

LIVEDEAL INC  
Form 10-Q  
August 14, 2008

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2008

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-24217

LiveDeal, Inc.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or  
organization)

85-0206668

(IRS Employer Identification No.)

2490 East Sunset Road, Suite 100

Las Vegas, Nevada

(Address of principal executive offices)

89120

(Zip Code)

(702) 939-0230

(Registrant's telephone number, including area code)

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

(Do not check if a 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

o No p

APPLICABLE ONLY TO CORPORATE ISSUERS

The number of shares of the issuer's common equity outstanding as of August 1, 2008 was 6,519,738 shares of common stock, par value \$0.001.

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INDEX TO FORM 10-Q FILING  
FOR THE QUARTER ENDED JUNE 30, 2008

TABLE OF CONTENTS

PART I  
FINANCIAL INFORMATION

	Page
Item 1. Financial Statements	
<u>Condensed Consolidated Balance Sheets as of June 30, 2008 (Unaudited) and September 30, 2007</u>	3
<u>Unaudited Condensed Consolidated Statements of Operations for the Three and Nine Months Ended June 30, 2008 and June 30, 2007</u>	4
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended June 30, 2008 and June 30, 2007</u>	5
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	21
Item 4. <u>Controls and Procedures</u>	21

PART II  
OTHER INFORMATION

Item 1. <u>Legal Proceedings</u>	25
Item 1A. <u>Risk Factors</u>	25
Item 2. <u>Unregistered Sale of Equity Securities and Use of Proceeds</u>	25
Item 6. <u>Exhibits</u>	25
<u>Signatures</u>	26

Table of Contents

## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

LIVEDEAL, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2008 (unaudited)	September 30, 2007
Assets		
Cash and cash equivalents	\$ 4,059,034	\$ 5,674,533
Accounts receivable, net	7,283,156	6,919,180
Prepaid expenses and other current assets	661,922	510,609
Customer acquisition costs, net	1,123,888	-
Income taxes receivable	769,464	316,429
Deferred tax asset	521,268	546,145
Total current assets	14,418,732	13,966,896
Accounts receivable, long term portion, net	1,927,266	1,941,996
Property and equipment, net	809,938	423,563
Deposits and other assets	94,888	103,057
Intangible assets, net	6,662,347	7,372,147
Goodwill	11,706,406	11,683,163
Deferred tax asset, long term	4,117,591	4,551,644
Total assets	\$ 39,737,168	\$ 40,042,466
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	\$ 1,191,606	\$ 1,138,265
Accrued liabilities	1,732,026	1,196,330
Total current liabilities	2,923,632	2,334,595
Total liabilities	2,923,632	2,334,595
Commitments and contingencies		
Stockholders' Equity:		
Series E convertible preferred stock, \$0.001 par value, 200,000 shares authorized, 127,840 issued and outstanding, liquidation preference \$38,202	10,866	10,866
Common stock, \$0.001 par value, 100,000,000 shares authorized, 6,525,962 and 6,693,676 outstanding at June 30, 2008 and September 30, 2007, respectively	6,526	6,694
Treasury stock (2,000 and 328,566 shares carried at cost)	(4,845)	(2,714,698)
Paid in capital	20,974,573	23,325,888
Retained earnings	15,826,416	17,079,121
Total stockholders' equity	36,813,536	37,707,871

Total liabilities and stockholders' equity	\$ 39,737,168	\$ 40,042,466
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See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	Three Months ended June 30,		Nine Months ended June 30,	
	2008	2007	2008	2007
Net revenues	\$ 5,812,141	\$ 5,989,437	\$ 19,518,815	\$ 19,219,664
Cost of services	1,129,371	875,894	3,240,610	2,944,472
Gross profit	4,682,770	5,113,543	16,278,205	16,275,192
Operating expenses:				
General and administrative expenses	4,807,459	3,233,189	12,047,575	9,547,646
Sales and marketing expenses	1,710,862	1,303,992	5,570,132	4,506,122
Litigation and related expenses	-	-	-	(200,718)
Total operating expenses	6,518,321	4,537,181	17,617,707	13,853,050
Operating income (loss)	(1,835,551)	576,362	(1,339,502)	2,422,142
Other income (expense):				
Interest income	14,837	68,914	78,588	233,611
Other income (expense)	(18,269)	537	(14,637)	14,294
Total other income (expense)	(3,432)	69,451	63,951	247,905
Income (loss) before income taxes	(1,838,983)	645,813	(1,275,551)	2,670,047
Income tax provision (benefit)	(258,286)	379,408	(24,284)	1,292,181
Net income (loss)	\$ (1,580,697)	\$ 266,405	\$ (1,251,267)	\$ 1,377,866
Net income (loss) per common share:				
Basic	\$ (0.25)	\$ 0.05	\$ (0.20)	\$ 0.29
Diluted	\$ (0.25)	\$ 0.05	\$ (0.20)	\$ 0.28
Weighted average common shares outstanding:				
Basic	6,222,351	5,024,229	6,214,099	4,715,630
Diluted	6,222,351	5,262,554	6,214,099	4,941,271

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	Nine Months Ended June 30,	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (1,251,267)	\$ 1,377,865
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,525,972	1,098,370
Amortization of deferred stock compensation	859,271	1,169,543
Issuance of common stock as compensation for services	-	78,837
Noncash compensation expense to Chief Executive Officer	-	88,680
Deferred income taxes	458,930	1,489,654
Loss on disposal of equipment	15,352	4,128
Provision for uncollectible accounts	430,880	(1,434,426)
Changes in assets and liabilities:		
Accounts receivable	(780,126)	2,230,324
Customer acquisition costs	(1,700,000)	-
Prepaid expenses and other current assets	(151,313)	(81,751)
Deposits and other assets	8,169	(3,560)
Accounts payable	53,341	(780,990)
Accrued liabilities	535,696	(2,928,662)
Income taxes receivable	(453,035)	(1,067,660)
Net cash provided by (used for) operating activities	(448,130)	1,240,352
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Redemptions (purchases) of certificates of deposits and other investments	-	3,082,053
Cash acquired in connection with acquisition of LiveDeal, Inc.	-	397,876
Additional closing costs related to acquisition of LiveDeal, Inc.	(7,000)	-
Additional closing costs related to acquisition of OnCall Subscriber Management, Inc.	(16,243)	-
Expenditures for intangible assets	(55,942)	(674,580)
Purchases of equipment	(585,845)	(192,373)
Net cash provided by (used for) investing activities	(665,030)	2,612,976
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Series E preferred stock dividends	(1,438)	-
Purchase of treasury stock	(500,901)	-
Net cash used for financing activities	(502,339)	-
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(1,615,499)</b>	<b>3,853,328</b>
CASH AND CASH EQUIVALENTS, beginning of period	5,674,533	6,394,775

CASH AND CASH EQUIVALENTS, end of period	\$ 4,059,034	\$ 10,248,103
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NONCASH INVESTING AND FINANCING ACTIVITIES:

Issuance of common stock for acquisition of LiveDeal, Inc.	\$ -	\$ 12,328,045
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See accompanying notes to unaudited condensed consolidated financial statements



Table of Contents

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

## 1. ORGANIZATION AND BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of LiveDeal, Inc. (formerly YP Corp.), a Nevada corporation, and its wholly owned subsidiaries (collectively the “Company”). The Company is an Internet-based provider of yellow page directories and online local classified ads on or through www.YP.com, www.YP.net, www.Yellow-Page.net, and www.livedeal.com. No material or information contained on these websites is a part of these notes or this Quarterly Report on Form 10-Q. All material intercompany accounts and transactions have been eliminated in consolidation.

The accompanying condensed consolidated balance sheet as of September 30, 2007, which has been derived from audited financial statements, and the accompanying unaudited condensed consolidated financial statements for the three and nine months ended June 30, 2008 and for the three and nine months ended June 30, 2007, respectively, have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for audited financial statements. In the opinion of the Company’s management, the interim information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The results of operations for the three and nine months ended June 30, 2008 are not necessarily indicative of the results to be expected for the year ending September 30, 2008. The footnote disclosures related to the interim financial information included herein are also unaudited. Such financial information should be read in conjunction with the consolidated financial statements and related notes thereto as of September 30, 2007 and for the year then ended included in the Company’s Annual Report on Form 10-K/A for the year ended September 30, 2007.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant estimates and assumptions have been used by management throughout the preparation of the consolidated financial statements including in conjunction with establishing allowances for customer refunds, non-paying customers, dilution and fees, analyzing the recoverability of the carrying amount of intangible assets, estimating forfeitures of restricted stock and evaluating the recoverability of deferred tax assets. Actual results could differ from these estimates.

## 2. BALANCE SHEET INFORMATION

Balance sheet information is as follows:

	June 30, 2008		
	Current	Long-Term	Total
Gross accounts receivable	\$ 9,524,187	\$ 2,081,446	\$ 11,605,633
Allowance for doubtful accounts	(2,241,031)	(154,180)	(2,395,211)
Net	\$ 7,283,156	\$ 1,927,266	\$ 9,210,422

	September 30, 2007		
	Current	Long-Term	Total
Gross accounts receivable	\$ 9,221,903	\$ 2,101,071	\$ 11,322,974
Allowance for doubtful accounts	(2,302,723)	(159,075)	(2,461,798)

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Net	\$ 6,919,180	\$ 1,941,996	\$ 8,861,176
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6

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Table of Contents

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

Components of the allowance for doubtful accounts are as follows:

	June 30, 2008	September 30, 2007
Allowance for dilution, fees and noncollectible amounts due from billing aggregators	\$ 1,925,295	\$ 1,888,730
Allowance for customer refunds	469,916	573,068
	\$ 2,395,211	\$ 2,461,798

Included in accounts receivable at June 30, 2008 are \$817,684 from a LEC aggregator that is currently in bankruptcy proceedings, against which the Company maintains allowances totaling \$615,431. During the three and nine months ended June 30, 2008, the Company recognized \$92,971 and \$229,922 of additional bad debt expense associated with this aggregator.

Customer acquisition costs, net consist of the following:

	June 30, 2008	September 30, 2007
Customer acquisition costs	\$ 1,700,000	\$ -
Less: Accumulated amortization	(576,112)	-
Customer acquisition costs, net	\$ 1,123,888	\$ -

Included in customer acquisitions costs at June 30, 2008 are \$1,700,000 of costs to acquire approximately 10,000 accounts from a third party that are now being serviced by the Company. These 10,000 accounts are guaranteed by the seller for a twelve month period, and the seller will replace any cancelled accounts within the guarantee period. The Company is amortizing the customer acquisition costs over a twelve month period. After the guarantee period, these customers will continue to generate revenues for the Company subject to normal rates of attrition.

Property and equipment, net consists of the following:

	June 30, 2008	September 30, 2007
Leasehold improvements	\$ 227,666	\$ 455,286
Furnishings and fixtures	305,032	310,499
Office and computer equipment	715,428	1,423,989
Total	1,248,126	2,189,774
Less: Accumulated depreciation	(438,188)	(1,766,211)
Property and equipment, net	\$ 809,938	\$ 423,563

During the three months ended June 30, 2008, we began closing our corporate offices in Mesa, Arizona that housed certain customer service functions, IT functions and corporate administration. The corporate and IT functions are being relocated to our Las Vegas, Nevada offices and our customer service functions are being transitioned to our

offices in the Philippines. We applied the provisions of SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" in accounting for these events and recorded an expense of \$15,942 related to the disposal of certain assets. The Company also disposed of a significant amount of fully depreciated assets in connection with this relocation.

7

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Table of Contents

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

Intangible assets, net consist of the following:

	June 30, 2008	September 30, 2007
Domain name	\$ 7,208,600	\$ 7,208,600
Non-compete agreements	3,465,000	3,465,000
Website development	3,621,846	3,006,093
Total	14,295,446	13,679,693
Less: Accumulated amortization	(7,633,099)	(6,307,546)
Intangible assets, net	\$ 6,662,347	\$ 7,372,147

In accordance with GAAP, the Company will perform its annual evaluation of long-lived assets, including intangible assets and goodwill, in the fourth quarter of fiscal 2008.

Accrued liabilities include the following:

	June 30, 2008	September 30, 2007
Deferred revenue	\$ 722,673	\$ 323,596
Accrued payroll & bonus	274,323	339,305
Amounts due under revenue sharing agreements	326,085	302,593
Accrued expenses - other	408,945	230,836
Accrued liabilities	\$ 1,732,026	\$ 1,196,330

### 3. PRO FORMA FINANCIAL INFORMATION

The accompanying consolidated unaudited financial statements include the results of LiveDeal, Inc. and OnCall Subscriber Management Inc. from June 6, 2007 and July 10, 2007, their respective dates of acquisition. The following table provides pro forma results of operations for the three and nine months ended June 30, 2007 as if LiveDeal had been acquired as of the beginning of the period. The pro forma results include certain purchase accounting adjustments such as the estimated changes in amortization expense on acquired intangible assets, increased compensation expense resulting from the compensation obligations to LiveDeal executives and the elimination of interest expense on borrowings that were satisfied through the acquisition. However, pro forma results do not include any anticipated cost savings or other effects of the integration of LiveDeal. Accordingly, such amounts are not necessarily indicative of the results that would have occurred if the acquisition had occurred on the dates indicated or that may result in the future.

	Three Months Ended June 30, 2007 (unaudited)	Nine Months Ended June 30, 2007 (unaudited)
Net revenues	\$ 6,410,361	\$ 20,936,377
Net loss	\$ (1,118,971)	\$ (2,165,640)

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Diluted net loss per share	\$	(0.18)	\$	(0.35)
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Pro forma financial information is not provided for the acquisition of OnCall Subscriber Management Inc. as this entity was a carve-out of a larger entity. As such, historical financial information of the acquired entity on a stand-alone basis cannot be obtained.

8

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Table of Contents

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

4. TREASURY STOCK

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 137,295 shares of its common stock at market prices during the nine months ended June 30, 2008 at an aggregate cost of \$500,901. The majority of these shares have been retired. As of June 30, 2008, the Company held 2,000 shares of treasury stock at a cost of \$4,845.

5. STOCK-BASED COMPENSATION

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

Each quarter, the Company evaluates its historical forfeitures on vested awards and adjusts the amount of stock-based compensation expense to reflect actual forfeiture rates. Additionally, the Company evaluates its estimates of forfeitures for unvested awards when facts and circumstances indicate that a change may be needed. During the three months ended June 30, 2008, the Company performed an analysis of its estimated forfeiture rate and determined that, in light of historical experience, it was appropriate to increase its estimates of forfeitures for directors and officers from 30% to 40% and for all other employees and consultants from 60% and 70%. The net impact of this change in estimate (excluding tax effects) was to decrease stock based compensation by \$280,782 during the three and nine months ended June 30, 2008.

6. RELATED PARTY TRANSACTIONS

Change in Officers and Board of Directors

During the three months ended June 30, 2008, the Company experienced the following changes in officers and directors:

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