

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

(Mark One)

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

For the quarterly period ended June 30, 2012

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

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

Commission File Number 001-33937

**LiveDeal, Inc.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**85-0206668**

(IRS Employer Identification No.)

**6240 McLeod Drive, Suite 120**

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The number of shares of the issuer's common stock, par value \$.001 per share, outstanding as of August 1, 2012 was 2,434,119.

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FOR THE QUARTER ENDED JUNE 30, 2012**

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**Note About Forward-Looking Statements**

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,” “intends,” “plans,” “expects,” or “anticipates,” and do not reflect historical facts. Specific forward-looking statements contained in this portion of the Quarterly Report include, but are not limited to our (i) expectation that continued growth in business demand for online advertising and websites will drive increased revenues; (ii) expectation that cost of sales will continue to be directly correlated to our use of our internal fulfillment of customers costs, (iii) belief that our existing cash on hand, together with additional cash generated from operations or obtained from other sources, such sources of cash possibly including stock issuances and loans will provide us with sufficient liquidity to meet our operating needs for the next 12 months, (iv) belief that our gross profit margin and selling, general and administrative costs will support the Company’s business plans and opportunities and (v) plans to expand into new lines of business.

Forward-looking statements involve risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Factors and risks that could affect our results and achievements and cause them to materially differ from those contained in the forward-looking statements include those identified in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011 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 generally affect our business, results of operations and financial position. Forward-looking statements speak only as of the date the statements were made. We do not undertake and specifically decline any obligation to update any forward-looking statements. Any information contained on our website [www.livedeal.com](http://www.livedeal.com) or any other websites referenced in this Quarterly Report are not part of this Quarterly Report.



**PART I – FINANCIAL INFORMATION**

ITEM 1. FINANCIAL STATEMENTS

**LIVEDEAL, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**

	<u>June 30,</u> <u>2012</u>	<u>September 30,</u> <u>2011</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,735,335	\$ 244,470
Accounts receivable, net	521,245	654,856
Prepaid expenses and other current assets	87,176	113,323
Total current assets	2,343,756	1,012,649
Accounts receivable, long term portion, net	356,394	371,438
Property and equipment, net	63,712	171,201
Deposits and other assets	33,207	31,007
Intangible assets, net	1,347,955	1,222,334
Total assets	<u>\$ 4,145,024</u>	<u>\$ 2,808,629</u>
<b>Liabilities and Stockholders' Equity</b>		
Liabilities:		
Accounts payable	\$ 832,276	\$ 600,908
Accrued liabilities	530,045	424,595
Notes payable	129,944	1,000,000
Current portion of capital lease obligation	–	36,992
Total current liabilities	1,492,265	2,062,495
Total liabilities	<u>1,492,265</u>	<u>2,062,495</u>
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, 10,000,000 shares authorized, 2,433,442 and 698,491 shares issued, 2,433,442 and 694,239 shares outstanding at June 30, 2012 and September 30, 2011, respectively	2,433	698
Treasury stock (0 and 4,252 shares, respectively, carried at cost)	–	(70,923)
Paid in capital	23,380,882	20,813,082
Accumulated deficit	(20,741,422)	(20,007,589)
Total stockholders' equity	<u>2,652,759</u>	<u>746,134</u>
Total liabilities and stockholders' equity	<u>\$ 4,145,024</u>	<u>\$ 2,808,629</u>

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

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

	<u>Three Months Ended June 30,</u>		<u>Nine Months Ended June 30,</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Net revenues	\$ 777,857	\$ 1,124,976	\$ 2,450,971	\$ 3,237,763
Cost of services	108,661	1,048,229	571,088	3,455,589
Gross profit	<u>669,196</u>	<u>76,747</u>	<u>1,879,883</u>	<u>(217,826)</u>
Operating expenses:				
General and administrative expenses	742,353	1,172,531	2,330,595	4,756,487
Sales and marketing expenses	1,712	19,543	2,291	56,318
Total operating expenses	<u>744,065</u>	<u>1,192,074</u>	<u>2,332,886</u>	<u>4,812,805</u>
Operating loss	(74,869)	(1,115,327)	(453,003)	(5,030,631)
Other income (expense):				
Interest income (expense), net	(64,845)	(24,151)	(149,401)	(22,899)
Other income (expense)	(150,000)	(11,455)	(141,750)	(11,455)
Total other income (expense)	<u>(214,845)</u>	<u>(35,606)</u>	<u>(291,151)</u>	<u>(34,354)</u>
Loss before income taxes	(289,714)	(1,150,933)	(744,154)	(5,064,985)
Income tax provision (benefit)	-	-	-	-
Loss from continuing operations	<u>(289,714)</u>	<u>(1,150,933)</u>	<u>(744,154)</u>	<u>(5,064,985)</u>
Discontinued operations				
Income (loss) from discontinued component, including disposal costs	7,944	7,561	11,753	(123,486)
Income tax provision (benefit)	-	-	-	-
Income (loss) from discontinued operations	<u>7,944</u>	<u>7,561</u>	<u>11,753</u>	<u>(123,486)</u>
Net loss	<u>\$ (281,770)</u>	<u>\$ (1,143,372)</u>	<u>\$ (732,401)</u>	<u>\$ (5,188,471)</u>
Earnings per share - basic and diluted:				
Loss from continuing operations	\$ (0.12)	\$ (1.69)	\$ (0.39)	\$ (7.68)
Discontinued operations	0.00	0.01	0.01	(0.19)
Net loss	<u>\$ (0.12)</u>	<u>\$ (1.68)</u>	<u>\$ (0.38)</u>	<u>\$ (7.87)</u>
Weighted average common shares outstanding:				
Basic	<u>2,402,168</u>	<u>682,374</u>	<u>1,928,589</u>	<u>659,296</u>
Diluted	<u>2,402,168</u>	<u>682,374</u>	<u>1,928,589</u>	<u>659,296</u>

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

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

	<b>Nine Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (732,401)	\$ (5,188,471)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	192,340	474,958
Stock based compensation expense	123,797	36,338
Amortization of deferred stock compensation	–	17,885
Amortization of debt discount	41,667	–
Provision for uncollectible accounts	43,911	376,395
Non-cash impairment of goodwill and intangibles	–	367,588
Loss/(gain) on disposal of property and equipment	(8,169)	39,134
Changes in assets and liabilities:		
Accounts receivable	104,744	(253,451)
Prepaid expenses and other current assets	26,147	74,636
Deposits and other assets	(2,200)	10,492
Accounts payable	231,368	310,435
Accrued liabilities	108,956	(246,344)
Net cash provided by/(used in) operating activities	<u>130,160</u>	<u>(3,980,405)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Redemption of certificates of deposits	–	101,293
Expenditures for intangible assets	(201,627)	–
Purchases of property and equipment	(676)	(3,880)
Net cash provided by/(used in) investing activities	<u>(202,303)</u>	<u>97,413</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from notes payable	–	1,000,000
Payments on notes payable	(1,000,000)	–
Principal repayments on capital lease obligations	(36,992)	(46,003)
Issuance of common stock for cash	2,350,000	300,000
Proceeds from issuance of convertible debt and warrants	250,000	–
Net cash provided by financing activities	<u>1,563,008</u>	<u>1,253,997</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,490,865	(2,628,995)
CASH AND CASH EQUIVALENTS, beginning of period	<u>244,470</u>	<u>3,227,374</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 1,735,335</u>	<u>\$ 598,379</u>
Supplemental cash flow disclosures:		
Noncash financing and investing activities:		
Accrued and unpaid dividends	<u>\$ 1,438</u>	<u>\$ 1,438</u>
Interest paid	<u>\$ 104,132</u>	<u>\$ 25,845</u>
Income tax paid (received)	<u>\$ –</u>	<u>\$ –</u>

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

## **Note 1: Organization and Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements include the accounts of LiveDeal, Inc., a Nevada corporation, and its wholly owned subsidiaries (collectively, the “Company”, “LiveDeal”, “we”, “us”, or “our”). The Company primarily provides online marketing internet directory service for small businesses. Through its wholly owned subsidiary Velocity Marketing Concepts, Inc., LiveDeal offers an affordable way for businesses to extend their marketing reach to local, relevant customers and to manage their online presence.

The accompanying condensed consolidated balance sheet as of September 30, 2011, which has been derived from our audited consolidated financial statements, and the accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for audited financial statements. In the opinion of the Company’s management, this interim information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The results of operations for the three and nine months ended June 30, 2012 are not necessarily indicative of the results to be expected for the year ending September 30, 2012. The accompanying note disclosures related to the interim financial information included herein are also unaudited. This financial information should be read in conjunction with the consolidated financial statements and related notes thereto as of September 30, 2011 and for the year then ended included in the Company’s Annual Report on Form 10-K for the year ended September 30, 2011.

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 made by management throughout the preparation of the condensed consolidated financial statements, including in conjunction with establishing allowances for customer refunds, non-paying customers, dilution and fees, analyzing the recoverability of the carrying amount of intangible assets, evaluating the merits of pending litigation, estimating forfeitures of stock-based compensation, valuing beneficial conversion features in convertible debt, and evaluating the recoverability of deferred tax assets. Actual results could differ from these estimates.

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

Effective August 10, 2011, the Company implemented a 20-for-19 forward stock split with respect to issued and outstanding shares of its common stock via a stock dividend. All share and per share amounts have been retroactively restated for the effects of this stock split.

## Note 2: Balance Sheet Information

Balance sheet information is as follows:

	<u>June 30,</u> <u>2012</u> <u>(unaudited)</u>	<u>September 30,</u> <u>2011</u>
Receivables, current, net:		
Accounts receivable, current	\$ 1,998,429	\$ 2,080,747
Less: Allowance for doubtful accounts	(1,477,184)	(1,425,891)
	<u>\$ 521,245</u>	<u>\$ 654,856</u>
Receivables, long term, net:		
Accounts receivable, long term	\$ 490,356	\$ 569,178
Less: Allowance for doubtful accounts	(133,962)	(197,740)
	<u>\$ 356,394</u>	<u>\$ 371,438</u>
Total receivables, net:		
Gross receivables	\$ 2,488,785	\$ 2,649,925
Less: Allowance for doubtful accounts	(1,611,146)	(1,623,631)
	<u>\$ 877,639</u>	<u>\$ 1,026,294</u>

Components of allowance for doubtful accounts are as follows:

	<u>June 30,</u> <u>2012</u> <u>(unaudited)</u>	<u>September 30,</u> <u>2011</u>
Allowance for dilution and fees on amounts due from billing aggregators	\$ 1,599,466	\$ 1,477,769
Allowance for customer refunds	11,680	145,862
	<u>\$ 1,611,146</u>	<u>\$ 1,623,631</u>

	<u>June 30,</u> <u>2012</u> <u>(unaudited)</u>	<u>September 30,</u> <u>2011</u>
Property and equipment, net:		
Leasehold improvements	\$ 201,476	\$ 201,476
Furnishings and fixtures	233,577	233,577
Office, computer equipment and other	427,607	426,931
	<u>862,660</u>	<u>861,984</u>
Less: Accumulated depreciation	(798,948)	(690,783)
	<u>\$ 63,712</u>	<u>\$ 171,201</u>

	<u>June 30,</u> <u>2012</u> <u>(unaudited)</u>	<u>September 30,</u> <u>2011</u>
Intangible assets, net:		
Domain name and marketing related intangibles	\$ 1,511,650	\$ 1,509,600
Non-compete agreements	559,686	351,941
Website and technology related intangibles	2,071,336	1,861,541
	<u>(723,381)</u>	<u>(639,207)</u>
Less: Accumulated amortization	<u>\$ 1,347,955</u>	<u>\$ 1,222,334</u>



	<b>June 30, 2012</b>	<b>September 30, 2011</b>
	<u>(unaudited)</u>	
<b>Accrued liabilities:</b>		
Deferred revenue	\$ 2,577	\$ 14,553
Accrued payroll and bonuses	33,585	63,043
Accruals for service contracts	56,328	86,550
Accruals under revenue sharing agreements	<u>437,555</u>	<u>260,449</u>
Accrued expenses - other	<u>\$ 530,045</u>	<u>\$ 424,595</u>

### **Note 3: Restructuring Activities**

On November 30, 2010, the Company's Board of Directors (the "Board") approved a reduction in force that resulted in the termination of 36 employees, or approximately 60% of its workforce, effective December 1, 2010. The reduction in force was related to the Company's ongoing restructuring and cost reduction efforts and strategy of focusing its resources on the development and expansion of its core InstantProfile product, the successor to the Company's LEC-billed directory product. All terminated employees were involved in the marketing and sale of the Company's InstantPromote product by LiveDeal's subsidiary, Local Marketing Experts, Inc.

During the three and nine months ended June 30, 2011, the Company incurred expenses of \$0 and \$99,319, respectively, in connection with the reduction in force, of which \$37,500 were incurred for one-time employee termination benefits payable in cash. The remaining expenses related to salaries and wages payable in cash to the affected employees. The Company did not incur any expenses in the three and nine months ended June 30, 2012 in connection with any restructuring activities.

### **Note 4: Discontinued Operations**

As part of the Company's strategy to evaluate each of its business segments as separate entities, management noted that the direct sales business segment had incurred operating losses and declining revenues and did not fit with the Company's change in strategic direction. Accordingly, in March 2011, the Company made the strategic decision to discontinue its direct sales business and product offerings. Prior financial statements have been restated to present the direct sales business segment as a discontinued operation.

The direct sales business segment accounted for no net revenues for both the three and nine months ended June 30, 2012 and \$105,293 and \$1,341,430 of net revenues for the three and nine months ended June 30, 2011, respectively. These revenues are included as part of income from discontinued operations, in the accompanying unaudited interim condensed consolidated statements of operations.

### **Note 5: Stock-based Compensation**

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

#### *Stock Options*

The Company recognized compensation expense of \$13,154 and \$16,942 during the three and nine months ended June 30, 2012, respectively, and \$12,839 and \$36,338 during the three and nine months ended June 30, 2011, respectively, related to stock option awards granted to certain employees and executives based on the grant date fair value of the awards, net of estimated forfeitures. The Company used the estimated forfeiture rate of awards of 50% based on actual forfeiture experience and other factors.

The following represents a summary of stock option activity for the nine months ended June 30, 2012:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life</u>
Outstanding at September 30, 2011	24,013	\$ 3.64	
Granted at market price	—		
Exercised	—		
Forfeited	(13,487)	\$ 3.53	
Outstanding at June 30, 2012	<u>10,526</u>	<u>\$ 3.77</u>	<u>8.9</u>
Exercisable	<u>10,526</u>	<u>\$ 3.77</u>	<u>8.9</u>

On January 13, 2012, the Company terminated the employment of its President and Chief Executive Officer. Pursuant to the terms of his employment with the Company, the termination resulted in the forfeiture of all 13,487 of his unvested stock options.

On May 20, 2012, the employment of Larry Tomsic, the Company's Chief Financial Officer, terminated. In exchange for services performed during this quarter, the Company agreed to accelerate the vesting of Mr. Tomsic's existing options to purchase an aggregate of 10,526 shares of the Company's common stock. In accordance with the provisions of his option agreements, all his options will lapse unless they are exercised within 90 days of the termination date.

#### *Restricted Stock Awards*

The Company has previously granted shares of restricted stock to certain individuals. The following table sets forth changes in compensation-related restricted stock awards during the nine months ended June 30, 2012:

Outstanding (unvested) at September 30, 2011	<u>1,342</u>
Granted	—
Forfeited	(26)
Vested	<u>(1,053)</u>
Outstanding (unvested) at June 30, 2012	<u>263</u>

Because the number of shares of the Company's outstanding unvested restricted stock became immaterial, the Company recognized all remaining expense associated with these unvested awards (net of estimated forfeitures) during the three months ended December 31, 2010.

#### *Stock Awards Granted to Directors*

In September 2011, in an effort to preserve cash, our Board, after consultation with the Compensation Committee, determined to compensate members of the Board for their monthly retainer and other services as directors and/or members of the Board's various standing committees through the award of shares of the Company's common stock under the Company's Amended and Restated 2003 Stock Plan (the "2003 Stock Plan"). Under the terms of this arrangement, each non-employee director receives a monthly award of a number of fully vested shares of the Company's common stock equal to their monthly board of director fees divided by the closing market price of the Company's common stock on the grant date. The Company granted an aggregate of 4,581 and 44,922 shares of common stock and recognized expense of \$23,800 and \$106,900 related to this arrangement during the three and nine months ended June 30, 2012, respectively. No such grants were made and no such expense was recognized during the three and nine months ended June 30, 2011.

#### **Note 6: Debt**

On April 3, 2012 (the "Closing Date"), the Company entered into a Note and Warrant Purchase Agreement (the "Purchase Agreement") with Isaac Capital Group LLC ("ICG"), pursuant to which ICG agreed to purchase for cash up to \$2,000,000 in aggregate principal amount of the Company's unsecured Subordinated Convertible Notes ("Notes"). ICG is owned by Jon Isaac, the Company's President and Chief Executive Officer and a director on our Board, and prior to this transaction owned 403,225 shares, or 16.8% of the Company's outstanding common stock. The Purchase Agreement and the Notes, which are unsecured, provide that all amounts payable by LiveDeal to ICG under the Notes will be due and payable on April 3, 2013 (the "Maturity Date"), provided that LiveDeal has the option in its discretion to extend the Maturity Date by up to one year if no Event of Default (as defined in the Purchase Agreement) has occurred and is continuing, and LiveDeal is in material compliance with its agreements and covenants under the Purchase Agreement and the Notes, as of the Maturity Date.

The Purchase Agreement and the Notes provide that:

- The Notes will accrue interest at an annual interest rate equal to 8%. All interest will be payable on the Maturity Date or upon the conversion of the applicable Note.
- The Company has the option to prepay each Note, in whole or in part, at any time without premium or penalty.
- Either the Company or ICG may elect at any time to convert all or any portion of any Note (including all principal and accrued interest) into a number of shares of the Company's common stock equal to the dollar amount being converted divided by the conversion price. Subject to adjustment for stock splits and combinations, share reclassifications, certain fundamental transactions and share issuances, the conversion price will be equal to 60% of the lesser of (i) \$3.96, which was the closing bid price of the Company's common stock on the Closing Date and (ii) the 10-day weighted average closing bid price of the Company's common stock for the 10 business days immediately preceding the date of the applicable notice of conversion.
- If ICG elects to convert all or any portion of any Note, the Company must issue to ICG on the date of the conversion a warrant ("Contingent Warrant") to purchase a number of shares of the Company's common stock equal to the number of shares issuable upon conversion. This number of shares is subject to adjustment in the event of stock splits or combinations, stock dividends, certain stock issuances, certain fundamental transactions, and the like. Each Contingent Warrant will be exercisable for a period of five (5) years following the date of its issuance at an exercise price equal to 120% of the conversion price of the applicable Note (with the exercise being subject to adjustment under the same conditions as the number of shares for which the warrant is exercisable.) The Contingent Warrants provide that they may be exercised in whole or in part and include a cashless exercise feature.
- The Notes provide that, upon the occurrence of any Event of Default, all amounts payable to ICG will become immediately due and payable without any demand or notice.
- The Company may issue additional Notes in an aggregate principal amount of up to \$1,750,000 to ICG from time to time upon notice to ICG prior to April 3, 2013, provided that each Note must be in a principal amount of at least \$100,000.
- The Company (i) is required to provide certain financial and other information to ICG from time to time, (ii) must maintain its corporate existence, business, assets, properties, insurance and records in accordance with the requirements set forth in the Purchase Agreement, (iii) with certain exceptions, must not incur or suffer to exist any liens or other encumbrances with respect to the Company's property or assets, (iv) must not make certain loans or investments except in compliance with the terms of the Purchase Agreement, and (v) must not enter into certain types of transactions, including dispositions of its assets or business.

The events of default ("Events of Default") which trigger the acceleration of the Notes include (among other things): (i) the Company's failure to make any payment required under the Notes when due (subject to a three-day cure period), (ii) the Company's failure to comply with its covenants and agreements under the Purchase Agreement, the Notes and any other transaction documents, and (iii) the occurrence of a change of control with respect to the Company.

The Company issued an initial Note in the principal amount of \$250,000 to ICG on the Closing Date. Because the conversion price is less than the stock price, this gave rise to a beneficial conversion feature valued at \$166,667. The Company recognized this beneficial conversion feature as a debt discount and additional paid in capital. The discount to the Note is being amortized to interest expense until maturity or its earlier repayment or conversion. During the three and nine months ended June 30, 2012, the Company recognized \$41,667 of interest expense associated with amortized debt discount.

As mentioned above, the Purchase Agreement contains contingent provisions for the adjustment of the conversion ratio and conversion price, and the issuance of Contingent Warrants upon conversion. These items are not accounted for until such contingencies are resolved.

The Company intends to use the proceeds of the initial Note for working capital and other general corporate purposes.

## **Note 7: Equity**

### December 2011 Equity Issuance

On December 12, 2011, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with each of Isaac Capital Group LLC ("ICG"), John Kocmur ("Kocmur"), Kingston Diversified Holdings LLC ("Kingston"), Augustus Gardini, L.P. ("Augustus") and Lausanne LLC ("Lausanne" and collectively with ICG, Kocmur, Kingston and Augustus, the "Purchasers") pursuant to which the Company's issued and sold an aggregate of 1,612,899 shares (the "Shares") of the Company's common stock for an aggregate purchase price equal to \$2.0 million. Each of ICG, Kocmur and Kingston (the "Lead Purchasers") invested \$500,000 and were issued 403,225 shares of the Company's Common Stock, and each of Augustus and Lausanne invested \$250,000 and were issued 201,612 shares of the Company's Common Stock.

Pursuant to the Purchase Agreement:

- The per share purchase price was \$1.24, which was the closing bid price of the Company's common stock, as reported by the NASDAQ Capital Market, on December 12, 2011, the date of the closing of the purchase and sale.
- Each Lead Purchaser was given the right, until the date that purchaser beneficially owns less than five percent (5%) of the Company's issued and outstanding common stock, to nominate one director for election by the Company's stockholders at each meeting of the stockholders at which directors are to be elected, and to designate a replacement director to fill any vacancy if the director previously designated or nominated by that purchaser ceases for any reason to be a director.

### March 2012 Equity Issuance

In March 2012, the Company issued 45,180 shares of its common stock in exchange for the received payment of \$150,000.

### June 2012 Equity Issuance

In June 2012, the Company issued 36,364 shares of its common stock in exchange for the received payment of \$200,000.

### Increase in Shares Under Amended and Restated 2003 Stock Plan

At the 2012 annual meeting of the Company's Stockholders, the stockholders approved a proposal to increase the number of shares of the Company's common stock available for issuance under the Company's Amended and Restated 2003 Stock Plan from 140,000 to 340,000.

## **Note 8: Net Loss Per Share**

Net loss per share is calculated using the weighted average number of shares of common stock outstanding during the applicable 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 interim condensed consolidated balance sheet. Diluted net loss per share is computed using the weighted average number of common shares outstanding and if dilutive, potential common shares outstanding during the period. Potential common shares consist of the additional common shares issuable in respect of restricted share awards, stock options and convertible preferred stock. Preferred stock dividends are subtracted from net loss to determine the amount available to common stockholders.

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

	<b>Three Months Ended June 30,</b>		<b>Nine Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Loss from continuing operations	\$ (289,714)	\$ (1,150,933)	\$ (744,154)	\$ (5,064,985)
Less: preferred stock dividends	(479)	(479)	(1,438)	(1,438)
Loss from continuing operations applicable to common stock	(290,193)	(1,151,412)	(745,592)	(5,066,423)
Income (loss) from discontinued operations	7,944	7,561	11,753	(123,486)
Net loss applicable to common stock	<u>\$ (282,249)</u>	<u>\$ (1,143,851)</u>	<u>\$ (733,839)</u>	<u>\$ (5,189,909)</u>
Weighted average common shares outstanding - basic and diluted	2,402,168	682,374	1,928,589	659,296
Earnings per share - basic and diluted:				
Loss from continuing operations	\$ (0.12)	\$ (1.69)	\$ (0.39)	\$ (7.68)
Discontinued operations	0.00	0.01	0.01	(0.19)
Net loss	<u>\$ (0.12)</u>	<u>\$ (1.68)</u>	<u>\$ (0.38)</u>	<u>\$ (7.87)</u>

The following potentially dilutive securities were excluded from the calculation of diluted net loss per share because the effects were anti-dilutive based on the application of the treasury stock method and because the Company incurred net losses during the period:

	<b>Three and Nine Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
Options to purchase shares of common stock	10,526	12,813
Warrants to purchase shares of common stock	98,971	–
Series E convertible preferred stock	127,840	127,840
Shares of non-vested restricted stock	1,342	2,283
	<u>252,167</u>	<u>142,936</u>

#### Note 9: Income Taxes

At June 30, 2012, the Company maintained a valuation allowance against its deferred tax assets. The Company determined this valuation allowance was necessary given the current and expected near term losses and the uncertainty with respect to the Company's ability to generate sufficient profits from its new business model.

During the three and nine months ended June 30, 2012, the Company did not incur any income tax benefit associated with its net loss due to the establishment of a valuation allowance against deferred tax assets generated during the period.

#### Note 10: Commitments and Contingencies

##### Operating Leases and Service Contracts

As of June 30, 2012, future minimum annual payments under operating lease agreements and non-cancelable service contracts for fiscal years ending September 30 are as follows:

	<b>Payments Due by Fiscal Year</b>						
	<b>Total</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Thereafter</b>
Operating lease commitments	\$ 241,472	\$ 98,482	\$ 115,996	\$ 25,190	\$ 1,031	\$ 773	\$ –
Noncancelable service contracts	–	–	–	–	–	–	–
	<u>\$ 241,472</u>	<u>\$ 98,482</u>	<u>\$ 115,996</u>	<u>\$ 25,190</u>	<u>\$ 1,031</u>	<u>\$ 773</u>	<u>\$ –</u>

### Capital leases

As of June 30, 2012, the Company had no future obligations under non-cancelable capital leases.

### Litigation

The Company is party to certain legal proceedings from time to time incidental to the conduct of its business. These proceedings could result in fines, penalties, compensatory or treble damages or non-monetary relief. The nature of legal proceedings is such that we cannot assure the outcome of any particular matter, and an unfavorable ruling or development could have a materially adverse effect on our consolidated financial position, results of operations and cash flows in the period in which a ruling or settlement occurs. However, based on information available to the Company's management to date and other than as noted below, the Company's management does not expect that the outcome of any matter pending against us is likely to have a materially adverse effect on our consolidated financial position as of June 30, 2012, our annual results of operations or cash flows, or our liquidity.

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

On June 6, 2008, Global Education Services, Inc. ("GES") filed a consumer fraud class action lawsuit against the Company in King County (Washington) Superior Court alleging that the Company's use of activator checks violated the Washington Consumer Protection Act. GES sought injunctive relief against the Company's use of activator checks, as well as damages in an amount equal to three times the damages allegedly sustained by the putative members of the class. LiveDeal denied the allegations and defended the litigation. The parties reached a tentative settlement in the third quarter of fiscal 2012 and expects to file motions with the court jointly with the class representative and class counsel for preliminary and final approval once the settlement documents have been completed. The Company accrued \$150,000 in the third quarter of fiscal 2012 in conjunction with this tentative settlement which is reflected as part of other income (expense) in the accompanying unaudited interim condensed consolidated statements of operations.

#### **Note 11: Concentration of Credit Risk**

The Company maintains cash balances at major banking institutions in California and Nevada. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per bank, but bank balances generally exceed the FDIC limit.

The Company has concentrations of receivables with respect to certain wholesale accounts and remaining holdbacks with Local Exchange Carrier ("LEC") service providers. Three such entities accounted for 37%, 27% and 14% of gross receivables at June 30, 2012 and 31%, 25%, and 20% of gross receivables at September 30, 2011, respectively.

#### **Note 12: Segment Reporting**

The Company has historically had two reportable operating segments: Directory Services and Direct Sales - Customer Acquisition Services. During fiscal 2011, the Company discontinued its direct sales operations as described in Note 4 above. Accordingly, the Company's continuing operations consist of only one business segment.

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

#### **Note 13: Recent Accounting Pronouncements**

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements ("ASU 2011-04") in GAAP and International Financial Reporting Standards ("IFRS"). Under ASU 2011-04, the guidance amends certain accounting and disclosure requirements related to fair value measurements to ensure that fair value has the same meaning in GAAP and IFRS and that their respective fair value measurement and disclosure requirements are the same. ASU 2011-04 is effective for public entities during interim and annual periods beginning after December 15, 2011. The Company does not believe that the adoption of this guidance will have a material impact on the Company's consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, "Presentation of Comprehensive Income" ("ASU 2011-05"). ASU 2011-05 requires companies to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The provisions of ASU 2011-05 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Since ASU 2011-05 only amends the disclosure requirements concerning comprehensive income, the adoption of ASU 2011-05 will not affect the consolidated financial position, results of operations or cash flows of the Company.

**Note 14: Subsequent Events**

The Company recently announced its plan to implement a new business line primarily focused on developing mobile solutions to exploit local commerce opportunities. The Company plans to develop strategic relationships with larger, well-known companies in the industry that can add value to our local merchant customer base, and to leverage these strategic relationships and alliances to move quickly to market a suite of state-of-the-art local commerce solutions. The Company plans to target its existing subscribers, as well as new customers, for our new product line offerings.

In connection with the Company's new business strategy, on August 9, 2012, the Company entered into an agreement to acquire substantially all of the assets of Live Openly, Inc., a California corporation engaged in sourcing, publishing and selling discounted offers for goods and services through local retail merchants, for a purchase price of 75,000 shares of the Company's common stock. The acquisition is subject to customary closing conditions and is expected to close in the fourth quarter on a date to be agreed by both parties.

## 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 nine months ended June 30, 2012, this "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 condensed consolidated financial statements, including the related notes, appearing in Part I, Item 1 of this Quarterly Report on Form 10-Q, as well as our Annual Report on Form 10-K for the fiscal year ended September 30, 2011.

### **Our Company**

LiveDeal, Inc. primarily provides local internet marketing services for small businesses. LiveDeal, through our wholly owned subsidiary (Velocity Marketing Concepts, Inc.), offers an affordable way for small businesses to extend their marketing reach to local, relevant customers via the Internet.

We use the latest technologies to deliver best-in-breed online marketing solutions to our small business customers. We have online advertising solutions to help small businesses grow their company and realize online success.

#### *Summary Business Description*

We deliver affordable acquisition services to the small business segment through the InstantAgency® Suite of products and services. These products are currently sold through Velocity Marketing Concepts which targets complimentary aspects of the small business market.

The InstantAgency products include:

InstantProfile distributes a small business' key contact and service information to the top Internet destinations (based on popularity), including search engines, internet directories, and social media networks. This gives the advertiser the ability to manage their business information in one location and maximize their reach to the many destinations a consumer may search for local business services.

InstantProfile's social media platform, InstantBUZZ, not only creates a presence for the advertiser in select social media networks, it also allows the advertiser to use one location to broadcast their messages across their entire social media network. By leveraging this automation, our customers avoid the need to manage multiple logins for individual websites and duplicate submissions, thereby decreasing the time required to broadcast their messages through multiple social media channels.



Additionally, InstantProfile customers enjoy a suite of communication tools that assist them in communicating directly with their customers and employees. These communication tools include a conferencing solution to host calls with up to 10 participants and an online electronic fax solution with unlimited faxes included.

The key attribute the InstantAgency® products and services all have in common is high value, low cost marketing options that service the many needs of the small business customer. The suite of products and services was strategically chosen to be entry level products and services that can grow with a small business as it grows. For those starting with the more customized products and services, InstantAgency® can continue to drive more online visitors and callers and in turn customers based on the customer budget. Our strategic advantage is the ability to service the small business customer regardless of their budget or online knowledge.

We plan to implement a new business line primarily focused on developing mobile solutions to exploit local commerce opportunities. We plan to develop strategic relationships with larger, well-known companies in the industry that can add value to our local merchant customer base, and to leverage these strategic relationships and alliances to move quickly to market a suite of state-of-the-art local commerce solutions. We plan to target our existing subscribers, as well as new customers, for our new product offerings.

## **Recent Developments**

### *Financial Performance*

We have embarked on a significant change in business strategy to maintain our legacy business (directory services offering) and update it to meet current market requirements and move ahead of our competitors in this market segment. We have continued to experience a decline in revenues due to the stop in new sales in July 2011. However, we have also reduced our costs of sales, primarily due to fulfillment cost reductions, ongoing costs and expenses and reduced ongoing operating losses. Our losses have decreased from \$1,143,377 and \$5,188,471, for the three and nine months ended June 30, 2011 to \$281,770 and \$732,401 for the three and nine months ended June 30, 2012 respectively.

### *Discontinued Operations*

As part of our strategy to evaluate each of our business segments as separate entities, management noted that the direct sales business segment had incurred operating losses and declining revenues and did not fit with our change in strategic direction. Accordingly, in March 2011, we made the strategic decision to discontinue our direct sales business and product offerings. Prior financial statements have been restated to present the direct sales business segment as a discontinued operation.

The direct sales business segment accounted for no net revenues for the three and nine months ended June 30, 2012 and \$105,293 and \$1,341,430 of net revenues for the three and nine months ended June 30, 2011, respectively. Net revenues from this business segment are now included as part of income from discontinued operations in the accompanying unaudited interim condensed consolidated statements of operations.

### *Restructuring Activities*

On November 30, 2010, the Board approved a reduction in force that resulted in the termination of 36 of our employees or approximately 60% of our workforce, effective December 1, 2010. The reduction in force was related to our ongoing restructuring and cost reduction efforts and strategy of focusing our resources on the development and expansion of our core InstantProfile product, the successor to our LEC-billed directory product. All terminated employees were involved in the marketing and sale of our InstantPromote product by its subsidiary, Local Marketing Experts, Inc.

During the three and nine months ended June 30, 2011, we incurred expenses of \$0 and \$99,319 respectively, in connection with this reduction in force. Of the \$99,319 incurred in the fiscal quarter ended December 31, 2010, \$37,500 were incurred for one-time employee termination benefits payable in cash and the remaining expenses related to salaries and wages payable in cash to the affected employees. No expenses were incurred in the three or nine months ended June 30, 2012 in connection with the restructuring activities.

#### *Termination of Principal Officer*

On May 20, 2012, the Company's employment agreement with Lawrence W. Tomsic, our Chief Financial Officer, expired in accordance with its terms. Both parties agreed not to extend the employment agreement. During the three months ended June 30, 2012, the Company accelerated the unvested portion of Mr. Tomsic's stock options as described above in Note 5 (Stock-based compensation) to the Company's unaudited interim condensed consolidated financial statements.

#### *Change of Address of Principal Executive Offices*

We have changed the address of our principal executive offices to 6240 McLeod Drive, Suite 120, Las Vegas, Nevada, 89120. Our telephone number remains (702) 939-0230.

#### *Acquisition of LiveOpenly, Inc.*

In connection with our new business strategy, on August 9, 2012, we entered into an agreement to acquire substantially all of the assets of LiveOpenly, Inc., a California corporation engaged in sourcing, publishing and selling discounted offers for goods and services through local retail merchants, for a purchase price of 75,000 shares of our common stock. The acquisition is subject to customary closing conditions and is expected to close at a future date to be agreed by both parties. We are in the process of evaluating the accounting treatment of this transaction.

### **Results of Operations**

The following sets forth a discussion of our financial results for the three and nine months ended June 30, 2012 as compared to the three and nine months ended June 30, 2011. In evaluating our business, management reviews several key performance indicators including new customers, total customers in each line of business, revenues per customer, and customer retention rates. However, given the changing nature of our business strategy, we do not believe that presentation of these metrics would reveal any meaningful trends in our operations that are not otherwise apparent from the discussion of our financial results below.

#### *Net Revenues*

	<b>Net Revenues</b>			
	<b>2012</b>	<b>2011</b>	<b>Change</b>	<b>Percent</b>
Three Months Ended June 30,	\$ 777,857	\$ 1,124,976	\$ (347,119)	(31)%
Nine Months Ended June 30,	\$ 2,450,971	\$ 3,237,763	\$ (786,792)	(24)%

Net revenues decreased in the third quarter and first nine months of fiscal 2012 as compared to the third quarter and first nine months of fiscal 2011 primarily due to the fact that new sales were paused July 15, 2011 when we began exploring new sales programs and improving our marketing and fulfillment services.

#### *Cost of Services*

	<b>Cost of Services</b>			
	<b>2012</b>	<b>2011</b>	<b>Change</b>	<b>Percent</b>
Three Months Ended June 30,	\$ 108,661	\$ 1,048,229	\$ (939,568)	(90)%
Nine Months Ended June 30,	\$ 571,088	\$ 3,455,589	\$ (2,884,501)	(83)%

Cost of services decreased in the third quarter and first nine months of fiscal 2012 as compared to the third quarter and first nine months of fiscal 2011 primarily due to decreased costs associated with the decline in the number of our customers and the provisioning of fulfillment activities which are now done by us rather than outside vendors.

## Gross Profit

	Gross Profit			
	2012	2011	Change	Percent
Three Months Ended June 30,	\$ 669,196	\$ 76,747	\$ 592,449	772%
Nine Months Ended June 30,	\$ 1,879,883	\$ (217,826)	\$ 2,097,709	963%

Gross profit increased in the third quarter and first nine months of fiscal 2012 as compared to the third quarter and first nine months of fiscal 2011 primarily due to the decreased cost of fulfillment services as described above.

## General and Administrative Expenses

	General and Administrative Expenses			
	2012	2011	Change	Percent
Three Months Ended June 30,	\$ 742,353	\$ 1,172,531	\$ (430,178)	(37)%
Nine Months Ended June 30,	\$ 2,330,595	\$ 4,756,487	\$ (2,425,892)	(51)%

General and administrative expenses decreased in the third quarter of fiscal 2012 as compared to the third quarter of fiscal 2011 primarily due to the following:

- Decreased compensation costs of approximately \$44,000 reflecting the reduction of employees from 21 at June 30, 2011 to 13 at June 30, 2012;
- Other expense decreases of \$94,000, including, but not limited to, rent and utilities, services and fees, office and supplies expenses, office closure expenses, travel and entertainment and other corporate expenses associated with our office closures, reductions in force and other cost containment initiatives;
- Decreased professional fees of approximately \$268,000 related to reductions in IT consulting fees of \$63,000 (due to the movement of IT functions to virtual servers), legal fees of \$160,000 (due to the reduction of litigation), accounting fees of \$11,000, marketing consultant fees of \$13,000, outside sales service costs of \$40,000 (due to the termination of third party sales consultants), partially offset by an increase in other miscellaneous consultants costs of \$19,000; and
- Decreased depreciation and amortization expense of \$24,000.

General and administrative expenses decreased in the first nine months of fiscal 2012 as compared to the first nine months of fiscal 2011 primarily due to the following:

- Decreased compensation costs of approximately \$880,000 reflecting the reduction of employees at June 30, 2011 and June 30, 2012;
- Other expense decreases of \$372,000, including, but not limited to, rent and utilities, services and fees, office and supplies expenses, office closure expenses, travel and entertainment and other corporate expenses associated with our office closures, reductions in force and other cost containment initiatives;
- Decreased professional fees of approximately \$891,000 related to reduction in IT consulting fees of \$207,000 (due to the movement of IT functions to virtual servers), legal fees of \$352,000 (due to the reduction of litigation), accounting fees of \$25,000, marketing consultant fees of \$41,000, outside sales service costs of \$221,000 (due to the termination of third party sales consultants) and other miscellaneous consultants costs of \$45,000; and
- Decreased depreciation and amortization expense of \$283,000.

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

	<b>Q3 2012</b>	<b>Q2 2012</b>	<b>Q1 2012</b>	<b>Q4 2011</b>	<b>Q3 2011</b>
Compensation for employees, officers and directors	\$ 378,700	\$ 295,333	\$ 341,325	\$ 340,888	\$ 422,901
Professional fees	110,706	226,403	143,805	360,221	378,960
Depreciation and amortization	55,669	67,391	69,281	88,868	79,227
Other general and administrative costs	197,278	232,307	212,397	174,887	291,448

*Sales and Marketing Expenses*

	<b>Sales and Marketing Expenses</b>			
	<b>2012</b>	<b>2011</b>	<b>Change</b>	<b>Percent</b>
Three Months Ended June 30,	\$ 1,712	\$ 19,543	\$ (17,831)	(91)%
Nine Months Ended June 30,	\$ 2,291	\$ 56,318	\$ (54,027)	(96)%

Sales and marketing expenses decreased in the third quarter and first nine months of fiscal 2012 as compared to the third quarter and first nine months of fiscal 2011 primarily due to the reduction in spending for marketing materials. This reduction is in conjunction with the pausing of new sales effective July 2011.

*Operating Loss*

	<b>Operating Loss</b>			
	<b>2012</b>	<b>2011</b>	<b>Change</b>	<b>Percent</b>
Three Months Ended June 30,	\$ (74,869)	\$ (1,115,327)	\$ 1,040,458	(93)%
Nine Months Ended June 30,	\$ (453,003)	\$ (5,030,631)	\$ 4,577,628	(91)%

The reduction in operating loss for the third quarter and first nine months of fiscal 2012 as compared to the third quarter and first nine months of 2011 reflect a variety of changes in net revenues, cost of sales, general and administrative expenses and sales and marketing expenses, each of which is described above.

*Total Other Income (Expense)*

	<b>Total Other Income (Expense)</b>			
	<b>2012</b>	<b>2011</b>	<b>Change</b>	<b>Percent</b>
Three Months Ended June 30,	\$ (214,845)	\$ (35,606)	\$ (179,239)	(503)%
Nine Months Ended June 30,	\$ (291,151)	\$ (34,354)	\$ (256,797)	(748)%

In the third quarter of fiscal 2012, the Company accrued \$150,000 in conjunction with the settlement of the GES litigation. See Note 10 (Commitments and Contingencies) to our unaudited interim condensed consolidated financial statements above for additional information. For the third quarter and the first nine months of fiscal 2012, the Company incurred \$65,000 and \$151,000 in interest expense, respectively, primarily for an outstanding loan.

*Income from Discontinued Operations*

	<b>Income (Loss) from Discontinued Operations</b>			
	<b>2012</b>	<b>2011</b>	<b>Change</b>	<b>Percent</b>
Three Months Ended June 30,	\$ 7,944	\$ 7,561	\$ 383	(5)%
Nine Months Ended June 30,	\$ 11,753	\$ (123,486)	\$ 135,239	110%

In March 2011, we decided to discontinue the direct sales business and closed that business segment in May 2011 and reflected the change for previously reported periods. For more information, see discussions under the heading "Recent Developments-Discontinued Operations" above. The decline in loss between the nine months ended June 30, 2012 as compared to the nine months ended June 30, 2011 reflects a decline in expenses as we discontinued that business in May 2011.

## Net Loss

	Net Loss			
	2012	2011	Change	Percent
Three Months Ended June 30,	\$ (281,770)	\$ (1,143,372)	\$ 861,602	(75%)
Nine Months Ended June 30,	\$ (732,401)	\$ (5,188,471)	\$ 4,456,070	(86)%

The reduction in net loss for the third quarter and first nine months of fiscal 2012 as compared to the third quarter and first nine months of 2011 are primarily attributable to changes in operating income, other income (expense) and discontinued operations, each of which is described above.

## Liquidity and Capital Resources

Net cash generated in operating activities was approximately \$130,000 for the first nine months of fiscal 2012 as compared to cash used in operating activities of approximately \$3,980,000 for the first nine months of fiscal 2011, an improvement of \$4,110,000. A decrease of approximately \$4,456,000 in our net loss accounted for the majority of this variance. The cash impacts of the decreased net loss were partially offset by a reduction of non-cash expenses of \$918,000 including depreciation expense, stock compensation and bad debt expense. Changes in working capital and other current assets caused an increase in operating cash flows of \$469,000 during the first nine months of fiscal 2012 as compared to a decrease in operating cash flows of \$104,000 for the first nine months of 2011. This working capital variance resulted primarily from the changes in accounts receivable and accrued liabilities. Our primary source of cash inflows has historically been net remittances from directory services customers processed in the form of ACH billings and LEC billings.

We discontinued the direct sales services business in March 2011 as discussed above under the heading "Recent Developments-Discontinued Operations". We previously received upfront payments averaging approximately one-sixth of the gross contract amount. Subsequent payments were received on an installment basis after the application of the initial payment amounts and were billed ratably over the remaining life of the contract.

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

In the first nine months of fiscal 2012, we invested \$202,000 in intangible assets, primarily trade names and software development. In the first nine months of fiscal 2011, we redeemed \$101,000 of certificates of deposits.

During the first nine months of fiscal 2012, our cash flows from financing activities consisted of \$2,350,000 received from the issuance of stock to investors and \$250,000 received from the issuance of convertible debt, partially offset by \$37,000 of payments on capital lease obligations and \$1,000,000 of repayments of notes payable. During the first nine months of fiscal 2011, our cash flows from financing activities consisted of \$300,000 received from the issuance of stock to investors, \$1,000,000 received from the issuance of notes payable and payments of \$46,000 on capital lease obligations.

We had working capital of \$851,000 as of June 30, 2012 compared to \$(1,050,000) as of September 30, 2011 with current assets increasing by \$1,331,000 and current liabilities decreasing by \$570,000 from September 30, 2011 to June 30, 2012. Increases in working capital are primarily attributable to the proceeds received from the issuance of stock to our investors and proceeds received from the issuance of convertible debt partially offset by our operating net loss.

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

*Contractual Obligations*

The following table summarizes our contractual obligations at June 30, 2012 and the effect such obligations are expected to have on our future liquidity and cash flows:

	<b>Payments Due by Fiscal Year</b>						
	<b>Total</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Thereafter</b>
Operating lease commitments	\$ 241,472	\$ 98,482	\$ 115,996	\$ 25,190	\$ 1,031	\$ 773	\$ –
Noncancellable service contracts	–	–	–	–	–	–	–
	<u>\$ 241,472</u>	<u>\$ 98,482</u>	<u>\$ 115,996</u>	<u>\$ 25,190</u>	<u>\$ 1,031</u>	<u>\$ 773</u>	<u>\$ –</u>

*Off-Balance Sheet Arrangements*

At June 30, 2012, we had no off-balance sheet arrangements, commitments or guarantees that require additional disclosure or measurement.

#### ITEM 4. CONTROLS AND PROCEDURES

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

*Changes in Internal Controls Over Financial Reporting.* On May 20, 2012, our employment agreement with Lawrence W. Tomsic, our Chief Financial Officer, expired in accordance with its terms. The parties elected not to extend the employment relationship and amicable parted ways. We are in the process of recruiting a replacement Chief Financial Officer. On a temporary basis, the lack of a Chief Financial Officer increases the risk of ineffective financial oversight of the Company’s accounting and financial processes. However, the Company has taken steps to mitigate this risk, including further involvement by the Chief Executive Officer in financial matters and the retention of an external CPA firm to assist in the analysis of certain accounting matters and in the preparation of the Company’s quarterly filings with the Securities and Exchange Commission.

Except with respect to the departure of the Chief Financial Officer described above, there have been no changes to our internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the fiscal quarter ended June 30, 2012 which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

The Company is party to certain legal proceedings from time to time incidental to the conduct of its business. These proceedings could result in fines, penalties, compensatory or treble damages or non-monetary relief. The nature of legal proceedings is such that we cannot assure the outcome of any particular matter, and an unfavorable ruling or development could have a materially adverse effect on our consolidated financial position, results of operations and cash flows in the period in which a ruling or settlement occurs. However, based on information available to the Company's management to date and other than as noted below, the Company's management does not expect that the outcome of any matter pending against us is likely to have a materially adverse effect on our consolidated financial position as of June 30, 2012, our annual results of operations or cash flows, or our liquidity.

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

On June 6, 2008, Global Education Services, Inc. ("GES") filed a consumer fraud class action lawsuit against the Company in King County (Washington) Superior Court alleging that the Company's use of activator checks violated the Washington Consumer Protection Act. GES sought injunctive relief against the Company's use of activator checks, as well as damages in an amount equal to three times the damages allegedly sustained by the putative members of the class. LiveDeal denied the allegations and defended the litigation. The parties reached a tentative settlement in the third quarter of fiscal 2012 and the Company expects to file motions with the court for preliminary and final approval once the settlement documents have been completed. The Company has accrued \$150,000 in the third quarter of fiscal 2012 in conjunction with the settlement.

### **ITEM 1A. RISK FACTORS**

#### **Risks Related to Our Business**

##### **We may lose our LEC billing channels**

The largest LEC billing companies have issued a notice to all clearinghouses that they will cease billing for third parties as of December 28, 2012. We anticipate that the three remaining LEC's which have not announced that they will terminate their LEC billing contracts will also cease processing for third parties as of the end of this calendar year. We plan to continue to bill our LEC billing customers by switching to alternative billing methods we currently use for our other customers. The change in billing methods may adversely impact our business by increasing cancellation and refund requests from our LEC billing companies.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES**

In June, 2012, we sold 36,364 shares of our common stock in exchange for \$200,000. We offered and sold these shares without registration under the Securities Act of 1933 to an accredited investor in reliance upon the exemption from the registration contained in Section 4(2) of the Securities Act and Rule 506 of Regulation D thereunder. The shares may not be offered or sold in the United States in the absence of an effective registration statement or exemption from the registration requirements under the Securities Act. An appropriate legend has been placed on the share certificate we issued.

### **ITEM 5. OTHER INFORMATION**

On August 9, 2012, the Company entered into an Asset Purchase Agreement, dated as of July 30, 2012, with LiveOpenly, Inc., a California corporation, which is primarily engaged in sourcing discounted offers for goods and services through local retail merchants. Pursuant to the terms and subject to the conditions of the agreement, the Company will acquire substantially all of the assets of LiveOpenly in exchange for 75,000 shares of the Company's common stock. The parties have made customary representations, warranties and covenants in the agreement. Consummation of the acquisition is subject to certain closing conditions, including, among others, that LiveOpenly obtain any necessary consents to the assignment of its assets to the Company. The parties expect the acquisition to close in the fourth quarter of fiscal 2012, subject to the satisfaction or waiver of the various closing conditions in the purchase agreement. A copy of the asset purchase agreement, and the exhibits thereto, are attached as an exhibit hereto. The foregoing description of the asset purchase agreement is qualified in its entirety by reference to the full text thereof.



## ITEM 6. EXHIBITS

The following exhibits are being filed herewith:

<u>Exhibit Number</u>	<u>Description</u>
2.1	Asset Purchase Agreement between LiveDeal, Inc. and LiveOpenly, Inc.
31	Certification of Jon Isaac pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Section 1350 Certification of Jon Isaac
101.INS	XBRL Instance Document*
101.SCH	XBRL Schema Document*
101.CAL	XBRL Calculation Linkbase Document*
101.DEF	XBRL Definition Linkbase Document*
101.LAB	XBRL Label Linkbase Document*
101.PRE	XBRL Presentation Linkbase Document*

\*Pursuant to Rule 405(a)(2) of Regulation S-T, the Company will furnish the XBRL Interactive Data Files with detailed footnote tagging as Exhibit 101 in an amendment to this Form 10-Q within the permitted 30-day grace period for the first quarterly period in which detailed footnote tagging is required after the filing date of this Form 10-Q.

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: August 14, 2012

/s/ Jon Isaac

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Jon Isaac  
Chief Executive Officer and President

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THIS ASSET PURCHASE AGREEMENT (THE "PURCHASE AGREEMENT") CONTAINS CERTAIN RECITALS, STATEMENTS, REPRESENTATIONS AND WARRANTIES (THE "STATEMENTS") BY LIVEDEAL, INC. ("LIVEDEAL") AND BY LIVEOPENLY, INC. ("LIVEOPENLY"). NO PERSON, OTHER THAN THE PARTIES TO THE PURCHASE AGREEMENT, ARE ENTITLED TO RELY ON THE STATEMENTS CONTAINED IN THE PURCHASE AGREEMENT. THE PURCHASE AGREEMENT IS FILED IN ACCORDANCE WITH THE RULES OF THE SECURITIES AND EXCHANGE COMMISSION AS A MATERIAL PLAN OF ACQUISITION, AND IS INTENDED SOLELY AS A RECORD OF THE AGREEMENT REACHED BY THE PARTIES THERETO. THE FILING OF THE PURCHASE AGREEMENT IS NOT INTENDED AS A MECHANISM TO UPDATE, SUPERSEDE OR OTHERWISE MODIFY PRIOR DISCLOSURES OF INFORMATION AND RISKS CONCERNING LIVEDEAL WHICH LIVEDEAL HAS MADE TO ITS STOCKHOLDERS.

INVESTORS AND POTENTIAL INVESTORS SHOULD BE AWARE THAT CERTAIN STATEMENTS MADE IN THE PURCHASE AGREEMENT ARE NOT INTENDED TO BE AFFIRMATIVE STATEMENTS OF FACTS, SITUATIONS OR CIRCUMSTANCES, BUT ARE INSTEAD DESIGNED AND INTENDED TO ALLOCATE CERTAIN RISKS BETWEEN LIVEDEAL AND LIVEOPENLY. THE USE OF REPRESENTATIONS AND WARRANTIES TO ALLOCATE RISK IS A STANDARD DEVICE IN ACQUISITION AGREEMENTS.

ACCORDINGLY, STOCKHOLDERS, INVESTORS AND POTENTIAL INVESTORS SHOULD NOT RELY ON THE STATEMENTS AS AFFIRMATIONS OR CHARACTERIZATIONS OF INFORMATION CONCERNING LIVEDEAL OR LIVEOPENLY AS OF THE DATE OF THE PURCHASE AGREEMENT, OR AS OF ANY OTHER DATE.

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**ASSET PURCHASE AGREEMENT**

**DATED: JULY 30, 2012**

**BY AND BETWEEN**

**LIVEDEAL, INC., AS BUYER**

**AND**

**LIVEOPENLY, INC., AS SELLER**

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## ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement ("**Agreement**") is dated as of July 30, 2012, by and between LiveDeal, Inc., a corporation organized under the laws of the State of Nevada ("**Buyer**") and LiveOpenly, Inc., a corporation organized under the laws of the State of California ("**Seller**").

### RECITALS

This Agreement is being entered into by Buyer based, in part, upon the truth and accuracy of the following factual Recitals, each of which shall be deemed to be additional representations and warranties by Seller:

- A.** Buyer has been exploring new lines of businesses and has determined to focus its efforts on sourcing, publishing and selling discounted offers for goods and services through local retail merchants ("**Deals**") ("**New Business of Buyer**"). Using Buyer's website and mobile applications, merchants can post their own promotional Deals that are viewed by Buyer's subscribers;
- B.** Buyer's management has determined it would be in the best interest of Buyer to acquire certain assets of Seller, a Deal procurement company ("**Seller's Business**"), consisting of Seller's: (i) customer list of approximately 12,000 business entities and/or individuals; (ii) the domain name "liveopenly.com" and any other domain name which Seller owns or has the right to own; (iii) web Software related to Seller's Business; (iv) two Deal sourcing contracts - one with Travelzoo, Inc. and the other with Affinity Solutions, Inc., both of which publish and sell Deals ("**the Sourcing Contracts**"); (v) Trademarks; (vi) Intellectual Property; and the goodwill related to the foregoing assets of Seller;
- C.** Natasha Moreno ("**Natasha**") owns all of the stock of Seller which desires to sell the Purchased Assets to Buyer. Ejimofor Umenyiora ("**Jim**") has worked with Natasha for over two years to create and develop value in the Purchased Assets (defined below);
- D.** Seller desires to sell the Purchased Assets, and Buyer desires to purchase the same upon the terms and conditions set forth herein; and
- E.** The Boards of Directors of Seller and Buyer have each deemed it advisable and in the best interests of Seller and Buyer, respectively, to consummate this Agreement, in order to advance the long-term strategic business goals of Buyer.

**NOW, THEREFORE**, in consideration of the above and the respective agreements hereinafter set forth, the parties to this Agreement agree as follows:

## SECTION 1 DEFINITIONS

Section 1: 1.1 Definitions. When used in this Agreement, the following terms shall have the meanings assigned to them in this

"**Affiliate**" means, with respect to any specified Person, any other Person directly or indirectly controlling, controlled by or under common control with such specified Person.

"**Ancillary Agreements**" means a Bill of Sale, an Assignment and Assumption Agreement, a Patent Assignment Agreement, a Trademark Assignment Agreement, a Copyright Assignment Agreement, a Domain Name Assignment Agreement and the other agreements, instruments and documents to be delivered at the Closing.

"**Authorization**" means any authorization, approval, Consent, certificate, license, permit or franchise of or from any Governmental Entity or pursuant to any Law.

"**Books and Records**" means books of account, general, financial, and shipping records, invoices, supplier lists, drawings, correspondence, maintenance, operating records, advertising and promotional materials, credit records of customers and other documents, records and files, in each case Related to Seller's Business, including books and records relating to Seller's Intellectual Property, Patents and any other document Buyer has asked to review in connection with its due diligence related to this Agreement.

"**Business Day(s)**" means a day other than a Saturday, Sunday or other day on which banks located in San Diego, California are authorized or required by Law to close.

"**Charter Documents**" means, with respect to any entity, the certificate of incorporation, the articles of incorporation, by-laws, articles of organization, limited liability company agreement, partnership agreement, formation agreement, joint venture agreement or other similar organizational documents of such entity (in each case, as amended).

"**Code**" means the Internal Revenue Code of 1986.

"**Contract**" means any agreement, contract, license, commitment, arrangement or understanding, written or oral, including any sales order or purchase order.

"**Governmental Entity**" means any entity or body exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to United States federal, state, local, or municipal government, foreign, international, multinational or other government, including any department, commission, board, agency, bureau, subdivision, instrumentality, official or other regulatory, administrative or judicial authority thereof, and any non-governmental regulatory body to the extent that the rules and regulations or orders of such body have the force of Law.

**"Knowledge of Seller"** means, with respect to any fact or matter, the actual knowledge of the directors and executive officers of Seller and any other employee of Seller with a title of manager or above, together with such knowledge that such directors, executive officers or other Seller employees could be expected to discover after due investigation concerning the existence of the fact or matter in question.

**"Law"** means any statute, law (including common law), constitution, treaty, ordinance, code, order, decree, judgment, rule, regulation and any other binding requirement or determination of any Governmental Entity.

**"Lien"** means, with respect to any o Purchased Asset, any lien, pledge, charge, security interest, adverse claim or other encumbrance in respect of such asset.

**"Order"** means any award, injunction, judgment, decree, order, ruling, subpoena or verdict or other decision issued, promulgated or entered by or with any Governmental Entity of competent jurisdiction.

**"Person"** means an individual, a corporation, a partnership, a limited liability company, a trust, an unincorporated association, a Governmental Entity or any other entity or body.

**"Related to Seller's Business"** means used, held for use or acquired or developed for use in Seller's Business or otherwise relating to, or arising out of, the operation or conduct of Seller's Business.

**"Tax" or "Taxes"** means any and all federal, state, local, or foreign net or gross income, gross receipts, net proceeds, sales, use, ad valorem, value added, franchise, bank shares, withholding, payroll, employment, excise, property, deed, stamp, alternative or add-on minimum, environmental, profits, windfall profits, transaction, license, lease, service, service use, occupation, severance, energy, unemployment, social security, workers' compensation, capital, premium, and other taxes, assessments, customs, duties, fees, levies, or other governmental charges of any nature whatever, whether disputed or not, together with any interest, penalties, additions to tax, or additional amounts with respect thereto.

**"Tax Returns"** means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

**"Taxing Authority"** means any Governmental Entity having jurisdiction with respect to any Tax.

**"\$"** means United States dollars.



**SECTION 2**  
**PURCHASE AND SALE**

2.1 Purchase and Sale of the Purchased Assets. Upon the terms, and subject to the conditions of this Agreement, on the Closing Date, Seller shall sell, convey, assign, deliver and transfer to Buyer, and Buyer shall purchase, acquire and accept from Seller, free and clear of Liens the "Purchased Assets." The Purchased Assets consist of the following assets and rights:

- (a) Seller's customer list of approximately 12,000 business entities and/or individuals;
- (b) the Sourcing Contracts;
- (c) all of Seller's Software, including, but not limited to data base schema and source code;
- (d) all of Seller's files, Books and Records Related to Seller's Business, including, without limitation, records of Seller's customers, consultants, vendors, and similar contacts, telephone numbers and e-mail addresses Related to Seller's Business;
- (e) all of Seller's rights in and to the names "LiveOpenly, Inc.," "LiveOpenly," "liveopenly.com," and any other name Seller has used in the past or currently uses Related to Seller's Business and to any and all trademarks, trade names or service names owned by or used by Seller and the rights to any web site address or domain name owned or used by Seller;
- (f) all software and software licenses and related manuals and warranties which were developed by outside third parties specifically for Seller or developed internally by Seller personnel, including any source code and existing documentation and instructions;
- (g) all licenses, permits, approvals and qualifications Related to Seller's Business from any Governmental Entity to the extent their transfer is permitted by Law; and
- (h) all goodwill related to the Purchased Assets.

2.2 Purchase Price. Buyer shall issue to Seller 75,000 shares of Buyer's common stock ("**Shares**"). At the Closing, Seller hereby directs Buyer to issue: (i) Natasha or her nominee 50,000 Shares; and (ii) Jim 25,000 Shares in the name of Giant City LLC or its nominee.

### SECTION 3 CLOSING

3.1 Closing Date. The closing of the sale of the Purchased Assets ("**Closing**") shall take place at the offices of Buyer, at 12520 High Bluff Drive, Suite 145, San Diego, California at 10:00 a.m. on a date to be specified by the parties. The date on which the Closing occurs is referred to in this Agreement as the "**Closing Date.**"

3.2 Deliveries by Seller at the Closing. At the Closing, Seller shall deliver to Buyer the following:

- (a) a Bill of Sale in the form of **Exhibit 1** duly executed by Seller ("**Bill of Sale**");
- (b) an Assignment and Assumption Agreement in the form of **Exhibit 2** hereto ("**Assignment and Assumption Agreement**") executed by Seller;
- (c) Patent and Trademark Assignment Agreement in the form of **Exhibit 3** duly executed by Seller ("**Patent and Trademark Assignment Agreement**"); and
- (d) such other good and sufficient instruments of transfer as Buyer reasonably deems necessary and appropriate to vest in Buyer all right, title and interest in, to and under the Purchased Assets.

3.3 Deliveries by Buyer at the Closing. At the Closing, Buyer shall deliver to Seller 75,000 Shares in two certificate forms, one stock certificate in the amount of 50,000 Shares in the name of Natasha Moreno or her nominee and one stock certificate in the amount of 25,000 Shares in the name of Giant City LLC or its nominee.

### SECTION 4 REPRESENTATIONS AND WARRANTIES OF SELLER

Seller represents and warrants to Buyer, as of the date hereof and as of the Closing Date, that the statements contained in this Section 4 are true and correct.

4.1 Organization and Good Standing. Seller is a corporation, duly organized, validly existing and in good standing under the Laws of the jurisdiction of its incorporation, has all requisite power to own its properties and to carry on Seller's Business, as formerly conducted, and is duly qualified to do business and is in good standing in each jurisdiction in which it conducts any business. Seller is not in default under its Charter Documents.

4.2 Authority and Enforceability.

- (a) Seller has the requisite power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Seller. Seller has duly executed and delivered this Agreement to Buyer. This Agreement constitutes the valid and binding obligation of Seller, enforceable against it in accordance with its terms; and

(b) Seller has the requisite power and authority to enter into each Ancillary Agreement to which it is, or specified to be, a party and to consummate the transactions contemplated thereby. The execution and delivery by Seller of each Ancillary Agreement to which it is, or specified to be, a party and the consummation of the transactions contemplated thereby have been duly authorized by all necessary corporate action on the part of Seller. Prior to the Closing, Seller will have duly executed and delivered each Ancillary Agreement to which it is, or specified to be, a party. The Ancillary Agreements will constitute valid and binding obligations on Seller, enforceable against it in accordance with its terms. The Ancillary Agreements will effectively vest in Buyer good, valid and marketable title to all the Purchased Assets free and clear of all Liens.

4.3 No Conflicts; Consents. The execution and delivery of this Agreement by Seller do not, and the execution and delivery of each Ancillary Agreement to which Seller is, or specified to be, a party, the performance by Seller of its obligations hereunder and thereunder and the consummation by Seller of the transactions contemplated hereby and thereby (in each case, with or without the giving of notice or lapse of time, or both), will not, directly or indirectly: (i) violate the provisions of any of the Charter Documents of Seller; (ii) violate or constitute a default, an event of default or an event creating rights of acceleration, termination, cancellation, imposition of additional obligations or loss of rights under any Contract (A) to which Seller is a party, (B) of which Seller is a beneficiary, or (C) by which Seller or any of its respective assets is bound; (iii) violate or conflict with any Law, Authorization or Order applicable to Seller, or give any Governmental Entity or other Person the right to challenge any of the transactions contemplated by this Agreement or the Ancillary Agreements or to exercise any remedy, obtain any relief under or revoke or otherwise modify any rights held under, any such Law, Authorization or Order; or (iv) result in the creation of any Liens upon any of the Purchased Assets.

4.4 No Undisclosed Liabilities. Seller's Business has no liabilities, obligations or commitments of any nature whatsoever, asserted or unasserted, known or unknown, absolute or contingent, accrued or unaccrued, matured or unmatured or otherwise ("**Liabilities**").

4.5 Taxes.

(a) All Tax Returns required to have been filed by or with respect to Seller have been duly and timely filed (or, if due between the date hereof and the Closing Date, will be duly and timely filed), and each such Tax Return correctly and completely reflects Liability for Taxes and all other information required to be reported thereon. All Taxes owed by Seller (whether or not shown on any Tax Return) have been timely paid (or, if due between the date hereof and the Closing Date, will be duly and timely paid). Seller has adequately provided for, in its books of account and related records, Liability for all unpaid Taxes being current Taxes not yet due and payable;

(b) There is no action or audit now proposed, threatened or pending against, or with respect to, Seller in respect of any Taxes. Seller is not the beneficiary of any extension of time within which to file any Tax Return, nor has Seller made (or had made on its behalf) any requests for such extensions. No claim has ever been made by an authority in a jurisdiction where Seller does not file Tax Returns that Seller is or may be subject to taxation by that jurisdiction or that Seller must file Tax Returns. There are no Liens on any of the Purchased Assets with respect to Taxes;

(c) Seller has withheld and timely paid all Taxes required to have been withheld and paid and has complied with all information reporting and backup withholding requirements, including maintenance of required records with respect thereto; and

(d) There is no dispute or claim concerning any Liability for Taxes with respect to Seller for which notice has been provided, or which is asserted or threatened, or which is otherwise known to Seller. No issues have been raised in any Taxes examination with respect to Seller which, by application of similar principles, could be expected to result in Liability for Taxes for Seller or period not so examined. Seller has delivered to Buyer correct and complete copies of all federal income Tax Returns, examination reports, and statements of deficiencies assessed against or agreed to by Seller since December 31, 2011. Seller has neither waived (nor is subject to a waiver of) any statute of limitations in respect of Taxes nor has agreed to (or is subject to) any extension of time with respect to a Tax assessment or deficiency.

4.6 Compliance with Law.

(a) Seller has conducted Seller's Business in compliance with all applicable Laws.

(b) No event has occurred and no circumstances exist that (with or without the passage of time or the giving of notice) may result in a violation of, conflict with or failure on the part of Seller to conduct Seller's Business in compliance with any applicable Law. Seller has not received notice regarding any violation of, conflict with, or failure to conduct Seller's Business in compliance with, any applicable Law.

4.7 Business Authorizations.

(a) Seller owns, holds or lawfully uses in the operation of Seller's Business all Authorizations which are necessary for it to conduct Seller's Business as formerly conducted for the ownership and use of the assets owned or used by Seller in the conduct of Seller's Business ("**Business Authorizations**") free and clear of all Liens. Such Business Authorizations, if any, are valid and in full force and effect.

(b) No event has occurred and no circumstances exist that (with or without the passage of time or the giving of notice) may result in a violation of, conflict with, failure on the part of Seller to comply with the terms of, or the revocation, withdrawal, termination, cancellation, suspension or modification of any Business Authorization. Seller has not received notice regarding any violation of, conflict with, failure to comply with the terms of, or any revocation, withdrawal, termination, cancellation, suspension or modification of any Business Authorization. Seller is not in default, nor has Seller received notice of any claim of default, with respect to any Business Authorization.

4.8 Title to Purchased Assets. With respect to the Purchased Assets that it purports to own, Seller has good and transferable title to all such Purchased Assets, free and clear of all Liens.

4.9 Intellectual Property.

(a) As used in this Agreement, "**Intellectual Property**" means: (i) inventions (whether or not patentable), trade secrets, technical data, databases, customer lists, designs, methods, processes, technology, ideas, know-how, codes, product road maps and other proprietary information and materials ("**Proprietary Information**"); (ii) trademarks and service marks (whether or not registered), trade names, logos, trade dress and other proprietary indicia and all goodwill associated therewith; (iii) documentation, advertising copy, marketing materials, web-sites, specifications, mask works, drawings, graphics, databases, recordings and other works of authorship, whether or not protected by Copyright; (iv) computer programs, including any and all software implementations of algorithms, models and methodologies, whether in source code or object code, design documents, flow-charts, user manuals and training materials relating thereto and any translations thereof (collectively, "**Software**"); and (v) all forms of legal rights and protections that may be obtained for, or may pertain to, the Intellectual Property set forth in clauses (i) through (iv) of this Section 4.10 in any country of the world ("**Intellectual Property Rights**"), including all letters patent, patent applications, provisional patents, design patents, PCT filings, invention disclosures and other rights to inventions or designs ("**Patents**"), all registered and unregistered copyrights in both published and unpublished works ("**Copyrights**"), all trademarks, service marks and other proprietary indicia (whether or not registered) ("**Marks**"), trade secret rights, mask works, moral rights or other literary property or authors rights, and all applications, registrations, issuances, divisions, continuations, renewals, reissuances and extensions of the foregoing.

(b) Seller represents and warrants that all Intellectual Property that is owned by Seller and Related to Seller's Business (whether exclusively, jointly with another Person or otherwise) ("**Seller Owned Intellectual Property**") will be identified and sold pursuant to the Patent and Trademark Assignment Agreement.

(c) Seller represents and warrants that there are no licenses, sublicenses and other agreements ("**In-Bound Licenses**") pursuant to which a third party authorizes Seller to use, practice any rights under, or grant sublicenses with respect to, any Intellectual Property Related to Seller's Business owned by a third party, including the incorporation of any such Intellectual Property into products of Seller and, with respect to each In-Bound License, whether the In-Bound License is exclusive or non-exclusive.

(d) Seller represents and warrants that there are no licenses, sublicenses and other agreements ("**Out-Bound Licenses**") pursuant to which Seller authorizes a third party to use, practice any rights under, or grant sublicenses with respect to, any Seller Owned Intellectual Property or pursuant to which Seller grants rights to use or practice any rights under any Intellectual Property owned by a third party and, with respect to each Out-Bound License, whether the Out-Bound License is exclusive or non-exclusive.

(e) Seller represents and warrants that there are no registration, maintenance and renewal fees related to Patents, Marks, Copyrights and any other certifications, filings or registrations that are owned by Seller and Related to the Business of Seller ("**Seller Registered Items**"). To the extent they exist, Seller Registered Items have been filed with the relevant Governmental Entity or other authorities in the United States or foreign jurisdictions, as the case may be, for the purposes of maintaining such Seller Registered Items. There are no actions that must be taken by Buyer with respect to the Seller Registered Items after the date of this Agreement, including the payment of any registration, maintenance or renewal fees or the filing of any documents, applications or certificates for the purposes of maintaining, perfecting or preserving or renewing any Seller Registered Item. To the extent they exist, all Seller Registered Items are in good standing, held in compliance with all applicable legal requirements and enforceable by Seller. Any Patent Related to Seller's Business that has been issued to Seller is valid.

(f) Seller is not aware of any challenges (or any basis therefor) with respect to the validity or enforceability of any Seller Owned Intellectual Property. Seller has not taken any action or failed to take any action that could reasonably be expected to result in the abandonment, cancellation, forfeiture, relinquishment, invalidation, waiver or unenforceability of any Seller Owned Intellectual Property. Seller has not abandoned, cancelled, forfeited or relinquished any Seller Registered Items during the twelve (12) months prior to the date of this Agreement.

(g) None of the products or services formerly developed, sold, distributed, provided, shipped or licensed by Seller, in each case Related to Seller's Business, has infringed or infringes upon, or otherwise unlawfully used or uses, the Intellectual Property Rights of any third party. Seller, by conducting Seller's Business as formerly conducted, has not infringed or infringes upon, or otherwise unlawfully used or uses, any Intellectual Property Rights of a third party. Seller has not received any communication from any Person alleging that Seller has violated any Intellectual Property Rights of a third party nor, to the Knowledge of Seller, is there any basis therefor. No Action has been instituted or, to the Knowledge of Seller, threatened, relating to any Intellectual Property formerly used Related to Seller's Business, and none of the Seller Intellectual Property is subject to any outstanding Order. To the Knowledge of Seller, no Person has infringed or is infringing any Intellectual Property Rights Related to Seller's Business or has otherwise misappropriated or is otherwise misappropriating any Seller Intellectual Property;

(h) With respect to the Proprietary Information Related to Seller's Business, the documentation relating thereto is current, accurate and sufficient in detail and content to identify and explain it and to allow its full and proper use without reliance on the special knowledge or memory of others. Seller has taken commercially reasonable steps to protect and preserve the confidentiality of all Proprietary Information Related to Seller's Business.

(i) No employee, consultant or contractor of Seller has in the past performed services for Seller's Business in violation of any term of any employment, invention disclosure or assignment, confidentiality or non-compete agreement or other restrictive covenant or any Order as a result of such employee's, consultant's or contractor's employment in Seller's Business or any services rendered by such employee, consultant or contractor.

(j) All Intellectual Property that has been distributed, sold or licensed to a third party by Seller and Related to Seller's Business that is covered by warranty conformed and conforms to, and performed and performs in accordance with, the representations and warranties provided with respect to such Intellectual Property by or on behalf of Seller for the time period during which such representations and warranties apply.

(k) The execution and delivery of this Agreement by Seller does not, and the consummation of the transactions contemplated hereby (in each case, with or without the giving of notice or lapse of time, or both), will not, directly or indirectly, result in the loss or impairment of, or give rise to any right of any third party to terminate or re-price or otherwise renegotiate any of Seller's rights to own any of its Intellectual Property or its respective rights under any Out-Bound License or In-Bound License, nor require the Consent of any Governmental Entity or other third party in respect of any such Intellectual Property.

(l) Software.

(i) The software owned, or purported to be owned, by Seller Related to Seller's Business (collectively, "**Seller Owned Software**"), was either: (i) developed by employees of Seller within the scope of their employment; (ii) developed by independent contractors who have assigned all of their right, title and interest therein to Seller pursuant to written agreements; or (iii) otherwise acquired by Seller from a third party pursuant to a written agreement in which such third party assigns all of its right, title and interest therein to Seller. None of Seller Owned Software contains any programming code, documentation or other materials or development environments that embody Intellectual Property Rights of any Person other than Seller, except for such materials obtained by Seller from other Persons who make such materials generally available to all interested Buyers or end-users on standard commercial terms.

(ii) Each existing and currently supported and marketed Software product of Seller's Business performs, in all material respects, the functions described in any agreed specifications or end user documentation or other information provided to customers of Seller's Business on which such customers relied when licensing or otherwise acquiring such products, subject only to routine bugs and errors that can be corrected promptly by Seller in the course of providing customer support without further Liability to Seller, and all of the code of such products has been developed in a manner that meets common industry practice, including the use of regression test and release procedures. To the Knowledge of Seller, each existing and currently supported and marketed Software product of Seller's Business is free of all viruses, worms, Trojan horses and material known contaminants and does not contain any bugs, errors, or problems that would substantially disrupt its operation or have a substantial adverse impact on the operation of the Software.

(iii) Seller has taken all actions customary in the software industry to document the Software and its operation, such that the materials comprising the Software, including the source code and documentation, have been written in a clear and professional manner so that they may be understood, modified and maintained in an efficient manner by reasonably competent programmers.

(iv) Seller has not exported or transmitted Software or other material in connection with Seller's Business to any country to which such export or transmission is restricted by any applicable Law, without first having obtained all necessary and appropriate Authorizations.

(v) Seller Owned Software is free of any disabling codes or instructions (a "**Disabling Code**") and any virus or other intentionally created, undocumented contaminant ("**Contaminant**") that may, or may be used to, access, modify, delete, damage or disable any Systems or that may result in damage thereto. Seller has taken reasonable steps and implemented reasonable procedures to ensure that its and its internal computer systems used in connection with Seller's Business are free from Disabling Codes and Contaminants. The Software licensed by and Related to Seller's Business is free of any Disabling Codes or Contaminants that may, or may be used to, access, modify, delete, damage or disable any of the hardware, software, databases or embedded control systems of Seller's Business ("**Systems**") or that might result in damage thereto. Seller has taken all reasonable steps to safeguard its respective Systems and restrict unauthorized access thereto.



(vi) No Public Software (A) forms part of any Seller Intellectual Property, (B) was, or is, used in connection with the development of any Seller Owned Intellectual Property or any products or services developed or provided by Seller's Business, or (C) was, or is, incorporated or distributed, in whole or in part, in conjunction with Seller Intellectual Property. "**Public Software**" means any software that contains, or is derived in any manner (in whole or in part) from, any software that is distributed as free software, open source software or similar licensing or distribution models, including software licensed or distributed under any of the following licenses or distribution models, or licenses or distribution models similar to any of the following: (1) GNU's General Public License or Lesser/Library GPL; (2) Mozilla Public License; (3) Netscape Public License; (4) Sun Community Source/ Industry Standard License; (5) BSD License; and (6) Apache License.

4.10 Litigation.

(a) There is no action, lawsuit or proceeding, claim, arbitration, litigation or investigation (each, an "**Action**"), in each case Related to Seller's Business: (i) pending or, to Seller's Knowledge, threatened against or affecting Seller; or (ii) that challenges or seeks to prevent, enjoin or otherwise delay the transactions contemplated by this Agreement or the Ancillary Agreements. No event has occurred or circumstances exist that may give rise or serve as a basis for any such Action.

(b) There is no unsatisfied judgment, penalty or award, in each case Related to Seller's Business, against or affecting Seller or any of its respective assets, properties or rights.

4.11 Brokers or Finders. Seller represents that no agent, broker, investment banker or other firm or Person is or will be entitled to any broker's or finder's fee or any other commission or similar fee in connection with any of the transactions contemplated by this Agreement and the Ancillary Agreements.

4.12 Completeness of Disclosure. No representation or warranty by Seller in this Agreement, the Ancillary Agreements or any certificate or other document furnished or to be furnished to Buyer pursuant hereto, or in connection with the negotiation, execution or performance of this Agreement and the Ancillary Agreements contains, or will at the Closing contain, any untrue statement of a material fact or omits or will omit to state a material fact required to be stated herein or therein or necessary to make any statement herein or therein not misleading. There are no facts or circumstances of which Seller is aware that have had, or could be expected to have, individually, or in the aggregate, an adverse effect on the Purchased Assets.

**SECTION 5**  
**REPRESENTATIONS AND WARRANTIES OF BUYER**

Buyer represents and warrants to Seller that each statement contained in this Section 5 is true and correct as of the date of this Agreement.

5.1 Organization and Good Standing. Buyer is a corporation duly organized, validly existing and in good standing under the Laws of the jurisdiction of its incorporation and has the requisite corporate power to own, lease and operate its properties and to carry on its business as now being conducted.

5.2 Authority and Enforceability. Buyer has the requisite corporate power and authority to enter into this Agreement and the Ancillary Agreements to which it is a party, and to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the Ancillary Agreements to which Buyer is a party, and the consummation of the transactions contemplated hereby and thereby, have been duly authorized by all necessary corporate action on the part of Buyer. This Agreement has been, and the Ancillary Agreements to which Buyer is a party will be, duly executed and delivered by Buyer and, assuming due authorization, execution and delivery by Seller, constitutes the valid and binding obligations of Buyer, enforceable against it in accordance with their respective terms.

5.3 Litigation. There is no Action pending or, to the knowledge of Buyer, threatened against Buyer which challenges or seeks to enjoin, alter or materially delay the consummation of the transactions contemplated by this Agreement.

5.4 Availability of Buyer's Common Stock. Buyer has a sufficient number of Shares issued and available which are sufficient to enable it to consummate the transactions contemplated by this Agreement.

**SECTION 6**  
**COVENANTS OF SELLER**

6.1 Access to Information; Investigation. Seller shall afford to Buyer's officers, directors, employees, accountants, counsel, consultants, advisors and agents ("**Representatives**") free and full access to and the right to inspect the Purchased Assets and other documents Related to Seller's Business, and shall permit them to consult with the officers, employees, accountants, counsel and agents of Seller for the purpose of making such investigation of Seller's Business as Buyer shall desire to make.

6.2 Confidentiality. From and after the Closing Date, Seller will hold in confidence any and all information, whether written or oral, concerning Seller's Business and the Purchased Assets, except to the extent that Seller can show that such information: (i) is in the public domain through no fault of Seller; or (ii) is lawfully acquired by Seller after the Closing Date from sources that are not prohibited from disclosing such information by a legal, contractual or fiduciary obligation. If Seller is compelled to disclose any such information by judicial or administrative process or by other requirements of Law, Seller shall promptly notify Buyer in writing and shall disclose only that portion of such information that Seller is advised by its counsel in writing is legally required to be disclosed; provided, however, that Seller shall exercise its reasonable best efforts to obtain an appropriate protective order or other reasonable assurance that confidential treatment will be accorded such information. Seller shall enforce for the benefit of Buyer all confidentiality, assignment of inventions and similar agreements between Seller and any other party relating to the Purchased Assets.

6.3 Release of Liens. Prior to the Closing Date, Seller shall cause to be released all Liens in and upon any of the Purchased Assets.

6.4 Consents. Seller shall obtain all Consents that are required under the Assigned Contracts in connection with the consummation of the transactions contemplated by this Agreement so as to preserve all rights of, and benefits to, Buyer thereunder; provided, however, that no assigned Contract shall be amended and no right thereunder shall be waived to obtain any such Consent.

6.5 Notification of Certain Matters. Seller shall give prompt notice to Buyer of: (i) any fact, event or circumstance known to it that individually or taken together with all other facts, events and circumstances known to it, has had or could have, individually or in the aggregate, a material adverse effect on the Purchased Assets or would cause or constitute a breach of any of its representations, warranties, covenants or agreements contained herein; (ii) the failure of any condition precedent to Buyer's obligations hereunder; (iii) any notice or other communication from any third party alleging that the Consent of such third party is or may be required in connection with the consummation of the transactions contemplated by this Agreement; (iv) any notice or other communication from any Governmental Entity in connection with the consummation of the transactions contemplated by this Agreement; or (v) the commencement of any Action that, if pending on the date of this Agreement, would have been required to have been disclosed pursuant to Section 4.10.

6.6 Restrictive Covenants.

(a) Seller covenants that, commencing on the Closing Date and ending on the fifth anniversary of the Closing Date ("**Noncompetition Period**"), Seller shall not, directly or indirectly, in any capacity, engage in or have any direct or indirect ownership interest in, or permit Seller's name to be used in connection with, any business anywhere in the world which is engaged, either directly or indirectly, in the business of developing, marketing or selling any products or providing any services which are competitive with products, marketed, sold or under development by, or services provided by, the New Business of Buyer ("**Restricted Business**"). It is recognized that the Restricted Business is expected to be conducted throughout the world and that more narrow geographical limitations of any nature on this non-competition covenant and the non-solicitation covenant set forth in Section 6.6(b) are therefore not appropriate.

(b) Seller covenants that, during the Noncompetition Period, Seller shall not solicit the employment or engagement of services of any Person who is offered employment by Buyer or is or was employed as an employee, consultant or contractor in Seller's Business during the Noncompetition Period on a full-time or part-time basis.

(c) Seller acknowledges that the restrictions contained in this Section 6.6 are reasonable and necessary to protect the legitimate interests of Buyer and constitute a material inducement to Buyer to enter into this Agreement, and consummate the transactions contemplated by this Agreement. Seller acknowledges that any violation of this Section 6.6 will result in irreparable injury to Buyer and agrees that Buyer shall be entitled to preliminary and permanent injunctive relief, without the necessity of proving actual damages, as well as an equitable accounting of all earnings, profits and other benefits arising from any violation of this Section 6.6, which rights shall be cumulative and in addition to any other rights or remedies to which Buyer may be entitled. Without limiting the generality of the foregoing, the Noncompetition Period shall be extended for an additional period equal to any period during which Seller or any Affiliate is in breach of its obligations under this Section 6.6.

(d) In the event that any covenant contained in this Section 6.6 should ever be adjudicated to exceed the time, geographic, product or service or other limitations permitted by applicable Law in any jurisdiction, then any court is expressly empowered to reform such covenant, and such covenant shall be deemed reformed in such jurisdiction to the maximum time, geographic, product or service or other limitations permitted by applicable Law. The covenants contained in this Section 6.6 and each provision thereof are severable and distinct covenants and provisions. The invalidity or unenforceability of any such covenant or provision as written shall not invalidate or render unenforceable the remaining covenants or provisions hereof, and any such invalidity or unenforceability in any jurisdiction shall not invalidate or render unenforceable such covenant or provision in any other jurisdiction.

## **SECTION 7 COVENANTS OF BUYER AND SELLER**

7.1 Public Announcements. Seller shall not issue any press releases or otherwise make any public statements with respect to the transactions contemplated by this Agreement, without the prior written Consent of Buyer.

7.2 Names. On the Closing Date, Seller shall deliver to Buyer all such executed documents as may be required to change the name of Seller on that date to another name or names bearing no similarity to any of the Names, including, where applicable, name change amendments and appropriate name change notices for each state where Seller is qualified to do business. Seller hereby appoints Buyer as its attorney-in-fact to file all such documents on or after the Closing Date. Seller shall terminate the use of any and all d/b/a's currently or formerly used by it Related to the Business of Seller.

7.3 Taxes.

(a) Seller shall pay all federal, state and local sales, documentary and other transfer Taxes, if any, due as a result of the purchase, sale or transfer of the Purchased Assets in accordance herewith, whether imposed by Law on Seller or Buyer.

(b) All personal property Taxes and similar ad valorem obligations levied with respect to the Purchased Assets for a taxable period that includes (but does not end on) the Closing Date shall be apportioned between Seller and Buyer as of the Closing Date, based on the number of days of such taxable period included in the period ending with and including the Closing Date (with respect to any such taxable period, the "**Pre-Closing Tax Period**"), and the number of days of such taxable period beginning after the Closing Date (with respect to any such taxable period, the "**Post-Closing Tax Period**"). Seller shall be liable for the proportionate amount of such Taxes that is attributable to the Pre-Closing Tax Period, and Buyer shall be liable for the proportionate amount of such Taxes that is attributable to the Post-Closing Period. If bills for such Taxes have not been issued as of the Closing Date, and if the amount of such Taxes for the period including the Closing Date is not then known, the apportionment of such Taxes shall be made at Closing on the basis of the prior period's Taxes. After Closing, upon receipt of bills for the period including the Closing Date, adjustments to the apportionment shall be made by the parties, so that if either party paid more than its proper share at the Closing, the other party shall promptly reimburse such party for the excess amount ("**Excess Amount**") paid by them.

(c) Buyer and Seller agree to furnish or cause to be furnished to each other, upon request, as promptly as practicable, such information and assistance relating to Seller's Business and the Purchased Assets (including access to Books and Records) as is reasonably necessary for the filing of all Tax Returns, the making of any election relating to Taxes, the preparation for any audit by any Taxing Authority, and the prosecution or defense of any Action relating to any Tax. Any expenses incurred in furnishing such information or assistance shall be borne by the party requesting it.

7.4 Bulk Sales Laws. Buyer and Seller hereby waive compliance by Buyer and Seller with the bulk sales Law and any other similar Laws in any applicable jurisdiction in respect of the transactions contemplated by this Agreement and the Ancillary Agreements; provided, however, that Seller shall pay and discharge when due all claims of creditors asserted against Buyer or the Purchased Assets by reason of such noncompliance and shall take promptly all necessary actions required to remove any Lien which may be placed upon any of the Purchased Assets by reason of such noncompliance.

7.5 Further Assurances. Buyer and Seller shall execute such documents and other instruments and take such further actions as may be reasonably required or desirable to carry out the provisions of this Agreement and the Ancillary Agreements, and to consummate the transactions contemplated hereby and thereby. Upon the terms and subject to the conditions hereof, Buyer and Seller shall each use its respective reasonable best efforts to: (i) take or cause to be taken all actions and to do or cause to be done all other things necessary, proper or advisable to consummate and make effective as promptly as practicable the transactions contemplated by this Agreement and the Ancillary Agreements; and (ii) obtain in a timely manner all Consents and Authorizations and effect all necessary registrations and filings. From time to time after the Closing, at Buyer's request, Seller shall execute, acknowledge and deliver to Buyer such other instruments of conveyance and transfer and will take such other actions and execute and deliver such other documents, certifications and further assurances as Buyer may reasonably require in order to vest more effectively in Buyer, or to put Buyer more fully in possession of, any of the Purchased Assets.

**SECTION 8**  
**CONDITIONS TO CLOSING**

8.1 Conditions to Obligation of Buyer. The obligation of Buyer to consummate the transactions contemplated by this Agreement is subject to the satisfaction (or waiver by Buyer in its sole discretion) of the following further conditions:

(a) the representations and warranties of Seller set forth in this Agreement shall have been true and correct at and as of the date of this Agreement and shall be true and correct at and as of the Closing Date as if made at and as of the Closing Date, except to the extent that such representations and warranties refer specifically to an earlier date, in which case such representations and warranties shall have been true and correct as of such earlier date;

(b) Seller shall have performed or complied with all obligations and covenants required by this Agreement to be performed or complied with by Seller at or prior to the Closing;

(c) unless otherwise waived by Buyer, Seller shall have obtained the Consent of each Person whose Consent is required under the two Contracts being assigned to Buyer; and

(d) Seller shall have delivered to Buyer all agreements and other documents required to be delivered by Seller to Buyer pursuant to this Agreement.

8.2 Conditions to Obligation of Seller. The obligation of Seller to consummate the transactions contemplated by this Agreement is subject to the satisfaction (or waiver by Seller in its sole discretion) of the following further conditions:

(a) the representations and warranties of Buyer set forth in this Agreement shall have been true and correct at and as of the date hereof and shall be true and correct at and as of the Closing Date as if made at and as of the Closing Date, except to the extent that such representations and warranties refer specifically to an earlier date, in which case such representations and warranties shall have been true and correct as of such earlier date;

(b) Buyer shall have performed or complied with all obligations and covenants required by this Agreement to be performed or complied with by Buyer at or prior to the Closing; and

(c) Buyer shall have delivered to Seller all agreements and other documents required to be delivered by Buyer to Seller.

## SECTION 9 INDEMNIFICATION

### 9.1 Survival.

(a) All representations and warranties contained in this Agreement, the Ancillary Agreements or other document delivered pursuant to this Agreement or the Ancillary Agreements shall survive the Closing for a period of five (5) years.

(b) The covenants and agreements which by their terms do not contemplate performance after the Closing shall survive the Closing for a period of two (2) years.

(c) The period for which a representation or warranty, covenant or agreement survives the Closing is referred to herein as the "**Applicable Survival Period.**" In the event notice of claim for indemnification under Section 9.2 or 9.3 is given within the Applicable Survival Period, the representation or warranty, covenant or agreement that is the subject of such indemnification claim (whether or not formal legal action shall have been commenced based upon such claim) shall survive with respect to such claim until such claim is finally resolved. Seller shall indemnify Buyer for all Losses (subject to the limitations set forth herein, if applicable) that Buyer may incur in respect of such claim, regardless of when incurred.

### 9.2 Indemnification by Seller.

(a) Seller shall indemnify and defend Buyer and its Affiliates and their respective stockholders, members, managers, officers, directors, employees, agents, successors and assigns ("**Buyer Indemnities**") against, and shall hold them harmless from, any and all losses, damages, claims (including third party claims), charges, interest, penalties, Taxes, diminution in value, costs and expenses (including legal, consultant, accounting and other professional fees, costs of sampling, testing, investigation, removal, treatment and remediation of contamination and fees and costs incurred in enforcing rights under this Section 9.2) (collectively, "**Losses**") resulting from, arising out of, or incurred by any Buyer Indemnitee in connection with, or otherwise with respect to:

(i) the failure of any representation and warranty or other statement by Seller contained in this Agreement and the Ancillary Agreements in connection with the transactions contemplated by this Agreement and the Ancillary Agreements to be true and correct in all respects as of the date of this Agreement and as of the Closing Date;

(ii) any breach of any covenant or agreement of Seller contained in this Agreement, the Ancillary Agreements or other document furnished or to be furnished to Buyer in connection with the transactions contemplated by this Agreement and the Ancillary Agreements; and

(iii) any notice of the assertion of any claim or the commencement of an Action by a third party Related to Seller's Business or the Purchased Assets.

(b) Any and all Losses hereunder shall bear interest from the date incurred until paid at the rate of 10% per annum or the maximum permitted by California Law, whichever is greater; provided, however, such interest shall in no event be more than permitted by Law.

## **SECTION 10 MISCELLANEOUS**

10.1 Notice. Any notice, request, demand, waiver, Consent, approval or other communication which is required or permitted hereunder shall be in writing and shall be deemed given: (i) on the date established by the sender as having been delivered personally; (ii) on the date delivered by a private courier as established by the sender by evidence obtained from the courier; (iii) on the date sent by facsimile, with confirmation of transmission, if sent during normal business hours of the recipient, if not, then on the next Business Day; or (iv) on the 5th day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications, to be valid, must be addressed as follows:

If to Buyer, to:

LiveDeal, Inc.  
12520 High Bluff Drive  
Suite 145  
San Diego, California 92130  
Attn: Jon Isaac  
Facsimile: (858) 259-6661

If to Seller, to:

LiveOpenly, Inc.  
255 Bush Street  
Suite 16  
San Francisco, California 94103  
Attn: Natasha Moreno  
Facsimile: None



or to such other address or to the attention of such Person or Persons as the recipient party has specified by prior written notice to the sending party (or in the case of counsel, to such other readily ascertainable business address as such counsel may hereafter maintain). If more than one method for sending notice as set forth above is used, the earliest notice date established as set forth above shall control.

10.2 Amendments and Waivers.

(a) Any provision of this Agreement may be amended or waived if, and only if, such amendment or waiver is in writing and is signed, in the case of an amendment, by each party to this Agreement, or in the case of a waiver, by the party against whom the waiver is to be effective.

(b) No failure or delay by any party in exercising any right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

(c) To the maximum extent permitted by Law: (i) no waiver that may be given by a party shall be applicable except in the specific instance for which it was given; and (ii) no notice to or demand on one party shall be deemed to be a waiver of any obligation of such party or the right of the party giving such notice or demand to take further action without notice or demand.

10.3 Expenses. Each party shall bear its own costs and expenses in connection with this Agreement, the Ancillary Agreements and the transactions contemplated hereby and thereby, including all legal, accounting, financial advisory, consulting and all other fees and expenses of third parties, whether or not the transactions contemplated by this Agreement are consummated.

10.4 Successors and Assigns. This Agreement may not be assigned by either party hereto without the prior written Consent of the other party; provided, however, that, without such Consent, Buyer may transfer or assign this Agreement, in whole or in part or from time to time, to one or more of its Affiliates, but no such transfer or assignment will relieve Buyer of its obligations hereunder. Subject to the foregoing, all of the terms and provisions of this Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective executors, heirs, personal representatives, successors and assigns.

10.5 Governing Law. This Agreement, its Schedules and Ancillary Agreements shall be governed by and interpreted and enforced in accordance with the Laws of the State of California, without giving effect to any choice of Law or conflict of Laws rules or provisions (whether of the State of California or any other jurisdiction) that would cause the application of the Laws of any jurisdiction other than the State of California.

10.6 Dispute Resolution. Any dispute among the parties hereto shall be resolved in accordance with the dispute resolution provisions of this Section 11.6.

(a) The parties shall attempt in good faith to resolve any dispute arising out of or relating to this Agreement, the breach, termination or validity thereof, or the transactions contemplated herein promptly by negotiation between representatives who have authority to settle the controversy. Any party may give the others written notice that a dispute exists ("**Notice of Dispute**"). The Notice of Dispute shall include a statement of such party's position. Within twenty (20) Business Days of the delivery of the Notice of Dispute, representatives of the parties shall meet at a mutually acceptable time and place, and thereafter as long as they both reasonably deem necessary, to exchange relevant information and attempt to resolve the dispute. If the matter has not been resolved within forty-five (45) days of the disputing party's Notice of Dispute, or if the parties fail to meet within 20 days thereof, any party may initiate arbitration of the controversy or claim as provided hereinafter. If a negotiator intends to be accompanied at a meeting by an attorney, the other negotiator shall be given at least three (3) Business Days' notice of such intention and may also be accompanied by an attorney. All compromise and settlement negotiations for purposes of the Federal and California Rules of Evidence shall be inadmissible in any subsequent arbitration or litigation between the parties.

(b) Any controversy or claim arising out of or relating to this Agreement, the breach, termination, or validity thereof, or the transactions contemplated herein, if not settled by negotiation as provided in Section 11.6(a), shall be settled by binding arbitration in San Diego, California, in accordance with the California Code of Civil Procedure. The arbitrator shall be selected by mutual agreement of the parties within 20 days following the initiation of arbitration hereunder, or, absent such agreement, by appointment by petition the appointment of the San Diego Superior Court. The arbitration procedure shall be governed by the California Code of Civil Procedure section 1280 *et. seq.* and the award rendered by the arbitrator shall be final and binding on the parties and may be entered in any court having jurisdiction thereof.

(c) Each party shall have discovery rights as provided by the California Code of Civil Procedure Section 1283.05 *et. seq.*; provided, however, that all such discovery shall be commenced and concluded within 90 days after the selection or appointment of the arbitrator. It is the intent of the parties that any arbitration shall be concluded as quickly as reasonably practicable. Unless the parties otherwise agree, once commenced, the hearing on the disputed matters shall be held four days a week until concluded, with each hearing date to begin at 9:00 a.m. and to conclude at 5:00 p.m. The arbitrator shall use all reasonable efforts to issue the final award or awards within a period of five (5) Business Days after closure of the proceedings. Failure of the arbitrator to meet the time limits of this Section 11.6 shall not be a basis for challenging the award.

(d) Each party shall share equally the fees and expenses of the arbitrator. In the event the arbitrator determines that one party prevailed over the other party in the arbitration proceeding, the arbitrator shall instruct the non-prevailing party to pay the reasonable attorneys' fees and expenses of the prevailing party, in the amount determined by the arbitrator.

10.7 Counterparts. This Agreement may be executed in any number of counterparts, and any party hereto may execute any such counterpart, each of which when executed and delivered shall be deemed to be an original and all of which counterparts taken together shall constitute but one and the same instrument. This Agreement shall become effective when each party hereto shall have received a counterpart hereof signed by the other party hereto. The parties agree that the delivery of this Agreement, and the delivery of the Ancillary Agreements and any other agreements and documents at the Closing, may be affected by means of an exchange of facsimile signatures with original copies to follow by mail or courier service.

10.8 Third Party Beneficiaries. No provision of this Agreement is intended to confer upon any Person other than the parties hereto any rights or remedies hereunder; except that in the case of Section 9 hereof, the Buyer Indemnitees and their respective heirs, executors, administrators, legal representatives, successors and assigns, are intended third party beneficiaries of such sections and shall have the right to enforce such sections in their own names.

10.9 Entire Agreement. This Agreement, the Ancillary Agreements, the Schedules and the other documents, instruments and agreements specifically referred to in this Agreement, or delivered pursuant hereto or thereto, set forth the entire understanding of the parties hereto with respect to the transactions contemplated by this Agreement. All Schedules referred to herein are intended to be and hereby are specifically made a part of this Agreement. Any and all previous agreements and understandings between or among the parties regarding the subject matter hereof, whether written or oral, are superseded by this Agreement, except for the Confidentiality Agreement which shall continue in full force and effect in accordance with its terms.

10.10 Severability. Subject to Section 6.8(d), any provision of this Agreement which is invalid or unenforceable in any jurisdiction shall be ineffective to the extent of such invalidity or unenforceability without invalidating or rendering unenforceable the remaining provisions hereof, and any such invalidity or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

10.11 Interpretation. The parties have participated jointly in the negotiation and drafting of this Agreement and the Ancillary Agreements. Any rule of construction or interpretation otherwise requiring this Agreement or the Ancillary Agreements to be construed or interpreted against any party by virtue of the authorship of this Agreement or the Ancillary Agreements shall not apply to the construction and interpretation hereof and thereof.

IN WITNESS WHEREOF, the parties have hereunto set their hands as of the day and year first above written.

**LiveDeal, Inc.**

By: /s/ Jon Isaac  
Jon Isaac  
Title: Chief Executive Officer

**LiveOpenly, Inc.**

By: /s/ Natasha Moreno  
Natasha Moreno  
Title: Chief Executive Officer

## EXHIBIT 1

### BILL OF SALE OF BUSINESS ASSETS OF LIVEOPENLY, INC.

Reference is made to that certain Asset Purchase Agreement dated July 30, 2012 by and between LiveDeal, Inc., as Buyer, and LiveOpenly, Inc., as Seller ("Agreement"). The terms used herein are as defined in the Agreement.

In accordance with subsection 2.1 and 3.2 of the Agreement, this shall constitute the "Bill of Sale" for the Purchased Assets. On the Closing Date, Seller shall sell, convey, assign, deliver and transfer to Buyer, and Buyer shall purchase, acquire and accept from Seller, free and clear of Liens the following Purchased Assets

- (a) Seller's customer list of approximately 12,000 business entities and/or individuals;
- (b) the Sourcing Contracts;
- (c) all of Seller's Software, including data schema and source code;
- (d) all of Seller's files, books and records Related to Seller's Business, including, without limitation, records of Seller's customers, consultants, vendors, and similar contacts, telephone numbers and e-mail addresses Related to Seller's Business;
- (e) all of Seller's rights in and to the names "LiveOpenly, Inc.," "LiveOpenly," "liveopenly.com," and any other name Seller has used in the past or currently uses Related to Seller's Business and to any and all trademarks, trade names or service names owned by or used by Seller and the rights to any web site address or domain name owned or used by Seller;
- (f) all software and software licenses and related manuals and warranties which were developed by outside third parties specifically for Seller or developed internally by Seller personnel, including any source code and existing documentation and instructions;
- (g) all licenses, permits, approvals and qualifications Related to Seller's Business from any Governmental Entity to the extent their transfer is permitted by Law; and
- (h) all goodwill related to the Purchased Assets.

The undersigned warrants that the Purchased Assets are free and clear of all encumbrances, that it has full right and title to sell the same and that it will warrant and defend the Purchased Assets against any and all claims and demands of all Persons.

In the event there is a conflict between the provisions of this Bill of Sale of Business Assets and the provisions of the Agreement, the provisions of the Agreement shall control.

**LiveOpenly, Inc.**

By \_\_\_\_\_  
Natasha Moreno  
Title: Chief Executive Officer

Date: July 30, 2012

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**EXHIBIT 2**

**ASSIGNMENT AND ASSUMPTION AGREEMENT**

This Assignment and Assumption Agreement ("A&A Agreement") is entered into as of July 30, 2012 between LiveDeal, Inc. ("Live Deal") and LiveOpenly, Inc. ("LiveOpenly").

**RECITALS**

A. Reference is made to that certain Asset Purchase Agreement dated July 30, 2012 by and between LiveDeal, as Buyer, and LiveOpenly, as Seller ("Agreement"). The terms used in this A&A Agreement are as defined in the Agreement; and

B. Seller is willing to sell, assign, transfer, convey and deliver to Buyer, and Buyer is willing to assume from Seller, all of Seller's interest in and to the Sourcing Contracts referenced in the Agreement. The Sourcing Contracts consist of that certain: (i) Independent Contractor Agreement between LiveOpenly and Travelzoo, Inc., effective as of May 12, 2012; and (ii) Strategic Sourcing Agreement between LiveOpenly and Affinity Solutions ,made as of \_\_ day of October, 2011.

**NOW, THEREFORE**, in consideration of the foregoing and the terms, covenants and conditions set forth in the Agreement and as set forth below in this A&A Agreement, the parties hereto agree as follows.

**SECTION 1  
ASSIGNMENT AND ASSUMPTION**

Section 1.1 Assignment and Assumption of Sourcing Contracts.

(a) Seller hereby sells, assigns, transfers, conveys and delivers to LiveDeal, and LiveDeal hereby purchases and accepts from LiveOpenly, all of LiveOpenly's right, title and interest in and to the Sourcing, effective as of July 30, 2012.

(b) LiveDeal hereby assumes from LiveOpenly and agrees faithfully to perform and fulfill, any and all obligations related to the Sourcing Contracts.

**SECTION 2  
INCORPORATION BY REFERENCE**

Section 2.1 Incorporation by Reference.

(a) All of the provisions of subsection 4.1, 4.2, 4.3, 4.4, 4. 5.4, 6. 4.7, 4.8, 4.10, 4.11, 4.12, 6.1, 6.2, 6.4, 6.5, 6.6, 7.2, 7.3, 7.4, 7.5,9.1, 9.2, and the entirety of Section 10 of the Agreement are hereby incorporated into this A&A Agreement as though set forth in full.

(b) In the event there is a conflict between the provisions of this A&A Agreement and the provisions of the Agreement, the provisions of the Agreement shall control.

**IN WITNESS WHEREOF**, the parties have hereunto set their hands as of the day and year first above written.

**LiveDeal, Inc.**

By: \_\_\_\_\_  
Jon Isaac  
Title: Chief Executive Officer

**LiveOpenly, Inc.**

By: \_\_\_\_\_  
Natasha Moreno  
Title: Chief Executive Officer



**EXHIBIT 3**

**ASSIGNMENT AGREEMENT OF  
INTELLECTUAL PROPERTY, SOFTWARE, INTELLECTUAL PROPERTY RIGHTS PATENTS, COPYRIGHTS AND  
MARKS**

This Assignment Agreement ("Assignment Agreement") is entered into as of July 30, 2012 between LiveDeal, Inc. ("Live Deal") and LiveOpenly, Inc. ("LiveOpenly").

**RECITALS**

A. Reference is made to that certain Asset Purchase Agreement dated July 30, 2012 by and between LiveDeal, as Buyer, and LiveOpenly, as Seller ("Agreement"). The terms used in this Assignment Agreement are as defined in the Agreement; and

B. Seller is willing to sell, assign, transfer, convey and deliver to Buyer, and Buyer is willing to assume from Seller, all of Seller's interest in and to all of Seller's rights, title and interest in and to Seller's Intellectual Property, Software, Intellectual Property Rights, Patents, Copyrights and Marks Related to Seller's Business.

**NOW, THEREFORE**, in consideration of the foregoing and the terms, covenants and conditions set forth in the Agreement and as set forth below in this Assignment Agreement, the parties hereto agree as follows.

**SECTION 1  
ASSIGNMENT OF SELLER'S INTELLECTUAL PROPERTY, SOFTWARE, INTELLECTUAL PROPERTY RIGHTS,  
PATENTS, COPYRIGHTS AND MARKS**

Section 1.1 Assignment of Seller's Intellectual Property, Software Intellectual Property Rights, Patents, Copyrights and Marks.

(a) Seller hereby sells, assigns, transfers, conveys and delivers to LiveDeal, and LiveDeal hereby purchases and accepts from LiveOpenly, all of LiveOpenly's right, title and interest in and to all of Seller's Intellectual Property, Software, Intellectual Property Rights, Patents, Copyrights and Marks, including, but not limited to, data base schema, source code, the names "LiveOpenly, Inc.," "LiveOpenly," "liveopenly.com" and any other name Seller has used in the past or currently uses Related to Seller's Business and to any and all trademarks, trade names or service names owed by or used by Seller and the rights to any website address or domain name owned or used by Seller.

(b) LiveDeal hereby assumes from LiveOpenly and agrees faithfully to perform and fulfill, any and all obligations related to the property identified in in Section 1.1(a) of this Assignment Agreement.

**SECTION 2**  
**INCORORATION BY REFERENCE**

Section 2.1 Incorporation by Reference.

(a) All of the provisions of subsection 4.1, 4.2, 4.3, 4.4, 4. 5.4, 6. 4.7, 4.8, 4.9, 4.10, 4.11, 4.12, 6.1, 6.2, 6.4, 6.5, 6.6, 7.2, 7.3, 7.4, 7.5,9.1, 9.2, and the entirety of Section 10 of the Agreement are hereby incorporated into this A&A Agreement as though set forth in full.

(b) In the event there is a conflict between the provisions of this Assignment Agreement and the provisions of the Agreement, the provisions of the Agreement shall control.

**IN WITNESS WHEREOF**, the parties have hereunto set their hands as of the day and year first above written.

**LiveDeal, Inc.**

By: \_\_\_\_\_  
Jon Isaac  
Title: Chief Executive Officer

**LiveOpenly, Inc.**

By: \_\_\_\_\_  
Natasha Moreno  
Title: Chief Executive Officer

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CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a) OF THE  
SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jon Isaac, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of LiveDeal, Inc (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2012

*/s/ Jon Isaac*

\_\_\_\_\_  
Jon Isaac  
President and Chief Executive Officer  
(Principal Executive Officer and  
Principal Financial Officer)

CERTIFICATION OF THE  
PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Jon Isaac, the President and Chief Executive Officer of LiveDeal, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of LiveDeal, Inc. on Form 10-Q for the quarter ended June 30, 2012 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of LiveDeal, Inc.

Date: August 14, 2012

*/s/ Jon Isaac*

\_\_\_\_\_  
Jon Isaac  
President and Chief Executive Officer  
(Principal Executive Officer and  
Principal Financial Officer)