

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, 2015

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

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

Commission File Number 001-33937

**LiveDeal, Inc.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**85-0206668**

(IRS Employer Identification No.)

**325 E. Warm Springs Road, Suite 102**

**Las Vegas, Nevada**

(Address of principal executive offices)

**89119**

(Zip Code)

**(702) 939-0231**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The number of shares of the issuer's common stock, par value \$.001 per share, outstanding as of August 10, 2015 was 16,901,358.

---

**INDEX TO FORM 10-Q FILING  
FOR THE QUARTER ENDED JUNE 30, 2015**

**TABLE OF CONTENTS**

**PART I  
FINANCIAL INFORMATION**

	<u>Page</u>
Item 1. Financial Statements	3
Condensed Consolidated Balance Sheets as of June 30, 2015 (Unaudited) and September 30, 2014	3
Condensed Consolidated Statements of Operations (Unaudited) for the Three and Nine months ended June 30, 2015 and 2014	4
Condensed Consolidated Statements of Cash Flows (Unaudited) for the Nine months ended June 30, 2015 and 2014	5
Notes to Condensed Consolidated Financial Statements (Unaudited)	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3. Quantitative and Qualitative Disclosures about Market Risk	27
Item 4. Controls and Procedures	28

**PART II  
OTHER INFORMATION**

Item 1. Legal Proceedings	29
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	29
Item 3. Defaults Upon Senior Securities	29
Item 4. Mine Safety Disclosures	29
Item 5. Other Information	29
Item 6. Exhibits	30
Signatures	31

**PART I – FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

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

	<u>June 30, 2015</u>	<u>September 30, 2014</u>
	<u>(unaudited)</u>	
<b>Assets</b>		
Cash and cash equivalents	\$ 6,605,304	\$ 8,114,682
Accounts receivable, net	914,813	854,583
Inventory	2,536,839	4,277,145
Prepaid expenses and other current assets	338,449	583,647
Total current assets	<u>10,395,405</u>	<u>13,830,057</u>
Property and equipment, net	98,358	153,114
Deposits and other assets	70,243	65,161
Intangible assets, net	3,727,287	3,071,210
Goodwill	1,169,904	1,169,904
Total assets	<u>\$ 15,461,197</u>	<u>\$ 18,289,446</u>
<b>Liabilities and Stockholders' Equity</b>		
Liabilities:		
Accounts payable	\$ 1,311,013	\$ 2,282,887
Accrued liabilities	2,538,066	1,046,030
Derivative liability	—	83,580
Note payable, net of debt discount	483,702	920,360
Total current liabilities	<u>4,332,781</u>	<u>4,332,857</u>
Long-term loans	224,364	638,969
Commitments and contingencies	273,500	251,000
Total Liabilities	<u>4,830,645</u>	<u>5,222,826</u>
Stockholders' equity:		
Series E convertible preferred stock, \$0.001 par value, 200,000 shares authorized, 127,840 shares issued and outstanding at June 30, 2015 and September 30, 2014, liquidation preference \$38,203	10,866	10,866
Common stock, \$0.001 par value, 60,000,000 shares authorized, 16,899,236 and 14,525,248 shares issued and outstanding at June 30, 2015 and September 30, 2014, respectively	16,904	14,531
Paid in capital	52,852,222	45,038,176
Accumulated deficit	(42,249,440)	(31,996,953)
Total stockholders' equity	<u>10,630,552</u>	<u>13,066,620</u>
Total liabilities and stockholders' equity	<u>\$ 15,461,197</u>	<u>\$ 18,289,446</u>

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

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

	<u>Three Month Ended June 30,</u>		<u>Nine Month Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues	\$ 2,939,405	\$ 2,674,406	\$ 15,210,436	\$ 3,945,897
Cost of revenues	1,796,359	2,379,458	8,895,338	2,746,465
Gross profit	<u>1,143,046</u>	<u>294,948</u>	<u>6,315,098</u>	<u>1,199,432</u>
Operating expenses:				
General and administrative expenses	3,941,273	1,606,928	7,429,372	3,658,497
Sales and marketing expenses	899,526	159,555	4,540,708	409,061
Impairment of intangible assets	445,884	-	445,884	-
Total operating expenses	<u>5,286,683</u>	<u>1,766,483</u>	<u>12,415,964</u>	<u>4,067,558</u>
Operating loss	(4,143,637)	(1,471,535)	(6,100,866)	(2,868,126)
Other expense:				
Interest expense, net	(5,678)	(172,708)	(4,202,622)	(284,082)
Other income	(59,076)	126,093	(31,137)	284,480
Gain (loss) on derivative liability	-	(23,751)	83,580	(58,185)
Total other expense, net	<u>(64,754)</u>	<u>(70,366)</u>	<u>(4,150,179)</u>	<u>(57,787)</u>
Net loss	<u>\$ (4,208,391)</u>	<u>\$ (1,541,901)</u>	<u>\$ (10,251,045)</u>	<u>\$ (2,925,913)</u>
Loss per share - basic and diluted:	<u>\$ (0.26)</u>	<u>\$ (0.11)</u>	<u>\$ (0.65)</u>	<u>\$ (0.23)</u>
Weighted average common shares outstanding:				
Basic and diluted	<u>16,151,289</u>	<u>13,798,880</u>	<u>15,766,001</u>	<u>12,751,344</u>

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

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

	<b>Nine Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>OPERATING ACTIVITIES:</b>		
Net loss	\$ (10,251,045)	\$ (2,925,913)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	500,699	338,752
Non-cash interest expense associated with convertible debt and warrants	2,194,013	289,493
Non-cash interest expense associated with loan fees	2,004,202	–
Non-cash change in fair value of derivative liability	(83,580)	58,185
Stock based compensation expense	621,311	138,595
Repricing of stock option exercise price	54,677	–
Non-cash issuance of common stock for services	2,008,559	29,653
Gain on disposal of property and equipment	–	(207)
Provision for uncollectible accounts	24,819	(32,667)
Reserve for obsolete inventory	255,110	–
Loss on disposal of fixed assets	48,534	–
Impairment of intangible assets	445,884	–
Changes in assets and liabilities:		
Accounts receivable	(85,049)	(1,377,771)
Prepaid expenses and other current assets	245,198	(586,891)
Inventory	1,485,196	(510,569)
Deposits and other assets	(5,082)	(6,890)
	(971,874)	150,638
Accounts payable		
Accrued liabilities	13,094	403,824
	<u>(1,495,334)</u>	<u>(4,031,768)</u>
Net cash used in operating activities	<u>(1,495,334)</u>	<u>(4,031,768)</u>
<b>INVESTING ACTIVITIES:</b>		
Acquisition of businesses, net of cash acquired	–	(324,116)
Expenditures for intangible assets	(52,985)	(11,669)
Proceeds from the sale of property and equipment	–	1,400
Purchases of property and equipment	(43,453)	(46,427)
	<u>(96,438)</u>	<u>(380,812)</u>
Net cash used in investing activities	<u>(96,438)</u>	<u>(380,812)</u>
<b>FINANCING ACTIVITIES:</b>		
Issuance of common stock for cash, net of issuance costs	538,441	13,187,715
Payments on notes payable	(556,047)	–
Payments on preferred stock dividends	–	(16,780)
Proceeds from issuance of convertible debt	100,000	823,595
	<u>82,394</u>	<u>13,994,530</u>
Net cash provided by financing activities	<u>82,394</u>	<u>13,994,530</u>
	<u>(1,509,378)</u>	<u>9,581,950</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(1,509,378)</u>	<u>9,581,950</u>
CASH AND CASH EQUIVALENTS, beginning of period	<u>8,114,682</u>	<u>761,458</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 6,605,304</u>	<u>\$ 10,343,408</u>
<b>Supplemental cash flow disclosures:</b>		
Interest paid	<u>\$ 24,312</u>	<u>\$ 754</u>
Income taxes paid	<u>\$ –</u>	<u>\$ –</u>
<b>Noncash financing and investing activities:</b>		
Recognition of contingent beneficial conversion feature	<u>\$ 100,000</u>	<u>\$ 500,000</u>
Conversion of notes payable and accrued interest into common stock	<u>\$ 635,756</u>	<u>\$ –</u>
Accrued and unpaid dividends	<u>\$ 1,442</u>	<u>\$ 1,438</u>

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

**LIVEDEAL, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED JUNE 30, 2015 AND 2014**  
**(unaudited)**

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

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of LiveDeal, Inc., a Nevada corporation, and its wholly owned subsidiaries (collectively the “Company”). The Company provides specialized online marketing solutions to small-to-medium sized local businesses, or SMBs, that boost customer awareness and merchant visibility. The Company offers affordable tools for SMBs to extend their marketing reach to relevant prospective customers via the internet. The Company also provides SMBs promotional marketing with the ability to offer special deals and activities through LiveDeal.com, mobile applications for iOS and Android users and our online publishing partners. In addition the Company has adopted an acquisition strategy to seek out undervalued companies with little to no online presence. The Company intends for acquisitions to be financed and closed using traditional, non-dilutive debt financing rather than using the Company’s equity.

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 nine months ended June 30, 2015 are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2015. 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, 2014 and for the fiscal year then ended included in the Company’s Annual Report on Form 10-K filed with the SEC on December 29, 2014, and amended on January 8, 2015.

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.

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.

**Note 2: Summary of Significant Accounting Policies**

***Principles of Consolidation***

The accompanying 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, Inc., Local Marketing Experts, Inc., Velocity Marketing Concepts, Inc., 247 Marketing Inc., Telco Billing, Inc., Telco of Canada, Inc., Velocity Local Inc., Modern Everyday, Inc. and its wholly owned subsidiaries, Modern Everyday, LLC and Super Nova, LLC, and Live Goods, LLC and its wholly owned subsidiaries, DealTicker, Inc. The results of operations for Live Goods, LLC, DealTicker, Inc. and Modern Everyday, Inc. have only been included since the date of acquisition of March 7, 2014, May 5, 2014 and August 24, 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.

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, 2015 consists of finished goods inventory. At June 30, 2015 and September 30, 2014, the allowance for obsolete inventory was \$507,679 and \$252,569, respectively.

#### ***Segment Reporting***

ASC Topic 280, “Segment Reporting,” requires use of the “management approach” model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. The Company determined it has two reportable segments (See Note 18).

#### ***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.

### Recently Issued Accounting Pronouncements

No accounting standards or interpretations issued recently are expected to have a material impact on our consolidated financial position, operations or cash flows.

### Note 3: Balance Sheet Information

Balance sheet information is as follows:

	<u>June 30,</u> <u>2015</u> <u>(unaudited)</u>	<u>September 30,</u> <u>2014</u>
Receivables, current, net:		
Accounts receivable, current	\$ 1,646,680	\$ 1,611,269
Less: Allowance for doubtful accounts	<u>(731,867)</u>	<u>(756,686)</u>
	<u>\$ 914,813</u>	<u>\$ 854,583</u>
Receivables, long term, net:		
Accounts receivable, long term	\$ 344,572	\$ 344,572
Less: Allowance for doubtful accounts	<u>(344,572)</u>	<u>(344,572)</u>
	<u>\$ –</u>	<u>\$ –</u>
Total receivables, net:		
Gross receivables	\$ 1,991,252	\$ 1,955,841
Less: Allowance for doubtful accounts	<u>(1,076,439)</u>	<u>(1,101,258)</u>
	<u>\$ 914,813</u>	<u>\$ 854,583</u>
Components of allowance for doubtful accounts are as follows:		
Allowance for dilution and fees on amounts due from billing aggregators	\$ 1,063,617	\$ 1,063,633
Allowance for customer refunds	1,905	2,107
Allowance for other trade receivables	<u>10,917</u>	<u>35,518</u>
	<u>\$ 1,076,439</u>	<u>\$ 1,101,258</u>
Property and equipment, net:		
Furnishings and fixtures	\$ 120,197	\$ 162,642
Office, computer equipment and other	<u>219,734</u>	<u>192,063</u>
	339,931	354,705
Less: Accumulated depreciation	<u>(241,573)</u>	<u>(201,591)</u>
	<u>\$ 98,358</u>	<u>\$ 153,114</u>
Intangible assets, net:		
Domain name and marketing related intangibles	\$ 1,521,015	\$ 1,521,015
Website and technology related intangibles	2,091,164	2,863,509
Software	1,500,000	–
Covenant not to compete	<u>120,000</u>	<u>120,000</u>
	5,232,179	4,504,524
Less: Accumulated amortization	<u>(1,504,892)</u>	<u>(1,433,314)</u>
	<u>\$ 3,727,287</u>	<u>\$ 3,071,210</u>
Accrued liabilities:		
Accrued payroll and bonuses	\$ 114,458	\$ 107,224
Accruals under revenue sharing agreements	688	688
Deferred revenue	511,704	548,004
Accrued software costs	1,500,000	–
Accrued expenses - other	<u>411,216</u>	<u>390,114</u>
	<u>\$ 2,538,066</u>	<u>\$ 1,046,030</u>



#### Note 4: Intangible Assets

The Company's intangible assets consist of licenses for the use of Internet domain names, Universal Resource Locators, or URLs, capitalized website development costs, other information technology licenses, software, a covenant not to compete, and marketing and technology related intangibles acquired through the acquisition of LiveDeal, Inc. In addition as a result of the acquisition of MEI, the Company recorded goodwill of \$1,169,904. All such assets are capitalized at their original cost and amortized over their estimated useful lives as follows: domain name and marketing - 3 to 20 years; website and technology - 3 to 5 years; software -- 5 years, and covenant not to compete – 4 years. Goodwill is not amortized, but evaluated for impairment on at least an annual basis.

During the nine months ended June 30, 2015, the Company purchased software for \$1,500,000. The Company has the option to pay for the software in cash or in 800,000 shares of the Company's common stock during the first year after acquiring the software. At June 30, 2015, the Company had not made any payments towards the purchase of this software and has reflected the \$1,500,000 purchase price for the software in accrued liabilities in the accompanying condensed consolidated balance sheet.

The following summarizes estimated future amortization expense related to intangible assets for the twelve month periods ending June 30,:

2016	\$	793,523
2017		769,749
2018		582,439
2019		517,135
2020		517,135
Thereafter		547,306
	\$	<u>3,727,287</u>

Total amortization expense related to intangible assets was \$451,024 and \$305,370 for the nine months ended June 30, 2015 and 2014, respectively.

#### Note 5: Debt

##### *ICG Convertible Note Transaction*

On January 23, 2014, the Company issued a Note to ICG in the principal amount of \$500,000 ("Note No. 6"). 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. On December 3, 2014, ICG converted Note No. 6 into 674,370 shares of common stock, therefore the remaining debt discount of \$158,219 was written off and recognized as interest expense. In addition, upon the conversion of Note No. 6, the Company issued to ICG a warrant to acquire 674,370 additional shares of the Company's common stock at an exercise price of \$0.95 per share. The fair value of the warrants issued in connection with the conversion of note was \$1,853,473 and was immediately recognized as interest expense.

##### *Kingston Convertible Note Transaction (\$10 Million Line of Credit)*

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

The Kingston Purchase Agreement and the Notes provide that:

- Either the Company or Kingston will have the right to cause the sale and issuance of Notes pursuant to the Kingston Purchase Agreement, provided that NASDAQ's approval of the Kingston Purchase Agreement and transactions contemplated thereby is a condition precedent to each party's right to cause any borrowings to occur under the Kingston Purchase Agreement.
- Each Note must be in a principal amount of at least \$100,000.
- The Notes are issuable at a 5% discount and will accrue interest at an annual interest rate equal to 8%. All interest will be payable on the Maturity Date or upon the conversion of the applicable Note.
- The Company has the option to prepay each Note, in whole or in part, at any time without premium or penalty.

- The Company or Kingston may elect at any time on or before the Maturity Date to convert the principal and accrued but unpaid interest due under any Note into shares of the Company's common stock. The conversion price applicable to any such conversion will be an amount equal to 70% of the lesser of: (i) the closing bid price of the common stock on the date of the Kingston Purchase Agreement (i.e., \$3.12 per share); or (ii) the 10-day volume weighted average closing bid price for the common stock, as listed on NASDAQ for the 10 business days immediately preceding the date of conversion (the "Average Price"); provided, however, that in no event will the Average Price per share be less than \$0.33. For example, if the Average Price is \$0.17 per share, then for purposes of calculating the conversion price, the Average Price per share would be \$0.33 per share instead of \$0.17 per share.
- If either party elects to convert all or any portion of any Note, the Company must issue to Kingston on the date of the conversion a warrant ("Contingent Warrant") to purchase a number of shares of the Company's common stock equal to the number of shares issuable upon conversion. This number of shares is subject to adjustment in the event of stock splits or combinations, stock dividends, certain *pro rata* distributions, and certain fundamental transactions. Each Contingent Warrant will be exercisable for a period of five (5) years following the date of its issuance at an exercise price equal to 110% of the conversion price of the applicable Note (with the exercise price being subject to adjustment under the same conditions as the number of shares for which the warrant is exercisable.) The Contingent Warrants provide that they may be exercised in whole or in part and include a cashless exercise feature.
- The Notes provide that, upon the occurrence of any Event of Default, all amounts payable to Kingston will become immediately due and payable without any demand or notice. The events of default ("Events of Default") which trigger the acceleration of the Notes include (among other things): (i) the Company's failure to make any payment required under the Notes when due (subject to a three-day cure period), (ii) the Company's failure to comply with its covenants and agreements under the Purchase Agreement, the Notes and any other transaction documents, and (iii) the occurrence of a change of control with respect to the Company.
- The Company (i) is required to provide certain financial and other information to Kingston from time to time, (ii) must maintain its corporate existence, business, assets, properties, insurance and records in accordance with the requirements set forth in the Kingston Purchase Agreement, (iii) with certain exceptions, must not incur or suffer to exist any liens or other encumbrances with respect to the Company's property or assets, (iv) must not make certain loans or investments except in compliance with the terms of the Kingston Purchase Agreement, and (v) must not enter into certain types of transactions, including dispositions of its assets or business.
- The Company agreed to use commercially reasonable efforts to obtain, as promptly as practicable, any approvals of the Company's stockholders required under applicable law or NASDAQ Listing Rules in connection with the transactions contemplated by the Kingston Purchase Agreement. Unless and until any such stockholder approvals are obtained, in no event will Kingston be entitled to convert any Notes and/or exercise any Contingent Warrants to the extent that any such conversion or exercise would result in Kingston acquiring in such transactions a number of shares of the Company's common stock exceeding 19.99% of the number of shares of common stock issued and outstanding immediately prior to the Company's entry into the Kingston Purchase Agreement.
- Kingston will be entitled to certain anti-dilution adjustments if the Company issues shares of its common stock at a lower price per share than the applicable conversion price for any Note(s) issued pursuant to the Kingston Purchase Agreement. If any such dilutive issuance occurs prior to the conversion of one or more Notes, the conversion price for such Note(s) will be adjusted downward pursuant to its terms (subject to a floor of \$0.23 per share). If any such dilutive issuance occurs after the conversion of one or more Notes, Kingston will be entitled to be issued additional shares of common stock for no consideration, and to an adjustment of the exercise price payable under the applicable Contingent Warrant(s). With respect to each Note actually issued pursuant to the Kingston Purchase Agreement, Kingston's anti-dilution rights will expire two (2) years following the date of issuance.

On October 29, 2014, the Company entered into an amended convertible note purchase agreement with Kingston whereby the Company and Kingston agreed to (i) increase the maximum principal amount of the notes from \$5 million to \$10 million in principal amount, (ii) eliminate the original issue discount provision of the Agreement and replaces it with an execution payment equal to 5% of the maximum loan amount, and (iii) provides certain additional adjustments to the note conversion price and to the warrant exercise price.

On October 16, 2014, the Company issued a Note to Kingston in the principal amount of \$100,000. Because the conversion price of \$0.79 was less than the stock price on the date of issuance, this gave rise to a beneficial conversion feature valued at \$100,000. 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. On November 17, 2014, Kingston converted the note into 127,008 shares of common stock, therefore the debt discount of \$100,000 was written off and recognized as interest expense.

In addition, as a result of the October 29, 2014 amendment, the Company was required to issue to Kingston, the original issue discount payment equal to 5% of the maximum loan in shares of the Company's common stock based upon the conversion price of the first conversion which was \$0.79 per shares. The issued 630,252 shares of common stock that had a fair value of \$2,004,202 which was immediately recognized as interest expense.

### 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. The note was repaid during the nine months ended June 30, 2015, therefore the remaining unamortized debt discount of \$57,665 was written off to interest expense. Also, as a result of the note being repaid, the derivative liability associated with this convertible note was reduced to \$0. The Company recorded \$83,580 of non-cash "change in fair value of derivative" income during the nine months ended June 30, 2015.

### Credit line

In connection with the purchase of Modern Everyday, Inc., the Company assumed a credit line from a bank. The credit line is collateralized by all the assets of Modern Everyday, Inc., accrues interest at prime plus 2% and is due on September 28, 2019.

### Notes payable of Modern Everyday, Inc.

Outstanding debt at June 30, 2015 and September 30, 2014 consisted of the following:

	<u>June 30, 2015</u>	<u>September 30, 2014</u>
Note payable to individual, payable on demand, interest at 10.0% per annum, unsecured	\$ 91,274	\$ 90,168
Convertible note payable to individual, due February 27, 2015, interest at 6.0% per annum, unsecured	—	335,245
Convertible note payable to ICG, due January 23, 2015, interest at 8.0% per annum, unsecured	—	527,889
Acquisition note payable, \$200,000 due February 28, 2015 and \$400,000 due February 28, 2016, non-interest bearing with interest imputed at 2.87% per annum	392,428	581,707
Credit line due 1/1/2024, with interest rate of 2.75%	224,364	240,204
Less Debt Discount	—	(215,884)
Total Debt	<u>708,066</u>	<u>1,559,329</u>
Current portion	483,702	920,360
Long-term portion	<u>\$ 224,364</u>	<u>\$ 638,969</u>

### 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 following table represents the Company's derivative liability activity for both the embedded conversion features for the nine months ended June 30, 2015:

Derivative liability balance, September 30, 2014	\$	83,580
Issuance of derivative liability during the nine months ended June 30, 2015		–
Change in derivative liability during the nine months ended June 30, 2015		(83,580)
Derivative liability balance, June 30, 2015	\$	–

## Note 7: Equity

During the nine months ended June 30, 2015, the Company issued:

- 187,358 shares of common stock for services rendered valued at \$490,559. The value was based on the market value of the Company's common stock on the date of issuance;
- 600,000 shares of common stock issued to officers of the Company as bonuses for services rendered in fiscal years 2012, 2013 and 2014 valued at \$1,518,000. The value was based on the market value of the Company's common stock on the date of issuance;
- 155,000 shares of common stock for net cash proceeds of \$538,441;
- 801,378 share of common stock for the conversion of convertible notes and accrued interest of \$635,756;
- 630,252 shares of common stock as payment for the original issue discount fees associated with the Kingston agreement. The value of the shares of \$2,004,202 was based on the market value of the Company's common stock at the date of issuance.

### *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.

For the quarter ended September 30, 2014, the Company sold 110,300 shares of its common stock under the Second Registration Statement, resulting in gross proceeds of \$508,598, in an at-the-market offering, in which Chardan was its agent. The Company received net proceeds of \$493,340. The Company paid Chardan a total commission of \$15,258 pursuant to the May 2014 Engagement Agreement.

For the quarter ended March 31, 2015, the Company sold 155,000 shares of its common stock under the Second Registration Statement, resulting in gross proceeds of \$546,652, in an at-the-market offering, in which Chardan was its agent. The Company received net proceeds of \$538,441. The Company paid Chardan a total commission of \$8,211 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.

#### *Series E Convertible Preferred Stock*

During the year ended September 30, 2002, pursuant to an existing tender offer, holders of 13,184 shares of the Company's common stock exchanged said shares for 131,840 shares of Series E Convertible Preferred Stock, at the then \$0.85 market value of the common stock. The shares carry a \$0.30 per share liquidation preference and accrue dividends at the rate of 5% per annum on the liquidation preference per share, payable quarterly from legally available funds. If such funds are not available, dividends shall continue to accumulate until they can be paid from legally available funds. Holders of the preferred shares are entitled, after two years from issuance, to convert them into common shares on a hundred-to-one basis together with payment of \$0.45 per converted share.

#### *Dividends*

During each of the nine months ended June 30, 2015 and 2014, the Company accrued dividends of \$1,442 and \$1,438, respectively, payable to holders of Series E preferred stock.

## Note 8: Warrants

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, 2015:

	Number of Units	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Intrinsic Value
Outstanding at September 30, 2014	2,866,506	\$ 0.63	3.39	
Granted	674,370	0.95		
Exercised	–			
Outstanding at June 30, 2015	<u>3,540,876</u>	<u>0.69</u>	<u>2.98</u>	<u>\$ 6,508,276</u>
Exercisable at June 30, 2015	<u>3,540,876</u>	<u>0.69</u>	<u>2.98</u>	<u>\$ 6,508,276</u>

Most of the above warrants were issued in connection with conversion of convertible notes (See Note 5). When the debt is converted and warrants are issued, the Company determines the fair value of the warrants using the Black-Scholes model and takes a charge to interest expense at the date of issuance.

The exercise price for warrants outstanding and exercisable at June 30, 2015 is as follows:

Outstanding		Exercisable	
Number of Warrants	Exercise Price	Number of Warrants	Exercise Price
1,631,886	\$0.55	1,631,886	\$0.55
535,716	0.56	535,716	0.56
371,487	0.81	371,487	0.81
1,001,787	0.95	1,001,787	0.95
<u>3,540,876</u>		<u>3,540,876</u>	

## Note 9: Stock Options

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, 2015:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Intrinsic Value
Outstanding at September 30, 2014	600,000	\$ 2.76		\$ –
Granted	450,000	\$ 2.53		
Exercised	–			
Forfeited	–			
Outstanding at June 30, 2015	<u>1,050,000</u>	<u>\$ 1.87</u>	<u>5.01</u>	<u>\$ 689,875</u>
Exercisable at June 30, 2015	<u>675,000</u>	<u>\$ 1.73</u>	<u>4.51</u>	<u>\$ 542,500</u>

The Company recognized compensation expense of \$621,311 and \$138,595 during the nine months ended June 30, 2015, respectively, related to stock option awards granted to certain employees and executives based on the grant date fair value of the awards, net of estimated forfeitures.

At June 30, 2015, the Company had \$351,026 of unrecognized compensation expense (net of estimated forfeitures) associated with stock option awards which the Company expects will be recognized through June 2017.

During the quarter ended June 30, 2015, the Company reduced the exercise price by 50% for the 600,000 options then outstanding. The Company recognized compensation expense of \$54,677 related to the re-pricing of the exercise for these options.

The exercise price for options outstanding and exercisable at June 30, 2015 is as follows:

Outstanding		Exercisable	
Number of Options	Exercise Price	Number of Options	Exercise Price
187,500	\$0.83	187,500	\$0.83
150,000	1.25	150,000	1.25
187,500	1.67	37,500	1.67
37,500	2.08	0	2.08
37,500	2.50	0	2.50
450,000	2.53	300,000	2.53
<b>1,050,000</b>		<b>675,000</b>	

The following table summarizes information about the Company's non-vested shares as of June 30, 2015:

Non-vested Shares	Number of Shares	Weighted-Average Grant-Date Fair Value
Nonvested at September 30, 2014	450,000	\$ 0.73
Granted	450,000	\$ 1.92
Vested	(525,000)	
Nonvested at June 30, 2015	<b>375,000</b>	\$ 1.44

For options granted during 2015 where the exercise price equaled the stock price at the date of the grant, the weighted-average fair value of such options was \$1.92 and the weighted-average exercise price of such options was \$2.53. No options were granted during 2015, where the exercise price was less than the stock price at the date of grant or where the exercise price was greater than the stock price at the date of grant.

The assumptions used in calculating the fair value of options granted using the Black-Scholes option-pricing model for options granted in 2015 are as follows:

Risk-free interest rate	1.01%
Expected life of the options	2.5 to 3.5 years
Expected volatility	140%
Expected dividend yield	0%

#### Note 10: Net Loss Per Share

Net loss per share is calculated using the weighted average number of shares of common stock outstanding during the applicable period. Basic weighted average common shares outstanding do not include shares of restricted stock that have not yet vested, although such shares are included as outstanding shares in the Company's unaudited Condensed Consolidated Balance Sheet. Diluted net loss per share is computed using the weighted average number of common shares outstanding and if dilutive, potential common shares outstanding during the period. Potential common shares consist of the additional common shares issuable in respect of restricted share awards, stock options and convertible preferred stock. Preferred stock dividends are subtracted from net loss to determine the amount available to common stockholders.

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

	<u>Three Months Ended June 30,</u>		<u>Nine Months Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Net loss applicable to common stock	\$ (4,208,391)	\$ (1,541,901)	\$ (10,251,045)	\$ (2,925,913)
Less: preferred stock dividends	(480)	(479)	(1,442)	(1,438)
Net loss applicable to common stock	<u>\$ (4,208,871)</u>	<u>\$ (1,542,380)</u>	<u>\$ (10,252,487)</u>	<u>\$ (2,927,351)</u>
Weighted average common shares outstanding - basic and diluted	16,151,289	13,798,880	15,766,001	12,751,344
Loss per share - basic and diluted:	<u>\$ (0.26)</u>	<u>\$ (0.11)</u>	<u>\$ (0.65)</u>	<u>\$ (0.23)</u>

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

	<u>Three Months Ended June 30,</u>		<u>Nine months ended June 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Options to purchase shares of common stock	600,000	675,000	600,000	675,000
Warrants to purchase shares of common stock	3,540,876	2,866,506	3,540,876	2,866,506
Series E convertible preferred stock	127,840	127,840	127,840	127,840
Shares of non-vested restricted stock	-	21,000	-	21,000
Total potentially dilutive shares	<u>4,268,716</u>	<u>3,690,346</u>	<u>4,268,716</u>	<u>3,690,346</u>

#### **Note 11: Income Taxes**

At June 30, 2015, 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 nine months ended June 30, 2015, 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 12: Related Party Transactions**

##### *Convertible Notes with ICG*

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 \$500,000 and \$1,250,000 during the year ended September 30, 2014 and 2013, respectively.

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.

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, 2015 and 2014, the Company recognized total interest expense of \$2,018,803 and \$14,333, respectively, associated with the ICG notes.



### **Note 13: Commitments and Contingencies**

#### *Purchase price contingency*

In connection with acquisition of Modern Everyday, Inc., the Company issued 50,000 shares of the Company's common stock as part of the consideration for the acquisition. The Company has guaranteed the holder of the 50,000 shares that the value of those shares will be at least \$8.00 per shares 30 months after the acquisition date. The Company has agreed to compensate the holder, if the share price is less than \$8.00 at the 30 months anniversary of the acquisition, the difference between \$8.00 and the share price at the 30 month anniversary times the number of shares still owned by the holder. As of June 30, 2015, the Company as recorded a liability of \$273,500 related to this guarantee. The value of these shares was included as part of the purchase price consideration. The Company will adjust this guarantee at the end of each balance sheet date based on the current price of the Company's common stock.

#### *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 the Company's consolidated financial position as of June 30, 2015, results of operations, cash flows or liquidity of the Company.

### **Note 14: 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, 2015. 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, 2015 and September 30, 2014 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 26%, 16% and 11% of gross receivables at June 30, 2015 and 23%, 14%, and 10% of gross receivables at September 30, 2014, respectively.

## Note 15: Segment Reporting

The Company operates in two segments which are characterized as: (1) legacy and merchants' services and (2) online marketplace platform. The legacy and merchants' services consists of LEC business and Velocity Local and the online marketplace platform consists of livedeal.com and the recent acquisitions of consumer products entities.

The following tables summarize segment information for the three and nine months ended June 30, 2015 and 2014:

	<b>Three Months Ended June 30,</b>		<b>Nine Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Revenues</b>				
Marketplace platform	\$ 2,565,330	\$ 2,197,324	\$ 14,042,094	\$ 2,361,716
Services	374,075	477,082	1,168,342	1,584,181
	<u>\$ 2,939,405</u>	<u>\$ 2,674,406</u>	<u>\$ 15,210,436</u>	<u>\$ 3,945,897</u>
<b>Gross profit (loss)</b>				
Marketplace platform	\$ 809,253	\$ (111,149)	\$ 5,268,391	\$ (99,750)
Services	333,793	406,097	1,046,707	1,299,182
	<u>\$ 1,143,046</u>	<u>\$ 294,948</u>	<u>\$ 6,315,098</u>	<u>\$ 1,199,432</u>
<b>Operating income (loss)</b>				
Marketplace platform	\$ (4,414,858)	\$ (1,801,774)	\$ (6,954,605)	\$ (3,679,769)
Services	271,221	330,239	853,739	811,643
	<u>\$ (4,143,637)</u>	<u>\$ (1,471,535)</u>	<u>\$ (6,100,866)</u>	<u>\$ (2,868,126)</u>
<b>Depreciation and amortization</b>				
Marketplace platform	\$ 165,205	\$ 123,119	\$ 490,659	\$ 325,134
Services	3,347	4,396	10,040	13,618
	<u>\$ 168,552</u>	<u>\$ 127,515</u>	<u>\$ 500,699</u>	<u>\$ 338,752</u>
<b>Interest Expenses</b>				
Marketplace platform	\$ 5,678	\$ 172,708	\$ 4,202,622	\$ 284,082
Services	—	—	—	—
	<u>\$ 5,678</u>	<u>\$ 172,708</u>	<u>\$ 4,202,622</u>	<u>\$ 284,082</u>
<b>Net income (loss)</b>				
Marketplace platform	\$ (4,479,612)	\$ (1,994,740)	\$ (11,104,784)	\$ (3,862,580)
Services	271,221	452,839	853,739	936,667
	<u>\$ (4,208,391)</u>	<u>\$ (1,541,901)</u>	<u>\$ (10,251,045)</u>	<u>\$ (2,925,913)</u>
			<b>As of</b>	<b>As of</b>
			<b>June 30,</b>	<b>September 30,</b>
			<b>2015</b>	<b>2014</b>
<b>Total Assets</b>				
Marketplace platform			\$ 15,297,836	\$ 18,118,425
Services			163,361	171,021
			<u>\$ 15,461,197</u>	<u>\$ 18,289,446</u>
<b>Intangible assets</b>				
Marketplace platform			\$ 4,892,586	\$ 4,234,692
Services			4,605	6,422
			<u>\$ 4,897,191</u>	<u>\$ 4,241,114</u>

**Note 16: Subsequent Event**

On July 6 and July 7, 2015, the Company, through its newly formed, wholly-owned subsidiary, Live Ventures, Inc. (“Live Ventures”), entered into a series of agreements in connection with its indirect purchase of Marquis Industries, Inc., a Georgia corporation (“Marquis Industries”), and its subsidiaries. The purchase and financing transactions were, in the aggregate, valued at approximately \$30 million. The purchase was effectuated between Marquis Affiliated Holdings LLC, a Delaware limited liability company (“Marquis Holdings”) that is 80% owned by Live Ventures, and the shareholders of Marquis Industries. The remaining 20% of Marquis Holdings is owned by the former owners of Marquis Industries. In connection with the purchase and finance transaction, various persons and entities entered into a series of agreements (each of which is dated on or about July 6, 2015, with funding occurring on July 6 and July 7, 2015).

The purchase price was paid through a combination of debt financing that was provided by (i) the Bank of America Term and Revolving Loan in the aggregate amount of (x) approximately \$7.8 million for the term component and (y) approximately \$15 million for the revolving component and (ii) a mezzanine loan in an amount of up to \$7,000,000 provided by Isaac Capital Fund, a private lender whose managing member is Jon Isaac, the chief executive officer of the Company. In connection with operations of Marquis Industries after the closing of the purchase transaction, and as part of the Bank of America Term and Revolving Loan, Marquis Industries may borrow up to \$15 million (based on eligibility).

The Bank of America term loan bears interest at a variable rate based on a base rate plus a margin. The current base rate is the greatest of (a) Bank of America prime rate, (b) the current federal funds rate plus 0.50%, or (c) 30-day LIBOR plus 1.00% plus the margin, which varies, depending on circumstances and as of closing was for the term component: 1.00% in excess of the base rate or 2.00% in excess of LIBOR, and for the revolving component: 0.75% in excess of the base rate or 1.75% in excess of LIBOR. Monthly payments to Bank of America are approximately \$79,000 plus accrued interest. The term component is due and payable in July 2020, which is when the revolving component terminates.

The Isaac Capital Fund mezzanine loan bears interest at 12.5% with payment obligations of interest each month and all principal due in January 2021 (six months after the final payments are due under the Bank of America Term and Revolving Loan).

Marquis Industries had unaudited revenue and net income of approximately \$59.1 million and \$5.0 million, respectively, for the year ended December 31, 2014.

The Company is unable to make all the disclosures required by ASC 805-10-50-2 that this time as the initial accounting for this business combination is incomplete. This information will be disclosed in Form 8-K within the required timeframe.

## 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 nine months ended June 30, 2015, 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, 2014.

### 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](http://www.livedeal.com) or any other websites referenced in this Quarterly Report are not part of this Quarterly Report.

### 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 on the internet and through mobile applications. 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, mobile applications for iOS and Android users and our online publishing partners. This fiscal year, we identified two operating segments based on our major lines of business, which we refer to as our "Legacy/Merchants' Services" segment and our "Online Marketplace Platform" segment. In addition, we incorporated Live Goods, LLC ("Live Goods"), as our wholly-owned subsidiary, which we have used to acquire companies under our online marketplace platform segment.

We have most recently solidified our acquisition strategy to seek out undervalued companies with little to no online presence. Further, we have adopted a policy designed to prevent share dilution and to increase stockholder value. We now intend for our contemplated acquisitions to be financed and closed using traditional, non-dilutive debt financing rather than using our equity. In addition, based on our desire to seek acquisitions in any vertical that can sustain an online component, we have re-branded ourself to better reflect this new direction. With this rebranding will come a new corporate name, "Live Ventures, Inc." Live Ventures, Inc. will retain the ticker NASDAQ:LIVE, and LiveDeal Inc. will become a wholly-owned, fully operating subsidiary of Live Ventures, Inc., providing the same online offering as it currently provides. We expect the name change to take effect within 45 days. This new acquisition strategy is evidenced by our recent acquisition of Marquis Industries, Inc. which is described in more detail below under the section "Recent Developments."

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

### *Online Marketplace Platform Segment*

The years ended 2013 and 2014 marked a swift transition for us. We not only launched LiveDeal.com, which marked the redefinition of our strategy and direction toward an online platform, but we also acquired DealTicker™ and Modern Everyday, Inc., and all the assets of furniture retailer, DA Stores, LLC, which expanded our footprint of our online marketplace to offer consumer goods in addition to our restaurant services. By leveraging the consumer base, intellectual property and relationships that these acquisitions have solidified for their online businesses, we expect LiveDeal.com to become a vertically integrated one-stop shop for all the needs of the everyday consumer. For strategic reasons, we have subsequently closed the operations of DealTicker and transferred the remaining operations of DA Stores, LLC to Modern Everyday, Inc.

In September 2013, we launched LiveDeal.com. LiveDeal.com is a unique, real-time “deal engine” connecting merchants with consumers. Currently, we provide marketing solutions to a growing base of restaurants to boost customer awareness and merchant visibility on the Internet. We believe that we have 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. Restaurants can sign up to use the LiveDeal platform at our website.

Highlights of LiveDeal.com include:

- an intuitive 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;
- innovating proprietary restaurant indexing methodology; 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.

In 2014, the Livedeal.com iOS mobile App was approved by Apple for inclusion in Apple’s App Store, and the Android App became available to the public in the Google Play Store.

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. This year we launched a massive advertising campaign directed at over 35 cities to support the restaurant owners who have created more than 10,000 deals in over 8,000 restaurants in those cities. The Company believes it can cost-effectively expand into other cities due to the scalability of the LiveDeal.com platform, as restaurants can curate deals through our account managers or create specials on their own. In addition, individual customers transact directly with the restaurant, eliminating the need for the Company to act as an intermediary in the sale.

In order to leverage our consumer base, during fiscal 2014 we acquired three business that offer consumer products. We plan to incorporate the sale of consumer products into our livedeal.com website to make it a vertically integrated one-stop shop for all the needs of the everyday consumer. Below is a brief description of the businesses purchased in fiscal 2014:

#### *Modern Everyday, Inc.,*

Modern Everyday, Inc. (“MEI”), acquired in August 2014, has both a retail location and a web presence providing consumers with products that range from kitchen and dining products, apparel and sporting goods to children’s toys and beauty products. Modern Everyday also has proprietary software that will give us the capability to track products and predict consumer behavior and spending habits.

### *Legacy and Merchants' Services Segment*

We developed and market a suite of products and services designed to meet the online marketing needs of SMBs at affordable prices. In August 2012, we commenced sourcing local deal and activities to strategic publishing partners under our LiveDeal<sup>®</sup> 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<sup>™</sup> brand, which we refer to as online presence marketing. Our target customers for our Velocity Local<sup>™</sup> and our LiveDeal<sup>®</sup> brands are SMB owners who work long hours to deliver real value to their customers in their own communities that do not have the time or expertise to develop the powerful, multi-faceted, online marketing and advertising programs necessary for successful online marketing. Our offerings draw on a decade of experience servicing SMBs in the internet technology environment.

We continue to generate a significant portion of our revenue from servicing our existing customers under our legacy product offerings, primarily our InstantProfile<sup>®</sup> 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.

### **Recent Developments**

On July 6 and July 7, 2015, we, through our newly formed, wholly-owned subsidiary, Live Ventures, Inc. ("Live Ventures"), entered into a series of agreements in connection with our indirect purchase of Marquis Industries, Inc., a Georgia corporation ("Marquis Industries"), and its subsidiaries. Marquis Industries is a specialty, high-performance carpet yarn manufacturer, hard-surfaces re-seller, and top 10 high-end residential carpet manufacturer in the United States. The purchase and financing transactions were, in the aggregate, valued at approximately \$30 million. The purchase was effectuated between Marquis Affiliated Holdings LLC, a Delaware limited liability company ("Marquis Holdings") that is 80% owned by Live Ventures, and the shareholders of Marquis Industries. The remaining 20% of Marquis Holdings is owned by the former owners of Marquis Industries. In connection with the purchase and finance transaction, various persons and entities entered into a series of agreements (each of which is dated on or about July 6, 2015, with funding occurring on July 6 and July 7, 2015).

The purchase price was paid through a combination of debt financing that was provided by (i) the Bank of America Term and Revolving Loan in the aggregate amount of (x) approximately \$7.8 million for the term component and (y) approximately \$15 million for the revolving component and (ii) a mezzanine loan in an amount of up to \$7,000,000 provided by Isaac Capital Fund, a private lender whose managing member is Jon Isaac, our chief executive officer. In connection with operations of Marquis Industries after the closing of the purchase transaction, and as part of the Bank of America Term and Revolving Loan, Marquis Industries may borrow up to \$15 million (based on eligibility).

The Bank of America term loan bears interest at a variable rate based on a base rate plus a margin. The current base rate is the greatest of (a) Bank of America prime rate, (b) the current federal funds rate plus 0.50%, or (c) 30-day LIBOR plus 1.00% plus the margin, which varies, depending on circumstances and as of closing was for the term component: 1.00% in excess of the base rate or 2.00% in excess of LIBOR, and for the revolving component: 0.75% in excess of the base rate or 1.75% in excess of LIBOR. Monthly payments to Bank of America are approximately \$79,000 plus accrued interest. The term component is due and payable in July 2020, which is when the revolving component terminates.

The Isaac Capital Fund mezzanine loan bears interest at 12.5% with payment obligations of interest each month and all principal due in January 2021 (six months after the final payments are due under the Bank of America Term and Revolving Loan).

### **Critical Accounting Estimates and Assumptions**

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make many estimates and assumptions that may materially affect both our consolidated financial statements and related disclosures, such as reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period, and the comparability of the information presented over different reporting periods. Estimates and assumptions are based on management's experience and other information available prior to the issuance of our financial statements. Our actual realized results may differ materially from management's initial estimates as reported. Summaries of our significant accounting policies are detailed in the notes to the consolidated financial statements, which are an integral component of this filing.

The discussion in this section of "critical" accounting estimates and assumptions is according to the disclosure guidelines of the SEC, wherein:

- the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and
- the impact of the estimates and assumptions on our financial condition or operating performance is material.

Besides those meeting these "critical" criteria, we make many other accounting estimates and assumptions in preparing our financial statements and related disclosures. Although not associated with "highly uncertain matters," these estimates and assumptions are also subject to revision as circumstances warrant, and materially different results may sometimes occur.

The following summarizes "critical" estimates and assumptions made by management in the preparation of the consolidated financial statements and related disclosures.

#### *Revenue Recognition*

##### Directory Services

Revenue is billed and recognized monthly for services subscribed in that specific month. We have 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, we recognize 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, we estimate and accrue 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 us and not through the outside billing companies is recognized based on estimated future collections. We continuously reviews this estimate for reasonableness based on its collection experience.

##### Deals Revenue

We recognize revenue from sales through our strategic publishing partners of discounted goods and services offered by our 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, our obligations to the merchant, for which we are serving as an agent, are substantially complete. Our remaining obligations, which are limited to remitting payment to the merchant, are inconsequential or perfunctory. We record 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 we are acting as an agent of the merchant in the transaction.

##### Product Revenue

We 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 when the above four criteria are met.

We evaluate 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 we are 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 we are the primary obligor. We present revenue net of sales taxes.

##### *Allowance for Doubtful Accounts*

We maintain an allowance for doubtful accounts, which includes allowances for customer refunds, dilution and fees from LEC billing aggregators and other uncollectible accounts. The determination of the allowance for doubtful accounts is dependent on many factors, including regulatory activity, changes in fee schedules by LEC service providers and recent historical trends.

### *Carrying Value of Intangible Assets*

Our intangible assets consist of licenses for the use of internet domain names or universal resource locators, or URLs, capitalized website development costs and software, other information technology licenses, customer lists, non-compete agreements and marketing and technology-related intangibles acquired through acquisitions. All these assets are capitalized at their original cost (or at fair value for assets acquired through business combinations) and amortized over their estimated useful lives. We capitalize internally generated software and website development costs in accordance with the provisions of the FASB Accounting Standards Codification (“ASC”) ASC 350, “Intangibles – Goodwill and Other”.

We evaluate the recoverability of the carrying amount of intangible assets whenever events or changes in circumstances indicate that the carrying amount of these assets may not be fully recoverable. In the event of such changes, impairment would be assessed if the expected undiscounted net cash flows derived for the asset are less than its carrying amount.

### *Stock-Based Compensation*

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

### *Income Taxes*

Income taxes are accounted for using the asset and liability method as prescribed by ASC 740 “Income Taxes”. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance would be provided for those deferred tax assets for which if it is more likely than not that the related benefit will not be realized.

We have estimated net deferred income tax assets (net of valuation allowances) of \$0 at June 30, 2015 and September 30, 2014. A full valuation allowance has been established against all net deferred tax assets as of June 30, 2015 and September 30, 2014 based on estimates of recoverability. While we have optimistic plans for our new business strategy, we determined that such a valuation allowance was necessary given the current and expected near term losses and the uncertainty with respect to our ability to generate sufficient profits from our new business lines. Therefore, we established a valuation allowance for all deferred tax assets in excess of those expected to be realizable through the application of operating loss carrybacks.

## **Results of Operations**

The following sets forth a discussion of our financial results for the three and nine months ended June 30, 2015 as compared to the three and nine months ended June 30, 2014. 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 we made in fiscal 2014.

### *Revenues*

	Revenues			
	2015	2014	Change	Percent
Three Months Ended June 30	\$ 2,939,405	\$ 2,674,406	\$ 264,999	10%
Nine Months Ended June 30	\$ 15,210,436	\$ 3,945,897	\$ 11,264,539	285%

Revenues for the three and nine months ended June 30, 2015 increased by \$264,999 and \$11,264,539, respectively, as compared to the three and nine months ended June 30, 2014, primarily due to the acquisition we made in fiscal 2014. Revenue from our online marketplace platform segment increased from \$2,197,324 and \$2,361,716 for the three and nine months ended June 30, 2014 to \$2,565,330 and \$14,042,094 for the three and nine months ended June 30, 2015. We expect revenue from this segment to increase in the future. Revenue from our legacy and merchants’ services segment decreased from \$477,082 and \$1,584,181 for the three and nine months ended June 30, 2014 to \$374,075 and \$1,168,342 for the three and nine months ended June 30, 2015. We expect revenue from this segment to continue to decrease in the future.



### Cost of Revenues

	Cost of Revenues			
	2015	2014	Change	Percent
Three Months Ended June 30	\$ 1,796,359	\$ 2,379,458	\$ (583,099)	(25%)
Nine Months Ended June 30	\$ 8,895,338	\$ 2,746,465	\$ 6,148,873	224%

Cost of revenues increased/(decreased) for the three and nine months ended June 30, 2015 as compared to the three and nine months ended June 30, 2014, by \$(583,099) and \$6,148,873. The decrease in cost of revenue for the three months ended June 30, 2015 compared to the same period in the prior year is due to us selling products with higher margins. The increase in cost of revenue for the nine months ended June 30, 2015 is primarily due to increase in revenue from as a result of our acquisitions in fiscal 2014. Cost of revenue were 58.5% and 69.6% of net revenues for the nine months ended June 30, 2015 and 2014, respectively, a decrease of 11.1%. The decrease is due to us selling higher margin products in fiscal 2015.

### Gross Profit

	Gross Profit			
	2015	2014	Change	Percent
Three Months Ended June 30	\$ 1,143,046	\$ 294,948	\$ 848,098	288%
Nine Months Ended June 30	\$ 6,315,098	\$ 1,199,432	\$ 5,115,666	427%

Gross profit increased for the three and nine months ended June 30, 2015 by \$848,098 and \$5,115,666, as compared to the three and nine months ended June 30, 2014, respectively, primarily due to the increase in revenues described above. The gross profit percentage for nine months ended June 30, 2015 was 41.5% compared to 30.4% for the nine months ended June 30, 2014. Our gross profit percentage from our legacy and merchants' services and online marketplace platform segments were 37.5% and 89.6%, respectively for the nine months ended June 30, 2015 as compared to (4.2)% and 82.0%.

### General and Administrative Expenses

	General and Administrative Expenses			
	2015	2014	Change	Percent
Three Months Ended June 30	\$ 3,941,273	\$ 1,606,928	\$ 2,334,345	145%
Nine Months Ended June 30	\$ 7,429,372	\$ 3,658,497	\$ 3,770,875	103%

General and administrative expenses increased for the three and nine months ended June 30, 2015 as compared to three and nine months ended June 30, 2014 by \$2,334,345 and \$3,770,875. The increase for the three and nine months ended June 30, 2015 compared to the same period in 2014 is principally a result of the three acquisitions that we made during fiscal 2014 which include increases payroll and related benefits, professional fees, rent and utilities, services and fees, office and supplies expenses, and other corporate expenses associated with our office operations. In addition, during the quarter ended June 30, 2015 we issued 600,000 shares of our common stock to two of our executives valued at \$1,518,000 as a bonus for services rendered during fiscal years 2012, 2013 and 2014. We also issued 187,358 shares of our common stock to employees and consultants for for services rendered valued at \$490,559.

### Sales and Marketing Expenses

	Sales and Marketing Expenses			
	2015	2014	Change	Percent
Three Months Ended June 30	\$ 899,526	\$ 159,555	\$ 739,971	464%
Nine Months Ended June 30	\$ 4,540,708	\$ 409,061	\$ 4,131,647	1010%

Sales and marketing expensed increased for the three and nine months ended June 30, 2015 as compared to three and nine months ended June 30, 2014 primarily due to expenses associated with marketing activities of our recently purchased acquisitions.

## Impairment of Intangible Assets

	Impairment of Intangible Assets			
	2015	2014	Change	Percent
Three Months Ended June 30	\$ 445,884	\$ –	\$ 445,884	n/a
Nine Months Ended June 30	\$ 445,884	\$ –	\$ 445,884	n/a

During the quarter ended June 30, 2015, we determined that certain of our intangible assets were impaired and took a charge to earnings of \$445,884. There were no such charges during 2014.

## Operating Loss

	Operating Loss			
	2015	2014	Change	Percent
Three Months Ended June 30	\$ (4,143,637)	\$ (1,471,535)	\$ (2,672,102)	37%
Nine Months Ended June 30	\$ (6,100,866)	\$ (2,868,126)	\$ (3,232,740)	37%

The increase in operating loss for the nine months ended June 30, 2015 as compared to nine months ended June 30, 2014 resulted from a variety of factors, including increases in, general and administrative expenses and sales and marketing expenses, resulting from our recent acquisitions of three businesses.

## Total Other Income (Expense)

	Total Other Income (Expense)			
	2015	2014	Change	Percent
Three Months Ended June 30	\$ (64,754)	\$ (70,366)	\$ 5,612	(8%)
Nine Months Ended June 30	\$ (4,150,179)	\$ (57,787)	\$ (4,092,392)	7082%

The large increase in other expense in the nine months ended June 30, 2015 as compared to nine months ended June 30, 2014 was primarily due to interest expense incurred during the nine months ended June 30, 2015, relating to the amortization of debt discounts, the issuance of warrants upon the conversion of debt and the issuance of common stock for the original issue discount on a \$10 million credit facility.

## Net Loss

	Net Loss			
	2015	2014	Change	Percent
Three Months Ended June 30	\$ (4,208,391)	\$ (1,541,901)	\$ (2,666,490)	173%
Nine Months Ended June 30	\$ (10,251,045)	\$ (2,925,913)	\$ (7,325,132)	250%

The increase in the net loss for the nine months ended June 30, 2015, as compared to the net loss for the nine months ended June 30, 2014 was primarily attributable to changes in other expense, as described above.

## Liquidity and Capital Resources

### Cash Flows from Operating Activities

Net cash used in operating activities was \$1,495,334 for the nine months ended June 30, 2015 as compared to \$4,031,768 for the same period in 2014. This change was due to an increase of \$7,325,132 in our net loss, partially offset by an increase of non-cash expenses of \$7,393,982 which during the nine months ended June 30, 2015 included \$2,194,013 of interest expense associated with convertible debt and warrants, \$2,004,202 of interest expense associated with loan fees, \$2,008,559 of common stock issued for services, \$445,884 of impairment of intangible assets, depreciation expense and bad debt expense. Cash flows from operations were also impacted by a decrease of approximately \$613,376 in changes in working capital and other assets in the nine months ended June 30, 2015 as compared to the same period in 2014. 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 nine months ended June 30, 2015 consisted of \$52,985 of expenditures for intangible assets and \$43,453 of purchases of equipment. Our cash flows used in investing activities during the nine months ended June 30, 2014 consisted of \$324,116 for the acquisition of a business, \$11,669 of expenditures for intangible assets and \$46,427 of purchases of equipment.

#### *Cash Flows from Financing Activities*

Our cash flows from financing activities during the nine months ended June 30, 2015 consisted of \$538,441 from the sale of shares of our common stock, \$100,000 from issuances of convertible debt offset by repayment of a note payable of \$556,047.

#### *Working Capital*

We had working capital of \$6,062,624 as of June 30, 2015 compared to working capital of \$9,497,200 as of September 30, 2014 with current assets decreasing by \$3,434,652 and current liabilities decreasing by \$76 from September 30, 2014 to June 30, 2015. 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 year ended September 30, 2014, we sold 3,115,147 shares of our common stock, resulting in gross proceeds of \$14,093,582, in an at-the-market offering, in which Chardan Capital Markets LLC ("Chardan") was our agent. We received net proceeds of \$13,681,054. We paid Chardan a total commission of \$412,528 in connection with such sales. During the quarter ended March 31, 2015, we sold 155,000 shares of our common stock resulting in gross proceeds of \$546,652, in an at-the-market offering, in which Chardan was our agent. The Company received net proceeds of \$538,441. The Company paid Chardan a total commission of \$8,211 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, fund our growing operations, 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 \$10 million line of credit that we entered into in January 2014, as amended); 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.

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.

#### *Off-Balance Sheet Arrangements*

At June 30, 2015, 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, 2015 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, 2015, our annual results of operations or cash flows, or our liquidity.

### **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**

None

## ITEM 6. EXHIBITS

The following exhibits are being filed herewith:

<u>Exhibit Number</u>	<u>Description</u>
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 14, 2015

*/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.

Dated: August 14, 2015

*/s/ Jon Isaac*

---

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



**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.

Dated: August 14, 2015

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

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

I, Jon Isaac, the President and Chief Executive Officer of LiveDeal, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of LiveDeal, Inc. on Form 10-Q for the quarter ended June 30, 2015 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.

Dated: August 14, 2015

*/s/ Jon Isaac*

\_\_\_\_\_  
Jon Isaac

President and Chief Executive Officer

(Principal Executive Officer and Principal Financial Officer)