

LIVEDEAL INC  
Form 10-Q  
May 15, 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 March 31, 2008

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

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

Commission File Number 0-24217

LiveDeal, Inc.

(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of incorporation or  
organization)

85-0206668  
(IRS Employer Identification No.)

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

89120  
(Zip Code)

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

APPLICABLE ONLY TO CORPORATE ISSUERS

The number of shares of the issuer's common equity outstanding as of May 1, 2008 was 6,555,281 shares of common stock, par value \$0.001.

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FOR THE QUARTER ENDED MARCH 31, 2008

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## PART I – FINANCIAL INFORMATION

## ITEM 1.

## FINANCIAL STATEMENTS

LIVEDEAL, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

|  | March 31,<br>2008<br>(unaudited) | September 30,<br>2007 |
|--|----------------------------------|-----------------------|
| <b>Assets</b>  |                                  |                       |
| Cash and cash equivalents  | \$ 6,112,170                     | \$ 5,674,533          |
| Accounts receivable, net   | 7,334,805                        | 6,919,180             |
| Prepaid expenses and other current assets  | 535,407                          | 510,609               |
| Income taxes receivable  | 56,236                           | 316,429               |
| Deferred tax asset   | 486,850                          | 546,145               |
| Total current assets   | 14,525,468                       | 13,966,896            |
| Accounts receivable, long term portion, net  | 1,858,771                        | 1,941,996             |
| Customer acquisition costs, net  | 1,605,556                        | -                     |
| Property and equipment, net  | 680,046                          | 423,563               |
| Deposits and other assets  | 103,380                          | 103,057               |
| Intangible assets, net   | 6,866,230                        | 7,372,147             |
| Goodwill   | 11,706,406                       | 11,683,163            |
| Deferred tax asset, long term  | 4,620,741                        | 4,551,644             |
| Total assets   | \$ 41,966,598                    | \$ 40,042,466         |
| <b>Liabilities and Stockholders' Equity</b>  |                                  |                       |
| <b>Liabilities:</b>  |                                  |                       |
| Accounts payable   | \$ 929,964                       | \$ 1,138,265          |
| Accrued liabilities  | 2,937,642                        | 1,196,330             |
| Total current liabilities  | 3,867,606                        | 2,334,595             |
| Total liabilities  | 3,867,606                        | 2,334,595             |
| <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, 6,575,415 and 6,693,676 outstanding at March 31, 2008 and September 30, 2007, respectively | 6,575                            | 6,694                 |
| Treasury stock (0 and 328,566 shares carried at cost)  | -                                | (2,714,698)           |
| Paid in capital  | 20,673,960                       | 23,325,888            |
| Retained earnings  | 17,407,591                       | 17,079,121            |
| Total stockholders' equity   | 38,098,992                       | 37,707,871            |
| Total liabilities and stockholders' equity   | \$ 41,966,598                    | \$ 40,042,466         |

See accompanying notes to unaudited consolidated financial statements.

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LIVEDEAL, INC. AND SUBSIDIARIES  
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

|   | Three Months ended<br>March 31, |              | Six Months ended<br>March 31, |               |
|---|---------------------------------|--------------|-------------------------------|---------------|
|   | 2008                            | 2007         | 2008                          | 2007          |
| Net revenues                                | \$ 6,637,785                    | \$ 6,106,544 | \$ 13,706,674                 | \$ 13,230,227 |
| Cost of services                            | 1,105,689                       | 957,709      | 2,111,238                     | 2,068,579     |
| Gross profit                                | 5,532,096                       | 5,148,835    | 11,595,436                    | 11,161,648    |
| Operating expenses:                         |                                 |              |                               |               |
| General and administrative expenses         | 3,845,145                       | 3,127,732    | 7,240,116                     | 6,314,457     |
| Sales and marketing expenses                | 1,673,384                       | 1,116,095    | 3,859,270                     | 3,202,128     |
| Litigation and related expenses             | -                               | (200,718)    | -                             | (200,718)     |
| Total operating expenses                    | 5,518,529                       | 4,043,109    | 11,099,386                    | 9,315,867     |
| Operating income                            | 13,567                          | 1,105,726    | 496,050                       | 1,845,781     |
| Other income (expense):                     |                                 |              |                               |               |
| Interest income                             | 27,719                          | 86,462       | 63,752                        | 164,696       |
| Other income (expense)                      | 4,753                           | (1,309)      | 3,631                         | 13,756        |
| Total other income (expense)                | 32,472                          | 85,153       | 67,383                        | 178,452       |
| Income before income taxes                  | 46,039                          | 1,190,879    | 563,433                       | 2,024,233     |
| Income tax provision                        | 42,701                          | 564,617      | 234,002                       | 912,773       |
| Net income                                  | \$ 3,338                        | \$ 626,262   | \$ 329,431                    | \$ 1,111,460  |
| Net income per common share:                |                                 |              |                               |               |
| Basic                                       | \$ -                            | \$ 0.14      | \$ 0.05                       | \$ 0.24       |
| Diluted                                     | \$ -                            | \$ 0.13      | \$ 0.05                       | \$ 0.23       |
| Weighted average common shares outstanding: |                                 |              |                               |               |
| Basic                                       | 6,189,371                       | 4,570,024    | 6,209,995                     | 4,561,425     |
| Diluted                                     | 6,358,116                       | 4,802,766    | 6,391,245                     | 4,780,872     |

See accompanying notes to unaudited consolidated financial statements.

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

|   | Six Months Ended<br>March 31, |                  |
|---|-------------------------------|------------------|
|   | 2008                          | 2007             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                               |                  |
| Net income  | \$ 329,431                    | \$ 1,111,461     |
| Adjustments to reconcile net income to net cash provided by operating activities:     |                               |                  |
| Depreciation and amortization   | 1,002,336                     | 701,611          |
| Amortization of deferred stock compensation   | 457,170                       | 834,901          |
| Deferred income taxes   | (9,802)                       | 1,418,642        |
| Provision for uncollectible accounts  | 268,730                       | 157,608          |
| Changes in assets and liabilities:  |                               |                  |
| Accounts receivable   | (601,130)                     | (237,250)        |
| Customer acquisition costs  | 94,444                        | -                |
| Prepaid expenses and other current assets   | (24,798)                      | (69,626)         |
| Deposits and other assets   | (323)                         | 6,933            |
| Accounts payable  | (208,301)                     | (54,330)         |
| Accrued liabilities   | 41,312                        | (2,330,059)      |
| Income taxes receivable   | 260,193                       | (1,375,869)      |
| Net cash provided by operating activities   | 1,609,262                     | 164,022          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                               |                  |
| Purchases of certificates of deposits and other investments                           | -                             | (58,265)         |
| 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  | (391,123)                     | (502,487)        |
| Purchases of equipment  | (361,779)                     | (83,922)         |
| Net cash used for investing activities  | (776,145)                     | (644,674)        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                               |                  |
| Series E preferred stock dividends  | (960)                         | (1,437)          |
| Purchase of treasury stock  | (394,520)                     | -                |
| Net cash used for financing activities  | (395,480)                     | (1,437)          |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                               | <b>437,637</b>                | <b>(482,089)</b> |
| CASH AND CASH EQUIVALENTS, beginning of period  | 5,674,533                     | 6,394,775        |
| CASH AND CASH EQUIVALENTS, end of period  | \$ 6,112,170                  | \$ 5,912,686     |
| <b>NONCASH INVESTING AND FINANCING ACTIVITIES:</b>                                    |                               |                  |
| Customer acquisition costs unpaid at end of period                                    | \$ 1,700,000                  | \$ -             |



See accompanying notes to unaudited consolidated financial statements

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

1. ORGANIZATION AND BASIS OF PRESENTATION

The accompanying unaudited 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.

The accompanying unaudited consolidated financial statements as of March 31, 2008 and for the three and six months ended March 31, 2008 and 2007, respectively, have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for audited financial statements. In the opinion of the Company's management, the interim information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The results of operations for the three and six months ended March 31, 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.

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

## 2. BALANCE SHEET INFORMATION

Balance sheet information is as follows:

|                                 | March 31, 2008 |              |               |
|---------------------------------|----------------|--------------|---------------|
|                                 | Current        | Long-Term    | Total         |
| Gross accounts receivable       | \$ 9,490,261   | \$ 2,006,406 | \$ 11,496,667 |
| Allowance for doubtful accounts | (2,155,456)    | (147,635)    | (2,303,091)   |
| Net                             | \$ 7,334,805   | \$ 1,858,771 | \$ 9,193,576  |

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

Components of the allowance for doubtful accounts are as follows:

|   | March 31,<br>2008 | September 30,<br>2007 |
|---|-------------------|-----------------------|
| Allowance for dilution and fees on amounts due from billing aggregators | \$ 1,829,147      | \$ 1,888,730          |
| Allowance for customer refunds  | 473,944           | 573,068               |
|   | \$ 2,303,091      | \$ 2,461,798          |

Customer acquisition costs, net consist of the following:

|                                 | March 31,<br>2008 | September 30,<br>2007 |
|---------------------------------|-------------------|-----------------------|
| Customer acquisition costs      | \$ 1,700,000      | \$ -                  |
| Less: Accumulated amortization  | (94,444)          | -                     |
| Customer acquisition costs, net | \$ 1,605,556      | \$ -                  |

Customer acquisition costs at March 31, 2008 consist of a gross amount of \$1,700,000 of costs of acquiring customer contracts that will be serviced in the future.

Property and equipment, net consists of the following:

|                                | March 31, 2008 | September 30,<br>2007 |
|--------------------------------|----------------|-----------------------|
| Leasehold improvements         | \$ 608,664     | \$ 455,286            |
| Furnishings and fixtures       | 455,381        | 310,499               |
| Office and computer equipment  | 1,480,153      | 1,423,989             |
| Total                          | 2,544,198      | 2,189,774             |
| Less: Accumulated depreciation | (1,864,152)    | (1,766,211)           |
| Property and equipment, net    | \$ 680,046     | \$ 423,563            |



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

Intangible assets, net consist of the following:

|                                | March 31, 2008 | September 30,<br>2007 |
|--------------------------------|----------------|-----------------------|
| Domain name                    | \$ 7,208,600   | \$ 7,208,600          |
| Non-compete agreements         | 3,465,000      | 3,465,000             |
| Website development            | 3,380,914      | 3,006,093             |
| Software licenses              | -              | -                     |
| Total                          | 14,054,514     | 13,679,693            |
| Less: Accumulated amortization | (7,188,284)    | (6,307,546)           |
| Intangible assets, net         | \$ 6,866,230   | \$ 7,372,147          |

Accrued liabilities include the following:

|                          | March 31,<br>2008 | September 30,<br>2007 |
|--------------------------|-------------------|-----------------------|
| Deferred revenue         | \$ 341,010        | \$ 323,596            |
| Accrued payroll & bonus  | 337,138           | 339,305               |
| Accrued expenses - other | 2,259,494         | 533,429               |
| Accrued liabilities      | \$ 2,937,642      | \$ 1,196,330          |

Included in accrued expenses – other at March 31, 2008 are \$1,700,000 of accrued customer acquisition costs previously described in this Note.

### 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 six months ended March 31, 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<br>Ended March 31,<br>2007<br>(unaudited) | Six Months<br>Ended March 31,<br>2007<br>(unaudited) |
|--------------|--|--|
| Net revenues | \$ 6,745,224   | \$ 14,526,016  |
| Net loss     | \$ (389,241)   | \$ (1,061,163)                                       |

|                            |    |        |    |        |
|----------------------------|----|--------|----|--------|
| Diluted net loss per share | \$ | (0.06) | \$ | (0.17) |
|----------------------------|----|--------|----|--------|

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

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.

#### 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 102,175 shares of its common stock during the six months ended March 31, 2008 at an aggregate cost of \$394,519. As of March 31, 2008, all treasury stock has been retired.

#### 5. COMMITMENTS AND CONTINGENCIES

At March 31, 2008, future minimum annual payments under operating lease agreements and non-cancelable service contracts for fiscal years ending September 30 are as follows:

|                                 | Total        | 2008       | Payments Due by Fiscal Year |            |            |            | Thereafter |
|---------------------------------|--------------|------------|-----------------------------|------------|------------|------------|------------|
|                                 |              |            | 2009                        | 2010       | 2011       | 2012       |            |
| Operating lease commitments     | \$ 2,777,240 | \$ 466,435 | \$ 858,852                  | \$ 568,136 | \$ 465,736 | \$ 339,361 | \$ 78,720  |
| Noncancelable service contracts | 957,876      | 299,292    | 558,584                     | 100,000    | -          | -          | -          |
|                                 | \$ 3,735,116 | \$ 765,727 | \$ 1,417,436                | \$ 668,136 | \$ 465,736 | \$ 339,361 | \$ 78,720  |

#### 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 the Company's business, financial position, results of operations, cash flows or liquidity.

#### 6. INCOME TAXES

The Company provides for income taxes based on the provisions of SFAS No. 109, Accounting for Income Taxes, which, among other things, requires that recognition of deferred income taxes be measured by the provisions of enacted tax laws in effect at the date of the financial statements. The Company records, among other items, deferred tax assets related to book-tax differences in the recognition of restricted stock awards to officers, directors, employees and consultants. During the three and six months ended March 31, 2008 and 2007, a portion of our restricted stock awards had vested and, due to declines in our stock price from grant date to vest date, the tax effects of the vesting of these awards were less than the carrying value of our related deferred tax assets. Accordingly, the Company incurred an additional \$22,000 and \$112,000 of income tax expense for the three months ended March 31, 2008 and 2007, respectively and \$23,000 and \$135,000 of income tax expense for the six months ended March 31, 2008 and 2007, respectively, related to the write-off of these deferred tax assets.

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

## 7. NET INCOME PER SHARE

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

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

|  | Three Months Ended March 31, |            | Six Months Ended March 31, |              |
|--|------------------------------|------------|----------------------------|--------------|
|  | 2008                         | 2007       | 2008                       | 2007         |
| Net income   | \$ 3,338                     | \$ 626,262 | \$ 329,431                 | \$ 1,111,460 |
| Less: preferred stock dividends                    | (480)                        | -          | (960)                      | -            |
| Income applicable to common stock                  | \$ 2,858                     | \$ 626,262 | \$ 328,471                 | \$ 1,111,460 |
|  |                              |            |                            |              |
| Basic weighted average common shares outstanding   | 6,189,371                    | 4,570,024  | 6,209,995                  | 4,561,425    |
| Add incremental shares for:                        |                              |            |                            |              |
| Unvested restricted stock                          | 167,774                      | 226,254    | 180,764                    | 213,105      |
| Series E convertible preferred stock               | 971                          | 6,488      | 486                        | 6,342        |
| Diluted weighted average common shares outstanding | 6,358,116                    | 4,802,766  | 6,391,245                  | 4,780,872    |
|  |                              |            |                            |              |
| Net income per share:                              |                              |            |                            |              |
| Basic  | \$ -                         | \$ 0.14    | \$ 0.05                    | \$ 0.24      |
| Diluted  | \$ -                         | \$ 0.13    | \$ 0.05                    | \$ 0.23      |

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

|                                       | Three Months Ended March 31, |        | Six Months Ended March 31, |        |
|---------------------------------------|------------------------------|--------|----------------------------|--------|
|                                       | 2008                         | 2007   | 2008                       | 2007   |
| Shares of non-vested restricted stock | 53,075                       | 65,075 | 53,788                     | 73,988 |

## 8. CONCENTRATION OF CREDIT RISK

The Company maintains cash balances at major nationwide institutions in Arizona and Nevada. Accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000.



Financial instruments that potentially subject the Company to concentrations of credit risk are primarily trade accounts receivable. The trade accounts receivable are due primarily from business customers over widespread geographical locations within the LEC billing areas across the United States. The Company historically has experienced significant dilution and customer credits due to billing difficulties and uncollectible trade accounts receivable. The Company estimates and provides an allowance for uncollectible accounts receivable. The handling and processing of cash receipts pertaining to trade accounts receivable is maintained primarily by four third-party billing companies. The net receivable due from three of these billing service providers individually exceeded 10% and represented 27%, 16% and 10%, respectively, of the Company's total net accounts receivable (excluding non-specific reserves) at March 31, 2008. The net receivable due from such billing service providers represented 31%, 23% and 16%, respectively, of the Company's total net accounts receivable at September 30, 2007.

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

9. RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (“SAB 108”). SAB 108 provides guidance on how prior year misstatements should be considered when quantifying misstatements in the current year financial statements. The SAB requires registrants to quantify misstatements using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 does not change the guidance in SAB 99, “Materiality”, when evaluating the materiality of misstatements. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of this pronouncement did not have a material effect of the Company’s consolidated financial statements.

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

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

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

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

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

For a description of our significant accounting policies and an understanding of the significant factors that influenced our performance during the three and six months ended March 31, 2008, this "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" (hereafter referred to as "MD&A") should be read in conjunction with the Consolidated Financial Statements, including the related notes, appearing in Item 1 of this Quarterly Report on Form 10-Q, as well as our Annual Report on Form 10-K for the year ended September 30, 2007.

Forward-Looking Statements

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

Forward-looking statements involve risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Factors and risks that could affect our results and achievements and cause them to materially differ from those contained in the forward-looking statements include those identified in our Annual Report on Form 10-K/A for the fiscal year ended September 30, 2007 under Item 1A "Risk Factors", as well as other factors that we are currently unable to identify or quantify, but that may exist in the future.

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

Executive Overview

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

Relocation of Certain Functions

During the three months ended March 31, 2008, 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 headquarters in the Philippines. We applied the provisions of SFAS No. 146, "Accounting for Costs Associated with Cut or Disposal Activities" in accounting for these events.

Listing on NASDAQ Capital Market

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

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## Acquisition of LiveDeal, Inc.

On June 6, 2007, we completed the acquisition of LiveDeal, Inc. (“LiveDeal”). LiveDeal developed and operates an online local classifieds marketplace, www.livedeal.com, which lists millions of goods and services for sale in almost every city and zip code across the U.S. The technology acquired in the acquisition offers such classifieds functionality as fraud protection, identity protection, e-commerce, listing enhancements, photos, community-building, package pricing, premium stores, featured Yellow Page business listings and advanced local search capabilities.

The acquisition represents a major strategic event in our history and we hope results in significant efficiencies as well as future growth opportunities. With the acquisition of LiveDeal, we are now able to supplement our telemarketing campaigns with online marketing efforts. Our online traffic acquisition strategy includes activities in e-mail marketing, search engine marketing (“SEM”), search engine optimization (“SEO”) partnerships with major online marketing companies, and the generation of word of mouth advertising. We anticipate continued investment in online advertising to bring increased traffic to our websites that should result in increased value to the local business advertising community thereby driving increased revenues.

We have consolidated the results of LiveDeal in our financial statements beginning June 6, 2007, the date of acquisition. The following table provides pro forma results of operations for the three and six months ended March 31, 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 contractual obligation for Mr. Navar’s salary and the elimination of interest expense on borrowings that were satisfied through the acquisition. However, pro forma results do not include any anticipated cost savings or other effects of the 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<br>Ended March 31,<br>2007<br>(unaudited) | Six Months<br>Ended March 31,<br>2007<br>(unaudited) |
|----------------------------|--|--|
| Net revenues               | \$ 6,745,224   | \$ 14,526,016  |
| Net loss                   | \$ (389,241)   | \$ (1,061,163)                                       |
| Diluted net loss per share | \$ (0.06)  | \$ (0.17)  |

## Acquisition of OnCall Subscriber Management Inc.

On July 10, 2007, we acquired substantially all of the assets and assumed certain liabilities of OnCall Subscriber Management Inc. (a Manila, Philippines-based company) (“OnCall”), which OnCall purchased recently under option from 24 by 7 Contact Solutions, Inc. This acquisition allowed us to bring our entire telemarketing operations in-house through the addition of 170 Philippines-based employees to our workforce. We have consolidated the results of this entity in our consolidated financial statements beginning July 10, 2007, the date of acquisition.

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## Recent Operating Results

The following represents a summary of recent financial results:

|                    | Q2 2008      | Q1 2008      | Q4 2007      | Q3 2007      | Q2 2007      | Q1 2007      |
|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Net Revenues       | \$ 6,637,785 | \$ 7,068,888 | \$ 7,120,697 | \$ 5,989,437 | \$ 6,106,544 | \$ 7,123,683 |
| Gross margin       | 5,532,096    | 6,063,339    | 5,860,893    | 5,113,544    | 5,148,835    | 6,012,813    |
| Operating expenses | 5,518,529    | 5,580,857    | 4,956,356    | 4,537,182    | 4,043,109    | 5,272,758    |
| Operating income   | 13,567       | 482,482      | 904,537      | 576,362      | 1,105,726    | 740,055      |
| Net income         | 3,338        | 326,092      | 376,053      | 266,405      | 626,262      | 485,198      |

Net income decreased in the second quarter of fiscal 2008 as compared to the first quarter of fiscal 2008 due primarily to the following :

- Net revenues decreased by approximately \$431,000 due primarily to an increase in returns and allowances due to the effects of the Chapter 11 bankruptcy filing of one of our LEC aggregators. We have been transitioning customers away from this aggregator to other aggregators given the uncertainty associated with the bankruptcy filing. This transition caused an increase in the number of unbillable accounts and chargebacks. Gross revenues were relatively consistent between the first and second quarters of fiscal 2008.
- Cost of services increased by approximately \$100,000 due primarily to an increase of \$118,000 in reserves associated with receivables due from the LEC aggregator that is currently in bankruptcy proceedings, partially offset by other minor fluctuations in cost of services.
  - General and administrative expense increased by approximately \$450,000 primarily due to the following:
    - o A bonus payment of \$150,000 in the second quarter of fiscal 2008 to our CEO as stipulated in his employment contract for our listing on the NASDAQ Capital Market, a national exchange.
    - o Increased compensation costs of approximately \$299,000 primarily attributable to the hiring and training of other employees related to the transition of functions to the Philippines and the development of telemarketing functions.
    - o Increased investor relations, legal and other corporate expenses of approximately \$61,000 associated with our listing on the NASDAQ Capital Market, the preparation of our annual proxy statement and other current activities.
    - o Decreased professional fees of approximately \$90,000 associated with the conclusion of certain consulting projects.
      - Sales and marketing decreased by approximately \$513,000 primarily due to the following:
        - o A decrease in customer acquisition costs of approximately \$285,000 stemming from the renegotiation of a wholesale contract which resulted in the forgiveness of approximately \$129,000 of customer acquisition costs related to this agreement;
        - o

A decrease in telemarketing costs of approximately \$112,000 attributable to the conclusion of certain wholesale telemarketing programs;

o A decrease in other telemarketing costs of approximately \$213,000 due to the discontinuance of certain programs and efficiencies gained through the transition of certain outsourced activities to in-house functions,



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- o An increase of approximately \$94,000 in amortization of capitalized customer acquisition costs associated with a new wholesale fulfillment contract
- Income tax provision decreased by approximately \$149,000 due to primarily to changes in pretax income as described above

## Results of Operations

## Net Revenues

|                                 | Net Revenues |               |            |         |
|---------------------------------|--------------|---------------|------------|---------|
|                                 | 2008         | 2007          | Change     | Percent |
| Three Months Ended March 31, \$ | 6,637,785    | \$ 6,106,544  | \$ 531,241 | 9%      |
| Six Months Ended March 31, \$   | 13,706,674   | \$ 13,230,227 | \$ 476,447 | 4%      |

Net revenues increased in the second quarter of fiscal 2008 as compared to the second quarter of 2007 due primarily to the acquisition of LiveDeal in June 2007. Net revenues from the acquired entity were approximately \$598,000 and \$1,261,000 in the second quarter and first six months of fiscal 2008, respectively. For the first six months of fiscal 2008, this increase in revenues was partially offset by a decline in directory services accounts as we were precluded from billing accounts in certain Local Exchange Carrier (“LEC”) areas and adding additional accounts in other LEC areas as the LEC’s tightened their thresholds for inquiries.

Although we have concentrations of risk with our billing aggregators (as described in Note 8 to our Unaudited Consolidated Financial Statements included elsewhere in this report) these aggregators bill via many underlying LECs, thereby reducing our risk associated with credit concentrations. However, there are a few LECs that service a significant number of our customers. To the extent that future changes in the LEC’s billing practices cause a disruption in our ability to bill through these channels, our revenues could be adversely affected.

Our Internet Advertising Package (“IAP”) is our primary source of revenue. The majority of our IAP customers pay between \$27.50 and \$39.95 per month.

## Cost of Services

|                                 | Cost of Services |              |            |         |
|---------------------------------|------------------|--------------|------------|---------|
|                                 | 2008             | 2007         | Change     | Percent |
| Three Months Ended March 31, \$ | 1,105,689        | \$ 957,709   | \$ 147,980 | 15%     |
| Six Months Ended March 31, \$   | 2,111,238        | \$ 2,068,579 | \$ 42,659  | 2%      |

Cost of services increased in the second quarter of fiscal 2008 as compared to the second quarter of fiscal 2007 due to increased bad debt expense associated with receivables due from the LEC aggregator that is currently in bankruptcy proceedings and increased inquiry fees associated with the transition of certain customers to different aggregators to reduce our exposure from these bankruptcy proceedings. This increase was partially offset for the first six months of fiscal 2008 as compared to the first six months of fiscal 2007 due to cost reduction efforts and a reduction in LEC monitoring and Internet service fees. We have increased our LEC billings as a percent of net revenues from 64% in the second quarter of fiscal 2007 to 71% in the second quarter of fiscal 2008. While LEC billings typically have higher costs than other billing channels, we have reduced our costs per customer by renegotiating vendor service contracts and improving our quality assurance procedures.



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## Gross Profit

|                                 | Gross Profit |               |            |         |
|---------------------------------|--------------|---------------|------------|---------|
|                                 | 2008         | 2007          | Change     | Percent |
| Three Months Ended March 31, \$ | 5,532,096    | \$ 5,148,835  | \$ 383,261 | 7%      |
| Six Months Ended March 31, \$   | 11,595,436   | \$ 11,161,648 | \$ 433,788 | 4%      |

Gross margins were generally consistent at 83.3% and 84.3% of net revenues in the second quarter of fiscal 2008 and 2007, respectively, and 84.6% and 84.4% of net revenues in the first six months of fiscal 2008 and 2007, respectively.

## General and Administrative Expenses

|                                 | General and Administrative Expenses |              |            |         |
|---------------------------------|-------------------------------------|--------------|------------|---------|
|                                 | 2008                                | 2007         | Change     | Percent |
| Three Months Ended March 31, \$ | 3,845,145                           | \$ 3,127,732 | \$ 717,413 | 23%     |
| Six Months Ended March 31, \$   | 7,240,116                           | \$ 6,314,457 | \$ 925,659 | 15%     |

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

- An increase in depreciation and amortization expense of approximately \$122,000 stemming primarily from the effects of the LiveDeal acquisition, which added \$2.2 million of depreciable and amortizable long-lived and intangible assets;
  - An increase in compensation expense of approximately \$500,000 due to:
    - o Salaries and other compensation expense of \$410,000 associated with the LiveDeal acquisition that took place in June 2007; and
    - o Increased compensation costs of \$401,000 associated with the hiring and training of other employees related to the transition of functions to the Philippines and the development of telemarketing functions;
    - o A bonus payment of \$150,000 to our CEO as stipulated in his employment contract for our listing on the NASDAQ Capital Market, a national exchange; partially offset by
      - o Decreased bonus accruals of \$242,000 for other executives; and
    - o Decreased stock based compensation charges of approximately \$219,000 as more historical awards become fully vested;
  - An increase in other general and administrative expenses of approximately \$224,000 primarily due to increased facility, office and other corporate expenses associated with the LiveDeal acquisition; and partially offset by
  - A decrease in professional and consulting fees of approximately \$129,000 as we incurred significant expenses in the first quarter of 2007 to develop our strategic direction following the effects of the Attorneys' General settlement.



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General and administrative expenses increased in the first six months of fiscal 2008 as compared to the first six months of fiscal 2007 primarily due to the following:

- An increase in depreciation and amortization expense of approximately \$264,000 stemming primarily from the effects of the LiveDeal acquisition, which added \$2.2 million of depreciable and amortizable long-lived and intangible assets;
  - An increase in compensation expense of approximately \$555,000 due to:
    - o Salaries and other compensation expense of \$816,000 associated with the LiveDeal acquisition that took place in June 2007; and
    - o Increased compensation costs of \$353,000 associated with the hiring and training of other employees related to the transition of functions to the Philippines and the development of telemarketing functions;
    - o A bonus payment of \$150,000 to our CEO as stipulated in his employment contract for our listing on a national exchange; partially offset by
      - o Decreased bonus accruals of \$386,000 for other executives; and
    - o Decreased stock based compensation charges of approximately \$378,000 as more historical awards become fully vested.
- An increase in other general and administrative expenses of approximately \$348,000 primarily due to increased facility, office and other corporate expenses associated with the LiveDeal acquisition; and partially offset by
- A decrease in professional and consulting fees of approximately \$241,000 as we incurred significant expenses in the first quarter of 2007 to develop our strategic direction following the effects of the Attorneys' General settlement.

Our general and administrative expenses consist largely of fixed and semi-fixed expenses such as compensation, rent, and utilities. Therefore, we do not consider short-term trends of general and administrative expenses as a percentage of revenues to be meaningful indicators for evaluating operational performance.

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

|  | Q2 2008      | Q1 2008      | Q4 2007      | Q3 2007      | Q2 2007      | Q1 2007      |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Compensation for employees, leased employees, officers and directors | \$ 2,377,412 | \$ 1,928,272 | \$ 1,535,115 | \$ 1,760,439 | \$ 1,877,103 | \$ 1,873,582 |
| Professional fees  | 191,330      | 281,418      | 184,507      | 529,139      | 319,948      | 394,028      |
| Reconfirmation, mailing, billing and other customer-related costs    | 27,735       | 17,601       | 33,662       | 24,269       | 34,042       | 23,715       |
| Depreciation and amortization  | 487,085      | 478,433      | 460,554      | 396,759      | 364,724      | 336,887      |
| Other general and administrative costs                               | 761,583      | 689,247      | 757,136      | 522,583      | 531,915      | 558,513      |
|  | \$ 3,845,145 | \$ 3,394,971 | \$ 2,970,974 | \$ 3,233,189 | \$ 3,127,732 | \$ 3,186,725 |

## Sales and Marketing Expenses

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|                                 | 2008      | Sales and Marketing Expenses |            | Percent |
|---------------------------------|-----------|------------------------------|------------|---------|
|                                 |           | 2007                         | Change     |         |
| Three Months Ended March 31, \$ | 1,673,384 | \$ 1,116,095                 | \$ 557,289 | 50%     |
| Six Months Ended March 31, \$   | 3,859,270 | \$ 3,202,128                 | \$ 657,142 | 21%     |

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Sales and marketing expenses increased in the second quarter of fiscal 2008 as compared to the second quarter of fiscal 2007 due to expanded marketing efforts in telemarketing, and online advertising and the amortization of customer acquisition costs related to acquired wholesale customers, partially offset by a reduction of approximately \$1 million in direct response advertising costs as we have discontinued our direct mail campaigns. Online advertising has increased from zero in the second quarter of fiscal 2007 to approximately \$606,000 in the second quarter of fiscal 2008 as we seek to increase customers' awareness and use of our online marketplace.

Sales and marketing expenses increased similarly for the first six months of fiscal 2008 as compared to the first six months of fiscal 2007. Direct response advertising costs related to our discontinued direct mail campaigns totaled \$2,792,000 in the first six months of fiscal 2007. Online advertising has increased from zero in the first six months of fiscal 2007 to approximately \$1,199,000 in the first six months of fiscal 2008.

Included in sales and marketing expenses for the three and six months ended March 31, 2008 is depreciation expense of \$18,408 and \$36,818, respectively, related to our subsidiary in the Philippines that exclusively provides telemarketing services.

## Operating Income

|                                 | 2008    | Operating Income (Loss) |                | Percent |
|---------------------------------|---------|-------------------------|----------------|---------|
|                                 |         | 2007                    | Change         |         |
| Three Months Ended March 31, \$ | 13,567  | \$ 1,105,726            | \$ (1,092,159) | (99)%   |
| Six Months Ended March 31, \$   | 496,050 | \$ 1,845,781            | \$ (1,349,731) | (73)%   |

The decrease in operating income for the three and six months ended March 31, 2008 as compared to the three and six months ended March 31, 2007 is primarily due to increased operating expenses partially offset by increased gross margins, each of which is described above.

## Other Income (Expense)

|                                 | 2008   | Other Income (Expense) |              | Percent |
|---------------------------------|--------|------------------------|--------------|---------|
|                                 |        | 2007                   | Change       |         |
| Three Months Ended March 31, \$ | 32,472 | \$ 85,153              | \$ (52,681)  | (62)%   |
| Six Months Ended March 31, \$   | 67,383 | \$ 178,452             | \$ (111,069) | (62)%   |

Other income (expense), consisting primarily of interest income, decreased in the three and six months ended March 31, 2008 as compared to the three and six months ended March 31, 2007 due primarily to a reduction of our cash and short-term investment balances, which decreased as a result of investments in acquired businesses and the effects of the Attorneys' General settlement.

## Income Tax Provision

|                                 | 2008    | Income Tax Provision |              | Percent |
|---------------------------------|---------|----------------------|--------------|---------|
|                                 |         | 2007                 | Change       |         |
| Three Months Ended March 31, \$ | 42,701  | \$ 564,617           | \$ (521,916) | (92)%   |
| Six Months Ended March 31, \$   | 234,002 | \$ 912,773           | \$ (678,771) | (74)%   |

The change in our income tax provision in each of the above periods is due primarily to corresponding decreases in our pre-tax income. However, in the three and six months ended March 31, 2008 we incurred additional income tax expense of \$22,000 and 23,000 respectively, due to book-tax differences in the recognition of restricted stock awards, as compared to \$112,000 and \$135,000 for the three and six months ended March 31, 2007. During these periods, a portion of our restricted stock awards had vested and, due to declines in our stock price from grant date to vest date, the tax effects of the vesting of these awards were less than the carrying value of the related deferred tax assets.



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## Net Income

|                                 | 2008    | 2007         | Net Income (Loss)<br>Change | Percent |
|---------------------------------|---------|--------------|-----------------------------|---------|
| Three Months Ended March 31, \$ | 3,338   | \$ 626,262   | \$ (622,924)                | (99)%   |
| Six Months Ended March 31, \$   | 329,431 | \$ 1,111,460 | \$ (782,029)                | (70)%   |

Changes in net income are primarily attributable to changes in operating income and changes in income tax expense. The results from the impact of the Attorneys' General settlement, changes in the use of billing channels, changes in marketing strategies and other operating changes are discussed in more detail in the narratives included above.

## Liquidity and Capital Resources

Net cash provided by operating activities increased \$1,445,250, or 881%, to \$1,609,262 for the first six months of fiscal 2008 as compared to net cash provided of \$164,022 for the first six months of fiscal 2007. The increase in cash generated from operations is primarily due to the payment of over \$2 million related to the Attorney's General settlement in the first quarter of fiscal 2007 that did not recur in fiscal 2008, partially offset by increases in accounts receivable and other changes in working capital.

Our primary source of cash inflows is net remittances from our billing channels, including ACH billings and LEC billings. For ACH billings, we generally receive the net proceeds through our billing service processors within 15 days of submission. For LEC billings, we receive collections on accounts receivable through the billing service aggregators under contracts to administer this billing and collection process. The billing service aggregators generally do not remit funds until they are collected. Generally, cash is collected and remitted to us (net of dilution and other fees and expenses) over a 60- to 120-day period subsequent to the billing dates. Additionally, for each monthly billing cycle, the billing aggregators and LECs withhold certain amounts, or "holdback reserves," to cover potential future dilution and bad debt expense. These holdback reserves lengthen our cash conversion cycle as they are remitted to us over a 12- to 18-month period of time. We classify these holdback reserves as current or long-term receivables on our consolidated balance sheet, depending on when they are scheduled to be remitted to us. As of March 31, 2008, approximately 53% of our gross accounts receivable are due from three aggregators.

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

Net cash used for investing activities totaled \$776,145 during the first six months of fiscal 2008 and consisted of \$7,000 of additional closing costs related to the acquisition of LiveDeal, Inc. \$16,243 of additional closing costs related to the acquisition of OnCall Subscriber Management Inc., \$391,123 of expenditures for software and intangible assets and \$361,779 of purchases of equipment. Net cash used in investing activities totaled \$644,674 during the first six months of fiscal 2007 and consisted of \$502,487 of expenditures for software and intangible assets, equipment purchases totaling \$83,922 and \$58,265 of purchases of certificates of deposit and other investments.

Net cash used for financing activities was \$395,480 during the first six months of fiscal 2008, consisting primarily of treasury stock repurchases as described below. Financing activities also included \$960 and \$1,437 of preferred stock dividends paid in the first six months of fiscal 2008 and 2007, respectively.

We had working capital of \$10,657,862 as of March 31, 2008, compared to \$11,632,301 as of September 30, 2007, with current assets increasing by approximately \$559,000 and current liabilities increasing approximately \$1,533,000 from September 30, 2007 to March 31, 2008. Our cash position increased to \$6,112,170 at March 31, 2008 compared to \$5,674,533 at September 30, 2007 due to the effects of our results of operations, partially offset by purchases of software, intangible assets, equipment and purchases of treasury stock.

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On May 25, 2007, the Company's Board of Directors terminated our 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 102,175 shares of its common stock during the six months ended March 31, 2008 at an aggregate cost of \$394,519. As of March 31, 2008, all treasury stock has been retired.

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

|                                  | Total        | Payments Due by Fiscal Year |              |            |            |            | Thereafter |
|----------------------------------|--------------|-----------------------------|--------------|------------|------------|------------|------------|
|                                  |              | 2008                        | 2009         | 2010       | 2011       | 2012       |            |
| Operating lease commitments      | \$ 2,777,240 | \$ 466,435                  | \$ 858,852   | \$ 568,136 | \$ 465,736 | \$ 339,361 | \$ 78,720  |
| Noncancellable service contracts | 957,876      | 299,292                     | 558,584      | 100,000    | -          | -          | -          |
|                                  | \$ 3,735,116 | \$ 765,727                  | \$ 1,417,436 | \$ 668,136 | \$ 465,736 | \$ 339,361 | \$ 78,720  |

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

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of March 31, 2008, we did not participate in any market risk-sensitive commodity instruments for which fair value disclosure would be required under Statement of Financial Accounting Standards No. 107. We believe that we are not subject in any material way to other forms of market risk, such as foreign currency exchange risk or foreign customer purchases (of which there were none in the periods set forth in this report) or commodity price risk.

ITEM 4. CONTROLS AND PROCEDURES

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

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

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

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## PART II – OTHER INFORMATION

## ITEM 1A. RISK FACTORS

There have been no material changes to the factors disclosed in Item 1A Risk Factors in our Annual Report on Form 10-K/A for the year ended September 30, 2007.

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

## Issuer Purchases of Equity Securities

| Period        | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>1</sup> | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs |
|---------------|----------------------------------|------------------------------|---|--|
| January 2008  | 14,600                           | \$ 4.10                      | 14,600  | \$ 646,308   |
| February 2008 | -                                | -                            | -   | \$ 646,308   |
| March 2008    | 10,850                           | \$ 3.76                      | 10,850  | \$ 605,481   |
| Total         | 25,450                           | \$ 3.96                      | 25,450  | \$ 605,481   |

<sup>1</sup> On May 18, 2005, we announced the adoption of a \$3,000,000 stock repurchase plan, under which 85,385 shares were repurchased at an aggregate price of \$686,793. On May 25, 2007, the Company's Board of Directors terminated the May 18, 2005 stock repurchase plan and replaced it with a new plan authorizing repurchases of up to \$1,000,000 of common stock from time to time on the open market.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The following matters were submitted to a vote of our stockholders at our annual stockholders meeting held on February 28, 2008:

- Election of Joseph Cunningham, Daniel L. Coury, Sr., Richard Butler, Thomas Clarke, Jr., John Evans, Benjamin Milk and Rajesh Navar to the Company's board of directors.
- Approval of an amendment to the Company's 2003 Stock Plan to increase the number of shares authorized for issuance under the plan from 800,000 shares to 1,100,000 shares.
- Ratification of the appointment of Mayer Hoffman McCann P.C. as the Company's independent auditor for the fiscal year ending September 30, 2008.

## Election of Directors

The allocation of votes for the election of the nominees to the board of directors was as follows:

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| Nominee                    | Votes For | Votes Withheld | Abstentions and Broker Non-Votes |
|----------------------------|-----------|----------------|----------------------------------|
| Joseph F<br>Cunningham, Jr | 4,479,313 | 930,066        | N/A                              |
| John Evans                 | 5,127,230 | 282,149        | N/A                              |
| Daniel L. Coury<br>Sr.     | 4,482,484 | 926,895        | N/A                              |
| Benjamin Milk              | 3,776,748 | 1,632,631      | N/A                              |
| Richard Butler             | 3,776,998 | 1,632,381      | N/A                              |
| Rajesh Navar               | 5,128,010 | 281,369        | N/A                              |
| Thomas J. Clarke<br>Jr.    | 5,128,230 | 281,149        | N/A                              |

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## Approval of Amendment to 2003 Stock Plan

The allocation of votes with respect to the proposed amendment to the Company's 2003 Stock Plan was as follows:

|   | Votes For | Votes Against | Abstentions and Broker<br>Non-Votes |
|---|-----------|---------------|-------------------------------------|
| Proposal to Increase the Number of Shares Authorized for Issuance Under the 2003 Stock Plan from 800,000 shares to 1,100,000 shares | 2,511,923 | 2,895,056     | 2,400                               |

## Ratification of Independent Auditors

The allocation of votes for the ratification of Mayer Hoffman McCann P.C. as the Company's independent auditor for the fiscal year ending September 30, 2008 was as follows:

|   | Votes For | Votes Against | Abstentions and Broker<br>Non-Votes |
|---|-----------|---------------|-------------------------------------|
| Proposal to Ratify Mayer Hoffman McCann P.C. as the Company's Independent Auditor | 5,282,493 | 29,274        | 97,612                              |

The proposals above are described in detail in the Company's definitive proxy statement dated January 24, 2008, for the Annual Meeting of Stockholders held on February 28, 2008.

## ITEM 6. EXHIBITS

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

| Exhibit<br>Number | Description  |
|-------------------|--|
| 3.1               | Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Form 8-K, SEC File No. 000-24217, filed on August 15, 2007). |
| 3.2               | Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to Form 10-K, SEC File No. 000-24217, for the year ended September 30, 2007).      |
| <u>31</u>         | Rule 13a - 14(a)/15d - 14(a) Certificates  |
| <u>32</u>         | Section 1350 Certificate   |

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SIGNATURES

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

LiveDeal, Inc.

Dated: May 15, 2008

/s/ Gary L. Perschbacher  
Gary L. Perschbacher  
Chief Financial Officer

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