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

(Mark One)

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

For the quarterly period ended March 31, 2014

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.)

325 E. Warm Springs Road, Suite 102

Las Vegas, Nevada

(Address of principal executive offices)

89119

(Zip Code)

(702) 939-0231

(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 May 8, 2014 was 13,584,388.

**INDEX TO FORM 10-Q FILING
FOR THE QUARTER ENDED MARCH 31, 2014**

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**LIVEDEAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, 2014	September 30, 2013
	(Unaudited)	(Audited)
Assets		
Cash and cash equivalents	\$ 9,569,594	\$ 761,458
Accounts receivable, net	371,564	174,901
Inventory	105,748	–
Prepaid expenses and other current assets	<u>531,825</u>	<u>67,126</u>
Total current assets	10,578,731	1,003,485
Accounts receivable, long term portion, net	44,637	44,639
Property and equipment, net	106,253	71,162
Deposits and other assets	33,988	25,563
Intangible assets, net	<u>2,689,110</u>	<u>2,848,401</u>
Total assets	<u>\$ 13,452,719</u>	<u>\$ 3,993,250</u>
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	\$ 396,377	\$ 524,053
Accrued liabilities	428,606	299,464
Derivative liability	174,286	–
Note payable, net of debt discount	<u>297,714</u>	<u>–</u>
Total current liabilities	<u>1,296,983</u>	<u>823,517</u>
Stockholders' equity:		
Series E convertible preferred stock, \$0.001 par value, 200,000 shares authorized, 127,840 shares issued and outstanding, liquidation preference \$38,202	10,866	10,866
Common stock, \$0.001 par value, 30,000,000 shares authorized, 13,583,495 and 11,335,674 shares issued and outstanding at March 31, 2014 and September 30, 2013, respectively	13,584	11,335
Paid in capital	40,849,911	30,481,179
Accumulated deficit	<u>(28,718,625)</u>	<u>(27,333,647)</u>
Total stockholders' equity	<u>12,155,736</u>	<u>3,169,733</u>
Total liabilities and stockholders' equity	<u>\$ 13,452,719</u>	<u>\$ 3,993,250</u>

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

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

	<u>Three Months Ended March 31,</u>		<u>Six Months Ended March 31,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Net revenues	\$ 678,033	\$ 555,084	\$ 1,271,491	\$ 1,127,619
Cost of services	245,678	116,913	367,007	219,549
Gross profit	<u>432,355</u>	<u>438,171</u>	<u>904,484</u>	<u>908,070</u>
Operating expenses:				
General and administrative expenses	1,180,876	1,231,531	2,051,576	1,993,907
Sales and marketing expenses	222,434	7,166	249,506	26,607
Total operating expenses	<u>1,403,310</u>	<u>1,238,697</u>	<u>2,301,082</u>	<u>2,020,514</u>
Operating loss	(970,955)	(800,526)	(1,396,598)	(1,112,444)
Other expense:				
Interest expense, net	(110,858)	(2,541,141)	(111,374)	(3,291,695)
Other income	140,387	126,200	158,387	126,200
Change in fair value of derivative liability	(34,434)	-	(34,434)	-
Total other expense, net	<u>(4,905)</u>	<u>(2,414,941)</u>	<u>12,579</u>	<u>(3,165,495)</u>
Loss from continuing operations	<u>(975,860)</u>	<u>(3,215,467)</u>	<u>(1,384,019)</u>	<u>(4,277,939)</u>
Discontinued operations				
Income from discontinued component, including disposal costs	-	450	-	2,413
Income from discontinued operations	-	450	-	2,413
Net loss	<u>\$ (975,860)</u>	<u>\$ (3,215,017)</u>	<u>\$ (1,384,019)</u>	<u>\$ (4,275,526)</u>
Earnings per share - basic and diluted:				
Loss from continuing operations	\$ (0.07)	\$ (0.38)	\$ (0.11)	\$ (0.52)
Discontinued operations	-	-	-	-
Net loss	<u>\$ (0.07)</u>	<u>\$ (0.38)</u>	<u>\$ (0.11)</u>	<u>\$ (0.52)</u>
Weighted average common shares outstanding:				
Basic and diluted	<u>13,144,063</u>	<u>8,379,069</u>	<u>12,225,987</u>	<u>8,166,921</u>

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

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

	Six Months Ended March 31,	
	2014	2013
OPERATING ACTIVITIES:		
Net loss	\$ (1,384,019)	\$ (4,275,526)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	211,237	128,639
Non-cash interest expense associated with convertible debt and warrants	113,971	3,291,466
Change in fair value of derivative liability	34,434	-
Stock based compensation expense	105,860	32,008
Non-cash issuance of common stock for services	69,108	110,001
(Gain)/loss on disposal of property and equipment	(207)	1,407
Provision for uncollectible accounts	(32,667)	(5,551)
Changes in assets and liabilities:		
Accounts receivable	(163,994)	104,491
Prepaid expenses and other current assets	(464,699)	(90,901)
Inventory	4,627	-
Deposits and other assets	2,700	13,242
Accounts payable	(127,676)	(420,023)
Accrued liabilities	128,183	(1,856)
Net cash used in operating activities	<u>(1,503,142)</u>	<u>(1,112,603)</u>
INVESTING ACTIVITIES:		
Acquisition of business	(200,000)	-
Expenditures for intangible assets	(3,563)	(117,500)
Proceeds from the sale of fixed assets	1,400	-
Purchases of property and equipment	<u>(6,167)</u>	<u>(28,407)</u>
Net cash used in investing activities	<u>(208,330)</u>	<u>(145,907)</u>
FINANCING ACTIVITIES:		
Issuance of common stock for cash, net of issuance costs	9,696,013	-
Proceeds from issuance of convertible debt and warrants	<u>823,595</u>	<u>1,250,000</u>
Net cash provided by financing activities	<u>10,519,608</u>	<u>1,250,000</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	8,808,136	(8,510)
CASH AND CASH EQUIVALENTS, beginning of period	<u>761,458</u>	<u>1,305,785</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 9,569,594</u>	<u>\$ 1,297,275</u>
Supplemental cash flow disclosures:		
Noncash financing and investing activities:		
Recognition of contingent beneficial conversion feature	<u>\$ 500,000</u>	<u>\$ -</u>
Conversion of notes payable and accrued interest into common stock	<u> </u>	<u>\$ 1,251,000</u>
Accrued and unpaid dividends	<u>\$ 959</u>	<u>\$ 958</u>
Interest paid	<u>\$ 754</u>	<u>\$ -</u>

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

LIVEDEAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED MARCH 31, 2014 AND 2013

Note 1: Organization and Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of LiveDeal, Inc. (formerly, “YP Corp.”), a Nevada corporation, and its wholly owned subsidiaries (collectively the “Company”). The Company delivers local customer acquisition services for small and medium-sized businesses combined with online listing services to deliver an affordable way for businesses to extend their marketing reach to local, relevant customers via the Internet.

The accompanying unaudited Condensed Consolidated Balance Sheet as of March 31, 2014, which has been derived from our audited Consolidated Financial Statements, and the accompanying unaudited 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 (“GAAP”) 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 six months ended March 31, 2014 are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2014. 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, 2013 and for the fiscal year then ended included in the Company’s Annual Report on Form 10-K filed with the SEC on January 10, 2014.

The preparation of financial statements in accordance with GAAP 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.

All data for common stock, options and warrants have been adjusted to reflect the 3-for-1 forward stock split (which took effect on February 11, 2014) for all periods presented. In addition, all common stock prices, and per share data for all periods presented have been adjusted to reflect the 3-for-1 forward stock split. See Note 7 for details.

Note 2: Balance Sheet Information

Balance sheet information is as follows:

	March 31, 2014	September 30, 2013
Receivables, current, net:		
Accounts receivable, current	\$ 1,086,142	\$ 904,197
Less: Allowance for doubtful accounts	(714,578)	(729,296)
	<u>\$ 371,564</u>	<u>\$ 174,901</u>
Receivables, long term, net:		
Accounts receivable, long term	\$ 355,243	\$ 374,708
Less: Allowance for doubtful accounts	(310,606)	(330,069)
	<u>\$ 44,637</u>	<u>\$ 44,639</u>
Total receivables, net:		
Gross receivables	\$ 1,441,385	\$ 1,278,905
Less: Allowance for doubtful accounts	(1,025,184)	(1,059,365)
	<u>\$ 416,201</u>	<u>\$ 219,540</u>

Components of allowance for doubtful accounts are as follows:

	March 31, 2014	September 30, 2013
Allowance for dilution and fees on amounts due from billing aggregators	\$ 998,450	\$ 730,777
Allowance for customer refunds	2,052	6,281
	<u>\$ 1,000,502</u>	<u>\$ 737,058</u>

	March 31, 2014	September 30, 2013
Property and equipment, net:		
Furnishings and fixtures	\$ 112,611	\$ 101,611
Office, computer equipment and other	445,721	404,580
	558,332	506,191
Less: Accumulated depreciation	(452,079)	(435,029)
	<u>\$ 106,253</u>	<u>\$ 71,162</u>

	March 31, 2014	September 30, 2013
Intangible assets, net:		
Domain name and marketing related intangibles	\$ 1,513,708	\$ 1,513,708
Website and technology related intangibles	2,369,291	2,335,728
	3,882,999	3,849,436
Less: Accumulated amortization	(1,193,889)	(1,001,035)
	<u>\$ 2,689,110</u>	<u>\$ 2,848,401</u>

	March 31, 2014	September 30, 2013
Accrued liabilities:		
Deferred revenue	\$ 1,795	\$ 2,829
Accrued payroll and bonuses	33,262	27,330
Deposits from customers	132,156	-
Deferred rent	34,213	35,625
Accruals under revenue sharing agreements	1,364	44,167
Accrued expenses - other	225,816	189,513
	<u>\$ 428,606</u>	<u>\$ 299,464</u>

Note 3: Going Concern

The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. For the six months ended March 31, 2014 and 2013, the Company had a net loss of \$1,384,019 and \$4,275,526, respectively. These circumstances result in substantial doubt as to the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon the Company's ability to generate sufficient revenues to operate profitably or raise additional capital through debt financing and/or through sales of common stock. The failure to achieve the necessary levels of profitability and obtain the additional funding would be detrimental to the Company. The accompanying condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

Because of the infancy of the Company's new lines of business, the Company has yet to generate significant revenue from its online presence marketing or promotional marketing lines of business. Given that the Company has not been accepting new customers for its legacy product offerings since July 2011 and that it did not launch its new product offerings until August 2012, the Company's revenues declined for fiscal 2014 as compared to fiscal 2013 as the Company continued to build a foundation for its new products and services and position the Company for future growth through its LiveDeal.com and Velocity Local™ offerings.

Management has taken the following steps to revise its operating and financial requirements, which it believes are sufficient to provide the Company with the ability to continue as a going concern. Management devoted considerable effort from inception through the period ended December 31, 2013, towards (i) establishment of sales distribution channels for its products, (ii) management of accrued expenses and accounts payable, and (iii) building and marketing its LiveDeal.com and Velocity Local™ offerings and developing other new products. In addition, the Company recently sold 2,214,612 shares of our common stock, resulting in gross proceeds of \$10,000,000, in an at-the-market offering, in which Chardan Capital Markets LLC was our agent. The shares were sold under our Registration Statement on Form S-3 (Reg. No. 333-187397), which was declared effective on May 3, 2013. The Company also filed a new shelf Registration Statement on Form S-3 (Reg. No. 333-193971) registering the offer and sale of up to \$50,000,000 of common stock and other securities, which was declared effective on April 10, 2014. See Note 7.

The Company will require additional capital to finance its planned business operations as it continues to build and market its LiveDeal.com and Velocity Local™ offerings and develop other new products. In addition, the Company may require additional capital to finance acquisitions or other strategic investments in its business. Other sources of financing may include stock issuances; additional loans (for example, through our sale and issuance of convertible notes pursuant to the \$5 million line of credit that we entered into in January 2014); or other forms of financing. Any financing obtained may further dilute or otherwise impair the ownership interest of the Company's existing stockholders. If the Company is unable to generate positive cash flows or raise additional capital in a timely manner or on acceptable terms, the Company may (i) not be able to make acquisitions or other strategic investments in its business, (ii) modify, delay or abandon some or all of its business plans, and/or (iii) be forced to cease operations.

Management believes that the above actions will allow the Company to continue operations for the next 12 months.

Note 4: Stock-based Compensation

From time to time, the Company grants stock options and restricted stock awards 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 following table summarizes stock option activity for the six months ended March 31, 2014:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Intrinsic Value
Outstanding at September 30, 2013	675,000	\$ 2.82		
Granted	—			
Exercised	—			
Forfeited	—			
Outstanding at March 31, 2014	675,000	\$ 2.82	5.4	—
Exercisable at March 31, 2014	187,500	\$ 2.83	3.5	—

The Company recognized compensation expense of \$39,985 and \$105,860 during the three and six months ended March 31, 2014, respectively, and \$32,008 during the three and six months ended March 31, 2013, 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.

At March 31, 2014, the Company had \$162,208 of unrecognized compensation expense (net of estimated forfeitures) associated with stock option awards which the Company expects will be recognized over a weighted-average period of 1.63 years.

The following table summarizes information about the Company's non-vested shares as of March 31, 2014:

Non-vested Shares	Number of Shares	Weighted- Average Grant-Date Fair Value
Nonvested at September 30, 2013	600,000	\$ 0.73
Granted	-	
Vested	<u>(112,500)</u>	
Nonvested at March 31, 2014	<u>487,500</u>	\$ 0.73

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 six months ended March 31, 2014:

Outstanding (unvested) at September 30, 2013	-
Granted	21,000
Forfeited	-
Vested	<u>(21,000)</u>
Outstanding (unvested) at March 31, 2014	<u>-</u>

On January 6, 2014, the Company issued 21,000 shares of common stock in exchange for professional services. As of March 31, 2014, 21,000 shares were vested. This agreement also requires the Company to pay \$8,000 in cash per month for 6 months in exchange for sales and marketing services. The agreement is cancellable at any time. This agreement was terminated subsequent to March 31, 2014.

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") in lieu of cash payments to directors. Under the terms of this arrangement, each non-employee director received a monthly award of a number of fully vested shares of the Company's common stock equal to his or her monthly board of director cash fees divided by the closing market price of the Company's common stock on the grant date. An aggregate of 250,485 shares have been issued to members of the Board of Directors pursuant to such arrangement. Other than as described immediately above, 28,604 shares of the Company's common stock were recorded but not yet issued to members of the Board during the six months ended March 31, 2014.

Note 5: Debt

ICG Convertible Note Transaction

On April 3, 2012 ("Closing Date"), the Company entered into a Note Purchase Agreement (the "ICG Purchase Agreement") with Isaac Capital Group, LLC ("ICG"), a related party, 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 the Company's Board. Prior to this transaction, Mr. Isaac owned 1,209,675 shares, or 16.8% of the Company's outstanding common stock. The ICG Purchase Agreement and the Notes, which are unsecured, provide that all amounts payable by the Company to ICG under the Notes were due and payable on April 3, 2013 ("Maturity Date"), provided that the Company had the option in its discretion to extend the Maturity Date by up to one (1) year if no Event of Default (as defined in the ICG Purchase Agreement) had occurred and was continuing, and the Company is in material compliance with its agreements and covenants under the Purchase Agreement and the Notes, as of the Maturity Date. The Company exercised such option prior to the Maturity Date.

Effective as of April 3, 2012, the Company and ICG amended the ICG Purchase Agreement to clarify ambiguities related to the warrant issuance timing and the conversion price of a Note, and to amend various anti-dilution features. These changes were consistent with the intent of the parties at the time they entered into the ICG Purchase Agreement and are consistent with the Company's past practices related to the Notes and warrants. In particular, the amendment clarifies that the warrants will be issued upon conversion (rather than upon issuance) of the Notes and provides that the conversion price of a Note shall be based upon a floor price of \$0.33 per share, regardless if the Company's stock is trading below that amount at the time ICG elects to convert a Note.

The ICG Purchase Agreement and the Notes, as amended, provided that:

- The Notes accrued interest at an annual interest rate equal to 8%. All interest was payable on the Maturity Date or upon the conversion of the applicable Note.
- The Company had the option to prepay each Note, in whole or in part, at any time without premium or penalty.
- If ICG elected 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 was subject to adjustment in the event of stock splits or combinations, stock dividends, certain *pro rata* distributions, and certain fundamental transactions. Each Contingent Warrant was 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 price being subject to adjustment under the same conditions as the number of shares for which the warrant is exercisable.) The Contingent Warrants provided that they would be exercised in whole or in part and include a cashless exercise feature.
- The Notes provided that, upon the occurrence of any Event of Default, all amounts payable to ICG would become immediately due and payable without any demand or notice.
- The Company would 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) was 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 ICG 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 ICG 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 triggered 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 ICG 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 (“Note No. 1”) on the Closing Date. Because the conversion price of \$0.84 was 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 on the Closing Date. The discount to Note No. 1 is being amortized to interest expense until maturity or its earlier repayment or conversion

As mentioned above, the ICG Purchase Agreement, as amended, contained contingent provisions for the adjustment of the conversion ratio and conversion price, and the issuance of Contingent Warrants upon conversion.

On September 10, 2012, ICG elected to convert the Note No. 1 with a conversion price of \$0.79 per share, resulting in the issuance of 327,417 shares. In accordance with the terms of the agreement, warrants to acquire 327,417 shares were issued upon conversion with an exercise price of $(\$0.79 \times 120\%)$ \$0.95 per share. Upon conversion of Note No. 1, the remaining debt discount of \$97,222 was immediately recognized as interest expense. The fair value of the warrants issued in connection with the debt conversion of Note No. 1 was \$322,927 and was immediately recognized as interest expense.

On December 11, 2012, the Company issued a second Note to ICG in the principal amount of \$250,000 (“Note No. 2”), pursuant to the ICG Purchase Agreement. Because the conversion price of \$0.67 was less than the stock price, this gave rise to a beneficial conversion feature valued at \$200,738. The Company recognized this beneficial conversion feature as a debt discount and additional paid in capital on December 11, 2012. On December 17, 2012, ICG elected to convert Note No. 2, resulting in the issuance of 371,487 shares of the Company’s common stock and a warrant to acquire 371,487 additional shares of the Company’s common stock at an exercise price of \$0.81 per share. Upon conversion of the Note No. 2, the remaining debt discount of \$196,556 was immediately recognized as interest expense. The fair value of the warrants issued in connection with the conversion of Note No. 2 was \$550,016 and was immediately recognized as interest expense.

On March 22, 2013 and March 25, 2013, the Company issued a third and fourth Note to ICG in the principal amount of \$500,000 (“Note No. 3”) and \$250,000 (“Note No. 4”), respectively, pursuant to the ICG Purchase Agreement. Because the conversion price of \$0.46 was less than the stock price, this gave rise to beneficial conversion features valued at \$401,386. The Company recognized this beneficial conversion feature as a debt discount and additional paid in capital on March 25, 2013. On March 27, 2013, ICG elected to convert Note Nos. 3 and 4, resulting in the issuance of 1,631,886 shares of the Company’s common stock and a warrant to acquire 1,631,886 additional shares of the Company’s common stock at an exercise price of \$0.55 per share. Upon conversion of Note Nos. 3 and 4, the remaining debt discount of \$396,977 was immediately recognized as interest expense. The fair value of the warrants issued in connection with the conversion of Note Nos. 3 and 4 was \$1,299,884 and was immediately recognized as interest expense.

On March 28, 2013, the Company issued a fifth Note to ICG in the principal amount of \$250,000 (“Note No. 5”), pursuant to the ICG Purchase Agreement. Because the conversion price of \$0.47 was less than the stock price, this gave rise to a beneficial conversion feature valued at \$250,000. The Company recognized this beneficial conversion feature as a debt discount and additional paid in capital on March 28, 2013. On March 28, 2013, ICG elected to convert Note No. 5, resulting in the issuance of 535,716 additional shares of the Company’s common stock and a warrant to acquire 535,716 shares at an exercise price of \$0.56 per share. Upon conversion of Note No. 5, the debt discount of \$250,000 was immediately recognized as interest expense. The fair value of the warrants issued in connection with the conversion of Note No. 5 was \$589,442 and was immediately recognized as interest expense.

On January 23, 2014, the Company issued a Note to ICG in the principal amount of \$500,000. Because the conversion price of \$2.29 was less than the stock price, this gave rise to a beneficial conversion feature valued at \$500,000. The Company recognized this beneficial conversion feature as a debt discount and additional paid in capital. The debt discount is being amortized over the one year term and therefore \$91,781 of interest expense was recognized.

Kingston Convertible Note Transaction (\$5 Million Line of Credit)

On January 7, 2014, the Company entered into a Note Purchase Agreement (the “Kingston Purchase Agreement”) with Kingston Diversified Holdings LLC (“Kingston”), pursuant to which the Investor agreed to purchase for cash up to \$5,000,000 in aggregate principal amount of the Company’s Convertible Notes (“Notes”). The Kingston Purchase Agreement and the Notes, which are unsecured, provide that all amounts payable by the Company to Kingston under the Notes will be due and payable on the second (2nd) anniversary of the date of the Kingston Purchase Agreement (the “Maturity Date”).

The Kingston Purchase Agreement and the Notes provide that:

- Either the Company or Kingston will have the right to cause the sale and issuance of Notes pursuant to the Kingston Purchase Agreement, provided that NASDAQ’s approval of the Kingston Purchase Agreement and transactions contemplated thereby is a condition precedent to each party’s right to cause any borrowings to occur under the Kingston Purchase Agreement.
- Each Note must be in a principal amount of at least \$100,000.
- The Notes are issuable at a 5% discount and 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.
- The Company or Kingston may elect at any time on or before the Maturity Date to convert the principal and accrued but unpaid interest due under any Note into shares of the Company’s common stock. The conversion price applicable to any such conversion will be an amount equal to 70% of the lesser of: (i) the closing bid price of the common stock on the date of the Kingston Purchase Agreement (i.e., \$3.12 per share); or (ii) the 10-day volume weighted average closing bid price for the common stock, as listed on NASDAQ for the 10 business days immediately preceding the date of conversion (the “Average Price”); provided, however, that in no event will the Average Price per share be less than \$0.33. For example, if the Average Price is \$0.17 per share, then for purposes of calculating the conversion price, the Average Price per share would be \$0.33 per share instead of \$0.17 per share.
- If either party elects to convert all or any portion of any Note, the Company must issue to Kingston 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 *pro rata* distributions, and certain fundamental transactions. 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 110% of the conversion price of the applicable Note (with the exercise price 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 Kingston will become immediately due and payable without any demand or notice. 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 (i) is required to provide certain financial and other information to Kingston 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 Kingston 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 Kingston Purchase Agreement, and (v) must not enter into certain types of transactions, including dispositions of its assets or business.
- The Company agreed to use commercially reasonable efforts to obtain, as promptly as practicable, any approvals of the Company’s stockholders required under applicable law or NASDAQ Listing Rules in connection with the transactions contemplated by the Kingston Purchase Agreement. Unless and until any such stockholder approvals are obtained, in no event will Kingston be entitled to convert any Notes and/or exercise any Contingent Warrants to the extent that any such conversion or exercise would result in Kingston acquiring in such transactions a number of shares of the Company’s common stock exceeding 19.99% of the number of shares of common stock issued and outstanding immediately prior to the Company’s entry into the Kingston Purchase Agreement.
- Kingston will be entitled to certain anti-dilution adjustments if the Company issues shares of its common stock at a lower price per share than the applicable conversion price for any Note(s) issued pursuant to the Kingston Purchase Agreement. If any such dilutive issuance occurs prior to the conversion of one or more Notes, the conversion price for such Note(s) will be adjusted downward pursuant to its terms (subject to a floor of \$0.23 per share). If any such dilutive issuance occurs after the conversion of one or more Notes, Kingston will be entitled to be issued additional shares of common stock for no consideration, and to an adjustment of the exercise price payable under the applicable Contingent Warrant(s). With respect to each Note actually issued pursuant to the Kingston Purchase Agreement, Kingston’s anti-dilution rights will expire two (2) years following the date of issuance.

As of March 31, 2014, there were no advances from this line of credit.

February 2014 Convertible Note Transaction

On February 27, 2014, the Company issued a one year convertible note to an otherwise unaffiliated, non-institutional third party in the principal amount of \$323,595. The note (i) is unsecured, (ii) bears interest at the rate of six percent per annum, and (iii) was issued without any original issue discount.

The principal is convertible into shares of the Company’s common stock at any time and from time-to-time at the instance of either the Company or the holder. The per-share conversion price is an amount equal to ninety percent (90%) of the 10-day volume weighted average closing bid price for the Company’s common stock, as reported by The NASDAQ Stock Market, Inc. for the ten (10) trading days immediately preceding the date of the notice of conversion, subject to downward adjustment in the event that the Company issues any securities at a price per share lower than the then-current conversion price; provided, however, that in no event shall the conversion price per share be less than \$1.00. The Company provided the holder with certain negative covenants and events of default, each standard for transactions of this nature.

Due to the “reset” and “dilutive issuance” clause in this note relating to the conversion price from dilutive share issuance, the Company has determined that the conversion feature is considered a derivative liability for the Company, which is detailed in Note 6.

The Company determined an initial derivative liability value of \$139,852, which is recorded as a derivative liability as of the date of issuance while also recording a \$12,261 non-cash interest expense and an \$139,852 debt discount on its balance sheet in relation to the bifurcation of the embedded conversion options of the note. The Company recorded \$34,434 of non-cash “change in fair value of derivative” expense during the three and six months periods ending March 31, 2014 related to this note.

Note 6: Derivative Liability

The February 2014 Convertible Note discussed in Note 5 has a reset provision and a dilutive issuance clause that gave rise to a derivative liability.

The fair value of the derivative liability is recorded and shown separately under current liabilities. Changes in the fair value of the derivative liability are recorded in the condensed consolidated statement of income under other income (expense).

The Company evaluates all of its agreements to determine if such instruments have derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statements of operations. For stock-based derivative financial instruments, the Company uses a weighted average Black-Scholes-Merton option pricing model to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

The range of significant assumptions which the Company used to measure the fair value of derivative liabilities (a level 3 input) at March 31, 2014 is as follows:

Stock price	\$6.84 - \$7.14
Risk free rate	.11% - .13%
Volatility	135.89%-141.97%
Exercise prices	\$6.54 - \$8.12
Term (years)	1

The following table represents the Company's derivative liability activity for both the embedded conversion features for the six months ended March 31, 2014:

	Amount
Derivative liability balance, September 30, 2013	\$ -
Issuance of derivative financial instruments during the six months ended March 31, 2014	139,852
Change in derivative liability during the six months ended March 31, 2014	34,434
Derivative liability balance, March 31, 2014	<u>\$ 174,286</u>

Note 7: Equity

In September and December 2012 and March 2013, ICG elected to convert five Notes, resulting in the issuance of shares of the Company's common stock and warrants to acquire additional shares of the Company's common stock. See Note 5.

For the six months ended March 31, 2014, 28,604 shares of the Company's common stock were recorded but not yet issued to members of the Board of Directors in exchange for services. See Note 4.

At-The-Market Offering of Common Stock (Chardan Capital Markets LLC)

On January 7, 2014, we entered into an Engagement Agreement (the "Engagement Agreement") with Chardan Capital Markets LLC ("Chardan") pursuant to which we agreed to issue and sell up to a maximum aggregate amount of 1,980,000 shares of our common stock from time to time through Chardan as our sales agent, under our shelf Registration Statement on Form S-3 (File No. 333-187397) (the "Registration Statement") previously filed with the SEC, pursuant to which any shares that are issued under the Engagement Agreement will be sold.

Upon delivery of a placement notice by the Company, and subject to the terms and conditions of the Engagement Agreement, Chardan was authorized to sell our common stock by any method deemed to be an "at-the-market" offering as defined in Rule 415 promulgated under the Securities Act of 1933, as amended (the "Securities Act"), including by means of ordinary brokers' transactions at market prices on the NASDAQ Capital Market, in block transactions, through privately negotiated transactions, or as otherwise agreed by Chardan and us. Chardan agreed to act as sales agent on a commercially reasonable efforts basis consistent with its normal trading and sales practices and applicable state and federal law, rules and regulations and the rules of NASDAQ. We have also provided Chardan with customary indemnification rights.

For the quarter ended March 31, 2014, we sold 2,214,612 shares of our common stock under the registration statement, resulting in gross proceeds of \$10,000,000, in an at-the-market offering, in which Chardan was our agent. We received net proceeds of \$9,696,013. We paid Chardan a total commission of \$299,882 pursuant to the Engagement Agreement.

New Shelf Registration Statement

On February 14, 2014, the Company filed a shelf Registration Statement on Form S-3 (File No. 333-193971) (the "New Shelf Registration Statement") registering up to \$50,000,000 in any combination of its common stock, preferred stock, debt securities, warrants, or units, to be offered and sold from time to time in one or more offerings. The New Shelf Registration Statement was subsequently declared effective by the SEC on April 10, 2014.

2014 Omnibus Equity Incentive Plan

On January 7, 2014, our Board of Directors adopted the 2014 Omnibus Equity Incentive Plan (the “2014 Plan”), which authorizes the issuance of distribution equivalent rights, incentive stock options, non-qualified stock options, performance stock, performance units, restricted ordinary shares, restricted stock units, stock appreciation rights, tandem stock appreciation rights and unrestricted ordinary shares to our officers, employees, directors, consultants and advisors. The Company has reserved up to 1,800,000 shares of common stock for issuance under the 2014 Plan. Pursuant to Nasdaq Listing Rule 5635(c), the Company intends to seek stockholder approval of the 2014 Plan at our 2014 Annual Meeting of Stockholders.

3-for-1 Forward Stock Split

On January 16, 2014, our Board of Directors approved a 3-for-1 forward stock split with respect to the Company’s common stock. Stockholders received three shares of common stock for every one share of common stock owned on the record date of February 3, 2014. The forward stock split was effective as of the close of trading on February 11, 2014. The additional shares were distributed as of the close of business on February 11, 2014. In connection with the forward stock split, the Company’s authorized shares of common stock also increased from 10,000,000 shares to 30,000,000 shares. All data for common stock, options and warrants have been adjusted to reflect the 3-for-1 forward stock split for all periods presented. In addition, all common stock prices, and per share data for all periods presented have been adjusted to reflect the 3-for-1 forward stock split.

Note 8: Warrants

As discussed in Note 5, the Company issued several Notes and converted them resulting in the issuance of warrants. The following table summarizes information about the Company’s warrants at March 31, 2014:

	<u>Number of Units</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (in years)</u>	<u>Intrinsic Value</u>
Outstanding at September 30, 2013	2,866,506	\$ 0.63		
Granted	–			
Exercised	–			
Outstanding at March 31, 2014	<u>2,866,506</u>	<u>0.63</u>	<u>3.89</u>	<u>17,797,412</u>
Exercisable at March 31, 2014	<u>2,866,506</u>	<u>0.63</u>	<u>3.89</u>	<u>17,797,412</u>

Note 9: 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 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:

	<u>Three Months Ended March 31,</u>		<u>Six Months Ended March 31,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Loss from continuing operations	\$ (975,860)	\$ (3,215,467)	\$ (1,384,019)	\$ (4,277,939)
Less: preferred stock dividends	(479)	(479)	(959)	(958)
Loss from continuing operations applicable to common stock	(976,339)	(3,215,946)	(1,384,978)	(4,278,897)
Income (loss) from discontinued operations	–	450	–	2,413
Net loss applicable to common stock	<u>\$ (976,339)</u>	<u>\$ (3,215,496)</u>	<u>\$ (1,384,978)</u>	<u>\$ (4,276,484)</u>
Weighted average common shares outstanding - basic and diluted	13,144,063	8,379,069	12,225,987	8,166,921
Earnings per share - basic and diluted:				
Loss from continuing operations	\$ (0.07)	\$ (0.38)	\$ (0.11)	\$ (0.52)
Discontinued operations	–	–	–	–
Net loss	<u>\$ (0.07)</u>	<u>\$ (0.38)</u>	<u>\$ (0.11)</u>	<u>\$ (0.52)</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:

	<u>Three Months Ended March 31,</u>		<u>Six Months Ended March 31,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Options to purchase shares of common stock	675,000	–	675,000	–
Warrants to purchase shares of common stock	2,866,506	2,167,602	2,866,506	698,904
Series E convertible preferred stock	127,840	127,840	127,840	127,840
Shares of non-vested restricted stock	21,000	789	21,000	789
Total potentially dilutive shares	<u>3,690,346</u>	<u>2,296,231</u>	<u>3,690,346</u>	<u>827,533</u>

Note 10: Income Taxes

At March 31, 2014, 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 six months ended March 31, 2014, 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 11: Related Party Transactions

Convertible Notes with ICG

As described in Note 5, during 2012 and 2013 the Company entered into a Note Purchase Agreement with ICG, an entity owned by Jon Isaac, the Company's President and Chief Executive Officer and a director of the Company, and subsequently issued a series of Subordinated Convertible Notes thereunder to ICG. In connection with these transactions, the Company received gross proceeds of \$0 and \$1,250,000 during the six months ended March 31, 2014 and 2013, respectively.

Under the terms of the Note Purchase Agreement and the Subordinated Convertible Notes, ICG executed its conversion option on all then-outstanding notes during the quarter ended December 31, 2012. In exchange for the conversion of \$250,000 of convertible notes during the quarter ended December 31, 2012, ICG received an aggregate of 371,487 of shares of common stock and, upon conversion ICG also received warrants to acquire an additional 371,487 shares of common stock.

Because the conversion price under ICG's notes was less than the fair market value of the stock on the date of issuance, the Company recognized a beneficial conversion feature which was treated as a debt discount and amortized on a straight line basis as interest expense until the date of conversion, at which time all remaining debt discount was recognized as interest expense. Additionally, the fair value of the warrants that were contingently issuable to ICG upon conversion were recognized as additional interest expense.

During the six months ended March 31, 2014 and 2013, the Company recognized total interest expense of \$0 and \$3,291,466 associated with the ICG notes.

On January 23, 2014, the Company issued a Note to ICG in the principal amount of \$500,000. During the six months ended March 31, 2014, the Company recognized total interest expense of \$7,556 associated with this note.

Note 12: Commitments and Contingencies

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 the Company 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 March 31, 2014, our annual results of operations, cash flows or liquidity of the Company.

J3 Harmon LLC v. LiveDeal, Inc.

On February 9, 2012, J3 Harmon LLC, which we refer to as J3, filed a lawsuit against us in the Superior Court for Maricopa County in the State of Arizona, alleging breach of a commercial lease agreement. J3 sought damages for alleged unpaid rents during the lease term as well as alleged damages for storage costs after the expiration of the lease term. We denied the allegations and asserted various affirmative defenses. In September 2012, the Maricopa County Superior Court entered a judgment in favor of J3 in the sum of \$62,886. We appealed this judgment.

On October 1, 2013, the Arizona Court of Appeals affirmed in part and reversed in part on the principal damages and remanded the matter for judgment. Subsequently, the Maricopa County Superior Court entered Judgment on Mandate against the Company in the principal sum of \$46,636.31 and attorneys' fees of \$5,624.40, with post-judgment interest from October 3, 2012. There is no further basis for appeal by the Company. The Company anticipates paying the judgment during the fiscal quarter ending June 30, 2014 and, upon such payment, the matter will be resolved. As of March 31, 2014, we maintained an accrual of \$52,261 related to this matter.

Operating Leases and Service Contracts

As of March 31, 2014, future minimum annual payments under operating lease agreements for fiscal years ending September 30 are as follows:

2014	215,745
2015	333,461
2016	191,429
2017	53,946
2018	—
Thereafter	—
	<u>\$ 794,581</u>

Note 13: Concentration of Credit Risk

The Company maintains cash balances at banks in California and Nevada. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution as of March 31, 2014. At times, balances may exceed federally insured limits.

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily trade accounts receivable. The trade accounts receivable are due primarily from business customers over widespread geographical locations within the LEC (defined below) billing areas across the United States. The Company historically has experienced significant dilution and customer credits due to billing difficulties and uncollectible trade accounts receivable. The Company estimates and provides an allowance for uncollectible accounts receivable. The handling and processing of cash receipts pertaining to trade accounts receivable is maintained primarily by three third-party billing companies. The Company is dependent upon these billing companies for collection of its accounts receivable. The billing companies and LEC's charge fees for their services, which are netted against the gross accounts receivable balance. The billing companies also apply holdbacks to the remittances for potentially uncollectible accounts. These amounts will vary due to numerous factors and the Company may not be certain as to the actual amounts on any specific billing submittal until several months after that submittal. The Company estimates the amount of these charges and holdbacks based on historical experience and subsequent information received from the billing companies. The Company also estimates uncollectible account balances and provides an allowance for such estimates. The billing companies retain certain holdbacks that may not be collected by the Company for a period extending beyond one year. Additionally, certain other billings' channels consisting of billings submitted to LEC Processors through third parties were discontinued. As such, a significant portion of the receivables at March 31, 2014 and September 30, 2013 pertaining to LEC service providers represent the holdbacks described above.

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 38%, 22% and 16% of gross receivables at March 31, 2014 and 44%, 25%, and 18% of gross receivables at September 30, 2013, respectively.

Note 14: Recent Accounting Pronouncements

The Company has reviewed all recently issued, but not effective, accounting pronouncements and does not believe the future adoption of any such pronouncements will cause a material impact on its financial condition or the result of its operation.

Note 15: Business Combination

On March 7, 2014, the Company signed an agreement for the acquisition of substantially all of the assets of DA Stores, LLC, through its wholly-owned subsidiary, Live Goods, LLC (“Live Goods”). The acquisition of the assets is intended to assist in the implementation of the Company’s new business line. Under the terms of the acquisition, the Company acquired DA Stores, LLC’s retail store inventory and equipment, furniture, software, hardware, and domain names in exchange for \$200,000 cash. The purchase price for the assets of Live Goods was determined to be the fair market value thereof. On May 16, 2014, DA Stores, LLC, executed the Deed of Transfer in respect of all the assets.

In connection with the transaction, the Company paid to the benefit of each of Akmal Hodjaev and David Rashidov the sum of \$150,000 as retention compensation. The Company, through Live Goods LLC, also agreed to employ each of such individuals for a three-year term, commencing as of the date of the transaction. However, in the event that either or both of such individuals voluntarily terminates their respective employment prior to the expiration of such three-year term, such terminating individual has agreed to return such \$150,000 sum.

Further, and in connection with such individual’s employment but subject to the achievement of certain performance metrics at the one-year anniversary of the acquisition of such assets, the Company will pay an aggregate, additional amount to Messrs. Hodjaev and Rashidov, in cash or stock options (based on the price of the Company’s common stock on March 7, 2014), as follows:

- i. \$300,000 if Live Goods, LLC, achieves \$15,000,000 in revenue during such 12-month period with 5% profitability margin;
- ii. \$250,000 if Live Goods, LLC, achieves \$12,000,000 in revenue during such 12-month period, with 5% profitability margin; or
- iii. \$200,000 if Live Goods, LLC, achieves \$10,000,000 in revenue during such 12-month period with 5% profitability margin.

The Company will recognize this additional, conditional payment to such individuals, if, when, and any such performance metric has been achieved.

Note 16: Subsequent Events

Share Purchase Agreement for Acquisition of DealTicker, Inc.

On May 5, 2014, the Company, through its wholly-owned subsidiary, Live Goods, LLC, a California limited liability company, entered into a share purchase agreement (the "Agreement") to purchase all of the issued and outstanding shares in the capital of DealTicker Inc., a Canadian corporation ("DealTicker"), from Julian Gleizer and Daniel Abramov, the shareholders of DealTicker (collectively the "Sellers").

Upon the closing of the transaction, the Sellers shall sell all of the shares of DealTicker to LiveGoods for a purchase price in the aggregate amount of CAN\$246,000. Pursuant to the terms of the Agreement, Live Goods may, in its absolute discretion, increase the purchase price taking into account the financial performance and operation of the DealTicker business during the one-year period following the closing compared to historical performance.

The Agreement is subject to customary closing conditions, including, but not limited to the accuracy of representations and warranties, all necessary and required consents being obtained, delivery of non-compete, employment agreements and other releases and consents, as well as there having been no material adverse effect on the business operations prior to closing. It is also a condition to closing that deferred revenue, cash and cash equivalents as well as the value of the inventory meet certain thresholds at closing, which are set forth in the Agreement.

Dividends

On May 12, 2014, the company paid cash for preferred dividends in the amount of \$16,780. This amount was included in accrued liabilities at March 31, 2014.

Engagement Agreement with Chardan Capital Markets LLC (At-The-Market Offering)

On May 16, 2014, we entered into an Engagement Agreement (the "Engagement Agreement") with Chardan Capital Markets LLC ("Chardan") pursuant to which we may issue and sell up to a maximum aggregate amount of 10,000,000 shares of our common stock from time to time through Chardan as our sales agent, under our shelf registration statement on Form S-3 (File No. 333-193971) (the "Registration Statement") previously filed with the SEC, pursuant to which any shares that are issued under the Engagement Agreement will be sold.

Upon delivery of a placement notice by the Company, and subject to the terms and conditions of the Engagement Agreement, Chardan may sell the common stock by any method that is deemed to be an "at-the-market" offering as defined in Rule 415 promulgated under the Securities Act of 1933, as amended (the "Securities Act"), including by means of ordinary brokers' transactions at market prices on the NASDAQ Capital Market, in block transactions, through privately negotiated transactions, or as otherwise agreed by Chardan and us. Chardan will act as sales agent on a commercially reasonable efforts basis consistent with its normal trading and sales practices and applicable state and federal law, rules and regulations and the rules of NASDAQ.

The offering pursuant to the Engagement Agreement will terminate upon the earlier of (i) the sale of all shares of common stock subject to the Engagement Agreement, or (ii) termination of the Engagement Agreement as permitted therein. The Engagement Agreement may be terminated by Chardan or us at any time upon 15 days' written notice to the other party.

We will pay Chardan a commission equal to up to 3% of the gross proceeds from the sale of the common stock sold through Chardan pursuant to the Engagement Agreement and reimburse Chardan up to \$15,000 in expenses. No assurance can be given that we will sell any shares under the Engagement Agreement, or, if we do, as to the price or amount of shares that we will sell, or the dates on which any such sales will take place.

On May 20, 2014 we sold 1,000 shares of our common stock under the Registration Statement, resulting in gross proceeds of \$2,690, in an at-the-market offering, in which Chardan Capital Markets LLC was our agent. We received net proceeds of \$2,609.

The foregoing description of the Engagement Agreement contained herein does not purport to be complete and is qualified in its entirety by reference to the complete text of the Engagement Agreement, a copy of which is attached to this Quarterly Report on Form 10-Q as Exhibit 1.1 and incorporated herein by reference.

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

For a description of our significant accounting policies and an understanding of the significant factors that influenced our performance during the three and six months ended March 31, 2014, 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, 2013, as amended.

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) belief in the continued growth of internet usage, particularly via mobile devices, and demand for web-based marketing; (ii) belief in the continued growth in the demand for local search and information, (iii) belief that small and medium businesses will continue to outsource their online marketing efforts to third parties; (iv) belief that we can cost-effectively expand into other cities due to the scalability of the LiveDeal.com platform; (v) belief that the cash on hand and additional cash generated from operations together with potential sources of cash through issuance of debt or equity will provide the company with sufficient liquidity for the next 12 months; and (vi) belief that the outcome of pending legal proceedings will not have a material adverse effect on business, financial position and results of operations, cash flow or liquidity.

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, 2013 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 or any other websites referenced in this Quarterly Report are not part of this Quarterly Report.

Our Company

Our Company

LiveDeal, Inc., which, together with its subsidiaries, we refer to as the "Company", "LiveDeal", "we", "us" or "our", provides specialized online marketing solutions to small-to-medium sized local businesses, or "SMBs", that boost customer awareness and merchant visibility. We offer affordable tools for SMBs to extend their marketing reach to relevant prospective customers via the internet. We also provide SMBs promotional marketing with the ability to offer special deals and activities through Livedeal.com and our online publishing partners.

Our principal offices are located at 325 W. Warm Springs Road, Suite 102, Las Vegas, Nevada 89119. Our telephone number is (702) 939-0231. Our corporate website (which does not form part of this Report) is located at www.livedeal.com. Our common stock trades on the NASDAQ Capital Market under the symbol "LIVE".

Summary Business Description

We provide specialized online marketing solutions that boost customer awareness and merchant visibility on the internet. In September 2013, we launched LiveDeal.com, which redefined the Company's strategy and direction, centering its focus on the new LiveDeal.com platform and growing the base of restaurants utilizing the LiveDeal platform to attract new customers. LiveDeal.com is a unique, real-time "deal engine" connecting merchants with consumers. The Company believes that it has developed the first-of-its-kind web/mobile platform that, using geo-location, enables restaurants and other businesses to communicate real-time and instant offers to nearby customers.

On May 6, 2014, we acquired DealTickerTM, an online platform that offers discounted products and services in the U.S. and Canada. The acquisition marked an expansion of our successful restaurant deal engine into the retail industry, including discounted clothing, jewelry, designer brands, electronics, health and beauty supplies, as well as other products. We have also released Apple iOS and Android apps as part of our ongoing effort to broaden the reach and audience of our deal engine.

In addition to LiveDeal.com, we also recently launched two new business lines under new management after a period of re-evaluating our sales program, products, distribution methods and vendor programs. In August 2012, we commenced sourcing local deal and activities to strategic publishing partners under our LiveDeal® brand, which we refer to as promotional marketing. In November 2012, we commenced the sale of marketing tools that help local businesses manage their online presence under our Velocity Local™ brand, which we refer to as online presence marketing.

We continue to actively develop, revise and evaluate these products and services and our marketing strategies and procedures. We continue to generate a significant portion of our revenue from servicing our existing customers under our legacy product offerings, primarily our InstantProfile® line of products and services. Because of the change in our business strategy and product lines, we no longer accept new customers under our legacy product offerings.

Changes in Business Strategy; New Products and Services

Change in Business Strategy. We have been engaged in a significant re-evaluation of and adjustment to our business strategy over the last several years. The focus of these efforts has been two-fold: first, to make our product offerings more appealing in the evolving market for assisting SMBs with their online marketing challenges; and second, to move ahead of our competitors in this market segment. In connection with this re-evaluation, we terminated all new sales under our direct sales business line on December 1, 2010, and on July 15, 2011, we discontinued all new sales of our InstantProfile® product.

Promotional Marketing and Online Presence Marketing (Velocity Local™). In 2012, we launched two new business lines under new management after a period of re-evaluating our sales program, products, distribution methods and vendor programs.

In August 2012, we commenced sourcing local deal and activities to strategic publishing partners under our LiveDeal® brand, which we refer to as promotional marketing. In November 2012, we commenced the sale of marketing tools that help local businesses manage their online presence under our Velocity Local™ brand, which we refer to as online presence marketing.

We offer our SMB customers packages of services to create and maintain an online presence. Products and services we offer include template and custom website design, either optimized for desktop or mobile devices, social media marketing, or SMM, and content marketing, or CM. In combination, these products offer a comprehensive online marketing strategy for SMBs at affordable rates. We believe that our online presence marketing products are useful to a large share of SMBs because they enable potential customers to gain awareness of and locate an SMB and to learn about and purchase its products and services.

LiveDeal.com. In September 2013, we launched LiveDeal.com, which redefined the Company's strategy and direction, centering its focus on the new LiveDeal.com platform and growing the base of restaurants utilizing the LiveDeal platform to attract new customers. LiveDeal.com is a unique, real-time "deal engine" connecting merchants with consumers. The Company believes that it has developed the first-of-its-kind web/mobile platform providing restaurants with full control and flexibility to instantly publish customized offers whenever they wish to attract customers.

Highlights of the new LiveDeal.com include:

- a user-friendly interface enabling restaurants to create limited-time offers and publish them immediately, or on a preset schedule that is fully customizable;
- state-of-the-art scheduling technology giving restaurants the freedom to choose the days, times and duration of the offers, enabling them to create offers that entice consumers to visit their establishment during their slower periods;
- advanced publishing options allowing restaurants to manage traffic by limiting the number of available vouchers to consumers;
- superior geo-location technology allowing multi-location restaurants to segment offers by location, attracting customers to slower locations while eliminating potential over-crowding at busier sites; and
- a user-friendly mobile and desktop web interface allowing consumers to easily browse, download, and instantly redeem "live" offers found on LiveDeal.com based on their location.

Restaurants can sign up to use the LiveDeal platform at our website (www.livedeal.com).

We believe one of the primary challenges facing the dining industry is the inefficient and limited number of ways restaurants are able to market offers and promotions to their potential customers. Daily deal companies typically dictate offer terms, such as the discount amount and redemption details. This not only erodes potential profits for restaurant owners but could also drive traffic during already-busy periods for the restaurants. LiveDeal's model benefits both the restaurant and the consumer because it provides the restaurant the opportunity to create any offer they choose, limit the number of potential claimants of their promotion, publish the offer on days and at times of their choosing, and provides customers with relevant offers they can easily and quickly redeem while creating a cost-effective model for LiveDeal to grow and easily scale its operations. We expect to initially derive revenues through premium placement on the site, and we are also exploring various options for monetizing the website.

The Company, best known for migrating print yellow pages to the Internet in 1994, began to develop the model for LiveDeal.com after having worked closely with well-known publishers in the daily deal market. In mid-2013, we tested the beta platform in a number of cities, and the model has been well received by restaurants, consumers, and various restaurant associations. We launched LiveDeal.com in the San Diego and Los Angeles, California markets in September 2013 and December 2013, respectively, followed by successful launches in more than 30 other major cities. The Company believes it can continue to expand cost-effectively due to the scalability of the LiveDeal.com platform, as businesses can curate deals through our account managers or create specials on their own. In addition, individual customers transact directly with the business, eliminating the need for the Company to act as an intermediary in the sale.

Trends in Revenues. We continue to actively develop, revise and evaluate these products and services and our marketing strategies and procedures. We continue to generate a significant portion of our revenue from servicing our existing customers under our legacy product offerings, primarily our InstantProfile[®] line of products and services. Because of the change in our business strategy and product lines, we no longer accept new customers under our legacy product offerings.

Results of Operations

The following sets forth a discussion of our financial results for the three and six months ended March 31, 2014 as compared to the three and six months ended March 31, 2013. 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

	Net Revenues			
	2014	2013	Change	Percent
Three Months Ended March 31,	\$ 678,033	\$ 555,084	\$ 122,949	22%
Six Months Ended March 31	\$ 1,271,491	\$ 1,127,619	\$ 143,872	13%

Net revenues increased in the three months ended March 31, 2014 as compared to the three months ended March 31, 2013 primarily due to a \$162,000 increase in online products revenue, which was partially offset by a \$39,000 decrease in legacy revenues. Net revenues increased in the six months ended March 31, 2014 as compared to the six months ended March 31, 2013 primarily due to a \$270,000 increase in online products revenue, partially offset by a \$126,000 decrease in legacy revenues.

Cost of Services

	Cost of Services			
	2014	2013	Change	Percent
Three Months Ended March 31,	\$ 245,678	\$ 116,913	\$ 128,765	110%
Six Months Ended March 31	\$ 367,007	\$ 219,549	\$ 147,458	67%

Cost of services increased in the second quarter and first six months of fiscal 2014 as compared to the second quarter and first six months of fiscal 2013 primarily due to increased fulfillment costs on associated with sales of our online products.

Gross Profit

	Gross Profit			
	2014	2013	Change	Percent
Three Months Ended March 31,	\$ 432,355	\$ 438,171	\$ (5,816)	1%
Six Months Ended March 31	\$ 904,484	\$ 908,070	\$ (3,586)	1%

Gross profit decreased in the second quarter and first six months of fiscal 2014 as compared to the second quarter and first six months of fiscal 2013 primarily due to the increased cost of fulfillment services and changes in online products versus legacy revenues as described above.

General and Administrative Expenses

	General and Administrative Expenses			
	2014	2013	Change	Percent
Three Months Ended March 31,	\$ 1,180,876	\$ 1,231,531	\$ (50,655)	(4)%
Six Months Ended March 31	\$ 2,051,576	\$ 1,993,907	\$ 57,669	3%

General and administrative expenses decreased in three months ended March 31, 2014 as compared to the three months ended March 31, 2013 primarily due to the following:

- Decreased compensation costs of \$353,248 due to the decreases in staffing.
- Increased depreciation and amortization expense of \$41,453, due to an increase in intangible assets subject to amortization.
- Increased professional fees of \$38,594 related to:
 - Increase in legal fees of \$15,479, due to litigation settlement,
 - Decrease in marketing consultant fees of \$138,
 - Increase in IT consultant fees of \$34,927, due to increased use of programmers,
 - Decrease in accounting fees of \$50,882 due to cost containment initiatives, and
 - Increase in other miscellaneous consultant costs of \$39,208, due to increased use of consultants.
- Other expense increases of \$222,546, including rent and utilities, services and fees, office and supplies expenses, office closure expenses, travel and entertainment and other corporate expenses associated with our office operations, reductions in force and other cost containment initiatives.

General and administrative expenses increased in the first six months of fiscal 2014 as compared to the first six months of fiscal 2013 primarily due to the following:

- Decreased compensation costs of \$359,088 due to the decreases in staffing.
- Increased depreciation and amortization expense of \$82,598, due to an increase in intangible assets, subject to amortization.
- Decreased professional fees of \$65,783 related to:
 - Decrease in legal fees of \$49,770, due to litigation settlement and cost containment initiatives,
 - Decrease in marketing consultant fees of \$2,095, due to no longer using marketing consultants,
 - Increase in IT consultant fees of \$49,461, due to increased use of programmers,
 - Decrease in accounting fees of \$69,797, due to cost containment initiatives, and
 - Increase in other miscellaneous consultant costs of \$6,418, due to increased use of consultants.
- Other expense increases of \$399,937, including rent and utilities, services and fees, office and supplies expenses, office closure expenses, travel and entertainment and other corporate expenses associated with our office operations, reductions in force and other cost containment initiatives.

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

	<u>Q2 2014</u>	<u>Q1 2014</u>	<u>Q4 2013</u>	<u>Q3 2013</u>	<u>Q2 2013</u>
Compensation for employees, leased employees, officers and directors	372,889	430,228	555,323	528,767	726,137
Professional fees	287,257	140,422	212,465	147,618	248,663
Depreciation and amortization	106,526	104,711	70,288	65,183	65,073
Other general and administrative costs	414,204	195,338	357,204	184,090	191,658

Sales and Marketing Expenses

	<u>Sales and Marketing Expenses</u>			
	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>Percent</u>
Three Months Ended March 31,	\$ 222,434	\$ 7,166	\$ 215,268	3004%
Six Months Ended March 31	\$ 249,506	\$ 26,607	\$ 222,899	838%

Sales and marketing expensed increased in the second quarter and the first six months of fiscal 2014 as compared to the second quarter and the first six months of fiscal 2013 primarily due to expenses associated with corporate marketing initiatives.

Operating Loss

	<u>Operating Loss</u>			
	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>Percent</u>
Three Months Ended March 31,	\$ (970,955)	\$ (800,526)	\$ (170,429)	37%
Six Months Ended March 31	\$ (1,396,598)	\$ (1,112,444)	\$ (284,154)	37%

The increase in operating loss for the second quarter and first six months of fiscal 2014 as compared to the second quarter and first six months of fiscal 2013 resulted from a variety of factors, including increases in the cost of services, general and administrative expenses and sales and marketing expenses, each of which is described above.

Total Other Income (Expense)

	<u>Total Other Income (Expense)</u>			
	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>Percent</u>
Three Months Ended March 31,	\$ (4,905)	\$ (2,414,941)	\$ 2,410,036	(100)%
Six Months Ended March 31	\$ 12,579	\$ (3,165,495)	\$ 3,178,074	(100)%

The large improvement in other income (expense) in the second quarter and first six months of fiscal 2014 as compared to the second quarter and first six months of fiscal 2013 was primarily due to interest expense incurred during the three-month period ending December 31, 2012, relating to the issuance of debt and the conversion of the Notes to warrants. See Note 5.

Net Loss

	<u>Net Loss</u>			
	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>Percent</u>
Three Months Ended March 31,	\$ (975,860)	\$ (3,215,017)	\$ 2,239,157	(70)%
Six Months Ended March 31	\$ (1,384,019)	\$ (4,275,526)	\$ 2,891,507	(68)%

The decrease in net loss for the second quarter and first six months of fiscal 2014, as compared to the second quarter and first six months of fiscal 2013, was primarily attributable to changes in operating loss and, other income (expense), each of which is described above.

Liquidity and Capital Resources

Cash Flows from Operating Activities

Net cash used in operating activities was \$1,503,142 for the first six months of fiscal 2014 as compared to \$1,112,603 for the first six months of fiscal 2013. This change was due to a decrease of \$2,891,507 in our net loss, partially offset by a decrease of non-cash expenses of \$3,089,054 which during the first six months of fiscal 2013 included \$3,291,466 of interest expense associated with convertible debt and warrants, depreciation expense, stock compensation and bad debt expense. Cash flows from operations were also impacted by an increase of approximately \$230,439 in changes in working capital and other assets in the first six months of fiscal 2014 as compared to the first six months of fiscal 2013. This working capital variance resulted primarily from the changes in accounts receivable, accounts payable 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. 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.

Cash Flows from Investing Activities

Our cash flows used in investing activities during the first six months of fiscal 2014 consisted of a \$200,000 deposit for the acquisition of a business, \$3,563 of expenditures for intangible assets, \$6,167 of purchases of equipment and \$1,400 proceeds from sale of fixed assets. Our cash flows used in investing activities during the first six months of fiscal 2013 consisted of \$117,500 of expenditures for intangible assets and \$28,407 of purchases of equipment.

Cash Flows from Financing Activities

Our cash flows from financing activities during the first six months of fiscal 2014 consisted of \$9,696,013 of issuances of common stock for cash and \$823,595 of issuance of convertible debt and warrants. Our cash flows from financing activities during the first six months of fiscal 2013 consisted of \$1,250,000 of proceeds received from the issuance of convertible debt and warrants.

Working Capital

We had working capital of \$9,281,748 as of March 31, 2014 compared to working capital of \$179,968 as of September 30, 2013 with current assets increasing by \$9,575,246 and current liabilities increasing by \$473,466 from September 30, 2013 to March 31, 2014. Such changes in working capital are primarily attributable to the increase in our operating net loss and the results of our financing activities.

At-The-Market Offering of Common Stock (Chardan Capital Markets LLC)

For the quarter ended March 31, 2014, we sold 2,214,612 shares of our common stock, resulting in gross proceeds of \$10,000,000, in an at-the-market offering, in which Chardan Capital Markets LLC ("Chardan") was our agent. We received net proceeds of \$9,696,013. The shares were sold under a Registration Statement on Form S-3 (File No. 333-187397) that the Company filed on March 20, 2013 and was declared effective by the SEC on May 3, 2013. We paid Chardan a total commission of \$299,882 pursuant to the Engagement Agreement.

New Shelf Registration Statement

On February 14, 2014, we filed a shelf Registration Statement on Form S-3 (File No. 333-193971) (the "New Shelf Registration Statement") registering up to \$50,000,000 in any combination of its common stock, preferred stock, debt securities, warrants, or units, to be offered and sold from time to time in one or more offerings. The New Shelf Registration Statement was subsequently declared effective by the SEC on April 10, 2014.

Future Sources of Cash; New Products and Services

We will require additional capital to finance its planned business operations as it continues to build and market its LiveDeal.com and Velocity Local™ offerings and develop other new products. In addition, we may require additional capital to finance acquisitions or other strategic investments in its business. Other sources of financing may include stock issuances; additional loans (for example, through our sale and issuance of convertible notes pursuant to the \$5 million line of credit that we entered into in January 2014); or other forms of financing. Any financing obtained may further dilute or otherwise impair the ownership interest of our existing stockholders. If we are unable to generate positive cash flows or raise additional capital in a timely manner or on acceptable terms, we may (i) not be able to make acquisitions or other strategic investments in its business, (ii) modify, delay or abandon some or all of its business plans, and/or (iii) be forced to cease operations.

Although we stopped new Velocity product sales July 15, 2011, we continued to service existing customers acquired under our Directory Services and InstantProfile product and service lines and we are simultaneously exploring other strategic alternatives. In August 2012, we commenced sourcing local deals and activities to strategic publishing partners under our LiveDeal® brand, and in November 2012, we commenced the sale of marketing tools that help local businesses manage their online presence under our Velocity Local™ brand. In September 2013, we launched LiveDeal.com, which redefined our strategy and direction, centering its focus on the new LiveDeal.com platform and growing the base of restaurants utilizing the LiveDeal platform to attract new customers. LiveDeal.com is a unique, real-time “deal engine” connecting merchants with consumers. There can be no assurance that that these new product lines will generate sufficient revenue or that we will achieve profitability, positive operating cash flows, or sufficient cash flows for operations.

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 consisting of operating lease agreements at March 31, 2014 and the effect such obligations are expected to have on our future liquidity and cash flows:

2014	215,745
2015	333,461
2016	191,429
2017	53,946
2018	–
Thereafter	–
	\$ 794,581

Off-Balance Sheet Arrangements

At March 31, 2014, we had no off-balance sheet arrangements, commitments or guarantees that require additional disclosure or measurement.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

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. 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 March 31, 2014 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 March 31, 2014, our annual results of operations or cash flows, or our liquidity.

J3 Harmon LLC v. LiveDeal, Inc.

On February 9, 2012, J3 Harmon LLC, which we refer to as J3, filed a lawsuit against us in the Superior Court for Maricopa County in the State of Arizona, alleging breach of a commercial lease agreement. J3 sought damages for alleged unpaid rents during the lease term as well as alleged damages for storage costs after the expiration of the lease term. We denied the allegations and asserted various affirmative defenses. In September 2012, the Maricopa County Superior Court entered a judgment in favor of J3 in the sum of \$62,886. We appealed this judgment.

On October 1, 2013, the Arizona Court of Appeals affirmed in part and reversed in part on the principal damages and remanded the matter for judgment. Subsequently, the Maricopa County Superior Court entered Judgment on Mandate against the Company in the principal sum of \$46,636.31 and attorneys' fees of \$5,624.40, with post-judgment interest from October 3, 2012. There is no further basis for appeal by the Company. The Company anticipates paying the judgment during the fiscal quarter ending June 30, 2014 and, upon such payment, the matter will be resolved. As of December 31, 2013, we maintained an accrual of \$52,261 related to this matter.

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

Securities issued for services

<u>Date</u>	<u>Security/Value</u>
January 2014	Common stock – 21,000 shares of common stock issued in a private placement transaction exempt from registration pursuant to the Securities Act of 1933, as amended, in exchange for professional services. The common stock was valued at \$39,900.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

The following exhibits are being filed herewith:

<u>Exhibit Number</u>	<u>Description</u>
1.1	Engagement Agreement between the Company and Chardan Capital Markets, LLC, dated May 16, 2014.
3.1	Certificate of Change effective as of February 11, 2014 (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2014)
10.1	Asset Purchase Agreement, dated September 9, 2013, by and between the Registrant and Novalk Apps S.A.S. (incorporated by reference to Exhibit 10.9 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2013)
10.2	Note Purchase Agreement, dated as of January 7, 2014, by and between the Registrant and Kingston Diversified Holdings LLC (incorporated by reference to Exhibit 10.10 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2013)
10.3	Convertible Note (under 2014 Note Purchase Agreement) (incorporated by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2013)
10.4	Form of Warrant (under 2014 Note Purchase Agreement) (incorporated by reference to Exhibit 10.12 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2013)
31.1	Certification of Jon Isaac pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Jon Isaac pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	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

SIGNATURES

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

LiveDeal, Inc.

Dated: May 20, 2014

/s/ Jon Isaac

Jon Isaac

President and Chief Executive Officer

(Principal Executive Officer and Principal Financial Officer)



May 16, 2014

LiveDeal, Inc.
6240 McLeod Drive
Suite 120
Las Vegas, NV 89120

Phone: 702 939 0230
Fax: 480 654 9727

Attention: Tony Isaac
Principal Financial Officer

Re: At the Market Offering ("ATM")

Dear Mr. Isaac:

This letter will confirm our understanding that the company known to us as LiveDeal, Inc. (the "Company") has engaged Chardan Capital Markets, LLC ("Chardan", "Advisor", "Placement Agent") to act as the Company's sole managing financial advisor and exclusive placement agent in connection with a planned offering of the Company's common shares that is expected to be conducted as an At the Market Offering ("ATM," or the "Transaction").

The terms of our appointment are as follows:

1. **Engagement Period.** The Company hereby engages Chardan, for the period beginning on the date hereof and ending upon consummation of the "Offering," defined below (the "**Engagement Period**"). During the Engagement Period or until the consummation of the Offering, and as long as Chardan is proceeding in good faith with the Offering, the Company agrees not to solicit, negotiate with or enter into any agreement with any other source of financing (whether equity, debt or otherwise), any underwriter, potential underwriter, placement agent, financial advisor, fund, investment vehicle or any other person or entity in connection with an offering of the Company's securities or any other financing by the Company, except mutually agreed to by Chardan and the Company. The Engagement Period may be terminated by either party upon fifteen days written notice.

17 State Street · Suite 1600 · New York, N.Y. 10004 · Tel: 646-465-9090 · Fax: 646-465-9039

(a) Offering. The Offering will consist of the proposed placement (the "Offering") of up to 10,000,000 shares of common stock (the "Shares"). Shares are sometimes referred to herein as "Securities". Chardan will act the exclusive sales agent for the Company, on a "reasonable best efforts" basis, in connection with the Offering.

(b) Agent Sales. Subject to the terms and conditions and in reliance upon the representations and warranties herein set forth, the Company will issue and agrees to sell Shares from time to time through Chardan, acting as sales agent, and Chardan agrees to use its reasonable best efforts to sell, as sales agent for the Company, the Shares on the following terms:

(i) The Shares are to be sold on a daily basis or otherwise as shall be agreed to by the Company and Chardan on any day that (A) is a trading day for the NASDAQ Capital Market, (B) the Company has instructed Chardan by telephone (confirmed promptly by electronic mail) to make such sales ("Sales Notice") and (C) the Company has satisfied its obligations under Section 6 of this Agreement. The Company will designate the maximum amount of the Shares to be sold by Chardan daily (subject to the limitations set forth in Section 1(a)) and the minimum price per Share at which such Shares may be sold. Subject to the terms and conditions hereof, Chardan shall use its reasonable efforts to sell on a particular day all of the Shares designated for the sale by the Company on such day. The gross sales price of the Shares sold under this Section 1(b) shall be the market price for shares of the Shares sold by Chardan under this Section 1(b) on the NASDAQ Capital Market at the time of sale of such Shares.

(ii) The Company acknowledges and agrees that (A) there can be no assurance that Chardan will be successful in selling the Shares, (B) Chardan will incur no liability or obligation to the Company or any other person or entity if it does not sell Shares for any reason other than a failure by Chardan to use its reasonable efforts consistent with its normal trading and sales practices and applicable law and regulations to sell such Shares as required under this Agreement, and (C) Chardan shall be under no obligation to purchase Shares on a principal basis pursuant to this Agreement. Notwithstanding (ii)(C) above, if Chardan shall purchase and sell as a principal in any transaction, and not as a sales agent for the Company, Chardan shall only resell to the public and not through privately negotiated transactions, or to or for its own account.

(iii) The Company shall not authorize the issuance and sale of, and Chardan shall not be obligated to use its reasonable efforts to sell, any Share at a price lower than the minimum price therefor designated from time to time by the Company's Board of Directors (the "Board"), or a duly authorized committee thereof, and notified to Chardan in writing. The Company or Chardan may, upon notice to the other party hereto by telephone (confirmed promptly by electronic mail), suspend the offering of the Shares for any reason and at any time; provided, however, that such suspension or termination shall not affect or impair the parties' respective obligations with respect to the Shares sold hereunder prior to the giving of such notice.

(iv) Chardan may sell Shares by any method permitted by law deemed to be an “at the market” offering as defined in Rule 415, including without limitation sales made directly on the NASDAQ Capital Market on any other existing trading market for the Common Stock or to or through a market maker. Chardan may also sell Shares in privately negotiated transactions; provided however, that any Shares sold in privately negotiated transactions must first be approved for sale by the Company.

(v) Chardan shall provide written confirmation (which may be by facsimile or electronic mail) to the Company following the close of trading on the NASDAQ Capital Market each day in which the Shares are sold under this Section 1(b) setting forth the number of the Shares sold on such day, the aggregate gross sales proceeds and the net proceeds to the Company, and the compensation payable by the Company to Chardan with respect to such sales.

(vi) Upon delivery of a Sales Notice, the Company shall issue and deliver the maximum number of Shares to be sold pursuant to the Sales Notice to Chardan’s account at The Depository Trust Company (“DTC”) via the DWAC system. Chardan shall have no obligation to attempt to sell Shares prior to the delivery of the Shares. Settlement for sales of the Shares pursuant to this Section 1(b) will occur on the last day of the month for any sales of Shares with a Settlement Date that occurred before the last day of such month. For the purposes of this Agreement, the sale of Shares will settle on the third (3rd) Business Day following the date on which such sales are made (each, a “**Settlement Date**”). Chardan shall notify the Company of each sale of Shares on the date of such sale. On the last day of each month, Chardan shall notify the Company of the amount of proceeds to be delivered to the Company (the “**Net Proceeds**”) which will be equal to the aggregate sales price received by Chardan, after deduction for (i) Chardan’s commission, discount or other compensation for such sales payable by the Company pursuant to Section 1 hereof, and (ii) any transaction fees imposed by any governmental or self-regulatory organization in respect of such sales.

(vii) At each Settlement Date, the Company shall be deemed to have affirmed each representation and warranty contained in this Agreement as if such representation and warranty were made as of such date, modified as necessary to relate to the Registration Statement and the Prospectus as amended as of such date. Any obligation of Chardan to use its reasonable efforts to sell the Shares on behalf of the Company shall be subject to the continuing accuracy of the representations and warranties of the Company herein, to the performance by the Company of its obligations hereunder and to the continuing satisfaction of the additional conditions specified in Section 6 of this Agreement.

2. Pricing. The terms of such Placement shall be mutually agreed upon by the Company and the purchasers (each, a “Purchaser” and collectively, the “Purchasers”) and nothing herein constitutes that Chardan would have the power or authority to bind the Company or any Purchaser or an obligation for the Company to issue any Shares.

3. Compensation. The Company will pay Chardan a cash fee of 3% (the “Placement Fee”) of the aggregate gross proceeds from the issuance of Securities.

4. Expenses. In addition to any fees or other compensation that may be paid to Chardan hereunder, whether or not any Transaction occurs, the Company will reimburse Chardan, promptly upon receipt of an invoice for fees and expenses of Chardan’s counsel not to exceed \$15,000.

5. SEC Filings. The Company represents and warrants to, and agrees with, the Chardan that:

(A) The Company has filed with the Securities and Exchange Commission (the “Commission”) a registration statement on Form S-3 (Registration File No. 333-193971 under the Securities Act of 1933, as amended (the “Securities Act”), which became effective on April 10, 2014 for the registration under the Securities Act of the Shares. At the time of such filing, the Company met the requirements of Form S-3 under the Securities Act. Such registration statement meets the requirements set forth in Rule 415(a)(1)(x) under the Securities Act and complies with said Rule. The Company will file with the Commission pursuant to Rule 424(b) under the Securities Act, and the rules and regulations (the “Rules and Regulations”) of the Commission promulgated thereunder, a supplement to the form of prospectus included in such registration statement relating to the placement of the Shares and the plan of distribution thereof and has advised the Chardan of all further information (financial and other) with respect to the Company required to be set forth therein. Such registration statement, including the exhibits thereto, as amended at the date of this Agreement, is hereinafter called the “Registration Statement”; such prospectus in the form in which it appears in the Registration Statement is hereinafter called the “Base Prospectus”; and the supplemented form of prospectus, in the form in which it will be filed with the Commission pursuant to Rule 424(b) (including the Base Prospectus as so supplemented) is hereinafter called the “Prospectus Supplement.” Any reference in this Agreement to the Registration Statement, the Base Prospectus or the Prospectus Supplement shall be deemed to refer to and include the documents incorporated by reference therein (the “Incorporated Documents”) pursuant to Item 12 of Form S-3 which were filed under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), on or before the date of this Agreement, or the issue date of the Base Prospectus or the Prospectus Supplement, as the case may be; and any reference in this Agreement to the terms “amend,” “amendment” or “supplement” with respect to the Registration Statement, the Base Prospectus or the Prospectus Supplement shall be deemed to refer to and include the filing of any document under the Exchange Act after the date of this Agreement, or the issue date of the Base Prospectus or the Prospectus Supplement, as the case may be, deemed to be incorporated therein by reference. All references in this Agreement to financial statements and schedules and other information that is “contained,” “included,” “described,” “referenced,” “set forth” or “stated” in the Registration Statement, the Base Prospectus or the Prospectus Supplement (and all other references of like import) shall be deemed to mean and include all such financial statements and schedules and other information that is or is deemed to be incorporated by reference in the Registration Statement, the Base Prospectus or the Prospectus Supplement, as the case may be. No stop order suspending the effectiveness of the Registration Statement or the use of the Base Prospectus or the Prospectus Supplement has been issued, and no proceeding for any such purpose is pending or has been initiated or, to the Company’s knowledge, is threatened by the Commission. For purposes of this Agreement, “free writing prospectus” has the meaning set forth in Rule 405 under the Securities Act and the “Time of Sale Prospectus” means the preliminary prospectus, if any, together with the free writing prospectuses, if any, used in connection with the Placement, including any documents incorporated by reference therein.

(B) The Registration Statement (and any further documents to be filed with the Commission) contains all exhibits and schedules as required by the Securities Act. Each of the Registration Statement and any post-effective amendment thereto, at the time it became effective, complied in all material respects with the Securities Act and the Exchange Act and the applicable Rules and Regulations and did not and, as amended or supplemented, if applicable, will not, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. The Base Prospectus, the Time of Sale Prospectus, if any, and the Prospectus Supplement, each as of its respective date, comply in all material respects with the Securities Act and the Exchange Act and the applicable Rules and Regulations. Each of the Base Prospectus, the Time of Sale Prospectus, if any, and the Prospectus Supplement, as amended or supplemented, did not and will not contain as of the date thereof any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The Incorporated Documents, when they were filed with the Commission, conformed in all material respects to the requirements of the Exchange Act and the applicable Rules and Regulations, and none of such documents, when they were filed with the Commission, contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein (with respect to Incorporated Documents incorporated by reference in the Base Prospectus or Prospectus Supplement), in light of the circumstances under which they were made, not misleading; and any further documents so filed and incorporated by reference in the Base Prospectus, the Time of Sale Prospectus, if any, or Prospectus Supplement, when such documents are filed with the Commission, will conform in all material respects to the requirements of the Exchange Act and the applicable Rules and Regulations, as applicable, and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. No post-effective amendment to the Registration Statement reflecting any facts or events arising after the date thereof which represent, individually or in the aggregate, a fundamental change in the information set forth therein is required to be filed with the Commission. There are no documents required to be filed with the Commission in connection with the transaction contemplated hereby that (x) have not been filed as required pursuant to the Securities Act or (y) will not be filed within the requisite time period. There are no contracts or other documents required to be described in the Base Prospectus, the Time of Sale Prospectus, if any, or Prospectus Supplement, or to be filed as exhibits or schedules to the Registration Statement, that have not been described or filed as required.

(C) The Company has delivered, or will as promptly as practicable deliver, to Chardan complete conformed copies of the Registration Statement and of each consent and certificate of experts, as applicable, filed as a part thereof, and conformed copies of the Registration Statement (without exhibits), the Base Prospectus, the Time of Sale Prospectus, if any, and the Prospectus Supplement, as amended or supplemented, in such quantities and at such places as Chardan reasonably request. Neither the Company nor any of its directors and officers has distributed and none of them will distribute, prior to the Closing Date, any offering material in connection with the offering and sale of the Shares other than the Base Prospectus, the Time of Sale Prospectus, if any, the Prospectus Supplement, the Registration Statement, copies of the documents incorporated by reference therein and any other materials permitted by the Securities Act.

6. Representations and Warranties. Except as set forth under the corresponding section of the Disclosure Schedules which Disclosure Schedules shall be deemed a part hereof, the Company hereby makes the representations and warranties set forth below to the Chardan.

(A) Organization and Qualification. All of the direct and indirect subsidiaries (individually, a “Subsidiary”) of the Company are set forth on Schedule 3(A). Except as set forth in Schedule 3(A), the Company owns, directly or indirectly, all of the capital stock or other equity interests of each Subsidiary free and clear of any “Liens” (which for purposes of this Agreement shall mean a lien, charge, security interest, encumbrance, right of first refusal, preemptive right or other restriction), and all the issued and outstanding shares of capital stock of each Subsidiary are validly issued and are fully paid, non-assessable and free of preemptive and similar rights to subscribe for or purchase securities. The Company and each of the Subsidiaries is an entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization (as applicable), with the requisite power and authority to own and use its properties and assets and to carry on its business as currently conducted. Neither the Company nor any Subsidiary is in violation or default of any of the provisions of its respective certificate or articles of incorporation, bylaws or other organizational or charter documents. Each of the Company and the Subsidiaries is duly qualified to conduct business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, could not have or reasonably be expected to result in (i) a material adverse effect on the legality, validity or enforceability of this Agreement, (ii) a material adverse effect on the results of operations, assets, business, prospects or condition (financial or otherwise) of the Company and the Subsidiaries, taken as a whole, or (iii) a material adverse effect on the Company’s ability to perform in any material respect on a timely basis its obligations under this Agreement (any of (i), (ii) or (iii), a “Material Adverse Effect”) and no “Proceeding” (which for purposes of this Agreement shall mean any action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened) has been instituted in any such jurisdiction revoking, limiting or curtailing or seeking to revoke, limit or curtail such power and authority or qualification.

(B) Authorization; Enforcement. The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by each of this Agreement and otherwise to carry out its obligations hereunder. The execution and delivery of this Agreement by the Company and the consummation by it of the transactions contemplated hereby have been duly authorized by all necessary action on the part of the Company and no further action is required by the Company, its board of directors or its stockholders in connection therewith other than in connection with the “Required Approvals” (as defined in subsection 3(D) below). This Agreement has been (or upon delivery will have been) duly executed by the Company and, when delivered in accordance with the terms hereof, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors’ rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies.

(C) No Conflicts. The execution, delivery and performance of this Agreement by the Company, the issuance and sale of the Securities and the consummation by the Company of the other transactions contemplated hereby and thereby do not and will not (i) conflict with or violate any provision of the Company's or any Subsidiary's certificate or articles of incorporation, bylaws or other organizational or charter documents, or (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, result in the creation of any Lien upon any of the properties or assets of the Company or any Subsidiary, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Company or Subsidiary debt or otherwise) or other understanding to which the Company or any Subsidiary is a party or by which any property or asset of the Company or any Subsidiary is bound or affected, or (iii) subject to the Required Approvals, conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company or a Subsidiary is subject (including federal and state securities laws and regulations), or by which any property or asset of the Company or a Subsidiary is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not have or reasonably be expected to result in a Material Adverse Effect.

(D) Filings, Consents and Approvals. The Company is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other federal, state, local or other governmental authority or other "Person" (defined as an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind, including, without limitation, any NASDAQ Capital Market) in connection with the execution, delivery and performance by the Company of this Agreement, other than such filings as are required to be made under applicable Federal and state securities laws (collectively, the "Required Approvals").

(E) Issuance of the Securities; Registration. The Securities are duly authorized and, when issued and paid for in accordance with this Agreement, will be duly and validly issued, fully paid and nonassessable, free and clear of all Liens imposed by the Company other than restrictions on transfer provided for in this Agreement. The issuance by the Company of the Securities has been registered under the Securities Act and all of the Securities will be freely transferable and tradable by the Purchasers without restriction (other than any restrictions arising solely from an act or omission of a Purchaser). The Securities will be issued pursuant to the Registration Statement and the issuance of the Securities has been registered by the Company under the Securities Act. The Registration Statement is effective and available for the issuance of the Securities thereunder and the Company has not received any notice that the Commission has issued or intends to issue a stop-order with respect to the Registration Statement or that the Commission otherwise has suspended or withdrawn the effectiveness of the Registration Statement, either temporarily or permanently, or intends or has threatened in writing to do so. The "Plan of Distribution" section under the Registration Statement permits the issuance and sale of the Securities hereunder. Upon receipt of the Securities, the Purchasers will have good and marketable title to such Securities and the Securities will be freely tradable on the NASDAQ Capital Market.

(F) Capitalization. The capitalization of the Company is as set forth on Schedule 3(F). The Company has not issued any capital stock since its most recently filed periodic report under the Exchange Act, other than pursuant to the exercise of employee stock options under the Company's stock option plans, the issuance of shares of Common Stock to employees pursuant to the Company's employee stock purchase plan and pursuant to the conversion or exercise of securities exercisable, exchangeable or convertible into Common Stock ("Common Stock Equivalents"). No Person has any right of first refusal, preemptive right, right of participation, or any similar right to participate in the transactions contemplated by this Agreement. Except as a result of the purchase and sale of the Securities, there are no outstanding options, warrants, scrip rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exercisable or exchangeable for, or giving any Person any right to subscribe for or acquire, any shares of Common Stock, or contracts, commitments, understandings or arrangements by which the Company or any Subsidiary is or may become bound to issue additional shares of Common Stock or Common Stock Equivalents. The issuance and sale of the Securities will not obligate the Company to issue shares of Common Stock or other securities to any Person (other than the Purchasers) and will not result in a right of any holder of Company securities to adjust the exercise, conversion, exchange or reset price under such securities. All of the outstanding shares of capital stock of the Company are validly issued, fully paid and nonassessable, have been issued in compliance with all federal and state securities laws, and none of such outstanding shares was issued in violation of any preemptive rights or similar rights to subscribe for or purchase securities. There are no stockholders agreements, voting agreements or other similar agreements with respect to the Company's capital stock to which the Company is a party or, to the knowledge of the Company, between or among any of the Company's stockholders.

(G) SEC Reports; Financial Statements. The Company has complied in all material respects with requirements to file all reports, schedules, forms, statements and other documents required to be filed by it under the Securities Act and the Exchange Act, including pursuant to Section 13(a) or 15(d) thereof, for the two years preceding the date hereof (or such shorter period as the Company was required by law to file such material) (the foregoing materials, including the exhibits thereto and documents incorporated by reference therein, being collectively referred to herein as the "SEC Reports") on a timely basis or has received a valid extension of such time of filing and has filed any such SEC Reports prior to the expiration of any such extension. As of their respective dates, the SEC Reports complied in all material respects with the requirements of the Securities Act and the Exchange Act and the rules and regulations of the Commission promulgated thereunder, and none of the SEC Reports, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the SEC Reports comply in all material respects with applicable accounting requirements and the rules and regulations of the Commission with respect thereto as in effect at the time of filing. Such financial statements have been prepared in accordance with United States generally accepted accounting principles applied on a consistent basis during the periods involved ("GAAP"), except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present in all material respects the financial position of the Company and its consolidated subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments.

(H) Material Changes; Undisclosed Events, Liabilities or Developments. Since the date of the latest audited financial statements included within the SEC Reports, except as specifically disclosed in the SEC Reports, (i) there has been no event, occurrence or development that has had or that could reasonably be expected to result in a Material Adverse Effect, (ii) the Company has not incurred any liabilities (contingent or otherwise) other than (A) trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice and (B) liabilities not required to be reflected in the Company's financial statements pursuant to GAAP or required to be disclosed in filings made with the Commission, (iii) the Company has not altered its method of accounting, (iv) the Company has not declared or made any dividend or distribution of cash or other property to its stockholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock and (v) the Company has not issued any equity securities to any officer, director or "Affiliate" (defined as any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person, as such terms are used in and construed under Rule 144 under the Securities Act), except pursuant to existing Company stock option plans. The Company does not have pending before the Commission any request for confidential treatment of information. Except for the issuance of the Securities contemplated by this Agreement or as set forth on Schedule 3(H), no event, liability or development has occurred or exists with respect to the Company or its Subsidiaries or their respective business, properties, operations or financial condition, that would be required to be disclosed by the Company under applicable securities laws at the time this representation is made that has not been publicly disclosed one trading day prior to the date that this representation is made.

(I) Litigation. There is no action, suit, inquiry, notice of violation, Proceeding or investigation pending or, to the knowledge of the Company, threatened against or affecting the Company, any Subsidiary or any of their respective properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (federal, state, county, local or foreign) (collectively, an "Action") which (i) adversely affects or challenges the legality, validity or enforceability of any of this Agreement or the Securities or (ii) could, if there were an unfavorable decision, have or reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any Subsidiary, nor any director or officer thereof, is or has been the subject of any Action involving a claim of violation of or liability under federal or state securities laws or a claim of breach of fiduciary duty. There has not been, and to the knowledge of the Company, there is not pending or contemplated, any investigation by the Commission involving the Company or any current or former director or officer of the Company. The Commission has not issued any stop order or other order suspending the effectiveness of any registration statement filed by the Company or any Subsidiary under the Exchange Act or the Securities Act. None of the Company's or its Subsidiaries' employees is a member of a union that relates to such employee's relationship with the Company, and neither the Company or any of its Subsidiaries is a party to a collective bargaining agreement, and the Company and its Subsidiaries believe that their relationships with their employees are good. No executive officer, to the knowledge of the Company, is, or is now expected to be, in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement or non-competition agreement, or any other contract or agreement or any restrictive covenant, and the continued employment of each such executive officer does not subject the Company or any of its Subsidiaries to any liability with respect to any of the foregoing matters. The Company and its Subsidiaries are in compliance with all U.S. federal, state, local and foreign laws and regulations relating to employment and employment practices, terms and conditions of employment and wages and hours, except where the failure to be in compliance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(J) Labor Relations. No material labor dispute exists or, to the knowledge of the Company, is imminent with respect to any of the employees of the Company which could reasonably be expected to result in a Material Adverse Effect.

(K) Compliance. Neither the Company nor any Subsidiary (i) is in default under or in violation of (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a default by the Company or any Subsidiary under), nor has the Company or any Subsidiary received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), (ii) is in violation of any order of any court, arbitrator or governmental body, or (iii) is or has been in violation of any statute, rule or regulation of any governmental authority, including without limitation all foreign, federal, state and local laws applicable to its business and all such laws that affect the environment, except in each case as could not have a Material Adverse Effect.

(L) Regulatory Permits. The Company and the Subsidiaries possess all certificates, authorizations and permits issued by the appropriate federal, state, local or foreign regulatory authorities necessary to conduct their respective businesses as described in the SEC Reports, except where the failure to possess such permits could not have or reasonably be expected to result in a Material Adverse Effect (“Material Permits”), and neither the Company nor any Subsidiary has received any notice of proceedings relating to the revocation or modification of any Material Permit.

(M) Title to Assets. To the extent possible, the Company and the Subsidiaries have good and marketable title in fee simple to all real property owned by them that is material to the business of the Company and the Subsidiaries and good and marketable title in all personal property owned by them that is material to the business of the Company and the Subsidiaries, in each case free and clear of all Liens, except for Liens as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company and the Subsidiaries and Liens for the payment of federal, state or other taxes, the payment of which is neither delinquent nor subject to penalties. Any real property and facilities held under lease by the Company and the Subsidiaries are held by them under valid, subsisting and enforceable leases with which the Company and the Subsidiaries are in compliance.

(N) Patents and Trademarks. The Company and the Subsidiaries have, or have rights to use, all patents, patent applications, trademarks, trademark applications, service marks, trade names, trade secrets, inventions, copyrights, licenses and other similar intellectual property rights necessary or material for use in connection with their respective businesses as described in the SEC Reports and which the failure to so have could have a Material Adverse Effect (collectively, the “Intellectual Property Rights”). Neither the Company nor any Subsidiary has received notice (written or otherwise) that the Intellectual Property Rights used by the Company or any Subsidiary violates or infringes upon the rights of any third party. To the knowledge of the Company, all such Intellectual Property Rights are enforceable and there is no existing infringement by another Person of any of the Intellectual Property Rights of others. The Company and its Subsidiaries have taken reasonable security measures to protect the secrecy, confidentiality and value of all of their intellectual properties, except where failure to do so could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(O) Insurance. The Company and the Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which the Company and the Subsidiaries are engaged, including, but not limited to, directors and officers insurance coverage at least equal to the aggregate subscription amount under this Agreement. To the best knowledge of the Company, such insurance contracts and policies are accurate and complete. Neither the Company nor any Subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business without a significant increase in cost.

(P) Transactions With Affiliates and Employees. Except as set forth in the SEC Reports, none of the officers or directors of the Company and, to the knowledge of the Company, none of its employees are presently a party to any transaction with the Company or any Subsidiary (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner, other than for (i) payment of salary or consulting fees for services rendered, (ii) reimbursement of expenses incurred on behalf of the Company and (iii) other employee benefits, including stock option agreements under any stock option plan of the Company.

(Q) Sarbanes-Oxley. The Company is in material compliance with all provisions of the Sarbanes-Oxley Act of 2002 which are applicable to it as of the date hereof and of the closing date of the Placement.

(R) Certain Fees. Except as otherwise provided in this Agreement, no brokerage or finder's fees or commissions are or will be payable by the Company to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by this Agreement. The Purchasers shall have no obligation with respect to any fees or with respect to any claims made by or on behalf of other Persons for fees of a type contemplated in this Section that may be due in connection with the transactions contemplated by this Agreement.

(S) NASDAQ Capital Market Rules. The issuance and sale of the Securities hereunder will not contravene the rules and regulations of the NASDAQ Capital Market.

(T) Investment Company. The Company is not, and is not an Affiliate of, and immediately after receipt of payment for the Securities, will not be or be an Affiliate of, an "investment company" within the meaning of the Investment Company Act of 1940, as amended. The Company shall conduct its business in a manner so that it will not become subject to the Investment Company Act.

(U) Registration Rights. Except as disclosed in the SEC Reports, no Person has any right to cause the Company to effect the registration under the Securities Act of any securities of the Company.

(V) Listing and Maintenance Requirements. The Company's Common Stock is registered pursuant to Section 12(b) or 12(g) of the Exchange Act, and the Company has taken no action designed to, or which to its knowledge is likely to have the effect of, terminating the registration of the Common Stock under the Exchange Act nor has the Company received any notification that the Commission is contemplating terminating such registration. The Company has not, in the 12 months preceding the date hereof, received notice from any NASDAQ Capital Market on which the Common Stock is or has been listed or quoted to the effect that the Company is not in compliance with the listing or maintenance requirements of such NASDAQ Capital Market. The Company is, and has no reason to believe that it will not in the foreseeable future continue to be, in compliance with all such listing and maintenance requirements.

(W) Application of Takeover Protections. The Company and its Board of Directors have taken all necessary action, if any, in order to render inapplicable any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or other similar anti-takeover provision under the Company's Certificate of Incorporation (or similar charter documents) or the laws of its state of incorporation that is or could become applicable to the Purchasers as a result of the Purchasers and the Company fulfilling their obligations or exercising their rights under this Agreement, including without limitation as a result of the Company's issuance of the Securities and the Purchasers' ownership of the Securities.

(X) Solvency. Based on the financial condition of the Company as of the Closing Date after giving effect to the receipt by the Company of the proceeds from the sale of the Securities hereunder, (i) the fair saleable value of the Company's assets exceeds the amount that will be required to be paid on or in respect of the Company's existing debts and other liabilities (including known contingent liabilities) as they mature; (ii) the Company's assets do not constitute unreasonably small capital to carry on its business for the current fiscal year as now conducted and as proposed to be conducted including its capital needs taking into account the particular capital requirements of the business conducted by the Company, and projected capital requirements and capital availability thereof; and (iii) the current cash flow of the Company, together with the proceeds the Company would receive, were it to liquidate all of its assets, after taking into account all anticipated uses of the cash, would be sufficient to pay all amounts on or in respect of its debt when such amounts are required to be paid. The Company does not intend to incur debts beyond its ability to pay such debts as they mature (taking into account the timing and amounts of cash to be payable on or in respect of its debt). The Company has no knowledge of any facts or circumstances which lead it to believe that it will file for reorganization or liquidation under the bankruptcy or reorganization laws of any jurisdiction within one year from the Closing Date. The SEC Reports set forth as of the dates thereof all outstanding secured and unsecured Indebtedness of the Company or any Subsidiary, or for which the Company or any Subsidiary has commitments. For the purposes of this Agreement, "Indebtedness" shall mean (a) any liabilities for borrowed money or amounts owed in excess of \$50,000 (other than trade accounts payable incurred in the ordinary course of business), (b) all guaranties, endorsements and other contingent obligations in respect of Indebtedness of others, whether or not the same are or should be reflected in the Company's balance sheet (or the notes thereto), except guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business; and (c) the present value of any lease payments in excess of \$50,000 due under leases required to be capitalized in accordance with GAAP. Neither the Company nor any Subsidiary is in default with respect to any Indebtedness.

(Y) Tax Status. Except for matters that would not, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect, the Company and each Subsidiary has filed all necessary federal, state and foreign income and franchise tax returns and has paid or accrued all taxes shown as due thereon, and the Company has no knowledge of a tax deficiency which has been asserted or threatened against the Company or any Subsidiary.

(Z) Foreign Corrupt Practices. Neither the Company, nor to the knowledge of the Company, any agent or other person acting on behalf of the Company, has (i) directly or indirectly, used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to foreign or domestic political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to any foreign or domestic political parties or campaigns from corporate funds, (iii) failed to disclose fully any contribution made by the Company (or made by any person acting on its behalf of which the Company is aware) which is in violation of law, or (iv) violated in any material respect any provision of the Foreign Corrupt Practices Act of 1977, as amended.

(AA) Accountants. The Company's accountants are named in the Prospectus Supplement. To the knowledge of the Company, such accountants, who the Company expects will express their opinion with respect to the financial statements to be included in the Company's next Annual Report on Form 10-K, are a registered public accounting firm as required by the Securities Act.

(BB) Regulation M Compliance. The Company has not, and to its knowledge no one acting on its behalf has, (i) taken, directly or indirectly, any action designed to cause or to result in the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of any of the Securities, (ii) sold, bid for, purchased, or paid any compensation for soliciting purchases of, any of the Securities (other than for the Chardan's placement of the Securities), or (iii) paid or agreed to pay to any person any compensation for soliciting another to purchase any other securities of the Company.

(CC) Approvals. The issuance and listing on the NASDAQ Capital Market of the Shares requires no further approvals, including but not limited to, the approval of shareholders.

(DD) FINRA Affiliations. There are no affiliations with any FINRA member firm among the Company's officers, directors or, to the knowledge of the Company, any five percent (5%) or greater stockholder of the Company, except as set forth in the Base Prospectus.

6. Offering Conditions. The Offering will be conditioned upon, among other things, the following:

(A) No stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall have been initiated or threatened by the Commission, and any request for additional information on the part of the Commission (to be included in the Registration Statement, the Base Prospectus or the Prospectus Supplement or otherwise) shall have been complied with to the reasonable satisfaction of the Placement Agent.

(B) The Placement Agent shall not have discovered and disclosed to the Company on or prior to the Settlement Date that the Registration Statement, the Base Prospectus or the Prospectus Supplement or any amendment or supplement thereto contains an untrue statement of a fact which, in the opinion of counsel for the Placement Agent, is material or omits to state any fact which, in the opinion of such counsel, is material and is required to be stated therein or is necessary to make the statements therein not misleading.

(C) All corporate proceedings and other legal matters incident to the authorization, form, execution, delivery and validity of each of this Agreement, the Shares, the Registration Statement, the Base Prospectus and the Prospectus Supplement and all other legal matters relating to this Agreement and the transactions contemplated hereby shall be reasonably satisfactory in all material respects to counsel for the Placement Agent, and the Company shall have furnished to such counsel all documents and information that they may reasonably request to enable them to pass upon such matters.

(D) The Placement Agent shall have received from outside counsel to the Company such counsel's written opinion, addressed to the Placement Agent and the Purchasers dated as of the Execution Date, in form and substance reasonably satisfactory to the Placement Agent, which opinion shall include a "10b-5" representation from such counsel.

(E) (i) Neither the Company nor any of its Subsidiaries shall have sustained since the date of the latest audited financial statements included or incorporated by reference in the Base Prospectus, any loss or interference with its business from fire, explosion, flood, terrorist act or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth in or contemplated by the Base Prospectus and (ii) since such date there shall not have been any change in the capital stock or long-term debt of the Company or any of its Subsidiaries or any change, or any development involving a prospective change, in or affecting the business, general affairs, management, financial position, stockholders' equity, results of operations or prospects of the Company and its Subsidiaries, otherwise than as set forth in or contemplated by the Base Prospectus, the effect of which, in any such case described in clause (i) or (ii), is, in the judgment of the Placement Agent, so material and adverse as to make it impracticable or inadvisable to proceed with the sale or delivery of the Shares on the terms and in the manner contemplated by the Base Prospectus, the Time of Sale Prospectus, if any, and the Prospectus Supplement.

(F) The Common Stock is registered under the Exchange Act and, as of the Settlement Date, the Shares shall be listed and admitted and authorized for trading on the Nasdaq Capital Market, and satisfactory evidence of such actions shall have been provided to the Placement Agent. The Company shall have taken no action designed to, or likely to have the effect of terminating the registration of the Common Stock under the Exchange Act or delisting or suspending from trading the Common Stock from the Nasdaq Capital Market, nor has the Company received any information suggesting that the Commission or the Nasdaq Capital Market is contemplating terminating such registration or listing.

(G) Subsequent to the execution and delivery of this Agreement, there shall not have occurred any of the following: (a) trading in securities generally on the New York Stock Exchange, the NASDAQ Capital Market, Alternext US or in the over-the-counter market, or trading in any securities of the Company on any exchange or in the over-the-counter market, shall have been suspended or minimum or maximum prices or maximum ranges for prices shall have been established on any such exchange or such market by the Commission, by such exchange or by any other regulatory body or governmental authority having jurisdiction, (b) a banking moratorium shall have been declared by federal or state authorities or a material disruption has occurred in commercial banking or securities settlement or clearance services in the United States, (c) the United States shall have become engaged in hostilities in which it is not currently engaged, the subject of an act of terrorism, there shall have been an escalation in hostilities involving the United States, or there shall have been a declaration of a national emergency or war by the United States, or (d) there shall have occurred any other calamity or crisis or any change in general economic, political or financial conditions in the United States or elsewhere, if the effect of any such event in clause (c) or (d) makes it, in the sole judgment of the Placement Agent, impracticable or inadvisable to proceed with the sale or delivery of the Shares on the terms and in the manner contemplated by the Base Prospectus and the Prospectus Supplement.

(H) No action shall have been taken and no statute, rule, regulation or order shall have been enacted, adopted or issued by any governmental agency or body which would, as of the Settlement Date, prevent the issuance or sale of the Shares or materially and adversely affect or potentially and adversely affect the business or operations of the Company; and no injunction, restraining order or order of any other nature by any federal or state court of competent jurisdiction shall have been issued as of the Settlement Date which would prevent the issuance or sale of the Shares or materially and adversely affect or potentially and adversely affect the business or operations of the Company.

(I) The Company shall have prepared and furnished to the Commission a Report on Form 8-K with respect to the Placement, including as an exhibit thereto this Agreement.

(J) The Company shall have entered into subscription agreements with each of the Purchasers and such agreements shall be in full force and effect and shall contain representations and warranties of the Company as agreed between the Company and the Purchasers.

(K) FINRA shall have raised no objection to the fairness and reasonableness of the terms and arrangements of the Placement Agreement. In addition, the Company shall, if requested by the Placement Agent, make or authorize Placement Agent's counsel to make on the Company's behalf, an Issuer Filing with FINRA pursuant to NASD Rule 2710 with respect to the Registration Statement and pay all filing fees required in connection therewith.

(L) Prior to the Settlement Date, the Company shall have furnished to the Placement Agent such further information, certificates and documents as the Placement Agent may reasonably request.

7. Finders' Fees and Adjustments. The Company represents to Chardan that the Company is or will be liable for any finder's fees to third parties in connection with the introduction of the Company to Chardan. The Company represents and warrants to Chardan that the entry into this engagement letter or any other action of the Company in connection with the proposed Offering will not violate any agreement between the Company and any other underwriter. Chardan reserves the right to reduce any item of their compensation or adjust the terms thereof as specified herein in the event that a determination and/or suggestion will be made by FINRA to the effect that the underwriters' aggregate compensation is in excess of FINRA rules or that the terms thereof require adjustment; provided, however, the aggregate compensation otherwise to be paid to the underwriters by the Company may not be increased above the amounts stated herein without the written approval of the Company.

8. Integration. Other than as previously disclosed or reflected in its public filings, neither the Company nor any of its affiliates has either prior to the initial filing or the effective date of the Registration Statement, made any offer or sale of any securities which are required to be "integrated" pursuant to the Securities Act or the regulations thereunder with the offer and sale of the Shares pursuant to the Registration Statement.

9. Company Cooperation. During the Engagement Period, the Company agrees to cooperate with Chardan and to furnish, or cause to be furnished, to Chardan, any and all information and data concerning the Company, and the Offering that Chardan reasonably deems appropriate (the "**Information**"). The Company will provide Chardan reasonable access during normal business hours from and after the date of execution of this engagement letter until the date of the Closing to all of the Company's assets, properties, books, contracts, commitments and records and to the Company's officers, directors, employees, appraisers, independent accountants, legal counsel and other consultants and advisors. The Company represents and warrants to Chardan that all Information: (i) contained in any preliminary or final Prospectus prepared by the Company in connection with the Offering, and (ii) contained in any filing by the Company with any court or governmental regulatory agency, commission or instrumentality, will be complete and correct in all material respects and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein not misleading in the light of the circumstances under which such statements are made. The Company acknowledges and agrees that in rendering its services hereunder, Chardan will be using and relying on such Information (and information available from public sources and other sources deemed reliable by Chardan) without independent verification thereof by Chardan or independent appraisal by Chardan of any of the Company's assets. The Company acknowledges and agrees that this engagement letter and the terms hereof are confidential and will not be disclosed to anyone other than the officers and directors of the Company and the Company's accountants, advisors and legal counsel. Except as contemplated by the terms hereof or as required by applicable law, Chardan will keep strictly confidential all non-public Information concerning the Company provided to Chardan. No obligation of confidentiality will apply to Information that: (a) is in the public domain as of the date hereof or hereafter enters the public domain without a breach by Chardan, (b) was known or became known by Chardan prior to the Company's disclosure thereof to Chardan as demonstrated by the existence of its written records, (c) becomes known to Chardan from a source other than the Company, and other than by the breach of an obligation of confidentiality owed to the Company, (d) is disclosed by the Company to a third party without restrictions on its disclosure or (e) is independently developed by Chardan.

10. Administration. Chardan will select a single law firm in each applicable jurisdiction to serve as counsel to Chardan and will collaborate on the engagement of all other professionals, background checks and the like to avoid duplication of effort or cost. For administrative convenience, Chardan will serve to administer such professionals and will pay and submit invoices for expense reimbursement to the Company related to services and expenses that are for the benefit of the Chardan. Other reimbursable expenses of Chardan will be submitted directly to the Company for payment in accordance with Section 1 hereof. The allocation of the compensation payable to Chardan as selling commission to other dealers or for other permitted purposes set forth in Section 1 hereof shall be determined by Chardan without reference to the Company and disbursements of such allocations shall be made solely and directly by Chardan as it determines.

11. Third-party Rights. This engagement letter does not create, and shall not be construed as creating rights enforceable by any person or entity not a party hereto, except those entitled hereto by virtue of the indemnification provisions hereof. The Company acknowledges and agrees that Chardan is not and shall not be construed as a fiduciary of the Company and shall have no duties or liabilities to the equity holders or the creditors of the Company or any other person by virtue of this engagement letter or the retention of Chardan hereunder, all of which are hereby expressly waived.

12. Indemnification.

(a) To the extent permitted by law, the Company will indemnify Chardan, together with its respective affiliates, stockholders, directors, officers, employees and controlling persons (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) against all losses, claims, damages, expenses and liabilities, as the same are incurred (including the reasonable fees and expenses of counsel), relating to or arising out of its activities hereunder or pursuant to this engagement letter, except to the extent that any losses, claims, damages, expenses or liabilities (or actions in respect thereof) are found in a final judgment (not subject to appeal) by a court of law to have resulted primarily and directly from any Chardan's willful misconduct or gross negligence in performing the services described herein.

(b) Promptly after receipt by any Chardan of notice of any claim or the commencement of any action or proceeding with respect to which such Chardan is entitled to indemnity hereunder, Chardan will notify the Company in writing of such claim or of the commencement of such action or proceeding, but failure to so notify the Company shall not relieve the Company from any obligation it may have hereunder, except and only to the extent such failure results in the forfeiture by the Company of substantial rights and defenses. If the Company so elects or is requested by Chardan, the Company will assume the defense of such action or proceeding and will employ counsel reasonably satisfactory to such Chardan and will pay the fees and expenses of such counsel. Notwithstanding the preceding sentence, Chardan will be entitled to employ counsel separate from counsel for the Company and from any other party in such action if counsel for Chardan reasonably determines that it would be inappropriate under the applicable rules of professional responsibility for the same counsel to represent both the Company and Chardan. In such event, the reasonable fees and disbursements of no more than one such separate counsel will be paid by the Company, in addition to local counsel. The Company will have the exclusive right to settle the claim or proceeding provided that the Company will not settle any such claim, action or proceeding without the prior written consent of Chardan, which will not be unreasonably withheld.

(c) The Company agrees to notify Chardan promptly of the assertion against it or any other person of any claim or the commencement of any action or proceeding relating to a transaction contemplated by this engagement letter.

(d) If for any reason the foregoing indemnity is unavailable to Chardan or insufficient to hold Chardan harmless, then the Company shall contribute to the amount paid or payable by Chardan as a result of such losses, claims, damages or liabilities in such proportion as is appropriate to reflect not only the relative benefits received by the Company on the one hand and Chardan on the other, but also the relative fault of the Company on the one hand and Chardan on the other that resulted in such losses, claims, damages or liabilities, as well as any relevant equitable considerations. The amounts paid or payable by a party in respect of losses, claims, damages and liabilities referred to above shall be deemed to include any legal or other fees and expenses incurred in defending any litigation, proceeding or other action or claim. Notwithstanding the provisions hereof, Chardan's share of the liability hereunder shall not be in excess of the amount of fees actually received, or to be received, by Chardan under this engagement letter (excluding any amounts received as reimbursement of expenses incurred by Chardan).

(e) These indemnification provisions shall remain in full force and effect whether or not the transaction contemplated by this engagement letter is completed and shall survive the termination of this engagement letter, and shall be in addition to any liability that the Company might otherwise have to any indemnified party under this engagement letter or otherwise.

13. Miscellaneous. The Company represents that it is free to enter into this engagement letter and the transactions contemplated hereby, that it will act in good faith, and that it will not hinder Chardan's efforts hereunder. This engagement letter will be deemed to have been made and delivered in New York City and both the binding provisions of this engagement letter and the transactions contemplated hereby will be governed as to validity, interpretation, construction, effect and in all other respects by the internal laws of the State of New York, without regard to the conflict of laws principles thereof. Each of Chardan and the Company: (i) agrees that any legal suit, action or proceeding arising out of or relating to this engagement letter and/or the transactions contemplated hereby will be instituted exclusively in New York Supreme Court, County of New York, or in the United States District Court for the Southern District of New York, (ii) waives any objection which it may have or hereafter to the venue of any such suit, action or proceeding, and (iii) irrevocably consents to the jurisdiction of the New York Supreme Court, County of New York, and the United States District Court for the Southern District of New York in any such suit, action or proceeding. Each of the Placement Agent and the Company further agrees to accept and acknowledge service of any and all process which may be served in any such suit, action or proceeding in the New York Supreme Court, County of New York, or in the United States District Court for the Southern District of New York and agrees that service of process upon the Company mailed by certified mail to the Company's address will be deemed in every respect effective service of process upon the Company, in any such suit, action or proceeding, and service of process upon Chardan mailed by certified mail to Chardan's address will be deemed in every respect effective service process upon Chardan, in any such suit, action or proceeding.

We are delighted at the prospect of working with you and look forward to a successful Offering. If you are in agreement with the foregoing, please sign and return to us one copy of this engagement letter. This engagement letter may be executed in counterparts (including facsimile or .pdf counterparts), each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

Very truly yours,

CHARDAN CAPITAL MARKETS, LLC

By: /s/ Kerry Propper
Kerry Propper
CEO

Accepted and agreed as of the date first written above:

LIVEDEAL, INC.

By: /s/ Tony Isaac
Tony Isaac
V.P. Financial Planning, Strategist, Economist

EXHIBIT 31.1

**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 officer(s) 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 officer(s) 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: May 20, 2014

/s/ Jon Isaac

Jon Isaac
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

**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 officer(s) 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 officer(s) 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: May 20, 2014

/s/ Jon Isaac
Jon Isaac
President and Chief Executive Officer
(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 March 31, 2014 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: May 20, 2014

/s/ Jon Isaac

Jon Isaac

President and Chief Executive Officer

(Principal Executive Officer and Principal Financial Officer)