounts to functional currency are included in the consolidated statements of operations in the period in which they occur. In fiscal 2009, the Company ceased activities with respect to its foreign operations which has eliminated any significant foreign currency exposure.

**Financial Instruments:** Financial instruments consist primarily of cash, cash equivalents, accounts receivable, advances to affiliates and obligations under accounts payable, accrued expenses and notes payable. The carrying amounts of cash, cash equivalents, accounts receivable, accounts payable, accrued expenses and notes payable approximate fair value because of the short maturity of those instruments.

## Table of Contents

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

Significant estimates made in connection with the accompanying consolidated financial statements include the estimate of dilution and fees associated with LEC billings, the estimated reserve for doubtful accounts receivable, estimated customer retention period used for the amortization of customer acquisition costs, estimated forfeiture rates for stock-based compensation, fair values in connection with the analysis of goodwill and long-lived assets for impairment, valuation allowances against net deferred tax assets and estimated useful lives for intangible assets and property and equipment. Due to the effects of the Company's change in business strategy, it made significant changes in estimates as it pertains to allowances for accounts receivable, valuation allowances against net deferred tax assets, intangible assets and goodwill as described elsewhere in these notes.

**Stock-Based Compensation:** The Company from time to time grants restricted stock awards and options to employees and executives. Such awards are valued based on the grant date fair-value of the instruments, net of estimated forfeitures. The value of each award is amortized on a straight-line basis over the vesting period.

The Company accounts for stock awards issued to non-employees in accordance with the provisions of FASB ASC 718, "Compensation – Stock Compensation" and FASB ASC 505, "Equity", and accordingly, stock awards to non-employees are accounted for at fair value at their respective measurement date.

**Internally Developed Software and Website Development Costs:** The Company incurs internal and external costs to develop software and websites to support its core business functions. The Company capitalizes internally generated software and website development costs in accordance with the provisions of the FASB ASC 350, "Intangibles – Goodwill and Other".

**Impairment of Long-lived Assets:** The Company assesses long-lived assets for impairment in accordance with the provisions of FASB ASC 360 "Property, Plant and Equipment". A long-lived asset (asset group) shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The carrying amount of a long lived asset is not recoverable if it exceeds the sum of the undiscounted net cash flows expected to result from the use and eventual disposition of the asset. The amount of impairment loss, if any, is measured as the difference between the net book value of the asset and its estimated fair value. For purposes of these tests, long-lived assets must be grouped with other assets and liabilities for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The Company most recently completed an impairment evaluation in the second quarter of fiscal 2009. Assets were determined to be impaired during the year ended September 30, 2009 (See Note 5).

**Goodwill:** We evaluate our goodwill for potential impairment on an annual basis or whenever events or circumstances indicate that an impairment may have occurred in accordance with the provisions of FASB ASC 350 "Goodwill and Other Intangible Assets" which requires that goodwill be tested for impairment using a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the estimated fair value of the reporting unit containing the goodwill with the related carrying amount. If the estimated fair value of the reporting unit exceeds its carrying amount, the reporting unit's goodwill is not considered to be impaired and the second step is unnecessary. As a result of this analysis, first described in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009 and described elsewhere in this Form 10-K, it was determined that the entire goodwill balance attributable to the acquisitions of OnCall Subscriber Management and LiveDeal, Inc. was impaired.

Legal Costs: The Company expenses legal costs associated with loss contingencies as they are incurred.

Effects of Reverse Stock Split: Effective on August 15, 2007, the Company implemented a 1-for-10 reverse stock split with respect to issued and outstanding shares of its common stock. The reverse stock split was approved by the Company's Board of Directors pursuant to discretion granted to it by the Company's stockholders at a special meeting on August 2, 2007. All per share amounts have been retroactively restated for the effects of this reverse stock split.

Recently Issued Accounting Pronouncements:

On September 30, 2009, the Company adopted changes issued by the Financial Accounting Standards Board ("FASB") to the authoritative hierarchy of GAAP. These changes establish the FASB Accounting Standards Codification ("Codification") as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead, the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. These changes and the Codification itself do not change GAAP. Other than the manner in which new accounting guidance is referenced, the adoption of these changes had no impact on the consolidated financial statements.

Table of Contents

In December 2007, the FASB amended ASC 805, Business Combinations and FASB ASC 810 “Consolidations”. FASB ASC 805 and FASB ASC 810 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. FASB ASC 805 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. FASB ASC 810 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. The changes to FASB ASC 805 and 810 are effective for both public and private companies for fiscal years beginning on or after December 15, 2008 (January 1, 2009 for companies with calendar year-ends). FASB ASC 805 will be applied prospectively. FASB ASC 810 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of FASB ASC 810 shall be applied prospectively. Early adoption is prohibited for both these amendments. The Company is currently evaluating the effects of these amendments on its financial position and results of operations.

In March 2008, the FASB amended ASC 815, “ Derivatives and Hedging”. FASB ASC 815 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 FASB ASC 815 are effective for interim and annual periods beginning after November 15, 2008. The Company is currently evaluating the impact of this amendment on its consolidated financial statements.

In April 2008, the FASB amended ASC 350 “Intangibles – Goodwill and Other” 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 ASC 350. The intent of the amendment is to improve the consistency between the useful life of a recognized intangible asset under ASC 350 and the period of expected cash flows used to measure the fair value of the asset under ASC 805. Amendments to ASC 350 are effective for fiscal years beginning after December 15, 2008 and was effective for the Company on October 1, 2009. The adoption of this amendment did not impact the Company’s financial position or results of operations.

In June 2008, the FASB amended ASC 815 to address 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 ASC 815 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. ASC 815 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company has not yet evaluated the impact of amendments to ASC 815 will have on its consolidated financial statements.

In May 2009 the FASB amended ASC 855 which establishes new terminology and disclosure requirements pertaining to subsequent events and was effective for interim or annual periods ending after June 15, 2009. The Company adopted this amendment in the three months ended June 30, 2009 and has complied with the new disclosure requirements.

The Company's direct sales contracts typically involve upfront billing for an initial payment followed by monthly billings over the contractual period. The Company recognizes revenue on a straight line basis over the contractual period. Billings in excess of recognized revenue are included as deferred revenue in the accompanying consolidated balance sheets.

Previously, the Company recognized the value of the noncancelable portion of the Direct Sales' customer contract as a receivable and billed the customer for the amount of the contract over the period of the contract. The Company only recognized a portion of the contract value as revenue each month, approximately pro-rating the contract to a monthly amount, with the remainder of the noncancelable portion of the contract maintained as a deferred revenue liability. In the quarter ended June 30, 2009, the Company corrected its balance sheet presentation related to its direct sales contracts to include in accounts receivable only those amounts that are outstanding receivables after having been billed in accordance with the terms of the contract. There was no material impact to the Company's financial condition, operating cash flows or results of operations as a result of this correction. Prior periods have been restated to conform to the current period presentation.

The following table sets forth the impact of this correction on our balance sheet as of September 30, 2008:

	September 30, 2008		
	As Originally Reported	As Restated	Net Change
Accounts receivable, net (current)	\$ 6,880,492	\$ 6,326,272	\$ (554,220)
Accrued liabilities	\$ 1,991,369	\$ 1,437,149	\$ (554,220)



Table of Contents

## 4. BALANCE SHEET INFORMATION

Balance sheet information is as follows:

	September 30, 2009	September 30, 2008 (as restated, see Note 3)
<b>Receivables, current, net:</b>		
Accounts receivable, current	\$ 3,776,966	\$ 8,369,095
Less: Allowance for doubtful accounts	(2,298,783)	(2,042,823)
	\$ 1,478,183	\$ 6,326,272
<b>Receivables, long term, net:</b>		
Accounts receivable, long term	\$ 1,581,946	\$ 2,171,865
Less: Allowance for doubtful accounts	(542,543)	(160,722)
	\$ 1,039,403	\$ 2,011,143
<b>Total receivables, net:</b>		
Gross receivables	\$ 5,358,912	\$ 10,540,960
Allowance for doubtful accounts	(2,841,326)	(2,203,545)
	\$ 2,517,586	\$ 8,337,415

Components of allowance for doubtful accounts are as follows:

	September 30, 2009	September 30, 2008
Allowance for dilution and fees on amounts due from billing aggregators	\$ 2,690,895	\$ 1,775,276
Allowance for customer refunds	150,431	428,269
	\$ 2,841,326	\$ 2,203,545

	September 30, 2009	September 30, 2008
<b>Property and equipment, net:</b>		
Leasehold improvements	\$ 235,056	\$ 233,970
Furnishings and fixtures	336,067	311,319
Office, computer equipment and other	692,317	961,931
	1,263,440	1,507,220
Less: Accumulated depreciation	(647,534)	(547,366)
	\$ 615,906	\$ 959,854

	September 30, 2009	September 30, 2008
<b>Intangible assets, net:</b>		
Domain name and marketing related intangibles	\$ 6,699,600	\$ 7,208,600
Non-compete agreements	3,465,000	3,465,000
Website and technology related intangibles	4,678,970	4,147,459
	14,843,570	14,821,059
Less: Accumulated amortization	(12,506,856)	(8,084,981)

	\$	2,336,714	\$	6,736,078
		September 30, 2009		September 30, 2008 (as restated, see Note 3)
<b>Accrued liabilities:</b>				
Deferred revenue	\$	148,916	\$	362,848
Accrued payroll and bonuses		289,944		306,984
Accruals under revenue sharing agreements		314,754		326,306
Accrued expenses - other		339,197		441,011
	\$	1,092,811	\$	1,437,149
		September 30, 2009		September 30, 2008
<b>Customer acquisition costs, net:</b>				
Customer acquisition costs	\$	1,700,000	\$	1,700,000
Less: Accumulated amortization		(1,700,000)		(1,057,780)
	\$	-	\$	642,220

5.

## INTANGIBLE ASSETS

The Company's intangible assets consist of licenses for the use of Internet domain names or Universal Resource Locators, or URLs, capitalized website development costs, other information technology licenses and marketing and technology related intangibles acquired through the acquisition of LiveDeal, Inc. All such assets are capitalized at their original cost and amortized over their estimated useful lives ranging from 3 to 20 years.

43

Table of Contents

In January 2009, in connection with the strategic changes described in Note 3, 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. As described in Note 2, 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 (See Note 1).

In light of the changes in the Company's business strategy and model as described in Note 3, the Company determined that a triggering event had occurred and initiated an impairment analysis.

In conducting this analysis, the Company used a discounted cash flow approach in estimating fair value as market values could not be readily determined given the unique nature of the respective assets. For the assets identified as being impaired, the cash flows associated with the underlying assets did not support a value greater than zero given the shutdown of the classifieds business and the Philippines call-center operation, the impacts of the sale of a portion of the Company's customer list and www.yip.com domain name, and other operational changes as a result of the Company's change in business strategy.

Based upon the analysis, management determined that the following items were impaired:

1. The goodwill acquired by the Company in its acquisition of LiveDeal, Inc., the business focus of which was online classified advertising which was originally intended to be merged with the Company's existing directory services business;
2. The goodwill acquired by the Company in its acquisition of a Philippines call-center, OnCall Subscriber Management, the business focus of which was providing telemarketing services to acquire customers for its directory services business;
3. Assets related to the Company's call-center operations and non-compete agreements that were effectively made obsolete due to the sale of a portion of the Company's customer list associated with its directory services business, as described in Note 15; and
4. Intangible assets related to the Company's directory services business, including URLs, internally developed software, and other miscellaneous intangible assets.

The following is a summary of these impaired assets and their net book values, which were fully written off in the second quarter of fiscal 2009:

	Continuing Operations	Discontinued Operations	Total Impairment
Goodwill	\$ 4,350,041	\$ 7,356,365	\$ 11,706,406
Domain name and marketing related intangibles	1,879,054		1,879,054
Assets related to customer list	1,259,680	-	1,259,680
Website and technology related intangibles	377,334	889,020	1,266,354
	\$ 7,866,109	\$ 8,245,385	\$ 16,111,494

Included in the assets that became obsolete through the sale of a portion of the Company's customer list were \$722,103 related to non-compete agreements and \$537,577 of assets associated with the Philippines call-center.

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

Years ended September		
30,		
2010	\$	581,996
2011		432,895
2012		210,557
2013		77,422
2014		77,422
Thereafter		956,422
Total	\$	2,336,714

Table of Contents

Total amortization expense related to intangible assets was \$1,222,509 and \$1,840,161 for the years ended September 30, 2009 and 2008, respectively.

## 6. DISCONTINUED OPERATIONS

As part of the Company's strategy to evaluate each of its business segments as separate entities, management noted that the classifieds business has incurred significant operating losses and determined that it did not fit with the Company's change in strategic direction. Accordingly, in and around February 2009, the Company made the strategic decision to discontinue its classifieds business and product offerings. The Company initiated shutdown activities in March 2009 and concluded such activities in June 2009, including the shutdown of the website previously used for classified activities. Accordingly, the Company does not expect any future revenues from this business segment.

The Company determined that the classified business met the definition of a component as it has separately identifiable operations and cash flows through at least revenues and cost of sales. Costs and expenses related to general and administrative expenses have not been allocated since these expenses cannot be separated due to the prior efforts to integrate this business with the other business lines of the Company. Accordingly, the results of the classifieds business are reflected as discontinued operations in the accompanying statements of operations to the extent that these operations are separately identifiable. Prior year financial statements have been restated to present the classifieds operations as a discontinued operation.

In conjunction with the discontinued operations, the Company recorded charges of \$27,328 during the year ended September 30, 2009 for certain exit costs relating to the shutdown of these operations which is reflected as part of income (loss) from discontinued operations in the accompanying consolidated statement of operations for the year ended September 30, 2009.

The classifieds business accounted for \$227,575 and \$1,862,503 of net revenues for years ended September 30, 2009 and 2008, respectively, which are now included as part of loss from discontinued operations in the accompanying consolidated statements of operations.

## 7. CAPITAL LEASES

At September 30, 2009, the Company was a party to two capital leases for communications equipment acquired during the year ended September 30, 2008 with a cost basis of \$255,603. These leases have terms ranging from 45 to 48 months and imputed interest rates ranging from 3.6% to 13.2%. All capital leases are secured by the underlying equipment. Equipment acquired under these capital leases is being depreciated over their estimated lives of four years.

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

2010	\$ 76,876
2011	76,876
2012	44,892
2013	-
2014	-
Thereafter	-
<b>Total minimum lease payments</b>	<b>198,644</b>
Less imputed interest	(11,959)

Present value of minimum lease payments	186,685
Less: current maturities of capital lease obligations	69,612
Noncurrent maturities of capital lease obligations	\$ 117,073

## 8. STOCKHOLDERS' EQUITY

## Common Stock Issued for Services

The Company historically has granted shares of its common stock to officers, directors and consultants as payment for services rendered. The value of those shares was determined based on the trading value of the stock at the date at which the counterparties' performance is complete. No such share issuances were made during the years ended September 30, 2009 or 2008.

45

---

Table of Contents

## Series E Convertible Preferred Stock

During the year ended September 30, 2002, pursuant to an existing tender offer, holders of 13,184 shares of the Company's common stock exchanged said shares for 131,840 shares of Series E Convertible Preferred Stock, at the then \$0.85 market value of the common stock. The shares carry a \$0.30 per share liquidation preference and accrue dividends at the rate of 5% per annum on the liquidation preference per share, payable quarterly from legally available funds. If such funds are not available, dividends shall continue to accumulate until they can be paid from legally available funds. Each Series E Share is convertible into one-tenth (1/10th) of a share of Common Stock. Holders of Series E Shares requesting to convert such shares will be required to (i) tender their Series E Shares in lots of at least 10 shares at a time and (ii) pay \$.45 per Series E Share (i.e., a minimum of \$4.50 per lot tendered) that they desire to convert into shares of Common Stock.

## Treasury Stock

The Company's treasury stock consists of shares repurchased on the open market or shares received through various agreements with third parties. The value of such shares is determined based on cash paid or quoted market prices.

On May 25, 2007, the Company's Board of Directors terminated its pre-existing stock repurchase plan and replaced it with a new plan authorizing repurchases of up to \$1,000,000 of common stock from time to time on the open market or in privately negotiated transactions. The repurchase plan was increased by another \$500,000 on October 23, 2008. During the years ended September 30, 2009 and 2008, the Company acquired an aggregate of 346,110 and 148,820 shares of common stock for an aggregate repurchase price of \$532,521 and \$525,844, respectively.

## Dividends

During each of the years ended September 30, 2009 and 2008, the Company accrued dividends of \$1,918 and \$1,918, respectively, to holders of Series E preferred stock. No dividends were paid in 2009.

## 9. NET LOSS PER SHARE

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

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

	Year Ended September 30, 2009	Year Ended September 30, 2008
Net loss from continuing operations	\$ (14,321,857)	\$ (1,472,811)
Less: preferred stock dividends	(1,918)	(1,918)
Loss from continuing operations applicable to common stock	(14,323,775)	(1,474,729)
Loss from discontinued operations	(8,269,443)	(55,961)
Net loss applicable to common stock	\$ (22,593,218)	\$ (1,530,690)
Basic weighted average common shares outstanding:	6,005,664	6,231,610
Add incremental shares for:		
Unvested restricted stock	-	-

Edgar Filing: LIVEDEAL INC - Form 10-K

Series E convertible preferred stock	-	-
Outstanding warrants	-	-
Diluted weighted average common shares outstanding:	6,005,664	6,231,610
Earnings per share - Basic:		
Loss from continuing operations	\$ (2.38)	\$ (0.24)
Discontinued operations	(1.38)	(0.01)
Net loss	\$ (3.76)	\$ (0.25)
Earnings per share - Diluted:		
Loss from continuing operations	\$ (2.38)	\$ (0.24)
Discontinued operations	(1.38)	(0.01)
Net loss	\$ (3.76)	\$ (0.25)



Table of Contents

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

	September 30,	
	2009	2008
Options to purchase shares of common stock	403,032	5,000
Series E convertible preferred stock	127,840	127,840
Shares of non-vested restricted stock	152,169	322,614
	683,041	455,454

## 10. COMMITMENTS AND CONTINGENCIES

## Operating Leases and Service Contracts

The Company leases its office space and certain equipment under long-term operating leases expiring through fiscal year 2013. Rent expense under these leases was \$733,626 and \$819,752 for the years ended September 30, 2009 and 2008, respectively. The Company has also entered into several non-cancelable service contracts.

As of September 30, 2009, future minimum annual lease payments under operating lease agreements and non-cancelable service contracts for fiscal years ended September 30 are as follows:

	Total	Payments Due by Fiscal Year					
		2010	2011	2012	2013	2014	Thereafter
Operating lease commitments	\$ 1,315,693	\$ 497,117	\$ 424,525	\$ 315,331	\$ 78,720	\$ -	\$ -
Noncancelable service contracts	1,029,362	647,251	361,111	21,000	-	-	-
	\$ 2,345,055	\$ 1,144,368	\$ 785,636	\$ 336,331	\$ 78,720	\$ -	\$ -

The Company is also a party to certain capital leases – see Note 7.

## Change in Officers and Employment Agreements

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

On May 22, 2008, the Company's Board of Directors appointed Mr. Rajesh Navar as its chairman, and Mr. Navar resigned his position as President of the Company. Mr. Navar resigned as Chairman effective October 15, 2009 in connection with the transition of his primary residence to India. See Note 17.

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

On May 19, 2009, Richard F. Sommer was appointed as the Company's new President and Chief Executive Officer, effective immediately, to replace Michael Edelhart, the outgoing CEO, whose employment terminated the same day. The Company entered into a separation agreement dated July 8, 2009 that provided for a one-time payment of \$62,500 to Mr. Edelhart together with a payment for accrued vacation and certain other expenses. The Company recognized expenses totaling \$93,195 associated with Mr. Edelhart's departure during the year ended September 30, 2009. As of September 30, 2009, all amounts pertaining to this separation have been paid.

Table of Contents

In connection with the appointment of Mr. Sommer, he and the Company entered into an Employment Agreement effective May 19, 2009 (the "Employment Agreement"). The Employment Agreement provides for a three-year employment term. Pursuant to the Employment Agreement, Mr. Sommer will be paid an annual salary of \$300,000 and will be eligible to receive a bonus of up to \$100,000 per year if the Company achieves certain performance targets established by the Company's Board of Directors and/or its Compensation Committee. Mr. Sommer is also entitled to a success fee payable in cash equal to 2% of the excess above \$9,000,000 of any cash distributed to or received by the Company's stockholders in the form of a dividend, in the event of liquidation or upon a change of control. If the Company terminates Mr. Sommer's employment prior to the end of his term of employment without cause (as defined in the Employment Agreement) and certain other conditions are met (including that Mr. Sommer provide a valid release of claims in favor of the Company), Mr. Sommer will be entitled to receive severance payments equal to his then current monthly salary for three months. The Employment Agreement also provides that the Company will reimburse Mr. Sommer for reasonable business expenses and allows him to participate in its regular benefit programs.

On November 23, 2009, the Company and Mr. Sommer entered into an amendment to Mr. Sommer's Employment Agreement. The amendment, which was effective as of October 29, 2009, provides that Mr. Sommer is entitled to an option to purchase 250,000 shares of the Company's common stock at an exercise price of \$1.95 per share, which was equal to the closing price of the Company's common stock on the date of grant. The option was granted pursuant to the Company's 2003 Stock Plan and will vest according to the following schedule: 25% on October 29, 2010 (the first anniversary of the date of grant) and 1/36 of the remainder each month beginning on November 29, 2010. Previously, the Employment Agreement provided that Mr. Sommer was entitled to a success fee payable in cash equal to 2% of the excess above \$9,000,000 of any cash distributed to or received by the Company's stockholders in the form of a dividend, in the event of liquidation or upon a change of control.

On November 25, 2009, Rajeev Seshadri entered into a Separation Agreement and Full Release of Claims with the Company in connection with his departure as Chief Financial Officer of the Company, which was agreed upon on November 19, 2009 and will take effect on January 2, 2010 (the "Resignation Date").

Under the terms of the Separation Agreement and in accordance with his employment agreement, the Company will continue to pay Mr. Seshadri his base salary for three months following the Resignation Date (less applicable taxes and other withholdings). Mr. Seshadri may also elect to receive such payment (the gross amount of which is \$53,750) in a lump sum on the Resignation Date. The \$15,000 bonus to which Mr. Seshadri is entitled under his employment agreement for the Company's fourth quarter of fiscal 2009 will be paid in a lump sum on the Resignation Date. The Company will pay Mr. Seshadri's COBRA payments for three months and reimburse his reasonable attorneys' fees related to the negotiation of the Separation Agreement. The Separation Agreement also provides for Mr. Seshadri to serve as a consultant to the Company until January 31, 2010 for at least 16 hours per week at a rate of \$230 per hour. Finally, Mr. Seshadri will continue to be entitled to exercise his vested stock options in accordance with the terms of the applicable stock option agreements for a period of 180 days from the date of his resignation; his unvested options will be forfeited and cancelled.

In exchange for the payments described above, Mr. Seshadri provided a full release of claims arising out of, or relating to, his employment with the Company, his termination from the position of Chief Financial Officer of the Company, and/or his resignation. The Separation Agreement also contains customary provisions with respect to confidentiality and non-solicitation, as well as mutual covenants on the part of Mr. Seshadri and the Company regarding public statements and non-disparagement.

Also on November 19, 2009, the Company appointed Lawrence W. Tomsic to replace Mr. Seshadri as its Chief Financial Officer, effective on the Resignation Date. In connection with Mr. Tomsic's appointment as Chief Financial Officer, he and the Company entered into an Employment Agreement. The Employment Agreement provides for a one-year employment term that may be extended upon the mutual agreement of the Company and Mr. Tomsic.

Pursuant to the Employment Agreement, Mr. Tomsic will be paid an annual salary of \$215,000 and will be eligible to receive a bonus of up to \$60,000 per year if the Company achieves certain performance targets established by the Company's Board of Directors and/or its Compensation Committee. Mr. Tomsic will be granted an option to purchase 100,000 shares of the Company's common stock under the Company's Amended and Restated 2003 Stock Plan. Twenty-five percent of the option award will vest on the first anniversary of Mr. Tomsic's first formal date of employment, and the remainder will vest in equal increments over the subsequent 36 months. The award would immediately vest upon Mr. Tomsic's termination as an employee of the Company following a change of control of the Company. If the Company terminates Mr. Tomsic's employment prior to the end of his term of employment without cause (as defined in the Employment Agreement), Mr. Tomsic will be entitled to receive a severance payment equal to one month of his then-current salary for each full year of his employment with the Company. The Employment Agreement also provides that the Company will reimburse Mr. Tomsic for reasonable business expenses and allows him to participate in its regular benefit programs.

#### Litigation

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

Except as described below, as of September 30, 2009, the Company was not a party to any pending material legal proceedings other than claims that arise in the normal conduct of its business. While management currently believes that the ultimate outcome of these proceedings will not have a material adverse effect on its consolidated financial condition or results of operations, litigation is subject to inherent uncertainties. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on the Company's net income in the period in which a ruling occurs. The Company's estimate of the potential impact of the following legal proceedings on its financial position and its results of operation could change in the future.

The Company has not recorded any accruals pertaining to its legal proceedings as they do not meet the criteria for accrual under FASB ASC 450.

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

On July 16, 2008, Joseph Cunningham, who was at the time a member of LiveDeal's Board of Directors, filed a complaint with the U.S. Department of Labor's Occupational Safety and Health Administration ("OSHA") alleging that the Company and certain members of its Board of Directors had engaged in discriminatory employment practices in violation of the Sarbanes-Oxley Act of 2002's statutory protections for corporate whistleblowers when the Board of Directors removed him as Chairman on May 22, 2008. In his complaint, Mr. Cunningham asked OSHA to order his appointment as Chief Executive Officer of the Company or, in the alternative, to order his reinstatement as Chairman of the Board. Mr. Cunningham also sought back pay, special damages and litigation costs. The Company has not received any correspondence from OSHA, and there have been no other developments in the matter, since December 2008.

#### State of Washington v. LiveDeal, Inc. et al.

On December 16, 2006, the State of Washington Attorney General's office entered into a Consent Decree with LiveDeal, Inc. (known at the time as YP Corp.) and its subsidiary, Telco Billing, Inc. Pursuant to the Consent Decree, the Company agreed to provide certain confidential, trade secret information to the Attorney General's office as part of the settlement of a regulatory dispute between the State of Washington and the Company.

On July 14, 2009, the Attorney General's office contacted the Company to request certain confidential, trade secret information to which it was entitled under the Consent Decree. The Company acknowledged its obligation to provide the requested information but asked the Attorney General's office to verify that it would not provide such information to third parties. When the Company was informed by opposing legal counsel in a private litigation matter that the Attorney General's office intended to provide its confidential, trade secret information to such counsel's client and other third parties immediately upon receipt, the Company began taking certain steps to protect the sensitive information while complying with its obligations under the Consent Decree.

Following unsuccessful settlement discussions in which the Attorney General's office refused to enter into any agreement not to share the confidential information with third parties (including the Company's opponents in pending private litigation), the Company sought a protective order in the State of Washington's King County Superior Court (Case No. 06-2-39213-2 SEA) on September 8, 2009, which was denied on November 16, 2009. The Company is appealing that decision with in State of Washington's Court of Appeals (Division I, Case No. 64539-1) and has filed a motion to stay the effect of the November 16, 2009 ruling. The appeal is pending.

## Table of Contents

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

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

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

On November 12, 2008, the Illinois Attorney General filed a complaint 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. LiveDeal has denied the allegations. Legal proceedings in the manner are ongoing and discovery began in April, 2009. The Company is currently unable to estimate any possible losses associated with these matters and no amounts have been accrued at September 30, 2009.

### LiveDeal, Inc. v. On-Call Superior Management ("OSM") and SMeVentures, Inc. ("SMe")

On April 6, 2009, LiveDeal filed a declaratory judgment to a termination of contract claim and a complaint on May 29, 2009 against OSM and SMe Ventures, Philippines call center managers with whom the Company had entered into contracts in November of 2007 and earlier, to provide inbound and outbound telemarketing services, respectively, alleging breach of contract. OSM and SMe have counterclaimed, alleging breach of contract. Legal proceedings in the matter are ongoing. The Company is currently unable to estimate any possible losses associated with these matters and no amounts have been accrued at September 30, 2009.

### Other Contractual Agreements

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

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

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

## 11. PROVISION FOR INCOME TAXES

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

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

	2009	2008
Current provision (benefit)	\$ (1,071,763)	\$ (470,728)
Deferred (benefit) provision	4,405,251	282,637
Net income tax (benefit) provision	\$ 3,333,488	\$ (188,091)

Table of Contents

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

	2009		2008	
	Amount	Percent	Amount	Percent
Federal statutory rates	\$ (6,547,656)	381%	\$ (583,733)	(16)%
State income taxes	(647,294)	38%	(57,707)	(2)%
Write off of deferred tax asset related to vested restricted stock	48,570	(3)%	517,547	14%
Valuation allowance against net deferred tax assets	10,586,854			
Other	(106,986)	6%	(64,198)	(2)%
Effective rate	\$ 3,333,488	(194)%	\$ (188,091)	(5)%

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

	2009	2008
Deferred income tax asset, current:		
Book to tax differences in accounts receivable	\$ 1,118,416	\$ 884,368
Book to tax differences in prepaid assets and accrued expenses	(34,829)	64,753
Total deferred income tax asset, current	1,083,587	949,121
Less: valuation allowance	(1,083,587)	-
Deferred income tax asset, current, net	-	949,121
Deferred income tax asset, long-term:		
Net operating loss carryforwards	3,481,786	3,481,786
Book to tax differences for stock based compensation	218,565	204,805
Book to tax differences in intangible assets	7,377,360	1,342,999
Book to tax differences in other	326	-
Book to tax differences in depreciation	(1,574,770)	(1,166,088)
Total deferred income tax asset, long-term	9,503,267	3,863,502
Less: valuation allowance	(9,503,267)	-
Deferred income tax asset, net	-	3,863,502
Total deferred income tax asset	\$ -	\$ 4,812,623

A full valuation allowance has been established against all net deferred tax assets as of September 30, 2009 based on estimates of recoverability. While the Company has optimistic plans for its new business strategy, it determined that such a valuation allowance was necessary given the current and expected near term losses and the uncertainty with respect to its ability to generate sufficient profits from its new business model.

As part of its deferred tax assets, the Company has net operating loss carryforwards resulting from its acquisition of LiveDeal, Inc in fiscal 2007. Such amounts are subject to IRS code section 382 limitations and expire in 2027.



The Company maintains cash balances at banks in California, Arizona and Nevada. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution as of September 30, 2009.

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily trade accounts receivable. The trade accounts receivable are due primarily from business customers over widespread geographical locations within the LEC billing areas across the United States. The Company historically has experienced significant dilution and customer credits due to billing difficulties and uncollectible trade accounts receivable. The Company estimates and provides an allowance for uncollectible accounts receivable. The handling and processing of cash receipts pertaining to trade accounts receivable is maintained primarily by three third-party billing companies. The Company is dependent upon these billing companies for collection of its accounts receivable. The billing companies and LECs charge fees for their services, which are netted against the gross accounts receivable balance. The billing companies also apply holdbacks to the remittances for potentially uncollectible accounts. These amounts will vary due to numerous factors and the Company may not be certain as to the actual amounts on any specific billing submittal until several months after that submittal. The Company estimates the amount of these charges and holdbacks based on historical experience and subsequent information received from the billing companies. The Company also estimates uncollectible account balances and provides an allowance for such estimates. The billing companies retain certain holdbacks that may not be collected by the Company for a period extending beyond one year. In the second quarter of fiscal 2009, the Company sold a portion of its customer list and no longer submits billings through LEC service providers. Additionally, certain other billings' channels consisting of billings submitted to LEC Processors through third parties were discontinued. As such, a significant portion of the receivables at September 30, 2009 pertaining to LEC service providers represent the holdbacks described above.

Table of Contents

The Company has concentrations of receivables with respect to certain wholesale accounts and remaining holdbacks with LEC service providers. Three such entities accounted for 23%, 22% and 18% of gross receivables at September 30, 2009.

## 13. STOCK-BASED COMPENSATION

## Restricted Stock Awards

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

As of September 30, 2009, there were 522,942 shares authorized under the 2003 Plan that were granted and remain outstanding, of which 418,517 have vested and 106,425 are in the form of restricted stock. These shares of restricted stock were granted to the Company's service providers, officers and directors. Of the 106,425 restricted shares, 87,850 shares vest on a cliff basis three years from the date of grant and 16,575 shares vest on a cliff basis 10 years from the date of grant. Certain market performance criteria may accelerate the vesting of a portion of these awards if the stock price exceeds \$50 per share. As of September 30, 2009, total unrecognized compensation cost related to unvested awards was \$261,570. The weighted average period over which such compensation cost is to be recognized is 1.80 years. Additionally, the Company has 2,000 shares of unvested restricted stock awards related to the LiveDeal acquisition that were issued outside of the 2003 Plan which vest in June 2010.

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

Outstanding (unvested) at September 30, 2007	441,907
Granted	53,000
Forfeited	(84,169)
Vested	(183,313)
Outstanding (unvested) at September 30, 2008	227,425
Granted	20,000
Forfeited	(83,250)
Vested	(57,750)
Outstanding (unvested) at September 30, 2009	106,425

The vesting of substantially all shares of restricted stock accelerates upon a change of control, as defined in the 2003 Plan. Compensation expense is determined at the date of grant, is equal to the stock price at the date of grant, and is deferred and recognized on a straight-line basis over the vesting period. The weighted-average grant-date fair value of awards issued during the years ended September 30, 2009 and 2008 was \$1.56 and \$3.30 per share, respectively. The weighted-average grant-date fair value of the shares outstanding is \$7.38 per share.

During the years ended September 30, 2009 and 2008 the Company recognized compensation expense of \$(198,672) and \$788,431, respectively, under the 2003 Plan and other restricted stock issuances. The net compensation expense reversal in the year ended September 30, 2009 is attributable to a change in estimated forfeiture rate of awards granted to officers, directors and key personnel from 40% to 70% and true-ups to reflect actual forfeiture rates of awards whose vesting period had passed.

Stock Option Awards:

From time to time, the Company grants stock option awards to officers and employees. Such awards are valued based on the grant date fair value of the instruments, net of estimated forfeitures, using a Black-Scholes option pricing model with the following assumptions:

51

---

Table of Contents

	Year Ended September 30,	
	2009	2008
Volatility	97%	96%
Risk-free interest rate	1.7%-2.8%	2.2%
Expected term	6.0 years	5.0 years
Forfeiture rate	40%	40%
Dividend yield rate	0%	0%

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 riskfree 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.

Stock option awards are expensed on a straightline basis over the requisite service period. During the years ended September 30, 2009 and 2008, the Company recognized expense of \$82,036 and \$10,155, respectively. At September 30, 2009, future stock compensation expense (net of estimated forfeitures) not yet recognized was \$291,855 and will be recognized over a weighted average remaining vesting period of 3.0 years. The following summarizes stock option activity for the year ended September 30, 2009:

	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	550,000	\$ 1.45	\$ 1.13		
Exercised	-	\$ -			
Forfeited	(225,000)	\$ 1.45			
Outstanding at September 30, 2009	330,000			9.1	\$ -
Exercisable	30,000	\$ 1.67		9.0	\$ -

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

#### 14. EMPLOYEE BENEFIT PLAN

The Company maintains a 401(k) profit sharing plan for its employees and service providers who are eligible to participate in the plan. The Company made contributions of \$112,040 and \$109,919 to the plan for the years ended September 30, 2009 and 2008, respectively.

#### 15. OTHER INCOME (EXPENSE)

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 businesses, the Company continues to receive revenues from the sale of Internet Advertising Packages, which targeted users of its www.yip.com property. The Company has transitioned these customers to advertising on www.yellowpages.livedeal.com

On March 9, 2009, in connection with the Company's shift in strategic focus away from its classified and directory services business, the Company entered into an agreement to sell a portion of its customer list associated with its directory services business. This customer list was sold for \$3,093,202 of which \$2,783,097 was paid by the buyer and received during the second quarter of fiscal 2009, with the remaining amount held back in escrow until December 2009 pending the resolution of potential claims, if any. Such claims are contractually limited to the amount held in escrow. Approximately 50% of the escrow amount was received during the fourth quarter of fiscal 2009 with no deductions for offsetting claims. In December, 2009, the Company received the remainder of the escrow amount with no deduction. Net of certain accruals for transaction costs and transaction-related contingencies, the Company recorded a gain of \$3,040,952, which is reflected in other income in the accompanying consolidated statement of operations.

The Company analyzed this transaction and determined that it did not meet the definition of a discontinued operation under FASB ASC 360 as the customer list that was sold did not meet the definition of a component of an entity and as the Company expects to have continuing involvement and operations in directory services for the near future.

Table of Contents

The Company also amended another directory services contract in consideration of accelerated payments on its outstanding accounts receivables and some anticipated future billings, which resulted in an increase in other income of \$642,268 for the year ended September 30, 2009. Together with the partial customer list sale described above, these customers and contracts accounted for \$5,146,073 of revenue in the fiscal 2009. As a result of these transactions, the Company has no future service obligations to these customers and no longer expects to generate future revenues from these sources.

## 16. SEGMENT REPORTING

Prior to fiscal 2009, the Company operated as an integrated business and had only one reportable segment. During the second quarter of fiscal 2009, the Company implemented a corporate initiative that evaluates its different product lines as separate business units. As part of this strategy, management has begun evaluating operating performance by reviewing the profitability of these product lines on a standalone basis to the extent that costs and expenses can be separated out between these business lines. Therefore, the Company now has two reportable operating segments (excluding the discontinued classifieds business): Directory Services and Direct Sales - Customer Acquisition Services. The Company has yet to identify and allocate operating costs or impairment charges to its reportable segments below the gross profit level. Additionally, the reportable segments share many common costs, including, but not limited to, IT support, office and administrative expenses. Therefore, the following table of operating results does not allocate costs to its reportable segments below the gross profit level:

	Year Ended September 30, 2009			
	Directory Services	Direct Sales - Customer Acquisition Services	Unallocated	Consolidated
Net revenues	\$ 9,331,057	\$ 4,107,598	\$ -	\$ 13,438,655
Cost of services	3,624,177	2,767,601	-	6,391,778
Gross profit	5,706,880	1,339,997	-	7,046,877
Operating expenses	-	-	25,503,153	25,503,153
Operating income (loss)	5,706,880	1,339,997	(25,503,153)	(18,456,276)
Other income (expense)	-	-	7,527,934	7,527,934
Income (loss) before income taxes and discontinued operations	\$ 5,706,880	\$ 1,339,997	\$ (17,975,219)	\$ (10,928,342)

	Year Ended September 30, 2008			
	Directory Services	Direct Sales - Customer Acquisition Services	Unallocated	Consolidated
Net revenues	\$ 22,779,222	\$ 641,436	\$ -	\$ 23,420,658
Cost of services	3,793,578	547,676	-	4,341,254
Gross profit	18,985,644	93,760	-	19,079,404
Operating expenses	-	-	20,829,320	20,829,320
Operating income	18,985,644	93,760	(20,829,320)	(1,749,916)
Other income (expense)	-	-	122,390	122,390
Income before income taxes and discontinued operations	\$ 18,985,644	\$ 93,760	\$ (20,706,930)	\$ (1,527,526)

discontinued operations	\$ 18,985,644	\$ 93,760	\$ (20,706,930)	\$ (1,627,526)
-------------------------	---------------	-----------	-----------------	----------------

The Company has yet to allocate its assets to each respective segment. While some software costs are specific to each business, most of the Company's fixed assets and software architecture are shared among its segments. Therefore, the Company is currently unable to provide asset information with respect to each of its reportable segments, except as it pertains to accounts receivable as set forth below:

53

---

Table of Contents

September 30, 2009

Direct Sales -  
Customer  
Acquisition

	Directory Services	Services	Total
Accounts receivable, net - short term	\$ 1,442,037	\$ 36,146	\$ 1,478,183
Accounts receivable, net - long term	1,039,403	-	1,039,403
Total accounts receivable, net	\$ 2,481,440	\$ 36,146	\$ 2,517,586

September 30, 2008 (as restated, see Note 3)

Direct Sales -  
Customer  
Acquisition

	Directory Services	Services	Total
Accounts receivable, net - short term	\$ 6,326,272	\$ -	\$ 6,326,272
Accounts receivable, net - long term	2,011,143	-	2,011,143
Total accounts receivable, net	\$ 8,337,415	\$ -	\$ 8,337,415

The Company has no intersegment revenues. All of the Company's revenues are with external customers, are derived from operations in the United States, and no single customer accounts for more than 10% of the Company's revenues.

## 17. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through December 23, 2009 which is the date the financial statements were issued.

## 18. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly financial information for 2009 and 2008 follows:

	Quarter Ended			
	December 31, 2008	March 31, 2009	June 30, 2009	September 30, 2009
Net revenues	\$ 5,009,514	\$ 3,548,275	\$ 2,448,569	\$ 2,432,297
Gross profit	3,408,864	2,081,393	1,636,248	(79,628)
Income (loss) from continuing operations	944,440	(10,797,953)	(2,116,971)	(2,351,373)
Income (loss) from discontinued operations	(57,077)	(8,285,663)	4,649	68,648
Net income (loss)	\$ 887,362	\$ (19,083,616)	\$ (2,112,322)	\$ (2,282,725)

## Earnings per share information:

## Basic income per share

Income (loss) from continuing operations	\$ 0.16	\$ (1.80)	\$ (0.35)	\$ (0.39)
Discontinued operations	(0.01)	(1.38)	-	0.01
Net income (loss)	\$ 0.15	\$ (3.19)	\$ (0.35)	\$ (0.38)



Diluted income per share								
Income (loss) from continuing operations	\$	0.15	\$	(1.80)	\$	(0.35)	\$	(0.39)
Discontinued operations		(0.01)		(1.38)		-		0.01
Net income (loss)	\$	0.15	\$	(3.19)	\$	(0.35)	\$	(0.38)

54

---

Table of Contents

	Quarter Ended			
	December 31, 2007	March 31, 2008	June 30, 2008	September 30, 2008
Net revenues	\$ 6,406,240	\$ 6,039,356	\$ 5,427,012	\$ 5,548,050
Gross profit	5,412,669	4,957,896	4,311,719	4,397,120
Income (loss) from continuing operations	289,545	15,195	(1,519,460)	(258,091)
Income (loss) from discontinued operations	36,547	(11,857)	(61,237)	(19,414)
Net income (loss)	\$ 326,092	\$ 3,338	\$ (1,580,697)	\$ (277,505)
Earnings per share information:				
Basic income per share				
Income (loss) from continuing operations	\$ 0.05	\$ -	\$ (0.24)	\$ (0.04)
Discontinued operations	0.01	-	(0.01)	-
Net income (loss)	\$ 0.05	\$ -	\$ (0.25)	\$ (0.04)
Diluted income per share				
Income (loss) from continuing operations	\$ 0.05	\$ -	\$ (0.24)	\$ (0.04)
Discontinued operations	0.01	-	(0.01)	-
Net income (loss)	\$ 0.05	\$ -	\$ (0.25)	\$ (0.04)

Table of Contents

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

None.

ITEM 9T. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) at and as of September 30, 2009. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered in this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the required time periods and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

In our efforts to continuously improve our internal controls, we have made some improvements to our internal control structure effective for the preparation of our financial statements for the year ended September 30, 2009, including the adoption of a formal accounting policies and procedures manual, and increased documentation surrounding certain authorization and review controls.

Management's Report on Internal Control Over Financial Reporting

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

Our management assessed the effectiveness of our internal control over financial reporting as of September 30, 2009.

In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control — Integrated Framework. Based on our assessment using those criteria, our management concluded that our internal control over financial reporting was effective as of September 30, 2009.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report. Accordingly, our management's assessment of the effectiveness of our internal control over financial reporting as of September 30, 2009 has not been audited by our auditors, Mayer Hoffman McCann P.C. or any other independent registered accounting firm.

ITEM 9B. Other Information

On November 25, 2009, Rajeev Seshadri entered into a Separation Agreement and Full Release of Claims with the Company in connection with his departure as Chief Financial Officer of the Company, which was agreed upon on

November 19, 2009 and will take effect on January 2, 2010 (the "Resignation Date").

Under the terms of the Separation Agreement and in accordance with his employment agreement, the Company will continue to pay Mr. Seshadri his base salary for three months following the Resignation Date (less applicable taxes and other withholdings). Mr. Seshadri may also elect to receive such payment (the gross amount of which is \$53,750) in a lump sum on the Resignation Date. The \$15,000 bonus to which Mr. Seshadri is entitled under his employment agreement for the Company's fourth quarter of fiscal 2009 will be paid in a lump sum on the Resignation Date. The Company will pay Mr. Seshadri's COBRA payments for three months and reimburse his reasonable attorneys' fees related to the negotiation of the Separation Agreement. The Separation Agreement also provides for Mr. Seshadri to serve as a consultant to the Company until January 31, 2010 for at least 16 hours per week at a rate of \$230 per hour. Finally, Mr. Seshadri will continue to be entitled to exercise his vested stock options in accordance with the terms of the applicable stock option agreements for a period of 180 days from the date of his resignation; his unvested options will be forfeited and cancelled.

In exchange for the payments described above, Mr. Seshadri provided a full release of claims arising out of, or relating to, his employment with the Company, his termination from the position of Chief Financial Officer of the Company, and/or his resignation. The Separation Agreement also contains customary provisions with respect to confidentiality and non-solicitation, as well as mutual covenants on the part of Mr. Seshadri and the Company regarding public statements and non-disparagement.

Table of Contents

PART III

Certain information required by Part III is omitted from this Annual Report on Form 10-K because we will file our definitive Proxy Statement for our 2010 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A of the Exchange Act (the "Proxy Statement") not later than 120 days after the end of the fiscal year covered by this Annual Report. Certain information included in the Proxy Statement is incorporated herein by reference.

ITEM 10. Directors, Executive Officers and Corporate Governance

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

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

ITEM 11. Executive Compensation

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

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

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

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

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

ITEM 14. Principal Accountant Fees and Services

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

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

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

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

Table of Contents

## SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON SCHEDULE

To the Stockholders and Board of Directors

## LIVEDEAL, INC. AND SUBSIDIARIES

We have audited the consolidated financial statements of LiveDeal, Inc. and Subsidiaries as of September 30, 2009 and 2008 and for the years then ended and have issued our report thereon dated December 23, 2009. As discussed in Note 3 to the consolidated financial statements, the consolidated balance sheet as of September 30, 2008 has been restated. Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The information included in the accompanying Schedule II–Valuation and Qualifying Accounts is presented for purposes of complying with the Securities and Exchange Commission’s rules and is not a required part of the basic consolidated financial statements. Such information for the years ended September 30, 2009 and 2008 has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

/s/ Mayer Hoffman McCann P.C.

MAYER HOFFMAN MCCANN P.C.

Phoenix, Arizona

December 23, 2009

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions/ Writeoffs	Balance at End of Period
<b>Allowance for dilution and fees on amounts due from billing aggregators</b>					
Year ended September 30, 2008	\$ 1,888,730	\$ 3,999,980	\$	\$ (4,113,434)	\$ 1,775,276
Year ended September 30, 2009	\$ 1,775,276	\$ 5,196,360	\$	\$ (4,280,741)	\$ 2,690,895
<b>Allowance for customer refunds</b>					
Year ended September 30, 2008	\$ 573,068	\$ 3,357,512	\$	\$ (3,502,311)	\$ 428,269
Year ended September 30, 2009	\$ 428,269	\$ 2,511,706	\$	\$ (2,789,544)	\$ 150,431

Table of Contents

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

Exhibit Number	Description	Previously Filed as Exhibit	File Number	Date Previously Filed
3.1	Amended and Restated Articles of Incorporation	Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on August 15, 2007	000-24217	8/15/07
3.2	Amended and Restated Bylaws	Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2007	00-24217	12/20/07
10.1	LiveDeal, Inc. Amended and Restated 2003 Stock Plan*	Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2007	00-24217	12/20/07
10.1.1	First Amendment to Amended and Restated 2003 Stock Plan*	Appendix A to 2009 Proxy Statement	00-24217	1/29/09
10.2	Form of 2003 Stock Plan Restricted Stock Agreement*	Exhibit 10 to the Registrant's Quarterly Report on Form 10-QSB for the fiscal quarter ending March 31, 2005	000-24217	5/16/05
10.3	Form of 2003 Stock Plan Stock Option Agreement*	Exhibit 10.3 to the Registrant's Annual Report on Form 10-K for the fiscal year ending September 30, 2008	000-24217	12/29/08
10.4	Standard Industrial/Commercial Multi-Tenant Lease for Mesa facility, dated June 1, 1998, between the Registrant and Art Grandlich, d/b/a McKellips Corporate Square	Exhibit 10.5 to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1999	000-24217	9/19/00
10.4.1	Amendment No. 1 to Standard Industrial/Commercial Multi-Tenant Lease for Mesa facility, dated August 17, 1998, between the Registrant and Arthur Grandlich, d/b/a McKellips Corporate Square	Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2006	000-24217	12/29/06
10.4.2	Amendment No. 2 to Standard Industrial/Commercial Multi-Tenant Lease for Mesa facility, dated	Exhibit 10.14 to Amendment No. 2 to the Registrant's Annual Report on Form 10-KSB/A for the fiscal year	000-24217	7/8/03

Edgar Filing: LIVEDEAL INC - Form 10-K

January 7, 2003, between the Registrant and Arthur Grandlich, d/b/a McKellips Corporate Square ended September 30, 2002

- |        |                                                                                                                                                                                                                  |                                                                                                            |           |          |
|--------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|-----------|----------|
| 10.4.3 | Amendment No. 3 to Standard Industrial/Commercial Multi-Tenant Lease for Mesa facility, dated March 23, 2006, between the Registrant and J3 Harmon, LLC, successor in interest to The Estate of Arthur Grandlich | Exhibit 10.4.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2006 | 000-24217 | 12/29/06 |
| 10.4.4 | Amendment No. 4 to Standard Industrial/Commercial Multi-Tenant Lease for Mesa facility, dated April 12, 2006, between the Registrant and J3 Harmon, LLC, successor in interest to The Estate of Arthur Grandlich | Exhibit 10.4.3 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2006 | 000-24217 | 12/29/06 |



Table of Contents

10.5	Standard Industrial Lease for Nevada facility, dated September 3, 2003, between the Registrant and Tomorrow 33 Convention, LP	Exhibit 10.4 to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 2003	000-24217	12/31/03
10.6	Amendment No. 1 to Standard Industrial Lease for Nevada facility, dated October 4, 2006, between the Registrant and Tomorrow 33 Convention, LP	Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2006	000-24217	12/29/06

Table of Contents

10.7	Master Services Agreement, dated August 1, 2002, between the Registrant and eBillit, Inc.	Exhibit 10.24 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-QSB/A for the fiscal quarter ended March 31, 2003	000-24217	7/8/03
10.8	Billings and Related Services Agreement, dated September 1, 2001, between the Registrant and ACI Communications, Inc.	Exhibit 10.33 to Amendment No. 2 to the Registrant's Annual Report on Form 10-KSB/A for the fiscal year ended September 30, 2002	000-24217	7/8/03
10.9	Asset Purchase Agreement dated as of July 10, 2007, relating to the Registrant's acquisition of the assets of OnCall Subscriber Management Inc.	Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on July 16, 2007	000-24217	7/16/07
10.10	Escrow Agreement dated as of July 10, 2007, relating to the Registrant's acquisition of the assets of OnCall Subscriber Management Inc.	Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on July 16, 2007	000-24217	7/16/07
10.11	Domain Name Purchase and Transfer Agreement, dated November 5, 2008, between the Registrant and YellowPages.com LLC	Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2008	000-24217	2/17/09
10.12	Employment Agreement, dated as of November 17, 2008, by and between the Registrant and Rajeev Seshadri*	Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2008	000-24217	2/17/09
10.13	Asset Purchase Agreement, dated as of March 9, 2009, by and among the Registrant, Telco Billing, Inc., and Local.com Corporation	Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009	000-24217	5/15/09
10.14	Employment Agreement, dated as of October 1, 2008, by and between the Registrant and Dean Heistad*	Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009	000-24217	5/15/09
10.15	Employment Agreement, dated as of October 1, 2008, by and between the Registrant and Gregg Thaler*	Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009	000-24217	5/15/09
10.16	Employment Agreement, dated as of May 19, 2009, by and between the	Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for	000-24217	8/14/09

Edgar Filing: LIVEDEAL INC - Form 10-K

	Registrant and Richard F. Sommer*	the quarterly period ended June 30, 2009		
10.17	Separation Agreement and Full Release of Claims, dated as of June 30, 2009, by and between the Registrant and Mike Edelhart*	Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009	000-24217	8/14/09
10.18	First Amendment to Employment Agreement, effective as of October 29, 2009, by and between the Registrant and Richard F. Sommer*	Attached hereto		
10.19	Separation Agreement and Full Release of Claims, dated as of November 25, 2009, by and between the Registrant and Rajeev Seshadri*	Attached hereto		
14	Code of Business Conduct and Ethics, Adopted December 31, 2003	Exhibit 14 to the Registrant's Quarterly Report on Form 10-QSB for the period ended March 31, 2004	000-24217	5/13/04

61

---

Table of Contents

21	Company Subsidiaries	Attached hereto
23	Consent of Mayer Hoffman McCann P.C.	Attached hereto
31	Certifications pursuant to SEC Release No. 33-8238, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Attached hereto
32	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Attached hereto

\* Management contract or compensatory plan or arrangement

Table of Contents

SIGNATURES

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

Dated: December 23, 2009

/s/Richard Sommer  
Richard Sommer  
Chief Executive Officer

BOARD OF DIRECTORS

Signature	Title	Date
/s/ Richard Sommer Richard Sommer	Chief Executive Officer (Principal Executive Officer)	December 23, 2009
/s/ Rajeev Seshadri Rajeev Seshadri	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	December 23, 2009
/s/ Richard D. Butler. Richard D. Butler	Director	December 23, 2009
/s/ Sheryle Bolton Sheryle Bolton	Director	December 23, 2009
/s/ Thomas Clarke, Jr. Thomas Clark, Jr	Director	December 23, 2009
/s/ Greg LeClaire Greg LeClaire	Director	December 23, 2009
/s/ Joseph Huber Joseph Huber	Director	December 23, 2009