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

___________

(Mark One)

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

For the quarterly period ended June 30, 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** | **85-0206668** |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |
| **325 E. Warm Springs Road, Suite 102** **Las Vegas, Nevada** | **89119** |
| (Address of principal executive offices) | (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 August 5, 2014 was 14,376,442.

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**FOR THE QUARTER ENDED JUNE 30, 2014**

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## PART I – FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

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

| | June 30, 2014 (unaudited) | September 30, 2013 (audited) |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 10,343,408 | $ 761,458 |
| Accounts receivable, net | 1,612,533 | 174,901 |
| Inventory | 676,636 | – |
| Prepaid expenses and other current assets | 654,017 | 67,126 |
| Total current assets | 13,286,594 | 1,003,485 |
| Accounts receivable, long term portion, net | 44,638 | 44,639 |
| Property and equipment, net | 144,368 | 71,162 |
| Deposits and other assets | 53,863 | 25,563 |
| Intangible assets, net | 2,830,362 | 2,848,401 |
| Total assets | $ 16,359,825 | $ 3,993,250 |
| **Liabilities and Stockholders' Equity** | | |
| Liabilities: | | |
| Accounts payable | $ 702,797 | $ 524,053 |
| Accrued liabilities | 887,410 | 299,464 |
| Derivative liability | 198,037 | – |
| Note payable, net of debt discount | 473,236 | – |
| Total current liabilities | 2,261,480 | 823,517 |
| Stockholders' equity: | | |
| Series E convertible preferred stock, $0.001 par value, 200,000 shares authorized, 127,840 shares issued and outstanding at June 30, 2014 and September 30, 2013, liquidation preference $38,203 | 10,866 | 10,866 |
| Common stock, $0.001 par value, 30,000,000 shares authorized, 14,375,211 and 11,335,674 shares issued and outstanding at June 30, 2014 and September 30, 2013, respectively | 14,375 | 11,335 |
| Paid in capital | 44,334,102 | 30,481,179 |
| Accumulated deficit | (30,260,998) | (27,333,647) |
| Total stockholders' equity | 14,098,345 | 3,169,733 |
| Total liabilities and stockholders' equity | $ 16,359,825 | $ 3,993,250 |

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

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

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Net revenues | $ 2,674,406 | $ 606,867 | $ 3,945,897 | $ 1,734,486 |
| Cost of services | 2,379,458 | 178,921 | 2,746,465 | 398,470 |
| Gross profit | 294,948 | 427,946 | 1,199,432 | 1,336,016 |
| Operating expenses: | | | | |
| General and administrative expenses | 1,606,928 | 925,658 | 3,658,497 | 2,919,565 |
| Sales and marketing expenses | 159,555 | 14,159 | 409,061 | 40,766 |
| Total operating expenses | 1,766,483 | 939,817 | 4,067,558 | 2,960,331 |
| Operating loss | (1,471,535) | (511,871) | (2,868,126) | (1,624,315) |
| Other expense: | | | | |
| Interest expense, net | (172,708) | 407 | (284,082) | (3,291,288) |
| Other income | 126,093 | – | 284,480 | 126,200 |
| Gain (loss) on deriative liability | (23,751) | – | (58,185) | – |
| Total other expense, net | (70,366) | 407 | (57,787) | (3,165,088) |
| Loss from continuing operations | (1,541,901) | (511,464) | (2,925,913) | (4,789,403) |
| Discontinued operations | | | | |
| Income from discontinued component, including disposal costs | – | 295 | – | 2,708 |
| Income from discontinued operations | – | 295 | – | 2,708 |
| Net loss | $ (1,541,901) | $ (511,169) | $ (2,925,913) | $ (4,786,695) |
| Earnings per share - basic and diluted: | | | | |
| Loss from continuing operations | $ (0.11) | $ (0.05) | $ (0.23) | $ (0.55) |
| Discontinued operations | – | – | – | – |
| Net loss | (0.11) | (0.05) | (0.23) | (0.55) |
| Weighted average common shares outstanding: | | | | |
| Basic and diluted | 13,798,880 | 10,313,208 | 12,751,344 | 8,744,694 |

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

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

| | Nine Months Ended June 30, 2014 | Nine Months Ended June 30, 2013 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | $ (2,925,913) | $ (4,786,695) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 338,752 | 193,822 |
| Non-cash interest expense associated with convertible debt and warrants | 289,493 | 3,291,466 |
| Non-cash change in fair value of derivative liability | 58,185 | – |
| Stock based compensation expense | 138,595 | 107,198 |
| Non-cash issuance of common stock for services | 29,653 | 168,962 |
| Loss on disposal of property and equipment | (207) | – |
| Provision for uncollectible accounts | (32,667) | (1,995) |
| Loss on disposal of property and equipment | – | 1,407 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (1,377,771) | 209,487 |
| Prepaid expenses and other current assets | (586,891) | (67,276) |
| Inventory | (510,569) | – |
| Deposits and other assets | (6,890) | 13,242 |
| Accounts payable | 150,638 | (402,561) |
| Accrued liabilities | 403,824 | (127,951) |
| Net cash used in operating activities | (4,031,768) | (1,400,894) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisition of businesses, net of cash acquired | (324,116) | – |
| Expenditures for intangible assets | (11,669) | (79,401) |
| Proceeds from the sale of fixed assets | 1,400 | – |
| Purchases of property and equipment | (46,427) | (41,833) |
| Net cash used in investing activities | (380,812) | (121,234) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Issuance of common stock for cash | 13,187,715 | – |
| Payment of preferred stock dividends | (16,780) | – |
| Proceeds from issuance of convertible debt and warrants | 823,595 | 1,250,000 |
| Net cash provided by financing activities | 13,994,530 | 1,250,000 |
| INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | 9,581,950 | (272,128) |
| CASH AND CASH EQUIVALENTS, beginning of period | 761,458 | 1,305,785 |
| CASH AND CASH EQUIVALENTS, end of period | $ 10,343,408 | $ 1,033,657 |
| Supplemental cash flow disclosures: | | |
| Noncash financing and investing activities: | | |
| Recognition of contingent beneficial conversion feature | $ 500,000 | $ – |
| Conversion of notes payable and accrued interest into common stock | $ – | $ 1,251,000 |
| Accrued and unpaid dividends | $ 1,438 | $ (1,438) |
| Interest paid | $ 754 | $ – |

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 NINE MONTHS ENDED JUNE 30, 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 June 30, 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 nine months ended June 30, 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: Summary of Significant Accounting Policies

***Principles of Consolidation***

The accompanying unaudited condensed consolidated financial statements represent the consolidated financial position and results of operations of the Company and include the accounts and results of operations of the Company, LiveDeal, Local Marketing Experts, Inc., Velocity Marketing Concepts, Inc., 247 Marketing Inc., Telco Billing, Inc. Telco of Canada, Inc., Velocity Local Inc., Live Goods, LLC and its wholly owned subsidiary, DealTicker, Inc. The results of operations for Live Goods, LLC. and DealTicker, Inc. have only been included since the date of acquisition of March 7, 2014 and May 5, 2014, respectively. All intercompany transactions and balances have been eliminated in consolidation

***Revenue Recognition***

Directory Services

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

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

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

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

Deals Revenue

The Company recognizes revenue from its sales through its strategic publishing partners of discounted goods and services offered by its merchant clients ("Deals") when the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred; the selling price is fixed or determinable; and collectability is reasonably assured. These criteria are met when the number of customers who purchase the daily deal exceeds the predetermined threshold, where, if applicable, the Deal has been electronically delivered to the purchaser and a listing of Deals sold has been made available to the merchant. At that time, the Company's obligations to the merchant, for which it is serving as an agent, are substantially complete. The Company's remaining obligations, which are limited to remitting payment to the merchant, are inconsequential or perfunctory. The Company records as revenue an amount equal to the net amount it retains from the sale of Deals after paying an agreed upon percentage of the purchase price to the featured merchant excluding any applicable taxes. Revenue is recorded on a net basis because the Company is acting as an agent of the merchant in the transaction.

Deferred Revenue

In some instances, the Company receives payments in advance of rendering services, whereupon such revenues are deferred until the related services are rendered.

Product Revenue

The Company derives product revenue primarily from direct revenue and fulfillment partner revenue from product sales Product revenue is recognized when the following revenue recognition criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or the service has been provided; (3) the selling price or fee revenue earned is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured. Revenue related to product sales is recognized upon delivery to its customers.

The Company evaluates the criteria outlined in ASC Topic 605-45, *Principal Agent Considerations*, in determining whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned as commissions. When the Company is the primary obligor in a transaction, are subject to inventory risk, have latitude in establishing prices and selecting suppliers, or have several but not all of these indicators, revenue is recorded gross. If we are not the primary obligor in the transaction and amounts earned are determined using a fixed percentage, revenue is recorded on a net basis. Currently, all direct revenue and fulfillment partner revenue is recorded on a gross basis, as the Company is the primary obligor. The Company presents revenue net of sales taxes.

***Inventory***

Inventory is valued at the lower of the inventory's cost (first in, first out basis) or the current market price of the inventory. Management compares the cost of inventory with its market value and an allowance is made to write down inventory to market value, if lower. All inventory at June 30, 2014 consists of finished goods inventory.

*Derivative Financial Instruments*

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. As of June 30, 2014, the Company's only derivative financial instrument was a convertible note due to the "reset" and "dilutive issuance" clause in the note relating to the conversion price from dilutive share issuance. See Note 5.

**Note 3: Balance Sheet Information**

Balance sheet information is as follows:

| | June 30, 2014 (unaudited) | September 30, 2013 (audited) |
|---|---|---|
| Receivables, current, net: | | |
| counts receivable, current | $ 2,319,012 | $ 904,197 |
| Less: Allowance for doubtful accounts | (706,479) | (729,296) |
| | $ 1,612,533 | $ 174,901 |
| Receivables, long term, net: | | |
| Accounts receivable, long term | $ 348,995 | $ 374,708 |
| Less: Allowance for doubtful accounts | (304,357) | (330,069) |
| | $ 44,638 | $ 44,639 |
| Total receivables, net: | | |
| Gross receivables | $ 2,668,007 | $ 1,278,905 |
| Less: Allowance for doubtful accounts | (1,010,836) | (1,059,365) |
| | $ 1,657,171 | $ 219,540 |

Components of allowance for doubtful accounts are as follows:

| | **June 30, 2014 (unaudited)** | **September 30, 2013 (audited)** |
|---|---|---|
| Allowance for dilution and fees on amounts due from billing aggregators | $ 988,906 | $ 730,777 |
| Allowance for customer refunds | 2,204 | 6,281 |
| Allowance for other trade receivables | 19,726 | 322,307 |
| | $ 1,010,836 | $ 1,059,365 |

| | June 30, 2014 (unaudited) | September 30, 2013 (audited) |
|---|---|---|
| Property and equipment, net: | | |
| Furnishings and fixtures | $ 151,399 | $ 101,611 |
| Office, computer equipment and other | 460,047 | 404,580 |
| | 611,446 | 506,191 |
| Less: Accumulated depreciation | (467,078) | (435,029) |
| | $ 144,368 | $ 71,162 |

| | June 30, 2014 (unaudited) | September 30, 2013 (audited) |
|---|---|---|
| Intangible assets, net: | | |
| Domain name and marketing related intangibles | $ 1,521,015 | $ 1,513,708 |
| Website and technology related intangibles | 2,615,752 | 2,335,728 |
| | 4,136,767 | 3,849,436 |
| Less: Accumulated amortization | (1,306,405) | (1,001,035) |
| | $ 2,830,362 | $ 2,848,401 |

| | June 30, 2014 (unaudited) | September 30, 2013 (audited) |
|---|---|---|
| Accrued liabilities: | | |
| Deferred revenue | $ 328 | $ 2,829 |
| Accrued payroll and bonuses | 63,134 | 27,330 |
| Accruals under revenue sharing agreements | 1,468 | 44,167 |
| Deposits from customers | 535,392 | – |
| Accrued expenses - other | 287,088 | 225,138 |
| | $ 887,410 | $ 299,464 |

**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 nine months ended June 30, 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 June 30, 2014 | 675,000 | $ 2.82 | 5.11 | – |
| Exercisable at June 30, 2014 | 187,500 | $ 2.82 | 3.25 | – |

The Company recognized compensation expense of $32,735 and $138,595 during the three and nine months ended June 30, 2014, respectively, and $75,189 and $107,198 during the three and nine months ended June 30, 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 June 30, 2014, the Company had $129,473 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 1.48 years.

The following table summarizes information about the Company's non-vested shares as of June 30, 2014:

| Non-vested Shares | Number of Shares | | Weighted-Average Grant-Date Fair Value |
|---|---|---|---|
| Nonvested at September 30, 2013 | 600,000 | $ | 0.73 |
| Granted | – | | |
| Vested | (112,500) | | |
| Nonvested at June 30, 2014 | 487,500 | $ | 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 nine months ended June 30, 2014:

| | |
|---|---|
| Outstanding (unvested) at September 30, 2013 | – |
| Granted | 21,000 |
| Forfeited | – |
| Vested | (21,000) |
| Outstanding (unvested) at June 30, 2014 | – |

On January 6, 2014, the Company issued 21,000 shares of common stock in exchange for professional services. As of June 30, 2014, all 21,000 shares were fully vested.

*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 251,965 shares have been issued to members of the Board of Directors pursuant to such arrangement. Other than as described immediately above, 30,084 shares of the Company's common stock were recorded but not yet issued to members of the Board at June 30, 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 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 x 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. 6, 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 $125,000 and $216,781 of interest expense was recognized during the three and nine months ended June 30, 2014, respectively.

*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, Kinston's anti-dilution rights will expire two (2) years following the date of issuance.

As of June 30, 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 an $139,852 debt discount on its balance sheet in relation to the bifurcation of the embedded conversion options of the note. The debt discount is being amortized over the one year term and therefore $34,963 and $47,224 of interest expense was recognized during the three and nine months ended June 30, 2014, respectively. The Company recorded $23,751 and $58,185 of non-cash "change in fair value of derivative" expense during the three- and nine-month periods ending June 30, 2014, respectively, 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 June 30, 2014 is as follows:

| | |
|---|---|
| Stock price | $4.37 |
| Risk free rate | .13% |
| Volatility | 136% |
| Exercise prices | $3.87 |
| Term (years) | 1 |

The following table represents the Company's derivative liability activity for both the embedded conversion features for the nine months ended June 30, 2014:

| | Amount |
|---|---|
| Derivative liability balance, September 30, 2013 | $ – |
| Issuance of derivative liability during the nine months ended June 30, 2014 | 139,852 |
| Change in derivative liability during the nine months ended June 30, 2014 | 58,185 |
| Derivative liability balance, June 30, 2014 (unaudited) | $ 198,037 |

**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 nine months ended June 30, 2014, 21,465 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 Offerings of Common Stock (Chardan Capital Markets LLC )*

On January 7, 2014, the Company entered into an Engagement Agreement (the "January 2014 Engagement Agreement") with Chardan Capital Markets LLC ("Chardan") pursuant to which the Company agreed to issue and sell up to a maximum aggregate amount of 1,980,000 shares of its common stock from time to time through Chardan as its sales agent, under its shelf Registration Statement on Form S-3 (File No. 333-187397) (the "First Registration Statement") previously filed with the SEC. During the quarter that ended on March 31, 2014, the Company sold 2,214,612 shares of its common stock under the First Registration Statement, resulting in gross proceeds of $10,000,000, in an at-the-market offering, in which Chardan was its agent. The Company received net proceeds of $9,696,013. The Company paid Chardan a total commission of $299,882 pursuant to the January 2014 Engagement Agreement.

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

Upon delivery of a placement notice by the Company, and subject to the terms and conditions of the May 2014 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 the Company. 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 May 2014 Engagement Agreement will terminate upon the earlier of (i) the sale of all shares of common stock subject to the May 2014 Engagement Agreement, or (ii) termination of the May 2014 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.

The Company 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 May 2014 Engagement Agreement and reimburse Chardan up to $15,000 in expenses. No assurance can be given that the Company will sell any shares under the May 2014 Engagement Agreement, or, if the Company does, as to the price or amount of shares that we will sell, or the dates on which any such sales will take place.

For the quarter ended June 30, 2014, the Company sold 790,236 shares of its common stock under the Second Registration Statement, resulting in gross proceeds of $3,599,774, in an at-the-market offering, in which Chardan was its agent. The Company received net proceeds of $3,491,702. The Company paid Chardan a total commission of $107,993 pursuant to the May 2014 Engagement Agreement.

*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. As required under Nasdaq Listing Rule 5635(c), the Company included a proposal at its 2014 Annual Meeting of Stockholders, which was held on July 11, 2014, to obtain approval of the 2014 Plan. The 2014 Plan was approved.

*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 4, the Company issued several Notes in prior periods and converted them resulting in the issuance of warrants. The following table summarizes information about the Company's warrants at June 30, 2014:

| | Number of Units | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (in years) | Intrinsic Value |
|---|---|---|---|---|
| Outstanding at September 30, 2013 | 2,866,506 | $ 0.63 | | |
| Granted | – | | | |
| Exercised | – | | | |
| Outstanding at June 30, 2014 | 2,866,506 | 0.63 | 3.64 | $ 10,717,143 |
| Exercisable at June 30, 2014 | 2,866,506 | 0.63 | 3.64 | $ 10,717,143 |

**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:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Loss from continuing operations | $ (1,541,901) | $ (511,464) | $ (2,925,913) | $ (4,789,403) |
| Less: preferred stock dividends | (479) | (479) | (1,438) | (1,438) |
| Loss from continuing operations applicable to common stock | (1,542,380) | (511,943) | (2,927,351) | (4,790,841) |
| Income (loss) from discontinued operations | – | 295 | – | 2,708 |
| Net loss applicable to common stock | $ (1,542,380) | $ (511,648) | $ (2,927,351) | $ (4,788,133) |
| Weighted average common shares - outstanding basic and diluted | 13,798,880 | 10,313,208 | 12,751,344 | 8,744,694 |
| Earnings per share - basic and diluted: | | | | |
| Loss from continuing operations | $ (0.11) | $ (0.05) | $ (0.23) | $ (0.55) |
| Discontinued operations | – | – | – | – |
| Net loss | $ (0.11) | $ (0.05) | $ (0.23) | $ (0.55) |

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:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Options to purchase shares of common stock | 675,000 | 675,000 | 675,000 | 675,000 |
| Warrants to purchase shares of common stock | 2,866,506 | 2,866,506 | 2,866,506 | 2,866,506 |
| Series E convertible preferred stock | 127,840 | 127,840 | 127,840 | 127,840 |
| Shares of vested restricted stock | 21,000 | 789 | 21,000 | 789 |
| Total potentially dilutive shares | 3,690,346 | 3,670,135 | 3,690,346 | 3,670,135 |

**Note 10: Income Taxes**

At June 30, 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 nine months ended June 30, 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 nine months ended June 30, 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 nine months ended June 30, 2013, the Company recognized total interest expense of $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 nine months ended June 30, 2014, the Company recognized total interest expense of $14,333 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 June 30, 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 September 30, 2014 and, upon such payment, the matter will be resolved. As of June 30, 2014, we maintained an accrual of $52,261 related to this matter.

*Operating Leases and Service Contracts*

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

| | | |
|---|---|---|
| 2014 | | 130,102 |
| 2015 | | 364,861 |
| 2016 | | 191,429 |
| 2017 | | 53,946 |
| 2018 | | – |
| Thereafter | | – |
| | $ | 740,338 |

**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 June 30, 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 Local Exchange Carrier ("LEC") billing areas across the United States. The Company historically has experienced significant dilution and customer credits due to billing difficulties and uncollectible trade accounts receivable. The Company estimates and provides an allowance for uncollectible accounts receivable. The handling and processing of cash receipts pertaining to trade accounts receivable is maintained primarily by three third-party billing companies. The Company is dependent upon these billing companies for collection of its accounts receivable. The billing companies and 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 June 30, 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 LEC service providers. Three such entities accounted for 14%, 9% and 6% of gross receivables at June 30, 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 Combinations**

On March 7, 2014, the Company incorporated Live Goods, LLC ("Live Goods"), a California limited liability company, which became a wholly-owned subsidiary of the Company. Also, on March 7, 2014, the Company signed an agreement for the acquisition of substantially all of the assets of DA Stores, LLC, through its 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 DA Stores 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 the operations of the purchased assets of DA Stores, LLC, achieve $15,000,000 in revenue during such 12-month period with 5% profitability margin;

ii. $250,000 if the operations of the purchased assets of DA Stores, LLC, achieve $12,000,000 in revenue during such 12-month period, with 5% profitability margin; or

iii. $200,000 if the operations of the purchased assets of DA Stores, LLC, achieve $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.

*Share Purchase Agreement for Acquisition of DealTicker, Inc.*

On May 6, 2014, the Company, through Live Goods, acquired 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 sold all of the shares of DealTicker to Live Goods for a purchase price in the aggregate amount of CAN$246,000 (US$228,000). 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 Company will recognize this additional, conditional payment to such individuals, if, when, and any such performance metric has been achieved.

A summary of the purchase price allocations is below:

| | DA Stores | DealTicker | Total |
|---|---|---|---|
| Cash | $ – | $ 103,884 | $ 103,884 |
| Accounts receivable | – | 27,193 | 27,193 |
| Inventory | 110,375 | 55,691 | 166,066 |
| Property and equipment | 48,500 | 12,855 | 61,355 |
| Other assets | 11,125 | 10,285 | 21,410 |
| Intangible assets | 30,000 | 245,662 | 275,662 |
| Accounts payable | – | (28,106) | (28,106) |
| Other liabilities | – | (199,464) | (199,464) |
| Purchase price | $ 200,000 | $ 228,000 | $ 428,000 |

Both acquisitions are not considered significant; therefore, pro forma information is not presented.

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

For a description of our significant accounting policies and an understanding of the significant factors that influenced our performance during the three and nine months ended June 30, 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 DealTicker™, 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.

*Live Goods.* On March 7, 2014, we incorporated Live Goods, LLC, a California limited liability company, which became our wholly-owned subsidiary. Also, on March 7, 2014, through Live Goods, we signed an agreement for the acquisition of substantially all of the assets of DA Stores, LLC. The acquisition of the assets is intended to assist in the implementation of our new business line. In addition, on May 6, 2014, through Live Goods, we acquired all of the issued and outstanding shares in the capital of DealTicker Inc., a Canadian corporation. The intent of these two acquisitions is to expand our e-commerce presence.

*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 nine months ended June 30, 2014 as compared to the three and nine months ended June 30, 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. Generally, the significant changes in the results of operations when compared to the prior periods as noted below is a result of the acquisitions of Live Goods, LLC and DealTicker in March 2014 and May 2014, respectively.

*Net Revenues*

| | Net Revenues | | | |
|---|---|---|---|---|
| | 2014 | 2013 | Change | Percent |
| Three Months Ended June 30 | $ 2,674,406 | $ 606,867 | $ 2,067,539 | 341% |
| Nine Months Ended June 30 | $ 3,945,897 | $ 1,734,486 | $ 2,211,411 | 127% |

Net revenues increased in the three months ended June 30, 2014 as compared to the three months ended June 30, 2013 primarily due to an increase in online products revenue resulting from our two recent acquisitions. Net revenues increased in the nine months ended June 30, 2014 as compared to the nine months ended June 30, 2013 for the same reason.

*Cost of Services*

| | Cost of Services | | | |
|---|---|---|---|---|
| | 2014 | 2013 | Change | Percent |
| Three Months Ended June 30 | $ 2,379,458 | $ 178,921 | $ 2,200,537 | 1230% |
| Nine Months Ended June 30 | $ 2,746,465 | $ 398,470 | $ 2,347,995 | 589% |

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

*Gross Profit*

| | Gross Profit | | | |
|---|---|---|---|---|
| | 2014 | 2013 | Change | Percent |
| Three Months Ended June 30 | $ 294,948 | $ 427,946 | $ (132,998) | 1% |
| Nine Months Ended June 30 | $ 1,199,432 | $ 1,336,016 | $ (136,584) | 1% |

Gross profit decreased in the third quarter and first nine months of fiscal 2014 as compared to the third quarter and first nine 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 June 30 | $ 1,606,928 | $ 925,658 | $ 681,270 | 74% |
| Nine Months Ended June 30 | $ 3,658,497 | $ 2,919,565 | $ 738,932 | 25% |

General and administrative expenses increased in three months ended June 30, 2014 as compared to the three months ended June 30, 2013 primarily due to the following:

- Increase compensation costs of $139,809 due to the increase in staffing as a result of the two acquisitions.
- Increased depreciation and amortization expense of $62,332, due to an increase in intangible assets subject to amortization.
- Increased professional fees of $233,496 related to:
  - Increase in legal fees of $118,462, due to litigation settlement,
  - Increase in IT consultant fees of $48,221, due to increased use of programmers,
  - Increase in other miscellaneous consultant costs of $66,263, due to increased use of consultants and increased employee recruitment fees.
- Other expense increases of $245,633, 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 nine months of fiscal 2014 as compared to the first nine months of fiscal 2013 primarily due to the following:

- Decreased compensation costs of $219,279 due to the decreases in staffing at the corporate level offset by increased staffing as a result of the two acquisitions.
- Increased depreciation and amortization expense of $144,930, due to an increase in intangible assets, subject to amortization.
- Increased professional fees of $167,713 related to:
  - Increase in legal fees of $68,692, due to litigation settlement,
  - Increase in IT consultant fees of $98,232, due to increased use of programmers,
  - Decrease in accounting fees of $67,528, due to cost containment initiatives, and
  - Increase in other miscellaneous consultant costs of $68,317, due to increased use of consultants and increased employee recruitment fees.
- Other expense increases of $645,570 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:

| | Q3 2014 | Q2 2014 | Q1 2014 | Q4 2013 | Q3 2013 |
|---|---|---|---|---|---|
| Compensation for employees, leased employees, officers and directors | 668,576 | 372,889 | 430,228 | 555,323 | 528,767 |
| Professional fees | 381,114 | 287,257 | 140,422 | 212,465 | 147,618 |
| Depreciation and amortization | 127,515 | 106,526 | 104,711 | 70,288 | 65,183 |
| Other general and administrative costs | 429,723 | 414,204 | 195,338 | 357,204 | 184,090 |

*Sales and Marketing Expenses*

| | Sales and Marketing Expenses | | | |
|---|---|---|---|---|
| | 2014 | 2013 | Change | Percent |
| Three Months Ended June 30 | $ 159,555 | $ 14,159 | $ 145,396 | 1027% |
| Nine Months Ended June 30 | $ 409,061 | $ 40,766 | $ 368,295 | 903% |

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

*Operating Loss*

| | Operating Loss | | | |
|---|---|---|---|---|
| | 2014 | 2013 | Change | Percent |
| Three Months Ended June 30 | $ (1,471,535) | $ (511,871) | $ (959,664) | 37% |
| Nine Months Ended June 30 | $ (2,868,126) | $ (1,624,315) | $ (1,243,811) | 37% |

The increase in operating loss for the third quarter and first nine months of fiscal 2014 as compared to the third quarter and first nine 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)*

| | Total Other Income (Expense) | | | |
|---|---|---|---|---|
| | 2014 | 2013 | Change | Percent |
| Three Months Ended June 30 | $ (70,366) | $ 407 | $ (70,773) | (17389%) |
| Nine Months Ended June 30 | $ (57,787) | $ (3,165,088) | $ 3,107,301 | (98%) |

The large improvement in other income (expense) in the first nine months of fiscal 2014 as compared to the first nine 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*

| | Net Loss | | | |
|---|---|---|---|---|
| | 2014 | 2013 | Change | Percent |
| Three Months Ended June 30 | $ (1,541,901) | $ (511,169) | $ (1,030,732) | 202% |
| Nine Months Ended June 30 | $ (2,925,913) | $ (4,786,695) | $ 1,860,782 | (39%) |

The increase in the net loss for the third quarter of fiscal 2014, as compared to the net loss for the third quarter of fiscal 2013 and the decrease in net loss for the first nine months of fiscal 2014, as compared to the first nine 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 $4,031,768 for the first nine months of fiscal 2014 as compared to $1,400,894 for the first nine months of fiscal 2013. This change was due to a decrease of $1,860,782 in our net loss, partially offset by a decrease of non-cash expenses of $2,995,627 which during the first nine 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 $1,042,031 in changes in working capital and other assets in the first nine months of fiscal 2014 as compared to the first nine 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 nine months of fiscal 2014 consisted of $324,116 for the acquisition of two businesses, $11,669 of expenditures for intangible assets and $46,427 of purchases of equipment, partially offset by $1,400 in proceeds from our sale of fixed assets. Our cash flows used in investing activities during the first nine months of fiscal 2013 consisted of $79,401 of expenditures for intangible assets and $41,833 of purchases of equipment.

*Cash Flows from Financing Activities*

Our cash flows from financing activities during the first nine months of fiscal 2014 consisted of $13,187,715 from issuances of common stock and $823,595 from issuances of convertible debt and warrants, partially offset by $16,780 in cash dividend payments on our outstanding preferred stock. Our cash flows from financing activities during the first nine 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 $11,025,114 as of June 30, 2014 compared to working capital of $179,968 as of September 30, 2013 with current assets increasing by $12,283,109 and current liabilities increasing by $1,437,963 from September 30, 2013 to June 30, 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 Offerings of Common Stock (Chardan Capital Markets LLC)*

During 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. We paid Chardan a total commission of $299,882 in connection with such sales.

During the quarter ended June 30, 2014, we sold 790,236 shares of our common stock, resulting in gross proceeds of $3,599,774, in an at-the-market offering, in which Chardan was our agent. We received net proceeds of $3,491,702. We paid Chardan a total commission of $107,993 in connection with such sales.

*Future Sources of Cash; New Products and Services*

We will require additional capital to finance our planned business operations as we continue to build and market our 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 our 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 our business, (ii) modify, delay or abandon some or all of our business plans, and/or (iii) be forced to cease operations.

Although we stopped new Velocity product sales on 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 for the years ended September 30 and the effect such obligations are expected to have on our future liquidity and cash flows:

| | |
|---|---|
| 2014 | 130,102 |
| 2015 | 364,861 |
| 2016 | 191,429 |
| 2017 | 53,946 |
| 2018 | – |
| Thereafter | – |
| | $ 740,338 |

*Off-Balance Sheet Arrangements*

At June 30, 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 June 30, 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 June 30, 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 September 30, 2014 and, upon such payment, the matter will be resolved. As of June 30, 2014, we maintained an accrual of $52,261 related to this matter.

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

None

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

### ITEM 4. MINE SAFETY DISCLOSURES

None

### ITEM 5. OTHER INFORMATION

On August 10, 2014, Kenneth L. Waggoner informed the Board of Directors of his decision to resign as a director of the Company and as a member of our Audit Committee, effective immediately. Mr. Waggoner did not resign because of any disagreement relating to the Company's operations, policies or practices.

On August 11, 2014, the Board appointed Tyler Sickmeyer as a director of the Company to fill the vacancy created by Mr. Waggoner's resignation. Mr. Sickmeyer will serve a term in office until the Company's next Annual Meeting of Stockholders (at which Mr. Sickmeyer may be nominated for re-election), or until his earlier resignation or removal in accordance with the Company's Amended and Restated Bylaws. Mr. Sickmeyer was also appointed to serve as a member of the Company's Audit Committee, effective immediately. The Board has affirmatively determined that Mr. Sickmeyer is an "independent director" for purposes of the rules and regulations of the Securities and Exchange Commission and the NASDAQ Capital Market, and that he has the other qualifications required for service on the Audit Committee. The Board is still considering whether Mr. Sickmeyer will be appointed to serve on any other committees, such as the Compensation Committee. Mr. Sickmeyer will receive an annual cash retainer of $18,000 and otherwise be compensated for his service as a member of the Board and such committee(s) in accordance with the Company's customary policies and practices.

Mr. Sickmeyer, 28, brings over a decade of marketing experience to LiveDeal. As a national concert promoter, Mr. Sickmeyer was the first in his field to leverage text message marketing and among the first in the nation to use Facebook as a promotional tool. Mr. Sickmeyer founded and serves as the CEO of Fidelitas Development, a full-service marketing firm that focuses on producing an improved return on investment rate for its clients. Mr. Sickmeyer has provided consulting services to a variety of companies, large and small alike, and specializes in creating efficiencies for developing brands. Mr. Sickmeyer studied business at Robert Morris University and Lincoln Christian University.

**ITEM 6. EXHIBITS**

The following exhibits are being filed herewith:

| Exhibit Number | Description |
|---|---|
| 1.1 | Engagement Agreement between the Company and Chardan Capital Markets, LLC, dated May 16, 2014 (incorporated by reference to Exhibit 1.1 filed with the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014) |
| 10.1 | Share Purchase Agreement between Live Goods, LLC and the shareholders of DealTicker, Inc., dated May 2, 2014 (filed herewith) |
| 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: August 12, 2014

*/s/ Jon Isaac*

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

**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.

August 12, 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.

August 12, 2014

*/s/ Jon Isaac*
Jon Isaac
President and Chief Executive Officer
(Principal Financial Officer)

**EXHIBIT 32**

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

I, Jon Isaac, the President and Chief Executive Officer of LiveDeal, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of LiveDeal, Inc. on Form 10-Q for the quarter ended June 30, 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.

August 12, 2014

*/s/ Jon Isaac*
Jon Isaac
President and Chief Executive Officer
(Principal Executive Officer and Principal Financial Officer)