

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

(Mark One)

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

For the quarterly period ended March 31, 2009

**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.)

**2490 East Sunset Road, Suite 100**

**Las Vegas, Nevada**

(Address of principal executive offices)

**89120**

(Zip Code)

**(702) 939-0230**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large Accelerated Filer

Accelerated Filer

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

Smaller reporting company

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

The number of shares of the issuer's common stock, par value \$.001 per share, outstanding as of May 1, 2009 was 6,153,182.

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FOR THE QUARTER ENDED MARCH 31, 2009**

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**PART I – FINANCIAL INFORMATION**

## ITEM 1. FINANCIAL STATEMENTS

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

	<b>March 31, 2009</b>	<b>September 30, 2008</b>
	<b>(unaudited)</b>	
<b>Assets</b>		
Cash and cash equivalents	\$ 10,090,479	\$ 4,639,787
Accounts receivable, net	3,080,558	6,880,492
Prepaid expenses and other current assets	566,163	792,309
Customer acquisition costs, net	-	642,220
Income taxes receivable	8,880	487,532
Deferred tax asset, net of valuation allowance	1,189,290	949,121
Total current assets	14,935,370	14,391,461
Accounts receivable, long term portion, net	2,799,820	2,011,143
Property and equipment, net	704,203	959,854
Deposits and other assets	81,712	83,547
Intangible assets, net	2,211,223	6,736,078
Goodwill	-	11,706,406
Deferred tax asset, long term, net of valuation allowance	-	3,863,502
Total assets	<u>\$ 20,732,328</u>	<u>\$ 39,751,991</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 492,794	\$ 1,078,712
Accrued liabilities	2,339,541	1,991,369
Current portion of capital lease obligation	68,040	61,149
Total current liabilities	2,900,375	3,131,230
Long term portion of capital lease obligation	153,207	170,838
Total liabilities	<u>3,053,582</u>	<u>3,302,068</u>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
Series E convertible preferred stock, \$0.001 par value, 200,000 shares authorized, 127,840 issued and outstanding, liquidation preference \$38,202	10,866	10,866
Common stock, \$0.001 par value, 100,000,000 shares authorized, 6,153,183 and 6,513,687 issued and outstanding at March 31, 2009 and September 30, 2008, respectively	6,153	6,514
Paid in capital	20,310,508	20,884,112
Retained earnings (accumulated deficit)	(2,648,781)	15,548,431
Total stockholders' equity	<u>17,678,746</u>	<u>36,449,923</u>
Total liabilities and stockholders' equity	<u>\$ 20,732,328</u>	<u>\$ 39,751,991</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months ended		Six Months ended March 31,	
	March 31,			
	2009	2008	2009	2008
Net revenues	\$ 3,548,275	\$ 6,039,356	\$ 8,557,789	\$ 12,445,597
Cost of services	<u>1,466,882</u>	<u>1,081,461</u>	<u>3,067,532</u>	<u>2,075,031</u>
Gross profit	<u>2,081,393</u>	<u>4,957,895</u>	<u>5,490,257</u>	<u>10,370,566</u>
<b>Operating expenses:</b>				
General and administrative expenses	4,054,354	3,845,145	8,313,381	7,240,036
Impairment of goodwill and intangible assets	16,111,494	-	16,111,494	-
Sales and marketing expenses	<u>713,326</u>	<u>1,080,254</u>	<u>2,285,385</u>	<u>2,673,895</u>
Total operating expenses	<u>20,879,174</u>	<u>4,925,399</u>	<u>26,710,260</u>	<u>9,913,931</u>
Operating income (loss)	(18,797,781)	32,496	(21,220,003)	456,635
<b>Other income (expense):</b>				
Interest income, net	6,159	27,719	19,919	63,752
Other income (expense)	<u>3,458,220</u>	<u>4,753</u>	<u>7,263,998</u>	<u>3,631</u>
Total other income (expense)	<u>3,464,379</u>	<u>32,472</u>	<u>7,283,917</u>	<u>67,383</u>
Income (loss) before income taxes	(15,333,402)	64,968	(13,936,086)	524,018
Income tax provision	<u>3,709,936</u>	<u>49,773</u>	<u>4,162,812</u>	<u>219,277</u>
Income (loss) from continuing operations	(19,043,338)	15,195	(18,098,898)	304,741
<b>Discontinued operations:</b>				
Income (loss) from discontinued component, including disposal costs	(64,301)	(18,929)	(155,422)	39,416
Income tax provision (benefit)	<u>(24,024)</u>	<u>(7,072)</u>	<u>(58,066)</u>	<u>14,726</u>
Income (loss) from discontinued operations	(40,277)	(11,857)	(97,356)	24,690
Net income (loss)	<u>\$ (19,083,615)</u>	<u>\$ 3,338</u>	<u>\$ (18,196,254)</u>	<u>\$ 329,431</u>
<b>Earnings per share - basic<sup>1</sup>:</b>				
Income (loss) from continuing operations	\$ (3.18)	\$ 0.00	\$ (3.01)	\$ 0.05
Discontinued operations	<u>(0.01)</u>	<u>(0.00)</u>	<u>(0.02)</u>	<u>0.00</u>
Net income (loss)	<u>\$ (3.19)</u>	<u>\$ 0.00</u>	<u>\$ (3.03)</u>	<u>\$ 0.05</u>
<b>Earnings per share - diluted<sup>1</sup>:</b>				
Income (loss) from continuing operations	\$ (3.18)	\$ 0.00	\$ (3.01)	\$ 0.05
Discontinued operations	<u>(0.01)</u>	<u>(0.00)</u>	<u>(0.02)</u>	<u>0.00</u>
Net income (loss)	<u>\$ (3.19)</u>	<u>\$ 0.00</u>	<u>\$ (3.03)</u>	<u>\$ 0.05</u>
<b>Weighted average common shares outstanding:</b>				
Basic	<u>5,983,490</u>	<u>6,189,371</u>	<u>6,010,521</u>	<u>6,209,995</u>
Diluted	<u>5,983,490</u>	<u>6,358,116</u>	<u>6,010,521</u>	<u>6,391,245</u>

<sup>1</sup> Certain amounts may not total due to rounding of individual components.

See accompanying notes to unaudited condensed consolidated financial statements.

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

	<b>Six Months Ended</b>	
	<b>March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (18,196,254)	\$ 329,431
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,902,347	1,002,336
Non-cash stock compensation expense	45,882	-
Amortization of deferred stock compensation	(132,367)	457,170
Deferred income taxes	3,705,525	(9,802)
Provision for uncollectible accounts	836,873	268,730
Noncash impairment of goodwill and other intangibles	16,111,494	-
Gain on sale of customer list	(2,815,952)	-
Gain on sale of internet domain name	(3,805,778)	-
Gain on amendment of directory services contract	(642,268)	-
Loss on disposal of property and equipment	37,943	-
Changes in assets and liabilities:		
Accounts receivable	2,174,384	(601,130)
Customer acquisition costs	-	94,444
Prepaid expenses and other current assets	(24,965)	(24,798)
Deposits and other assets	1,835	(323)
Accounts payable	(585,918)	(208,301)
Accrued liabilities	94,561	41,312
Income taxes receivable and payable	396,460	260,193
Net cash provided by (used in) operating activities	<u>(896,198)</u>	<u>1,609,262</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of internet domain name	3,850,000	-
Proceeds from sale of customer list	2,783,097	-
Proceeds from amendment of directory services contract	642,268	-
Additional closing costs related to acquisition of LiveDeal, Inc.	-	(7,000)
Additional closing costs related to acquisition of OnCall Subscriber Management, Inc.	-	(16,243)
Expenditures for intangible assets	(339,372)	(391,123)
Purchases of equipment	(65,104)	(361,779)
Net cash provided by (used in) investing activities	<u>6,870,889</u>	<u>(776,145)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Series E preferred stock dividends	(958)	(960)
Principal repayments on capital lease obligations	(35,561)	-
Purchase of treasury stock	(487,480)	(394,520)
Net cash used in financing activities	<u>(523,999)</u>	<u>(395,480)</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>5,450,692</b>	<b>437,637</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>4,639,787</b>	<b>5,674,533</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b><u>\$ 10,090,479</u></b>	<b><u>\$ 6,112,170</u></b>

See accompanying notes to unaudited condensed consolidated financial statements

**LIVEDEAL, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

The accompanying unaudited condensed consolidated financial statements include the accounts of LiveDeal, Inc. (formerly YP Corp.), a Nevada corporation, and its wholly owned subsidiaries (collectively the "Company"). The Company delivers local customer acquisition services for small and medium-sized businesses combined with an Internet Yellow Pages directory platform technology to deliver an affordable way for businesses to extend their marketing reach to local, relevant customers via the Internet through its online property, [www.livedeal.com](http://www.livedeal.com).

The accompanying condensed consolidated balance sheet as of September 30, 2008, which has been derived from audited consolidated financial statements, and the accompanying unaudited condensed consolidated financial statements as of March 31, 2009 and for the three and six months ended March 31, 2009 and March 31, 2008, respectively, have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for audited financial statements. In the opinion of the Company's management, the interim information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The results of operations for the three and six months ended March 31, 2009 are not necessarily indicative of the results to be expected for the year ending September 30, 2009. The footnote disclosures related to the interim financial information included herein are also unaudited. Such financial information should be read in conjunction with the consolidated financial statements and related notes thereto as of September 30, 2008 and for the year then ended included in the Company's Annual Report on Form 10-K for the year ended September 30, 2008.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant estimates and assumptions have been used by management throughout the preparation of the 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, estimating forfeitures of stock-based compensation and evaluating the recoverability of deferred tax assets. Actual results could differ from these estimates.

**Note 2: Business Operations**

In January 2009, the Company re-evaluated its business and adopted a new business strategy that moved away from the integration of the Yellow Pages and classifieds businesses to one which addressed each of its business segments as separate entities. This re-evaluation was necessitated by the growth of the Company's Direct Sales – Customer Acquisition Services business line that provides Internet-based customer acquisition strategies for small business, as well as declining revenues from the Company's traditional business lines (i.e. directory services and classifieds). Additionally, current economic and regulatory forces, both general and specific to the Company's industry, impacted management's considerations of the Company's existing business model and strategy. Some of these factors include the following:

1. The current effects of the recession and general economic downturn;
2. Management's perception that the general economic downturn could lead the Company's business customers to seek lower-cost customer acquisition methods, primarily through the Internet;
3. The sale of the Company's "www.yp.com" domain name in the first quarter of 2009, which domain name was associated with the Company's traditional business;
4. The reconstitution of the Company's management team with additional capability in Internet-based technologies;
5. The termination of certain significant directory business contracts related to the traditional business;
6. The sale of certain of the Company's traditional business assets, including certain of its customer lists; and
7. Continuing losses in the Company's classifieds business.

**LIVEDEAL, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

As a result, the Company's management made significant changes to its business strategy during the second quarter of fiscal 2009. Management has decided to move the Company's strategic focus away from its directory services and classified businesses. Additionally, the Company discontinued the operations of its Philippines-based call center, which has historically provided telemarketing services to support its directory services business, specifically those directory services which were sold during the quarter ended March 31, 2009. These strategic changes impacted the Company's condensed consolidated financial statements during the second quarter of fiscal 2009 in the following manner:

1. Impairment charges of \$16,111,494 were recorded related to the write-down of the Company's goodwill and other intangible assets as discussed in Note 5;
2. The Company entered into a plan to discontinue its classifieds business and initiated shutdown activities, as discussed in Note 6, and has reflected the operating results of this line of business as discontinued operations in the accompanying unaudited condensed consolidated statements of operations;
3. The Company sold a portion of its customer list associated with its directory services business and recorded a gain of \$2,815,952, as discussed in Note 7; and
4. The Company established a valuation allowance of \$9,392,488 related to its deferred tax assets, as described in Note 10.

The Company's new strategic focus is on delivering a suite of Internet-based, local search driven, customer acquisition services for small businesses, sold via telemarketing and supported by its websites and internally developed software.

**Note 3: Accounting Policies**

While the Company has not changed its accounting policies from those disclosed in the Company's Form 10-K for the year ended September 30, 2008, the growth in its Direct Sales – Customer Acquisition Services business necessitates a further discussion of the revenue recognition policies associated with these contracts.

The Company recognizes the value of the noncancelable portion of the Direct Sales' customer contract as a receivable and bills the customer for the amount of the contract over the period of the contract. However, the Company recognizes only a portion of the contract value as revenue each month, approximately pro-rating the contract to a monthly amount, with the remainder of the noncancelable portion of the contract maintained as a deferred revenue liability.

The Company believes that this is an appropriate method of accounting for Direct Sales revenues and receivables as the revenue is recognized ratably over the contractual period as services are rendered while the Company's receivables reflect the gross amount that the customer is legally obligated to pay.

**Note 4: Balance Sheet Information**

Balance sheet information is as follows:

	<u>March 31,</u> <u>2009</u>	<u>September 30,</u> <u>2008</u>
Receivables, current, net:		
Accounts receivable, current	\$ 4,579,074	\$ 8,923,315
Less: Allowance for doubtful accounts	(1,498,516)	(2,042,823)
	<u>\$ 3,080,558</u>	<u>\$ 6,880,492</u>
Receivables, long term, net:		
Accounts receivable, long term	\$ 3,339,258	\$ 2,171,865
Less: Allowance for doubtful accounts	(539,438)	(160,722)
	<u>\$ 2,799,820</u>	<u>\$ 2,011,143</u>
Total receivables, net:		
Gross receivables	\$ 7,918,332	\$ 11,095,180
Allowance for doubtful accounts	(2,037,954)	(2,203,545)
	<u>\$ 5,880,378</u>	<u>\$ 8,891,635</u>

**LIVEDEAL, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

	<u>March 31,</u> <u>2009</u>	<u>September 30,</u> <u>2008</u>
Components of allowance for doubtful accounts are as follows:		
Allowance for dilution and fees on amounts due from billing aggregators	\$ 1,872,627	\$ 1,775,276
Allowance for customer refunds	165,327	428,269
	<u>\$ 2,037,954</u>	<u>\$ 2,203,545</u>

The Company has increased its reserves taken, calculated as percentages of their related gross accounts receivable, based on numerous factors. Among others, this takes into consideration the increased volume of customer contracts in its Direct Sales business segment since September 30, 2008, as well as the recent declines in the performance of the Directory Services business segment, and additional reserves related to terminated contracts under which certain receivables remain outstanding.

Included in accounts receivable at March 31, 2009 and September 30, 2008 are receivables of \$803,877 and \$806,100, respectively from a LEC aggregator that is currently in bankruptcy proceedings, against which the Company maintains allowances totaling \$723,489 and \$628,449, respectively.

	<u>March 31,</u> <u>2009</u>	<u>September 30,</u> <u>2008</u>
Customer acquisition costs, net:		
Customer acquisition costs	\$ 1,700,000	\$ 1,700,000
Less: Accumulated amortization	(1,700,000)	(1,057,780)
	<u>\$ -</u>	<u>\$ 642,220</u>

The customer acquisition costs were amortized over their estimated life and were fully amortized by March 31, 2009.

	<u>March 31,</u> <u>2009</u>	<u>September 30,</u> <u>2008</u>
Property and equipment, net:		
Leasehold improvements	\$ 234,293	\$ 233,970
Furnishings and fixtures	334,848	311,319
Office, computer equipment and other	655,199	961,931
	1,224,340	1,507,220
Less: Accumulated depreciation	(520,137)	(547,366)
	<u>\$ 704,203</u>	<u>\$ 959,854</u>

	<u>March 31,</u> <u>2009</u>	<u>September 30,</u> <u>2008</u>
Intangible assets, net:		
Domain name and marketing related intangibles	\$ 6,699,600	\$ 7,208,600
Non-compete agreements	3,465,000	3,465,000
Website and technology related intangibles	4,389,913	4,147,459
	14,554,513	14,821,059
Less: Accumulated amortization	(12,343,290)	(8,084,981)
	<u>\$ 2,211,223</u>	<u>\$ 6,736,078</u>

The decrease in intangible assets, net from September 30, 2008 to March 31, 2009 is due primarily to the impacts of the impairment charges described in Note 5 and the sale of one of the Company's Internet domain names as described in Note 7.



**LIVEDEAL, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

	<u>March 31,</u> <u>2009</u>	<u>September 30,</u> <u>2008</u>
Accrued liabilities:		
Deferred revenue	\$ 843,953	\$ 917,068
Accrued payroll and bonuses	349,490	306,984
Accruals under revenue sharing agreements	271,508	-
Accrued expenses - other	874,590	767,317
	<u>\$ 2,339,541</u>	<u>\$ 1,991,369</u>

**Note 5: Impairment of Goodwill and Intangible Assets**

In January 2009, in connection with the strategic changes described in Note 2, the Company's management, at the direction of the Company's Audit Committee, commenced an interim reporting period review of the Company's goodwill and intangible assets for impairment. In accordance with the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets", and SFAS No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets", the Company evaluates goodwill and other long-lived assets for impairment on an annual basis or whenever facts and circumstances indicate that impairment may exist. Current economic and regulatory forces, both general and specific to the Company's industry, caused management to consider the Company's existing business model and strategy including:

1. The current effects of the recession and general economic downturn;
2. The sale of the Company's "www.yp.com" domain name in the first quarter of 2009;
3. The termination of certain significant directory business contracts;
4. The change in business strategy to move away from the integration of the Yellow Pages and classifieds businesses to one which addresses each of the Company's business segments as separate entities;
5. The sale of certain directory services assets that impacted the future use of its Philippines call-center;
6. The existence of certain regulatory actions that impacted the future use of its Philippines call-center; and
7. Continuing losses in the Company's classifieds business.

In light of the changes in the Company's business strategy and model as described in Note 2, the Company determined that a triggering event had occurred and initiated an impairment analysis.

Management conducted its analysis in accordance with the provisions of SFAS No 142, "Goodwill and Other Intangible Assets" and SFAS No. 157 "Fair Value Measurements." The Company used a discounted cash flow approach in estimating fair value as market values could not be readily determined given the unique nature of the respective assets. For the assets identified as being impaired, the cash flows associated with the underlying assets did not support a value greater than zero given the shutdown of the classifieds business and the Philippines call-center operation, the impacts of the sale of a portion of the Company's customer list and [www.yp.com](http://www.yp.com) domain name, and other operational changes as a result of the Company's change in business strategy.

Based upon the analysis, management determined that the following items were impaired:

1. The goodwill acquired by the Company in its acquisition of LiveDeal, Inc., the business focus of which was online classified advertising which was originally intended to be merged with the Company's existing directory services business;
2. The goodwill acquired by the Company in its acquisition of a Philippines call-center, 247 Marketing, Inc., the business focus of which is providing telemarketing services to acquire customers for its directory services business;
3. Assets related to the Company's call-center operations and non-compete agreements that were made obsolete due to the sale of a portion of the Company's customer list associated with its directory services business, as described in Note 7.

**LIVEDEAL, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

4. Intangible assets related to the Company's directory services business, including URLs, internally developed software, and other miscellaneous intangible assets.

The following is a summary of said impaired assets and their net book values, which were fully written off in the second quarter of fiscal 2009:

Goodwill	\$ 11,706,406
Domain name and marketing related intangibles	1,879,054
Assets obsoleted through sale of customer list	1,259,680
Website and technology related intangibles	1,266,354
	<u>\$ 16,111,494</u>

Included in the assets that became obsolete through the sale of a portion of the Company's customer list were \$722,103 related to non-compete agreements and \$537,577 of net assets associated with the Philippines call-center.

The Company performed an initial assessment of impairment prior to filing its Form 10-Q for the period ended December 31, 2008, and disclosed an estimated impairment charge of \$14,300,000. The Company reevaluated these amounts and increased the corresponding impairment charge to \$14,676,568 after identifying other website and technology related intangible assets related to the items identified earlier. Since that time, the Company sold a portion of the Company's customer list, which resulted in an additional \$1,400,000 of impaired assets, consisting of approximately \$175,000 of website and technology related intangibles and \$1,200,000 of other assets made obsolete as described above.

**Note 6: Discontinued Operations**

As part of the Company's strategy to evaluate each of its business as separate entities, management noted that the classifieds business has incurred significant operating losses and did not fit with the Company's change in strategic direction. Accordingly, in March 2009, the Company made the strategic decision to discontinue its classifieds business and product offerings. The Company initiated shutdown activities in March 2009 and expects to conclude such activities in May 2009, including the shutdown of the website previously used for classified activities. Accordingly, the Company does not expect any future revenues from this business segment.

The Company applied the provisions of SFAS No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets" and determined that, with the changes in the Company's reportable segments described in Note 13, the classified business met the definition of a component as it has separately identifiable operations and cash flows. Accordingly, the Company is reflecting the results of the classifieds business as discontinued operations. Prior year financial statements have been restated to present the classifieds operations as a discontinued operation.

In conjunction with the discontinued operations, the Company recorded charges of \$27,328 in the second quarter of fiscal 2009 for certain exit costs relating to the shutdown of these operations which is reflected as part of income (loss) from discontinued operations in the accompanying unaudited condensed consolidated statements of operations. The Company expects to incur an additional \$220,000 of exit costs which were not reflected in the financial statements for the period ended March 31, 2009, although such costs are only an estimate at this time.

The classifieds business accounted for \$48,143 and \$201,759 of net revenues for the three and six months ended March 31, 2009, respectively, and \$598,429 and \$1,261,078 of net revenues for the three and six months ended March 31, 2008, respectively, which are now included as part of income (loss) from discontinued operations in the accompanying unaudited condensed consolidated statements of operations.

**Note 7: Other Income**

On November 5, 2008, the Company entered into an agreement to sell its Internet domain name "[www.yip.com](http://www.yip.com)" to YellowPages.com for a cash payment of \$3,850,000. Although the Company's future focus is on the sale of customer acquisition services for small businesses, a significant source of ongoing revenues is the sale of Internet Advertising Packages, which targeted users of its [www.yip.com](http://www.yip.com) property. The Company has transitioned these customers to advertising on [www.yellowpages.livedeal.com](http://www.yellowpages.livedeal.com)

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On March 9, 2009, in connection with the Company's shift in strategic focus away from its classified and directory services business, the Company entered into an agreement to sell a portion of its customer list associated with its directory services business. This customer list was sold for \$3,093,202 of which \$2,783,097 was paid by the buyer and received during the second quarter of fiscal 2009, with the remaining amount held back in escrow pending the resolution of potential claims, if any. Such claims are contractually limited to the amount held in escrow. Net of certain accruals for transaction costs and transaction-related contingencies, the Company recorded a gain of \$2,815,952, which is reflected in other income in the accompanying unaudited condensed consolidated statement of operations.

The Company analyzed this transaction and determined that it did not meet the definition of a discontinued operation under SFAS No 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, as the customer list that was sold did not meet the definition of a component of an entity and as the Company expects to have continuing involvement and operations in directory services for the near future.

The Company also amended another directory services contract in consideration of accelerated payments on its outstanding accounts receivables and some anticipated future billings, which resulted in an increase in other income of \$642,268 for the three and six months ended March 31, 2009, respectively. Together with the partial customer list sale described above, these customers and contracts accounted for \$5,146,073 of revenue in the first six months of fiscal 2009. As a result of these transactions, the Company no longer expects to generate future revenues from these sources.

**Note 8: Stock-based Compensation**

From time to time, the Company grants restricted stock awards and stock options to officers, directors, employees and consultants. 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 requisite service period.

During the three and six months ended March 31, 2009, the Company recognized compensation expense of \$26,026 and \$45,882, respectively, related to stock option awards granted to certain employees and executives based on the grant date fair value of the awards. No expense was recognized in the three and six months ended March 31, 2008 as no stock option awards had been granted prior to March 31, 2008.

The Black Scholes option pricing model was used to calculate the expense with the following weighted-average assumptions:

	<b>Quarter Ended March 31, 2009</b>	<b>Six Months Ended March 31, 2009</b>	<b>Quarter Ended March 31, 2008</b>	<b>Six Months Ended March 31, 2008</b>
Volatility	97%	97%	N/A	N/A
Risk-free interest rate	2.6%	2.6%	N/A	N/A
Expected term	6.0 years	6.0 years	N/A	N/A
Forfeiture rate	40%	40%	N/A	N/A
Dividend yield rate	0%	0%	N/A	N/A

The volatility used was based on historical volatility of the Company's common stock, which management considers to be the best indicator of expected future volatility. The risk free interest rate was determined based on treasury securities with maturities equal to the expected term of the underlying award. The expected term was determined based on the simplified method outlined in Staff Accounting Bulletin No. 110. The Company utilized an estimated forfeiture rate of 40% based on expected forfeiture rates pertaining to such individuals.

During the three and six months ended March 31, 2009, the Company recognized expense reversals of \$221,443 and \$132,366, primarily relating to \$258,185 reduction in stock based compensation expense due to a change in estimated forfeiture rate, partially offset by the expensing of restricted stock awards over their respective service periods. The Company changed its estimated forfeiture rate of awards granted to officers, directors and key personnel from 40% to 70% due to recent terminations.

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The Company had stock option activity summarized as follows:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Fair Value</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at September 30, 2008	5,000				
Granted at market price	550,000	\$ 1.45	\$ 1.13		
Exercised	-	\$ -			
Cancelled	-	\$ -			
Outstanding at March 31, 2009	<u>555,000</u>			<u>9.6</u>	<u>\$ -</u>
Exercisable	<u>23,750</u>	\$ 1.73		<u>9.2</u>	<u>\$ -</u>

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The following table summarizes information about the Company's stock options at March 31, 2009:

<u>Range of Exercise Prices</u>	<u>Exercisable</u>		<u>Unexercisable</u>		<u>Total</u>	
	<u>Number Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Number Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Number Outstanding</u>	<u>Weighted Average Exercise Price</u>
Less than \$3.00 per share	23,750	\$ 1.73	531,250	1.45	555,000	\$ 1.46

The following table sets forth the activity with respect to compensation-related restricted stock grants:

Outstanding (unvested) at September 30, 2008	227,425
Granted	10,000
Forfeited	(53,500)
Vested	(25,500)
Outstanding (unvested) at March 31, 2009	<u>158,425</u>

**Note 9: Net Income (Loss) per Share**

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

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net income (loss) from continuing operations	\$ (19,043,338)	\$ 15,195	\$ (18,098,898)	\$ 304,741
Less: preferred stock dividends	(479)	(480)	(958)	(960)
Income (loss) from continuing operations applicable to common stock	(19,043,817)	14,715	(18,099,856)	303,781
Income (loss) from discontinued operations	(40,277)	(11,857)	(97,356)	24,690
Income (loss) applicable to common stock	<u>\$ (19,084,094)</u>	<u>\$ 2,858</u>	<u>\$ (18,197,212)</u>	<u>\$ 328,471</u>
Basic weighted average common shares outstanding	5,983,490	6,189,371	6,010,521	6,209,995
Add incremental shares for:				
Unvested restricted stock	-	167,774	-	180,764
Stock options	-	-	-	-
Series E convertible preferred stock	-	971	-	486
Diluted weighted average common shares outstanding	<u>5,983,490</u>	<u>6,358,116</u>	<u>6,010,521</u>	<u>6,391,245</u>
Earnings per share - basic <sup>1</sup> :				
Income (loss) from continuing operations	\$ (3.18)	\$ 0.00	\$ (3.01)	\$ 0.05
Discontinued operations	\$ (0.01)	\$ (0.00)	\$ (0.02)	\$ 0.00
Net income (loss)	\$ (3.19)	\$ 0.00	\$ (3.03)	\$ 0.05
Earnings per share - diluted <sup>1</sup> :				
Income (loss) from continuing operations	\$ (3.18)	\$ 0.00	\$ (3.01)	\$ 0.05
Discontinued operations	\$ (0.01)	\$ (0.00)	\$ (0.02)	\$ 0.00
Net income (loss)	\$ (3.19)	\$ 0.00	\$ (3.03)	\$ 0.05

<sup>1</sup> Certain amounts may not total due to rounding of individual components.

The following potentially dilutive securities were excluded from the calculation of diluted net income (loss) per share because the effects were antidilutive based on the application of the treasury stock method and/or the Company's operating losses during the period:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Shares of non-vested restricted stock	158,425	53,075	188,755	53,788
Stock options	540,217	-	475,712	-
Shares of Series E convertible preferred stock	127,840	-	127,840	-

**Note 10: Income Taxes**

During the quarter ended March 31, 2009, the Company established a valuation allowance in the amount of \$9,474,682 against its deferred tax assets. While the Company's management has optimistic plans for its new business strategy, the Company determined that such a 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. Therefore, the Company established a valuation allowance for all deferred tax assets in excess of those expected to be realizable through the application of operating loss carrybacks.

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The following sets forth the Company's deferred income tax assets and liabilities at March 31, 2009:

	<b>March 31, 2009</b>
Deferred income tax asset, current:	
Book to tax differences in accounts receivable	\$ 822,514
Book to tax differences in prepaid expenses	(49,510)
Net operating loss carryforwards, current	1,189,290
Total deferred income tax asset, current	1,962,294
Less: valuation allowance	(773,004)
Deferred income tax asset, current, net	1,189,290
Deferred income tax asset, long-term:	
Net operating loss carryforwards, long-term	2,292,496
Book to tax differences for stock based compensation	238,662
Book to tax differences in intangible assets	7,305,807
Book to tax differences in depreciation	(1,217,481)
Total deferred income tax asset, long-term	8,619,484
Less: valuation allowance	(8,619,484)
Deferred income tax asset, long-term, net	-
Total deferred income tax assets, net of valuation allowance	\$ 1,189,290

A reconciliation of the differences between the effective and statutory income tax rates for the six months ended March 31, 2009 and 2008, respectively, is as follows:

	<b>Six Months Ended March 31,</b>			
	<b>2009</b>		<b>2008</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Federal statutory rates	\$ (4,738,269)	34%	\$ 178,166	34%
State income taxes	(468,420)	3%	17,613	3%
Write off of deferred tax asset related to vested restricted stock	48,570	0%	23,365	14%
Valuation allowance	9,392,488	(67)%		
Permanent differences and other	(71,557)	1%	133	0%
Effective rate	\$ 4,162,812	(30)%	\$ 219,277	51%

**Note 11: Commitments and Contingencies**

Operating Leases and Service Contracts

As of March 31, 2009, future minimum annual payments under operating lease agreements and non-cancelable service contracts for fiscal years ending September 30 are as follows:

	<b>Payments Due by Fiscal Year</b>						
	<b>Total</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Thereafter</b>
Operating lease commitments	\$ 1,699,702	\$ 324,560	\$ 551,922	\$ 427,621	\$ 316,879	\$ 78,720	\$ -
Capital lease commitments	237,034	38,438	76,876	76,876	44,844	-	-
Noncancelable service contracts	1,047,917	440,917	367,000	240,000	-	-	-
	\$ 2,984,653	\$ 803,915	\$ 995,798	\$ 744,497	\$ 361,723	\$ 78,720	\$ -

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Capital leases

As of March 31, 2009, future obligations under non-cancelable capital leases are as follows for the fiscal years ended September 30:

	2009	\$	38,438
	2010		76,876
	2011		76,876
	2012		44,844
	2013		-
	Thereafter		-
	Total minimum lease payments		237,034
		Less imputed interest	(15,787)
	Present value of minimum lease payments		221,247
		Less: current maturities of capital lease obligations	68,040
	Noncurrent maturities of capital lease obligations	\$	<u>153,207</u>

Litigation

Set forth below are descriptions of certain updates that occurred during the period ended March 31, 2009 with respect to the litigation matters that were discussed in the Company's Annual Report on Form 10-K for the fiscal year that ended on September 30, 2008:

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

On June 6, 2008, Global Education Services, Inc. ("GES") filed a consumer fraud class action lawsuit against the Company and its wholly owned subsidiary, Telco Billing, Inc., in King County (Washington) Superior Court. GES alleged in its complaint that the Company's use of activator checks violated the Washington Consumer Protection Act. GES is seeking injunctive relief against our use of the checks, as well as a judgment in an amount equal to three times the alleged damages sustained by GES and the members of the class. LiveDeal has denied the allegations. Legal proceedings in the matter are ongoing, and discovery began in late January 2009.

*Complaint filed by Illinois Attorney General against LiveDeal, Inc.*

On November 12, 2008, the Illinois Attorney General filed a complaint in the Circuit Court of the Seventh Judicial Circuit of the State of Illinois (Sangamon County) against the Company requesting money damages and injunctive relief for claims that we employed deceptive and unfair acts and practices in violation of the Illinois Consumer Fraud and Deceptive Business Act in a telemarketing campaign that in par promoted premium Internet Yellow Page listings to Illinois consumers. Based on a preliminary investigation into the sales scripts and automated verification system utilized in the telemarketing campaign, LiveDeal denied the allegations. Discovery is ongoing.

**Note 12: Concentration of Credit Risk**

The Company maintains cash balances at major nationwide institutions in Arizona, California and Nevada. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000.

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily trade accounts receivable. The trade accounts receivable are due primarily from business customers over widespread geographical locations within the LEC billing areas across the United States. The Company historically has experienced significant dilution and customer credits due to billing difficulties and uncollectible trade accounts receivable. The Company estimates and provides an allowance for uncollectible accounts receivable. The handling and processing of cash receipts pertaining to trade accounts receivable is maintained primarily by two third-party billing companies. The net receivable due from these entities represented 38% and 12%, respectively, of the Company's total net accounts receivable (excluding non-specific reserves) at March 31, 2009. The net receivable due from these entities represented 31% and 13%, respectively, of the Company's total net accounts receivable (excluding non-specific reserves) at September 30, 2008. Additionally, the Company maintains a wholesale fulfillment contract with a third-party which accounted for 23% of the Company's total net accounts receivable (excluding non-specific reserves) at March 31, 2009. This party accounted for 13% of the Company's total net accounts receivable (excluding non-specific reserves) at September 30, 2008.



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**Note 13: Segment Reporting**

Prior to fiscal 2009, the Company operated as an integrated business and had only one reportable segment. During the second quarter of fiscal 2009, the Company has been implementing a corporate initiative that evaluates its different product lines as separate business units. As part of this strategy, management has begun evaluating operating performance by reviewing the profitability of these product lines on a standalone basis. Therefore, the Company now has two reportable operating segments (excluding the discontinued classifieds business): Directory Services and Direct Sales - Customer Acquisition Services. As the Company has recently implemented this new approach, the Company has yet to identify and allocate operating costs to its reportable segments below the gross profit level. Additionally, the reportable segments share many common costs, including, but not limited to, IT support, office and administrative expenses. Therefore, the following table of operating results does not allocate costs to its reportable segments below the gross profit level:

	<b>Six Months Ended March 31, 2009</b>			
	<b>Directory Services</b>	<b>Direct Sales - Customer Acquisition Services</b>	<b>Unallocated</b>	<b>Consolidated</b>
Net revenues	\$ 6,863,243	\$ 1,694,546	\$ -	\$ 8,557,789
Cost of services	2,127,690	939,842	-	3,067,532
Gross profit	4,735,553	754,704	-	5,490,257
Operating expenses	-	-	26,710,260	26,710,260
Operating income (loss)	4,735,553	754,704	(26,710,260)	(21,220,003)
Other income (expense)	-	-	7,283,917	7,283,917
Income (loss) before income taxes and discontinued operations	<u>\$ 4,735,553</u>	<u>\$ 754,704</u>	<u>\$ (19,426,343)</u>	<u>\$ (13,936,086)</u>

	<b>Six Months Ended March 31, 2008</b>			
	<b>Directory Services</b>	<b>Direct Sales - Customer Acquisition Services</b>	<b>Unallocated</b>	<b>Consolidated</b>
Net revenues	\$ 12,225,755	\$ 219,842	\$ -	\$ 12,445,597
Cost of services	1,900,736	174,295	-	2,075,031
Gross profit	10,325,019	45,547	-	10,370,566
Operating expenses	-	-	9,913,931	9,913,931
Operating income	10,325,019	45,547	(9,913,931)	456,635
Other income (expense)	-	-	67,383	67,383
Income before income taxes and discontinued operations	<u>\$ 10,325,019</u>	<u>\$ 45,547</u>	<u>\$ (9,846,548)</u>	<u>\$ 524,018</u>

**LIVEDEAL, INC. AND SUBSIDIARIES**  
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Given that the Company has only recently implemented its reportable segments, it has yet to allocate its assets to each respective segment. While some software costs are specific to each business, most of the Company's fixed assets and software architecture are shared among its segments. Therefore, the Company is currently unable to provide asset information with respect to each of its reportable segments, except as it pertains to accounts receivable as set forth below:

March 31, 2009			
Direct Sales -			
Customer			
	Directory	Acquisition	
	Services	Services	Total
Accounts receivable, net - short term	\$ 2,455,132	\$ 625,426	\$ 3,080,558
Accounts receivable, net - long term	2,799,820	-	2,799,820
<b>Total accounts receivable, net</b>	<b>\$ 5,254,952</b>	<b>\$ 625,426</b>	<b>\$ 5,880,378</b>

  

September 30, 2008			
Direct Sales -			
Customer			
	Directory	Acquisition	
	Services	Services	Total
Accounts receivable, net - short term	\$ 6,326,272	\$ 554,220	\$ 6,880,492
Accounts receivable, net - long term	2,011,143	-	2,011,143
<b>Total accounts receivable, net</b>	<b>\$ 8,337,415</b>	<b>\$ 554,220</b>	<b>\$ 8,891,635</b>

The Company has no intersegment revenues. All of the Company's revenues are with external customers, are derived from operations in the United States, and no single customer accounts for more than 10 percent of the Company's revenues.

**Note 14: Recent Accounting Pronouncements**

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

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS No. 159"), which provides companies with an option to report selected financial assets and liabilities at fair value. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007 with early adoption allowed. The adoption of the pronouncement did not have a material effect on our financial position or results of operations.

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



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In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133 ("SFAS 161"). SFAS 161 modifies existing requirements to include qualitative disclosures regarding the objectives and strategies for using derivatives, fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. The pronouncement also requires the cross-referencing of derivative disclosures within the financial statements and notes thereto. The requirements of SFAS 161 are effective for interim and annual periods beginning after November 15, 2008. The Company was not impacted by the adoption of SFAS 161.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets ("FSP FAS 142-3"). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. The intent of the position is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R), and other GAAP. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008. FSP FAS 142-3 is effective for the Company on October 1, 2009. The Company is currently evaluating the impact that the adoption of FSP FAS 142-3 will have on its financial condition, results of operations, and disclosures.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. This statement shall be effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The adoption of SFAS 162 did not result in a material impact to the Company's financial position or results of operations. .

In May of 2008, the FASB issued SFAS No. 163, Accounting for Financial Guarantee Insurance Contracts-an interpretation of FASB Statement No. 60 ("SFAS 163"). The scope of SFAS 163 is limited to financial guarantee insurance (and reinsurance) contracts. The pronouncement is effective for fiscal years beginning after December 31, 2008. The Company does not believe this pronouncement will impact its financial statements.

In May 2008, the FASB issued FASB Staff Position No. APB 14-1 ("FSP"). The FSP specifies that issuers of convertible debt instruments that permit or require the issuer to pay cash upon conversion should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The Company would be required to apply the guidance retrospectively to all past periods presented, even to instruments that have matured, converted, or otherwise been extinguished as of the effective date. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company does not believe this FSP will impact its financial statements.

In June 2008, the Emerging Issues Task Force ("EITF") issued Issue No. 07-05, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock" ("Issue 07-05"). EITF No. 07-05 addresses the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, if an instrument (or an embedded feature) that has the characteristics of a derivative instrument is indexed to an entity's own stock, it is still necessary to evaluate whether it is classified in stockholders' equity (or would be classified in stockholders' equity if it were a freestanding instrument). In addition, some instruments that are potentially subject to the guidance in EITF Issue No. 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" ("Issue 00-19") but do not have all the characteristics of a derivative instrument under paragraphs 6 through 9, it is still necessary to evaluate whether it is classified in stockholders' equity. It is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company does not believe this pronouncement will impact its financial statements.

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

For a description of our significant accounting policies and an understanding of the significant factors that influenced our performance during the three and six months ended March 31, 2009, this "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" (hereafter referred to as "MD&A") should be read in conjunction with the 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 year ended September 30, 2008.

### Forward-Looking Statements

This portion of this Quarterly Report on Form 10-Q includes statements that constitute "forward-looking statements." These forward-looking statements are often characterized by the terms "may," "believes," "projects," "expects," or "anticipates," and do not reflect historical facts. Specific forward-looking statements contained herein include, but are not limited to, our expectation that continued investment in online advertising to bring increased traffic to our websites will drive increased revenues; our belief that our existing cash on hand will provide us with sufficient liquidity to meet our operating needs for the next 12 months; our intention to complete our shut-down of our classifieds line of business by the end of May 2009 and our estimate of future shut-down costs; that our customer acquisition services will account for a larger percentage of total net revenues; our expectations of cash flows from discontinued operations; that our margins with our customer acquisition services will continue to improve as the business matures; and the expectation that we will be able to realize our deferred tax assets (net of valuation allowances) through the use of net operating loss carrybacks.

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, 2008 under Item 1A "Risk Factors", as well as other factors that we are currently unable to identify or quantify, but that may exist in the future.

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

### Our Company

LiveDeal, Inc. provides local customer acquisition services for small businesses combined with an Internet Yellow Pages directory platform technology to deliver an affordable way for businesses to extend their marketing reach to local, relevant customers via the Internet. Through its online property, [www.livedeal.com](http://www.livedeal.com), LiveDeal delivers local search engine marketing (SEM) through its LiveAdvisor(TM) and LiveClicks(TM) products that combine leading technology with a strong partnership model and an inside sales team to create an efficient platform local businesses need to create and optimize their Internet search advertising campaigns. LiveDeal partners with Google, Yahoo!, MSN, ASK, Miva, Looksmart and others. LiveDeal, Inc. is headquartered in Las Vegas, Nevada. For more information, please visit [www.livedeal.com](http://www.livedeal.com).

We have two inter-related primary lines of business: (1) We deliver a suite of customer acquisition services for small businesses, sold via telemarketing and supported by our websites and software that we have developed to manage search and other Internet services efficiently, and (2) we maintain a Yellow Pages directory with listings in every city and zip code across the U.S.

### Summary Business Description

*Internet Advertising Package.* We provide added value to advertisers that have purchased our Internet Advertising Package ("IAP") through promotion and branding of our website to bring customers to our advertisers. We believe that the large number of IAPs, which include the Mini-WebPages, provide users of our website with more information about our advertisers and that this feature is more readily available on our website than that of our competitors. We believe that we provide users of our website with the information they are looking for, more quickly and more efficiently.

*Direct Sales Services.* Since February 2008, we have added a new line of business that utilizes, but is not entirely dependent on, our directory websites and billing services. This line of business is based around using telesales and sophisticated Internet customer acquisition technologies to deliver a suite of customer acquisition services to small businesses.

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The most significant of these customer acquisition services is Internet search and the tying of Internet advertising services to search. This development makes it possible, even likely, that customers can find the businesses they need without ever going to a directory. The small business whose website information or advertising message is associated with a successful search becomes the likely recipient of that business. So, utilizing Internet search and related advertising is fast becoming a necessity for small businesses.

Another key Internet development is the rise of locally oriented user review sites and services, such as Yelp.com. At these sites, consumers let each other know about their experiences with local businesses. They rate and comment on the businesses. The sites also tend to provide some aspects of traditional directories as well as new services, such as placing businesses on a local map, providing driving directions, etc. At these sites, as with search, consumers can select businesses for their commerce without ever using a traditional directory.

With the emergence of these new Internet capabilities, and others that are fast emerging, the role of directories, both paper and Internet, is steadily moving toward the back end of a customer acquisition process, where search and review sites dominate the front end, where the greatest value for both customer and business resides.

Our current Direct Sales Services Suite includes:

- Website acquisition whereby we obtain website address names on behalf of our small business clients.
- Website development and deployment services where we create, house and manage websites on behalf of our small business clients.
- Website traffic and audience development whereby we provide sophisticated search engine marketing techniques, access to our own websites, partnerships with other websites and other techniques to generate traffic to our customers' websites, whether created and housed by us or not.
- Website analytics and performance reports which generate information for our customers about activities on their websites and lead activities for their businesses based on Internet activities.
- Directory services that provide both basic and enhanced directory listings for our customers on our own directory and on partner directories.

In the aggregate, these services have grown rapidly and represented 18% of our net revenues in the first six months of fiscal 2009.

## **Recent Events & Transactions**

### *Change in Business Strategy*

In January 2009, we evaluated our business and adopted a new business strategy that moved away from the integration of our Yellow Pages and classifieds businesses to one which addressed each of our business segments as separate entities. This evaluation was necessitated by the growth in our Direct Sales - Customer Acquisition Services business lines that provides Internet-based customer acquisition strategies for small business, as well as declining revenues from our traditional business lines (i.e. directory services and classifieds). Additionally, current economic and regulatory forces, both general and specific to our industry, impacted our consideration of our existing business model and strategy. Some of these factors include the following:

1. The current effects of the recession and general economic downturn;
2. Our perception that the general economic downturn could lead our business customers to seek lower-cost customer acquisition methods, primarily through the Internet;
3. The sale of our "www.yip.com" domain name in the first quarter of 2009, which domain name was associated with our traditional business;
4. The reconstitution of our management team with additional capability in Internet-based technologies;

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5. The termination of certain significant directory business contracts related to the traditional business;
6. The sale of certain of our traditional business assets including certain of our customer lists; and
7. Continuing losses in our classifieds business.

As a result, we made significant changes to our business strategy during the second quarter of fiscal 2009. We decided to move our strategic focus away from our directory services and classified businesses. Additionally, we discontinued the operations of our Philippines-based call center which has historically provided telemarketing services to support our directory services business - specifically those directory services which were sold during the second quarter of fiscal 2009. These strategic changes impacted our financial statements during the second quarter of fiscal 2009 in the following manner:

1. Impairment charges of \$16,111,494 were recorded related to the write-down of our goodwill and other intangible assets;
2. We entered into a plan to discontinue our classifieds business and initiated shutdown activities;
3. We sold our customer list associated with its directory services business and recorded a gain of \$2,815,952; and
4. We established a valuation allowance of \$9,392,488 related to our deferred tax assets.

Our new strategic focus is on delivering a suite of Internet-based, local search driven, customer acquisition services for small businesses, sold via telemarketing and supported by our websites and internally developed software.

### *Sale of [www.yp.com](http://www.yp.com)*

On November 5, 2008, we entered into an agreement to sell our Internet domain name "[www.yp.com](http://www.yp.com)" to YellowPages.com for a cash payment of \$3,850,000. Although our future focus is on the sale of customer acquisition services for small and medium-sized businesses, our primary source of ongoing revenues is the sale of Internet Advertising Packages, which targeted users of our [www.yp.com](http://www.yp.com) property. We have transitioned these customers to advertising on [www.yellowpages.livedeal.com](http://www.yellowpages.livedeal.com).

### *Management Changes*

On January 20, 2009, we announced the following managerial changes, which occurred during and shortly after the three months ended December 31, 2008:

- Gary Perschbacher was replaced by Rajeev Seshadri as Chief Financial Officer effective January 20, 2009;
- President and Chief Operating Officer, John Raven submitted his resignation effective February 15, 2009;
- Yishay Yovel was named Vice President of Product Management in October of 2008;
- Pamela Sziebert was appointed Vice President of Marketing in November of 2008;
- Dean Heistad is the Company's new Vice President of Technology Strategy as of January 5, 2009; and,
- Ruben Atchison joined the Company as Director of Search Engine Marketing in December 2008.

All of these management changes come as part of our emerging strategy to deliver the most effective suite of Internet customer acquisition services to small businesses.

*Impairment of Goodwill and Other Intangibles*

In January 2009, in connection with the strategic changes described above and at the direction of our Audit Committee, we commenced an interim reporting period review of our goodwill and intangible assets for impairment. In accordance with the provisions of SFAS No. 142, “*Goodwill and Other Intangible Assets*”, and SFAS No. 144, “*Accounting for the Impairment and Disposal of Long-Lived Assets*”, we evaluate goodwill and other long-lived assets for impairment on an annual basis or whenever facts and circumstances indicate that impairment may exist. Current economic and regulatory forces, both general and specific to our industry, caused management to consider our existing business model and strategy including:

1. The current effects of the recession and general economic downturn;
2. The sale of our “www.yp.com” domain name in the first quarter of 2009;
3. The termination of certain significant directory business contracts;
4. The sale of certain directory services assets that impacted the future use of our Philippines call-center;
5. The existence of certain regulatory actions that impacted the future use of our Philippines call-center; and
6. Continuing losses in our classifieds business.

In light of the changes in our business as described above, we determined that a triggering event had occurred and initiated an impairment analysis.

We conducted our analysis in accordance with the provisions of SFAS No 142, “*Goodwill and Other Intangible Assets*” and SFAS No. 157 “*Fair Value Measurements*.” We used a discounted cash flow approach in estimating fair value as market values could not be readily determined given the unique nature of the respective assets. For the assets identified as being impaired, the cash flows associated with the underlying assets did not support a value greater than zero given the shutdown of the classifieds business and the Philippines call-center operation, the impacts of the sale of a portion of our customer list and [www.yp.com](#) domain name, and other operational changes as a result of our change in business strategy.

Based upon the analysis, management determined that the following items were impaired:

1. The goodwill acquired in our acquisition of LiveDeal, Inc., the business focus of which was online classified advertising;
2. The goodwill acquired in our acquisition of a Philippines call-center, 247 Marketing, Inc., the business focus of which is providing telemarketing services to acquire customers for our directory services business;
3. Assets related to our call-center operations and non-compete agreements that were made obsolete by the sale of a portion of our customer list associated with our directory services business; and
4. Intangible assets related to our directory services business, including URLs, internally developed software, and other miscellaneous intangible assets.

The following is a summary of said impaired assets and their net book values, which were fully written off in the second quarter of fiscal 2009:

Goodwill	\$ 11,706,406
Domain name and marketing related intangibles	1,879,054
Assets obsoleted through sale of customer list	1,259,680
Website and technology related intangibles	1,266,354
	<u>\$ 16,111,494</u>

Included in the assets that became obsolete through the sale of a portion of our customer list were \$722,103 related to non-compete agreements and \$537,577 of net assets associated with the Philippines call-center.

We performed an initial assessment of impairment prior to filing our Form 10-Q for the period ended December 31, 2008, and disclosed an estimated impairment charge of \$14,300,000. We reevaluated these amounts and increased the corresponding impairment charge to \$14,676,568 after identifying other website and technology related intangible assets related to the items identified earlier. Since that time, we sold a portion of our customer list, which resulted in an additional \$1,400,000 of impaired assets, consisting of approximately \$175,000 of website and technology related intangibles and \$1,200,000 of other assets made obsolete as described above.



*Sale of Customer List and Other Income*

On March 9, 2009, in connection with our shift in strategic focus away from our classified and directory services business, we entered into an agreement to sell a portion of our customer list associated with our directory services business. This customer list was sold for \$3,093,202, of which \$2,783,097 was paid by the buyer and received during the second quarter of fiscal 2009 with the remaining amount held back in escrow pending the resolution of potential claims, if any. Such claims are contractually limited to the amount held in escrow. Net of certain accruals for transaction costs and transaction-related contingencies, we recorded a gain of \$2,815,952, which is reflected in other income in the accompanying unaudited condensed consolidated statement of operations.

We analyzed this transaction and determined that it did not meet the definition of a discontinued operation under SFAS No 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, as the customer list that was sold did not meet the definition of a component of an entity and as we expect to have continuing involvement and operations in directory services for the near future.

We also amended another directory services contract in consideration of accelerated payments on our outstanding accounts receivables and some anticipated future billings which resulted in an increase in other income of \$642,268 for the three and six months ended March 31, 2009, respectively. Together with the partial customer list sale described above, these customers and contract accounted for \$5,146,073 of revenue in the first six months of fiscal 2009. As a result of these transactions, we no longer expect to generate future revenues from these sources.

*Discontinued Operations*

As part of the Company's strategy to evaluate each of its business as separate entities, management noted that the classifieds business has incurred significant operating losses and did not fit with the Company's change in strategic direction. Accordingly, in March 2009, we made the strategic decision to discontinue our classifieds business and product offerings. We initiated shutdown activities in March 2009 (including the notification of certain impacted vendors and employees) and expect to conclude such activities by the end of May 2009, including the shutdown of the website previously used for classified activities. Accordingly, we do not expect any future revenues from this business segment.

We applied the provisions of SFAS No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets" and determined that, with the changes in reportable operating segments as described in Note 13 to the accompanying unaudited condensed consolidated financial statements, the classified business met the definition of a component as it has separately identifiable operations and cash flows. Accordingly, we are reflecting the results of the classifieds business as discontinued operations. Prior year financial statements have been restated to present the classifieds operations as a discontinued operation.

In conjunction with the discontinued operations, we recorded charges of \$27,328 in the second quarter of fiscal 2009 for certain exit costs relating to the shutdown of these operations which is reflected as part of income (loss) from discontinued operations in the accompanying unaudited condensed consolidated statements of operations. We expect to incur an additional \$220,000 of exit costs which were not reflected in the financial statements for the period ended March 31, 2009, although such costs are only an estimate at this time.

The classifieds business accounted for \$48,143 and \$201,759 of net revenues for the three and six months ended March 31, 2009, respectively, and \$598,429 and \$1,261,078 of net revenues for the three and six months ended March 31, 2008, respectively, which are now included as part of income (loss) from discontinued operations in the accompanying unaudited condensed consolidated statements of operations.

**Results of Operations***Net Revenues*

	<b>Net Revenues</b>			
	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>Percent</b>
Three Months Ended March 31, \$	3,548,275	\$ 6,039,356	\$ (2,491,081)	(41)%
Six Months Ended March 31, \$	8,557,789	\$ 12,445,597	\$ (3,887,808)	(31)%

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Net revenues decreased in the second quarter of fiscal 2009 as compared to the second quarter of fiscal 2008 due primarily to a decrease of approximately \$3,251,000 in sales of our directory service products, highlighting a continuing trend amongst our legacy products. However, this decrease was partially offset by an increase in our customer acquisition services of approximately \$760,000 as a result of expanded marketing efforts related to these products and the further development in our business.

Net revenues decreased in the first six months of fiscal 2009 as compared to the first six months of fiscal 2008 for similar reasons, with a decrease of approximately \$5,362,000 in directory service products and an increase of \$1,474,000 in sales of customer acquisition services.

We expect revenues to continue to migrate to customer acquisition services as we de-emphasize our directory services products in order to focus on our new business strategy.

*Cost of Services*

	<b>Cost of Services</b>			
	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>Percent</b>
Three Months Ended March 31, \$	1,466,882	\$ 1,081,461	\$ 385,421	36%
Six Months Ended March 31, \$	3,067,532	\$ 2,075,031	\$ 992,501	48%

Cost of services increased in the second quarter of fiscal 2009 as compared to the second quarter of fiscal 2008. Although our revenues declined significantly in our directory services business, we experienced an increase in cost of sales of \$44,000 as we continue to experience cost increases due to increased regulatory requirements and an increase in per-customer charges billed to us from our third party service providers. These factors are contributing to our strategic shift away from directory services as our primary line of business. We also experienced an increase of \$341,000 in costs related to our customer acquisition services, reflecting revenue growth and the development in this business.

Costs of services increased in the first six months of fiscal 2009 as compared to the first six months of fiscal 2008 for similar reasons, with a \$227,000 increase in costs related to our directory services and increased costs related to our customer acquisition services of approximately \$766,000.

*Gross Profit*

	<b>Gross Profit</b>			
	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>Percent</b>
Three Months Ended March 31, \$	2,081,393	\$ 4,957,895	\$ (2,876,502)	(58)%
Six Months Ended March 31, \$	5,490,257	\$ 10,370,566	\$ (4,880,309)	(47)%

Gross profit decreased in the second quarter and first six months of fiscal 2009 as compared to the second quarter and first six months of fiscal 2008 due to a decrease in net revenues and a decline in gross margins. Gross margins decreased to 58.7% of net revenues in the second quarter of fiscal 2009 from 82.1% of net revenues in the second quarter of fiscal 2008, due primarily to a decline in margins on the directory services business to 61.1% in the second quarter of fiscal 2009 as compared to 83.2% in the second quarter of fiscal 2008. We have seen significant growth in the margins on our customer acquisition services (51.0% in the second quarter of fiscal 2009 as compared to 25.0% in the second quarter of fiscal 2008) as this line of business was in its infancy in fiscal 2008. We expect the margins attributable to the LiveClicks and related products to improve as this business matures.

*General and Administrative Expenses*

	<b>General and Administrative Expenses</b>			
	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>Percent</b>
Three Months Ended March 31, \$	4,054,354	\$ 3,845,145	\$ 209,209	5%
Six Months Ended March 31, \$	8,313,381	\$ 7,240,036	\$ 1,073,345	15%

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General and administrative expenses increased in the second quarter of fiscal 2009 as compared to the second quarter of fiscal 2008 primarily due to the following:

- Decreased compensation costs of approximately \$66,000 primarily attributable to a decrease of \$443,000 of stock-based compensation charges, including a \$258,000 expense reduction in the second quarter of fiscal 2009 resulting from an increase our estimated forfeiture rate on stock awards, and a decrease of \$150,000 of executive bonuses paid in the second quarter of fiscal 2008, partially offset by hiring of additional sales force and technological personnel in light of the development of our Las Vegas operations;
- Increased professional fees of approximately \$220,000 related to increased legal expenses incurred in response to certain legal actions brought against us, fees incurred for Sarbanes-Oxley related consulting services, and increased recruitment fees to hire key personnel in response to our change in strategic direction;
- An increase of approximately \$73,000 of depreciation and amortization expense relating to additional fixed assets related to the relocation of our corporate headquarters to Las Vegas, additional capitalized software development costs relating to new product offerings and accelerated depreciation on certain amortizable items that have a limited useful life; partially offset by
- A decrease in other general and administrative expenses of approximately \$18,000.

General and administrative expenses increased in the first six months of fiscal 2009 as compared to the first six months of fiscal 2008 for similar reasons, as outlined below:

- Increased compensation costs of approximately \$514,000 primarily attributable to the hiring of additional sales force and technological personnel in light of the development of our Las Vegas operations, partially offset by reduced executive bonuses described above and reduced stock-based compensation charges, including the \$258,000 expense reduction described above;
- Increased professional fees of approximately \$394,000 related to increased legal expenses incurred in response to certain legal actions brought against us, fees incurred for Sarbanes-Oxley related consulting services, and increased recruitment fees to hire key personnel in response to our change in strategic direction;
- An increase of approximately \$154,000 of depreciation and amortization expense relating to additional fixed assets related to the relocation of our corporate headquarters to Las Vegas, additional capitalized software development costs relating to new product offerings and accelerated depreciation on certain amortizable items that have a limited useful life; and
- An increase in other general and administrative expenses of approximately \$10,000.

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

	<u>Q2 2009</u>	<u>Q1 2009</u>	<u>Q4 2008</u>	<u>Q3 2008</u>	<u>Q2 2008</u>	<u>Q1 2008</u>
Compensation for employees, leased employees, officers and directors	\$ 2,311,056	\$ 2,508,835	\$ 1,810,383	\$ 3,181,375	\$ 2,377,412	\$ 1,928,272
Professional fees	411,564	455,832	456,180	275,638	191,330	281,418
Depreciation and amortization	560,383	559,289	588,718	505,095	487,085	478,433
Other general and administrative costs	771,351	735,070	692,314	860,702	789,318	706,848
	<u>\$ 4,054,354</u>	<u>\$ 4,259,026</u>	<u>\$ 3,547,595</u>	<u>\$ 4,822,810</u>	<u>\$ 3,845,145</u>	<u>\$ 3,394,971</u>

*Sales and Marketing Expenses*

	<u>Sales and Marketing Expenses</u>			
	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>Percent</u>
Three Months Ended March 31,	\$ 713,326	\$ 1,080,254	\$ (366,928)	(34)%
Six Months Ended March 31,	\$ 2,285,385	\$ 2,673,895	\$ (388,510)	(15)%

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Sales and marketing expenses decreased in the second quarter of fiscal 2009 as compared to the second quarter of fiscal 2008 primarily due to the following:

- \$543,000 of decreased telemarketing and other customer acquisition costs as we began transitioning away from marketing activities geared toward our directory services business; and
- \$45,000 of reduced branding and miscellaneous sales and marketing expenses; partially offset by
- \$221,000 of increased expenditures for click traffic which we believe is more cost effective than online advertising.

Sales and marketing expenses decreased in the first six months of fiscal 2009 as compared to the first six months of fiscal 2008 primarily due to the following:

- \$708,000 of decreased telemarketing and other customer acquisition costs as we began transitioning away from marketing activities geared toward our directory services business; and
- \$71,000 of reduced branding and miscellaneous sales and marketing expenses; partially offset by
- \$390,000 of increased expenditures for click traffic which we believe is more cost effective than online advertising.

Our expenditures for click traffic have dropped in the second quarter of fiscal 2009 as compared to the first quarter of fiscal 2009 as we have refined our strategies and have negotiated better contracts with our vendors, resulting in a more focused and cost effective approach to marketing our business.

*Impairment of Goodwill and Other Intangible Assets*

	<b>Impairment of Goodwill and Other Intangible Assets</b>			
	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>Percent</b>
Three Months Ended March 31,	\$ 16,111,494	\$ -	\$ 16,111,494	n/a
Six Months Ended March 31,	\$ 16,111,494	\$ -	\$ 16,111,494	n/a

As described previously, we incurred an impairment charge in the second quarter of fiscal 2009 to write-down goodwill and other intangible assets. No such charges were incurred in fiscal 2008.

*Operating Income (Loss)*

	<b>Operating Income (Loss)</b>			
	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>Percent</b>
Three Months Ended March 31,	\$ (18,797,781)	\$ 32,496	\$ (18,830,277)	(57946)%
Six Months Ended March 31,	\$ (21,220,003)	\$ 456,635	\$ (21,676,638)	(4747)%

The decrease in operating income for the second quarter and first six months of fiscal 2009 as compared to the second quarter and first six months of fiscal 2008 is primarily due to the impairment charge, decreased gross profit and changes in operating expenses, each of which is described above.

*Total Other Income (Expense)*

	<b>Total Other Income (Expense)</b>			
	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>Percent</b>
Three Months Ended March 31,	\$ 3,464,379	\$ 32,472	\$ 3,431,907	10569%
Six Months Ended March 31,	\$ 7,283,917	\$ 67,383	\$ 7,216,534	10710%

During the second quarter of fiscal 2009, we entered into an agreement to sell a portion of our customer list associated with our directory services business, resulting in a gain of \$2,815,952. We also amended another directory services contract in consideration of accelerated payments on our outstanding accounts receivables and some anticipated future billings which resulted in an increase in other income of \$642,268 for the three and six months ended March 31, 2009, respectively.

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During the first quarter of fiscal 2009, we entered into an agreement to sell our Internet domain name “[www.yip.com](#)” to YellowPages.com for a cash payment of \$3,850,000. We had net gain from the sale of that asset of \$3,805,778, which is reflected in other income.

The remaining activity in fiscal 2009 and fiscal 2008 consisted primarily of interest income on cash balances and short-term investments.

*Income Tax Provision (Benefit)*

	<b>Income Tax Provision (Benefit)</b>			
	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>Percent</b>
Three Months Ended March 31, \$	3,709,936	\$ 49,773	\$ 3,660,163	7354%
Six Months Ended March 31, \$	4,162,812	\$ 219,277	\$ 3,943,535	1798%

The change in our income tax provision is due primarily to corresponding changes in our pre-tax income, coupled with the establishment of a valuation allowance in the second quarter of fiscal 2009, which increased our income tax provision by \$9,392,488. 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 model. 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.

*Income (Loss) from Discontinued Operations*

	<b>Income (Loss) from Discontinued Operations</b>			
	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>Percent</b>
Three Months Ended March 31, \$	(40,277)	\$ (11,857)	\$ (28,420)	240%
Six Months Ended March 31, \$	(97,356)	\$ 24,690	\$ (122,046)	(494)%

During the second quarter of fiscal 2009, we discontinued our classifieds business, as described above. All prior periods have been restated to reflect the classifieds operating results, net of tax, as discontinued operations. The decrease in income in the second quarter and first six months of fiscal 2009 as compared to the second quarter and first six months of fiscal 2008 reflects the effects of our corporate strategy to de-emphasize and ultimately abandon this line of business.

*Net Income (Loss)*

	<b>Net Income (Loss)</b>			
	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>Percent</b>
Three Months Ended March 31, \$	(19,083,615)	\$ 3,338	\$ (19,086,953)	(571808)%
Six Months Ended March 31, \$	(18,196,254)	\$ 329,431	\$ (18,525,685)	(5624)%

Changes in net income (loss) are primarily attributable to changes in operating income, income tax expense and discontinued operations, each of which is described above.

**Liquidity and Capital Resources**

Net cash used in operating activities was approximately \$896,000 for the first six months of fiscal 2009 as compared to net cash provided by operating activities of approximately \$1,609,000 for the first six months of fiscal 2008. The decrease in cash generated from operations is primarily due to a decrease in gross profit of \$4,880,000 reflecting declines in our legacy businesses and \$401,000 of changes in our operating expenses and working capital balances, partially offset by \$2,776,000 of increased collections on receivable balances.

Our primary source of cash inflows has historically been net remittances from our billing channels, including ACH billings and LEC billings. For ACH billings, we generally receive the net proceeds through our billing service processors within 15 days of submission. For LEC billings, we receive collections on accounts receivable through the billing service aggregators under contracts to administer this billing and collection process. The billing service aggregators generally do not remit funds until they are collected. Generally, cash is collected and remitted to us (net of dilution and other fees and expenses) over a 60- to 120-day period subsequent to the billing dates. Additionally, for each monthly billing cycle, the billing aggregators and LECs withhold certain amounts, or “holdback reserves,” to cover potential future dilution and bad debt expense. These holdback reserves lengthen our cash conversion cycle as they are remitted to us over a 12- to 18-month period of time. We classify these holdback reserves as current or long-term receivables on our consolidated balance sheet, depending on when they are scheduled to be remitted to us. As of March 31, 2009, approximately 50% of our gross accounts receivable are due from two aggregators.

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With respect to our Direct Sales Services, we generally receive upfront payments averaging approximately one-sixth of the gross contract amount. Subsequent payments are received on an installment basis ratably over the life of the contract. Most customers purchasing these services elect to use their credit cards to effect payments, and therefore our collections are usually made within a few days of the installment due date.

With respect to our discontinued operations, our historical cash flows have approximated our income (loss) from discontinued operations as set forth on our unaudited condensed consolidated statements of operations, except with respect to the accrued disposal costs that were recorded during the second quarter of fiscal 2009, of which \$27,328 have not been paid. We do not to incur any future cash inflows from our discontinued operations, and we expect to incur additional cash outflows of \$220,000 beyond what has been accrued for additional shutdown costs.

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

Net cash provided by investing activities totaled approximately \$6,871,000 for the first six months of fiscal 2009 compared to net cash used for investing activities of approximately \$776,000 for the first six months of fiscal 2008. The primary sources of the cash provided by our investing activities in fiscal 2009 were the sale of our Internet domain name [www.yv.com](http://www.yv.com), the sale of a portion of our customer list related to our directory services business, and an amendment to an existing directory services contract which provided aggregate cash inflows of \$7,275,000. Additionally, in the first six months of fiscal 2009, we had expenditures for purchases of equipment and intellectual property totaling approximately \$404,000, a decrease of approximately \$348,000 compared to the first six months of fiscal 2008. During the first six months of fiscal 2009, we also had approximately \$23,000 of cash outflows related to the two acquisitions that took place during fiscal 2007.

Net cash used for financing activities was approximately \$524,000 during the first six months of fiscal 2009 compared to approximately \$395,000 for the first six months of fiscal 2008. During the first six months of fiscal 2009, we repurchased 317,004 shares of our common stock, which were valued at \$487,480 in the aggregate. During the first six months of fiscal 2008, we made treasury stock repurchases of 102,175 shares valued at \$394,519. During the first six months of fiscal 2009, we made payments on our capital lease obligations for telecommunications equipment of \$35,562. Financing activities also included \$958 and \$960 of preferred stock dividends during the first six months of fiscal 2009 and fiscal 2008, respectively.

We had working capital of \$11,814,955 as of March 31, 2009, compared to \$11,260,231 as of September 30, 2008, with current assets increasing by \$543,909 and current liabilities decreasing by \$10,855 from September 30, 2008 to March 31, 2009. Our cash position increased to \$10,090,479 at March 31, 2009 compared to \$4,639,787 at September 30, 2008 due to the effects of our results of operations and cash flows from the sale of intangible assets and our partial customer list and expenditures for equipment.

The following table summarizes our contractual obligations at March 31, 2009 and the effect such obligations are expected to have on our future liquidity and cash flows:

	Payments Due by Fiscal Year						
	Total	2009	2010	2011	2012	2013	Thereafter
Operating lease commitments	\$ 1,699,702	\$ 324,560	\$ 551,922	\$ 427,621	\$ 316,879	\$ 78,720	\$ -
Capital lease commitments	237,034	38,438	76,876	76,876	44,844	-	-
Noncancellable service contracts	1,047,917	440,917	367,000	240,000	-	-	-
	<u>\$ 2,984,653</u>	<u>\$ 803,915</u>	<u>\$ 995,798</u>	<u>\$ 744,497</u>	<u>\$ 361,723</u>	<u>\$ 78,720</u>	<u>\$ -</u>

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

At March 31, 2009, we had no other off-balance sheet arrangements, commitments or guarantees that require additional disclosure or measurement.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of March 31, 2009, we did not participate in any market risk-sensitive commodity instruments for which fair value disclosure would be required under Statement of Financial Accounting Standards No. 107. We believe that we are not subject in any material way to other forms of market risk, such as foreign currency exchange risk or foreign customer purchases (of which there were none in the periods set forth in this report) or commodity price risk.

### ITEM 4. CONTROLS AND PROCEDURES

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

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

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

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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

On June 6, 2008, Global Education Services, Inc. (“GES”) filed a consumer fraud class action lawsuit against the Company and its wholly owned subsidiary, Telco Billing, Inc., in King County (Washington) Superior Court. GES alleged in its complaint that the Company’s use of activator checks violated the Washington Consumer Protection Act. GES is seeking injunctive relief against our use of the checks, as well as a judgment in an amount equal to three times the alleged damages sustained by GES and the members of the class. LiveDeal has denied the allegations. Legal proceedings in the matter are ongoing, and discovery began in late January 2009.

#### **Complaint filed by Illinois Attorney General against LiveDeal, Inc.**

On November 12, 2008, the Illinois Attorney General filed a complaint in the Circuit Court of the Seventh Judicial Circuit of the State of Illinois (Sangamon County) against the Company requesting money damages and injunctive relief for claims that we employed deceptive and unfair acts and practices in violation of the Illinois Consumer Fraud and Deceptive Business Act in a telemarketing campaign that in part promoted premium Internet Yellow Page listings to Illinois consumers. Based on a preliminary investigation into the sales scripts and automated verification system utilized in the telemarketing campaign, LiveDeal denied the allegations. Discovery is ongoing.

### ITEM 1A. RISK FACTORS

There have been no material changes to the factors disclosed in Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended September 30, 2008.

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

The following matters were submitted to a vote of our stockholders at our annual stockholders meeting held on February 26, 2009:

- The election of seven directors to the Company’s Board of Directors;
- An amendment to the Company’s Amended and Restated 2003 Stock Plan primarily to (i) provide for the grant of stock options under the plan and (ii) increase the number of shares available for issuance under the plan from 800,000 shares to 1,400,000 shares; and
- The ratification of the appointment of Mayer Hoffman McCann P.C. as the Company’s independent registered public accounting firm for the fiscal year ended September 30, 2009.

#### **Election of Directors**

The allocation of votes for the election of the nominees to the Board of Directors was as follows:

Nominee	Votes For	Votes Withheld	Abstentions and Broker Non-Votes
Rajesh Navar	5,038,389	369,777	N/A
Sheryle Bolton	5,038,389	369,777	N/A
Richard D. Butler, Jr.	5,038,389	369,777	N/A
Thomas J. Clarke, Jr.	5,037,808	370,358	N/A
Michael Edelhart	5,038,389	369,777	N/A
Greg A. LeClaire	5,038,389	369,777	N/A
Richard F. Sommer	5,038,389	369,777	N/A



### Approval of Amendment to 2003 Stock Plan

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

	Votes For	Votes Against	Abstentions and Broker Non-Votes
Proposal to amend the LiveDeal, Inc. Amended and Restated 2003 Stock Plan primarily to (i) provide for the grant of stock options under the plan and (ii) increase the number of shares available for issuance under the plan from 800,000 shares to 1,400,000 shares	1,421,307	625,473	5,400

### Ratification of Independent Auditors

The allocation of votes for the ratification of Mayer Hoffman McCann P.C. as the Company's independent registered public accounting firm for the fiscal year ended September 30, 2009 was as follows:

	Votes For	Votes Against	Abstentions and Broker Non-Votes
Proposal to ratify the appointment of Mayer Hoffman McCann P.C. as LiveDeal's independent registered public accounting firm for the fiscal year ending September 30, 2009	4,918,587	487,054	2,525

The proposals above are described in detail in the Company's definitive proxy statement related to the Annual Meeting of Stockholders that was held on February 26, 2009.

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ITEM 6. EXHIBITS

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

<u>Exhibit Number</u>	<u>Description</u>
<a href="#"><u>10.1</u></a>	Asset Purchase Agreement by and among Local.com Corporation, the Company, and Telco Billing, Inc.
<a href="#"><u>10.2</u></a>	Employment Agreement by and between the Company and Dean Heistad
<a href="#"><u>10.3</u></a>	Employment Agreement by and between the Company and Gregg Thaler
<a href="#"><u>31</u></a>	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<a href="#"><u>32</u></a>	Section 1350 Certifications

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SIGNATURES

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

LiveDeal, Inc.

Dated: May 15, 2009

/s/ Rajeev Seshadri

Rajeev Seshadri  
Chief Financial Officer

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**ASSET PURCHASE AGREEMENT**

THIS ASSET PURCHASE AGREEMENT (the "Agreement") is made and entered into as of March 9, 2009 by and between Local.com Corporation, a Delaware corporation ("Buyer"), LiveDeal, Inc., a Nevada corporation ("Parent"), and Telco Billing, Inc., a Nevada corporation ("Seller"). Each of Buyer, Parent and Seller is a "Party," and collectively, "Parties."

**RECITALS**

A. Seller is in the business (the "Business") of providing online classifieds and online yellow pages to advertisers ("Subscribers").

B. Seller desires to sell, and Buyer desires to purchase, certain Subscribers of Seller set forth in Exhibit A attached hereto (the "Purchased Subscribers").

C. Seller and Buyer previously entered into that certain Escrow Agreement (the "Breakup Escrow Agreement") dated January 30, 2009, pursuant to which Buyer deposited \$250,000.00 (the "Breakup Escrow Fund") into escrow as either (i) a breakup fee if the Parties failed to consummate the contemplated transaction under certain circumstances, or (ii) as a portion of the purchase price in the event the Parties successfully consummated the contemplated transactions.

**AGREEMENT**

In consideration of the mutual covenants and promises set forth herein, Buyer and Seller agree as follow:

ARTICLE 1  
**DEFINITIONS**

1.1 **Defined Terms.** Unless otherwise expressly provided in this Agreement, the following terms, whether in singular or plural form, shall have the following meanings:

"Affiliate" means, with respect to any Person, any other Person controlled by or under common control with such Person, with "control" for such purpose meaning the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities or voting interests, by contract or otherwise.

"Consents" means all of the consents, permits or approvals of third parties (excluding the Purchased Subscribers themselves) necessary to transfer the Purchased Subscribers to Buyer (or, at Buyer's request, to an affiliate of Buyer) or otherwise to consummate lawfully the transactions contemplated hereby.

“Contracts” means all subscriber agreements and other agreements, written or oral (including any amendments and other modifications thereto) to which Seller is a party and that affect the Purchased Subscribers.

“Governmental Authority” means the United States of America, any state, commonwealth, territory, or possession thereof and any political subdivision or quasi-governmental authority of any of the same.

“Judgment” means any judgment, writ, order, injunction, award or decree of any court, judge, justice or magistrate, including any bankruptcy court or judge, and any order of or by any Governmental Authority.

“Knowledge”: an individual will be deemed to have “Knowledge” of a particular fact or other matter if:

- (a) such individual is actually aware of such fact or other matter; or
- (b) a prudent individual could be expected to discover or otherwise become aware of such fact or other matter in the course of conducting a reasonably comprehensive investigation concerning the existence of such fact or other matter.

A Person (other than an individual) will be deemed to have “Knowledge” of a particular fact or other matter if any individual who is serving, or who has at any time served, as a director, officer, partner, executor, or trustee of such Person (or in any similar capacity) has, or at any time had, Knowledge of such fact or other matter.

“Legal Requirements” means applicable common law and any statute, ordinance, code or other law, rule, regulation, order, technical or other standard, requirement or procedure enacted, adopted, promulgated, applied or followed by any Governmental Authority, including Judgments.

“Licenses” means all authorizations and permits relating to the Purchased Subscribers granted to Seller by any Governmental Authority.

“Lien” means any security agreement, financing statement filed with any Governmental Authority, conditional sale or other title retention agreement, any lease, consignment or bailment given for purposes of security, any lien, mortgage, indenture, pledge, option, encumbrance, adverse interest, constructive trust or other trust, claim, attachment, exception to or defect in title or other ownership interest of any kind, which otherwise constitutes an interest in or claim against property, whether arising pursuant to any Legal Requirement, Contract or otherwise but which shall not include any rights to payment or obligations imposed upon Buyer as a result of this Agreement or any ancillary documents.

“Litigation” means any claim, action, suit, proceeding, arbitration, investigation, hearing or other activity or procedure that could result in a Judgment, and any notice of any of the foregoing.

“Losses” means, on a dollar-for-dollar basis, any claims, losses, liabilities, damages, Liens, penalties, costs, and expenses, including but not limited to interest which may be imposed in connection therewith, expenses of investigation, reasonable fees and disbursements of counsel and other experts, and the cost to any Person making a claim or seeking indemnification under this Agreement with respect to funds expended by such Person by reason of the occurrence of any event with respect to which indemnification is sought, but in no event shall “Losses” include incidental or consequential damages.

“Material Adverse Change” means, with respect to Seller, an event that would either individually or in the aggregate, reasonably be expected to have a material adverse change on the Business or the Purchased Subscribers, or the results of operations or financial condition of the Business or the Purchased Subscribers sold hereunder, other than any change or condition relating to the economy in general, or the industries in which Seller operates in general, and not specifically relating to Seller.

“Organizational Documents” shall mean (a) the articles or certificate of incorporation and the bylaws of a corporation; (b) the partnership agreement and any statement of partnership of a general partnership; (c) the limited partnership agreement and the certificate of limited partnership of a limited partnership; (d) the operating agreement and the certificate of formation of a limited liability company; (e) any charter or similar document adopted or filed in connection with the creation, formation, or organization of a Person; and (f) any amendment to any of the foregoing.

“Person” means any natural person, Governmental Authority, corporation, general or limited partnership, limited liability company, joint venture, trust, association or unincorporated entity of any kind.

“Taxes” means all levies and assessments of any kind or nature imposed by any Governmental Authority, together with any interest thereon and any penalties, additions to tax or additional amounts applicable thereto.

“Transaction Documents” means all instruments and documents executed and delivered by Buyer, Seller, or any officer, director or Affiliate of either of them, in connection with this Agreement.

1.2 **List of Additional Definitions.** The following is a list of additional terms used in this Agreement and a reference to the Section hereof in which such term is defined:

<u>Term</u>	<u>Section</u>
Agreement	Preamble
Assets	2.1
Assignment and Assumption Agreement	6.2(b)
Assumed Obligations and Liabilities	2.2
Basket	7.6
Billing Statements	3.7

Business	Recitals
Breakup Escrow Agreement	Recitals
Breakup Escrow Fund	Recitals
Buyer	Preamble
Buyer Escrow Deposit	2.5
Buyer Fund Escrow Agreement	2.5
Buyer Fund Escrow Termination Date	2.5
Buyer Indemnitees	7.1
Cap	7.6
Claim Notice	7.3(a)
Closing	6.1
Closing Date	6.1
Confidential Information	5.3
Covenant Period	5.4
Escrow Agent	2.4
Final Format Data	2.3(b)
Indemnified Party	7.3(a)
Indemnifying Party	7.3(a)
Nonassignable Items	2.6(b)
Parent	Preamble
Party	Preamble
Purchase Price	2.3(a)
Purchased Subscribers	Recitals
Retained Liabilities	2.2
Seller	Preamble
Seller Escrow Deposit	2.4
Seller Fund Escrow Agreement	2.4
Seller Indemnitees	7.2
Subscribers	Recitals
Third Party Claim Notice	7.4(b)
TPV Recordings	2.3(c)

1.3 **Rules of Construction.** Unless otherwise expressly provided in this Agreement, (i) words used in this Agreement, regardless of the gender used, shall be deemed and construed to include any other gender, masculine, feminine, or neuter, as the context requires; (ii) the word “including” is not limiting, and the word “or” is not exclusive; (iii) the capitalized term “Section” refers to sections of this Agreement; (iv) references to a particular Section include all subsections thereof, (v) references to a particular statute or regulation include all amendments thereto, rules and regulations thereunder and any successor statute, rule or regulation, or published clarifications or interpretations with respect thereto, in each case as from time to time in effect; (vi) references to a Person include such Person’s successors and assigns to the extent not prohibited by this Agreement; and (vii) references to a “day” or number of “days” shall be interpreted as a reference to a calendar day or number of calendar days.



ARTICLE 2  
PURCHASE AND SALE

2.1 **Purchase and Sale of Assets.** Subject to the terms and conditions set forth in this Agreement, at Closing, Seller shall transfer to Buyer, and Buyer shall acquire from Seller, free and clear of all Liens, the following described assets and properties, tangible and intangible, used by or useful to Seller in its operation of, or otherwise relating to, the Purchased Subscribers (the "Assets"):

- (a) subject to Section 2.7, all rights, benefits and interests of Seller in, under or pursuant to all Contracts (provided that all receivables and revenues related to or generated from billings related to services provided by Parent or Seller prior to the Closing shall not be deemed an Asset and shall be retained by Seller), including all revisions or amendments thereto, and Licenses;
- (b) the customer database and history related to each Purchased Subscriber, including without limitation any and all data, indexes and content contained in such database, and any copyrights thereto; and
- (c) all books and records relating to the Purchased Subscribers, subject to the right of Seller to have such books and records made available to Seller for a reasonable period, not to exceed three years from the Closing Date.

2.2 **Assumed Obligations and Liabilities; Retained Liabilities.** After the Closing, Buyer shall assume, pay, discharge, and perform all obligations and liabilities arising after the Closing that are related to the Assets or arise from or under (i) Buyer's or its Affiliates' use of the Assets or provision of services to the Purchased Subscribers, or (ii) the Contracts (collectively, the "Assumed Obligations and Liabilities"). All obligations and liabilities arising out of or relating to the Assets other than the Assumed Obligations and Liabilities shall remain and be the obligations and liabilities solely of Seller (collectively, the "Retained Liabilities").

2.3 **Purchase Price; Final Format Data; TPV Recordings; Purchase Price Adjustment.**

(a) Purchase Price. Buyer shall pay to Parent \$3,092,330 (the "Purchase Price"), which amount is based upon the transfer of 14,185 Purchased Subscribers (comprised of approximately 3,000 current Subscribers (billed in the same month) and approximately 11,185 previous Subscribers (billed in arrears)). The Purchase Price is payable as set forth below.

(i) At the Closing, Buyer shall pay to Seller by wire transfer to the account and pursuant to the instructions set forth on Schedule 2.3(a)(i) an amount equal to (i) the Purchase Price *minus* (ii) the Breakup Escrow Fund *minus* (iii) the Seller Escrow Deposit.

(ii) At the Closing, Buyer shall release the Breakup Escrow Fund to Parent by issuing a joint written instruction with Parent instructing the escrow agent under the Breakup Escrow Agreement to release the Breakup Escrow Fund to Parent.

(iii) At the Closing, Buyer shall deposit the Seller Escrow Deposit with Escrow Agent pursuant to Section 2.4.

(b) Final Format Data. At the Closing, Buyer shall provide to Seller data relating to at least 12,909 Purchased Subscribers in final format as set forth in Exhibit 2.3(b) (the “Final Format Data”).

(c) TPV Recordings. On or before the date 7 days after the Closing, Seller shall provide to Buyer a copy of all third-party-verification recordings (“TPV Recordings”) for each of the Purchased Subscribers. If TPV Recordings are not available for Purchased Subscribers billed prior to the Closing via BSG Clearing Solutions clearinghouse, such Purchased Subscribers shall not be acquired by Buyer and the Purchase Price shall be adjusted pursuant to Section 2.3(d). If TPV Recordings are stored at a third party location, Seller shall provide Buyer with access to the third party location for a period of twelve months after the Closing.

(d) Purchase Price Adjustment. Promptly after the Closing, Buyer and Seller shall mutually determine the actual number of Purchased Subscribers transferred to Buyer. If the number of Purchased Subscribers transferred to Buyer is less than 14,343, then Seller shall deliver a written instruction to Escrow Agent within five business days of Closing instructing Escrow Agent to release to Buyer from the Seller Escrow Deposit an amount equal to \$218.00 per Purchased Subscriber for the deficiency and the Purchase Price shall be reduced accordingly. For purposes of determining the number of Purchased Subscribers transferred to Buyer for this Section 2.3(d), a Purchased Subscriber shall be deemed to have been transferred to Buyer only if (i) such Purchased Subscriber was billed by Seller in the most recent month prior to the Closing and Seller was not aware of anything which would reasonably lead Seller to believe that the amount billed to such Purchased Subscriber on such bill was uncollectible and (ii) Seller has not received a written or telephonic notice from or on behalf of such Purchased Subscriber indicating that such Purchased Subscriber intends to cancel or has cancelled.

2.4 Seller Escrow Fund. At the Closing, Buyer shall deposit \$309,233 (the “Seller Escrow Deposit”) into an escrow account with Alliance Bank of Arizona (the “Escrow Agent”) under an Escrow Agreement in the form attached hereto as Exhibit B executed and delivered by Seller, Parent, Buyer and Escrow Agent (the “Seller Fund Escrow Agreement”). Seller and Buyer shall each pay one-half of the fees and expenses of the Escrow Agent in connection with the administration of the Seller Fund Escrow Agreement. Buyer shall be entitled to seek indemnification for any Losses for which it is entitled to be indemnified pursuant to Section 7.1 by making a claim to Escrow Agent, as evidenced by joint instructions to be given by Buyer and Parent in accordance with the Seller Fund Escrow Agreement, for payment from the Seller Escrow Deposit. On the date nine months after the Closing Date, Parent and Buyer shall jointly instruct the Escrow Agent to disburse to Seller the entire Seller Escrow Deposit, plus any accrued interest, *less* (a) any amounts disbursed by Escrow Agent in payment of claims made by Buyer and (b) any amounts subject to claims made by Buyer but not disbursed by Escrow Agent (which amounts shall continue to be held by Escrow Agent until disbursed in accordance with the terms of the Seller Fund Escrow Agreement). The Seller Escrow Deposit shall not constitute the limit of Seller’s liability to Buyer, and Buyer shall retain all indemnification rights and remedies pursuant to Article 7 in this Agreement.

2.5 **Buyer Escrow Fund.** At the Closing, Buyer shall deposit \$50,000 into an escrow account (the “**Buyer Escrow Deposit**”) with the Escrow Agent under an Escrow Agreement in the form attached hereto as **Exhibit C** executed and delivered by Seller, Parent, Buyer and Escrow Agent at the Closing (the “**Buyer Fund Escrow Agreement**”). Seller and Buyer shall each pay one-half of the fees and expenses of the Escrow Agent in connection with the administration of the Buyer Fund Escrow Agreement. Seller shall be entitled to seek indemnification for any Losses for which it is entitled to be indemnified pursuant to **Section 7.2** by making a claim to Escrow Agent, as evidenced by joint instructions to be given by Buyer and Parent in accordance with the Buyer Fund Escrow Agreement, for payment from the Buyer Escrow Deposit. On the date 120 days after the Closing Date (the “**Buyer Fund Escrow Termination Date**”), Parent and Buyer shall jointly instruct the Escrow Agent to disburse to Buyer the entire Buyer Escrow Deposit, plus any accrued interest, *less* (a) any amounts disbursed by Escrow Agent in payment of claims made by Parent or Seller and (b) any amounts subject to claims made by Parent or Seller but not disbursed by Escrow Agent (which amounts shall continue to be held by Escrow Agent until disbursed in accordance with the terms of the Buyer Fund Escrow Agreement). The Buyer Escrow Deposit shall not constitute the limit of Buyer’s liability to Parent and Seller, and Parent and Seller shall retain all indemnification rights and remedies pursuant to **Article 7** in this Agreement.

2.6 **Credits Processed by LECs or Clearinghouses.**

(a) Credits processed by LECs or clearinghouses shall be the responsibility of the Party who submitted the original billing to the LEC or clearinghouse, as applicable.

(i) During the period from the Closing until the Buyer Fund Escrow Termination Date, on the last day of each calendar month and on the Buyer Fund Escrow Termination Date, Buyer will provide to Seller a report listing all credits processed in error against Buyer’s settlements or as an adjustment to reserves by LECs or clearinghouses, as applicable, and the total amount owed to Buyer by Seller. Buyer and Seller shall then promptly jointly instruct the Escrow Agent to disburse to Buyer such amount from the Seller Escrow Deposit. Following the Buyer Fund Escrow Termination Date, Buyer cannot make any claim against Seller for credits processed in error related to Purchased Subscribers.

(ii) During the period from the Closing until the Buyer Fund Escrow Termination Date, on the last day of each calendar month and on the Buyer Fund Escrow Termination Date, Seller will provide to Buyer a report listing all credits processed in error against Seller’s settlements or as an adjustment to reserves by LECs or clearinghouses, as applicable, and the total amount owed to Seller by Buyer. Buyer and Seller shall then promptly jointly instruct the Escrow Agent to disburse to Seller such amount from the Buyer Escrow Deposit. Following the Buyer Fund Escrow Termination Date, Seller cannot make any claim against Buyer for credits processed in error related to Purchased Subscribers.

(b) If Buyer or its Affiliates receives a refund request from a Purchased Subscriber related to services provided by Seller prior to Closing, Buyer shall only transfer such Purchased Subscriber to Seller at phone number for the aggregator for that customer set forth in Schedule 2.6(b) and make no commitment regarding issuing a refund. Buyer and its Affiliates shall not make any other statement or suggestion to such Purchased Subscriber.

2.7 **Assignability and Consents.**

(a) **Required Consents.** Schedule 2.7 sets forth a list of all Contracts and Licenses which are non-assignable or non-transferable to Buyer without the consent of some other Person. Seller has taken or caused to be taken by others, all commercially reasonable actions to obtain or satisfy all Consents from any Persons necessary to authorize, approve or permit the full and complete sale, conveyance, assignment or transfer of the Assets; *provided, however*, that neither Parent nor Seller has undertaken nor is either responsible for notifying the Purchased Subscribers of the transfer of their accounts nor is either providing any assurance that the Purchased subscribers will not terminate or request a cancellation of their Contract.

(b) **Nonassignable Items.** Anything in this Agreement to the contrary notwithstanding, this Agreement shall not constitute an agreement to sell, convey, assign, sublease or transfer any Assets, including Contracts and Licenses, if an attempted sale, conveyance, assignment, or transfer thereof, without the consent of another Person, would constitute a breach of, or in any way affect the rights of either Seller or Buyer with respect to, such Assets ("Nonassignable Items"). Seller shall use reasonable efforts (and Buyer shall cooperate in all reasonable respects with Seller) to obtain and satisfy all Consents and to resolve all impracticalities of sale, conveyance, assignment, or transfer necessary to convey to Buyer all Nonassignable Items. If any such Consents are not obtained and satisfied or if an attempted sale, conveyance, assignment, or transfer would be ineffective, Seller shall enter into such arrangements (including related written agreements) as Buyer may reasonably request to provide Buyer with the benefit of the Nonassignable Items.

ARTICLE 3

**PARENT'S AND SELLER'S REPRESENTATIONS AND WARRANTIES**

Parent and Seller represent and warrant to Buyer, as of the date of this Agreement and as of Closing, as follows:

3.1 **Organization of Seller.** Seller is a corporation validly existing and in good standing under the laws of the State of Nevada, and has all requisite power and authority to own and lease the properties and assets it currently owns and leases and to conduct its activities as such activities are currently conducted.

3.2 **Authority.** Each of Seller and Parent has all requisite power and authority to execute, deliver, and perform this Agreement and to consummate the transactions contemplated hereby. The execution, delivery, and performance of this Agreement and the consummation of the transactions contemplated hereby by Parent and Seller have been duly and validly authorized by all necessary action on the part of Parent and Seller, and this Agreement has been duly and validly executed and delivered by Parent and Seller, and is the valid and binding obligation of each of Parent and Seller, enforceable against Parent and Seller in accordance with its terms, except to the extent that enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, receivership, moratorium and other similar laws relating to or affecting the rights and remedies of creditors generally and (ii) general principles of equity.

3.3 **No Conflict; Required Consents.** The execution, delivery, and performance by Seller of this Agreement do not and will not (i) conflict with or violate any provision of the Organizational Documents of Parent or Seller, (ii) violate any provision of any Legal Requirements, (iii) except for Consents set forth on Schedule 3.3, conflict with, violate, result in a breach of, constitute a default under (without regard to requirements of notice, lapse of time, or elections of other persons, or any combination thereof) or accelerate or permit the acceleration of the performance required by, any Contract or License to which Parent or Seller is a party and by which the Assets are bound or affected, or (iv) result in the creation of imposition of any Lien against or upon any of the Assets; or (v) except as set forth on Schedule 3.3, require any consent, approval, or authorization of, or filing of any certificate, notice, application, report, or other document with, any Governmental Authority or other Person.

3.4 **Subscribers.** As of January 16, 2009, the Subscribers had the attributes set forth in Schedule 3.4 attached hereto. Since January 16, 2009, there have been no material changes to such attributes. None of the Purchased Subscribers is subject to current actions by the attorney general of any state.

3.5 **Litigation.** Except as set forth on Schedule 3.5, there is no (i) outstanding Judgment against Parent or Seller requiring Parent or Seller to take any action of any kind with respect to the Assets, or to which the Assets are subject or by which they are bound or affected; or (ii) Litigation pending or, to Seller's Knowledge, threatened, against Parent or Seller that individually or in the aggregate might adversely affect the Assets or the ability of Parent or Seller to perform their respective obligations under this Agreement.

3.6 **Taxes.** Parent and Seller have duly and timely paid all Taxes with respect to the Assets which have become due and payable by either of them. Neither Parent nor Seller has received notice of, nor does either Parent or Seller have any Knowledge of, any notice of deficiency or assessment of proposed deficiency or assessment from any taxing Governmental Authority with respect to the Assets. There are no audits pending with respect to the Assets and there are no outstanding agreements or waivers by Parent or Seller that extend the statutory period of limitations applicable to any federal, state, local, or foreign tax returns or Taxes with respect to the Assets. Parent and Seller have duly and timely filed in true and correct form all Tax returns and Tax reports required to be filed by Parent or Seller with respect to the Assets.

3.7 **Billing Statements.** Seller has delivered to Buyer true, complete and correct copies of its internally prepared billing and collection statements reflecting the financial results of the Purchased Subscribers for the months ending October 31, 2008, December 31, 2008 and January 31, 2009 (collectively, the "**Billing Statements**"). The Billing Statements accurately and completely present all of the cash flows, income, expenses, liabilities and operations of Seller with respect to the Assets at the respective dates thereof.

3.8 **No Material Adverse Change.** There has been no Material Adverse Change in the Assets since December 31, 2008, and since such date, the Assets have not been materially and adversely affected as a result of any fire, explosion, accident, casualty, labor trouble, flood, drought, riot, storm, condemnation or act of God or public force or otherwise.

3.9 **No Undisclosed Liabilities.** To the Knowledge of Seller, there are no, and on the Closing Date there will not be any, liabilities of Seller (except, as to the Seller, such liabilities that do not relate to or affect the Assets) of any kind whatsoever, known or unknown, whether accrued, contingent, absolute, determined, determinable or otherwise, and to the Knowledge of Seller, there is no existing condition, situation or set of circumstances that could reasonably be expected to result in such a liability that is not disclosed on any Schedule or set forth in the Billing Statements.

3.10 **Compliance with Legal Requirements.** The operation of Parent's and Seller's business as it relates to the Assets as currently conducted does not violate or infringe any Legal Requirements currently in effect or, to the Knowledge of Seller, proposed to become effective. Except as may be set forth on **Schedule 3.10**, neither Parent nor Seller has received notice of any violation by Seller of any Legal Requirement applicable to the operation of Seller's business as it relates to the Assets as currently conducted, and knows of no basis for the allegation of any such violation. Neither Parent nor Seller is in default of or in violation with respect to any Judgment.

3.11 **Books and Records.** All of the books, records, and accounts of Seller related to the Assets are in all material respects true and complete, are maintained in accordance with good business practices and all applicable Legal Requirements, and accurately present and reflect in all material respects all of the transactions therein described.

3.12 **Terms and Conditions.** **Schedule 3.12** sets forth the standard terms and conditions of Seller for each of the Purchased Subscribers. Except as set forth in **Schedule 3.12**, all of the Purchased Subscribers are subject to such standard terms and conditions.

3.13 **Finders and Brokers.** Seller has not employed any financial advisor, broker or finder, or incurred any liability for any financial advisory, brokerage, finder's or similar fee or commission in connection with the transaction contemplated by this Agreement for which Buyer will in any way have any liability.

ARTICLE 4  
BUYER'S REPRESENTATIONS AND WARRANTIES

Buyer represents and warrants to Seller, as of the date of this Agreement and as of the Closing as follows:

4.1 **Organization and Qualification of Buyer.** Buyer is a corporation duly organized and validly existing under the laws of the State of Delaware and has all requisite power and authority to own and lease the properties and assets it currently owns and leases and to conduct its activities as such activities are currently conducted.

4.2 **Authority.** Buyer has all requisite power and authority to execute, deliver, and perform this Agreement and consummate the transactions contemplated hereby. The execution, delivery, and performance of this Agreement and the consummation of the transactions contemplated hereby on the part of Buyer have been duly and validly authorized by all necessary action on the part of Buyer. This Agreement has been duly and validly executed and delivered by Buyer, and is the valid and binding obligation of Buyer, enforceable against Buyer in accordance with its terms, except to the extent that enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, receivership, moratorium and other similar laws relating to or affecting the rights and remedies of creditors generally and (ii) general principles of equity.

4.3 **No Conflict; Required Consents.** The execution, delivery, and performance by Buyer of this Agreement do not and will not (i) conflict with or violate any provision of the Organizational Documents of Buyer, (ii) violate any provision of any Legal Requirements, or (iii) require any consent, approval or authorization of, or filing of any certificate, notice, application, report, or other document with, any Governmental Authority or other Person.

4.4 **Finders and Brokers.** Buyer has not employed any financial advisor, broker or finder, or incurred any liability for any financial advisory, brokerage, finder's or similar fee or commission in connection with the transaction contemplated by this Agreement for which Seller will in any way have any liability.

ARTICLE 5  
COVENANTS

5.1 **Transfer Taxes.** All sales, use, transfer, and similar Taxes (but excluding Taxes based on income or capital gains), fees, and assessments arising from or payable in connection with the transfer of the Assets by Buyer shall be paid by Buyer.

5.2 **Data Transfer Procedures.** The Parties will perform and comply with the customer and data transfer procedures set forth on Schedule 5.2.

5.3 **Confidentiality.** Each Party shall keep confidential any non-public information that such Party may receive from another Party in connection with this Agreement unrelated to the Assets as well as any non-public information in the possession of such party related to the Assets (any such information that a party is required to keep confidential pursuant to this sentence shall be referred to as "**Confidential Information**"). Each Party shall not disclose any Confidential Information to any other Person (other than its Affiliates and its and its Affiliates' directors, officers and employees, and representatives of its advisers and lenders) or use such information to the detriment of the other; provided that (i) such Party may use and disclose any such information once it has been publicly disclosed (other than by such Party in breach of its obligations under this Section) or which, to its knowledge, rightfully has come into the possession of such Party (other than from the other Party), and (ii) to the extent that such Party may, in the reasonable judgment of its counsel, be compelled by Legal Requirements to disclose any of such information, such Party may disclose such information if it has used commercially reasonable efforts, and has afforded the other the opportunity, to obtain an appropriate protective order, or other satisfactory assurance of confidential treatment, for the information compelled to be disclosed.

5.4 **Nonsolicitation.**

(a) Parent and Seller hereby covenant and agree that, during a period of three years commencing on the Closing Date (the "Covenant Period"), neither Parent, Seller nor any of their Affiliates shall contact any Purchased Subscriber (i) with the intent of interfering with their relationship with Buyer or (ii) seeking to establish a revenue-generating relationship with such Purchased Subscriber which is competitive to the Business.

(b) Parent and Seller hereby agree that a violation or attempted or threatened violation of the covenants or other provisions contained in this Section 5.4, or any part thereof, by Parent and Seller will cause irreparable injury to Buyer with respect to the Assets for which money damages would be inadequate, and that Buyer shall be entitled, in addition to any other rights or remedies they may have, whether in law or in equity, to obtain an injunction, enjoining and restraining Parent or Seller from violating or attempting or threatening to violate any provision of this Agreement, including the covenants contained in this Section 5.4.

ARTICLE 6  
CLOSING

6.1 **Closing.** The purchase and sale (the "Closing") provided for in this Agreement shall take place remotely by the exchange of counterpart signature pages and documents on the date of this Agreement (the "Closing Date").

6.2 **Seller's Obligations.** At Closing, Seller shall deliver or cause to be delivered to Buyer, the following:

(a) **Bill of Sale and Assignment.** A Bill of Sale in the form of Exhibit D transferring the Assets from Seller to Buyer, signed by Seller.

(b) **Assignment and Assumption Agreement.** An Assignment and Assumption Agreement in the form of Exhibit E (the "Assignment and Assumption Agreement") assigning all of Seller's right, title and interest to the Contracts to Buyer, signed by Seller.



(c) Escrow Agreements. The Seller Fund Escrow Agreement and Buyer Fund Escrow Agreement, each signed by Parent, Seller and Escrow Agent.

(d) Books and Records. To the extent not previously delivered, copies of all customer and subscriber lists, engineering records, files and records used by Seller in connection with the Purchased Subscribers.

(e) Consents. Any Consents, in form and substance satisfactory to Buyer.

(f) Lien Releases. Results of searches of the appropriate public records (as determined and paid for by Buyer), dated no more than ten days prior to the Closing Date, or other evidence satisfactory to it, that there exist no Liens affecting the Assets or reasonable assurances that any such Liens affecting the Assets will be terminated at or prior to the Closing.

(g) Certificate of Good Standing. A Certificate of Good Standing of Seller.

(h) Final Format Data. The Final Format Data, as set forth in Section 2.3(b).

(i) Other. Such other documents and instruments as shall be necessary to effect the intent of this Agreement and consummate the transactions contemplated hereby.

6.3 **Buyer's Obligations**. At Closing, Buyer shall deliver or cause to be delivered to Seller the following:

(a) Purchase Price. The Purchase Price, as set forth in Section 2.3(a).

(b) Escrow Deposit. Evidence of the deposit of the Buyer Escrow Deposit having been deposited with Escrow Agent satisfactory to Parent.

(c) Escrow Agreements. The Seller Fund Escrow Agreement and Buyer Fund Escrow Agreement, each signed by Buyer and Escrow Agent.

(d) Assignment and Assumption Agreement. The Assignment and Assumption Agreement, signed by Buyer.

(e) Other. Such other documents and instruments as shall be necessary to effect the intent of this Agreement and consummate the transactions contemplated hereby.

## ARTICLE 7 INDEMNIFICATION

7.1 **Indemnification by Parent and Seller**. Subject to the provisions of Sections 7.5 and 7.6, Parent and Seller shall, jointly and severally, defend, indemnify and hold harmless Buyer, its Affiliates, agents, and representatives ("Buyer Indemnitees"), and any third party claiming by or through any of them, as the case may be, from and against any and all Losses arising out of or resulting from:

- (a) any material inaccuracy of a representation or warranty made by Seller or Parent in this Agreement when made;
- (b) any material breach of a covenant, agreement, or obligation of Parent or Seller in this Agreement;
- (c) the failure to timely pay, satisfy or discharge any of the Retained Liabilities;
- (d) any credits processed in error against Seller's settlements or as an adjustment to reserves by LECs or clearinghouses for which Buyer submitted the original billing to the LEC or clearinghouse, as applicable; *provided, however*, that this indemnity shall terminate on the Buyer Escrow Fund Termination Date; and
- (e) any adjustment to the Purchase Price pursuant to Section 2.3;

*provided, however*, that Buyer acknowledges and agrees that neither Parent nor Seller shall have any liability to any Buyer Indemnitee under any provision of this Agreement for any Losses to the extent that such Loss relates to action taken by the Buyer, its Affiliates or any other person (other than the Seller in breach of this Agreement) after the Closing Date; *provided, further*, that neither Parent nor Seller will have any liability to Buyer nor will Buyer have any right to indemnification or reimbursement from Parent or Seller for refunds paid to Purchased Subscribers directly by Buyer or its Affiliates related to services provided by Seller prior to Closing unless such specific refund is approved in advance by Parent in writing. Buyer shall take and shall cause its Affiliates to take all reasonable steps to mitigate any Losses upon becoming aware of any event which would reasonably be expected to, or does, give rise thereto.

7.2 **Indemnification by Buyer.** Subject to the provisions of Sections 7.5 and 7.6, Buyer shall defend, indemnify and hold harmless Parent, Seller, their respective Affiliates, agents, and representatives ("Seller Indemnitees"), and any third party claiming by or through any of them, as the case may be, from and against any and all Losses arising out of or resulting from:

- (a) any material inaccuracy of a representation or warranty made by Buyer in this Agreement when made;
- (b) any material breach of a covenant, agreement, or obligation of Buyer in this Agreement;
- (c) the failure to timely pay, satisfy or discharge any of the Assumed Obligations and Liabilities;
- (d) any credits processed in error against Buyer's settlements or as an adjustment to reserves by LECs or clearinghouses for which Seller submitted the original billing to the LEC or clearinghouse, as applicable; *provided, however*, that this indemnity shall terminate on the Buyer Escrow Fund Termination Date; and

(e) up to \$38,000 per week for reasonable costs or fees borne by Parent or Seller for continuing to provide billing services related to the Purchased Subscribers after the Closing.

### 7.3 **Indemnification Procedure.**

(a) A Party seeking indemnification hereunder (the “**Indemnified Party**”) shall give promptly to the Party obligated to provide indemnification to such Indemnified Party (the “**Indemnifying Party**”) a written notice (a “**Claim Notice**”) describing in reasonable detail the facts giving rise to the claim for indemnification hereunder and shall include in such Claim Notice the amount or the method of computation of the amount of such claim (if then known), and a reference to the provision of this Agreement or any other agreement, document or instrument executed hereunder or in connection herewith upon which such claim is based; provided, however, that the failure of any Indemnified Party to give the Claim Notice promptly as required by this **Section 7.3** shall not affect such Indemnified Party’s rights under this **Section 7.3**, except to the extent such failure is actually prejudicial to the rights and obligations of the Indemnifying Party.

(b) After the giving of any Claim Notice pursuant hereto, the amount of indemnification to which an Indemnified Party shall be entitled under this **Section 7.3** shall be determined:

(i) by the written agreement of the Indemnified Party and the Indemnifying Party; *provided, however*, that the Indemnifying Party shall be deemed to have agreed to any claim by the Indemnified Party if the Indemnifying Party does not notify the Indemnified Party in writing of the Indemnifying Party’s objection within 30 days of receipt of the Claim Notice;

(ii) by a final ruling, judgment or decree of any arbitrator or court of competent jurisdiction; or

(iii) by any other means to which the Indemnified Party and the Indemnifying Party shall agree.

(c) The ruling, judgment or decree of an arbitrator or court shall be deemed final when the time for appeal, if any, shall have expired and no appeal shall have been taken or when all appeals taken shall have been finally determined. The Indemnified Party shall have the burden of proof in establishing the amount of Losses suffered by it. All amounts due to the Indemnified Party as so finally determined shall be paid by wire transfer of immediately available funds within 10 days after such final determination.

### 7.4 **Third-Party Claims.**

(a) Promptly after receipt by a Party entitled to indemnity under this **Article 7** of notice of the assertion of a third-party claim against it, such Indemnified Party shall give notice to the Party obligated to indemnify under such Article of the assertion of such third-party claim, provided that the failure to notify the Indemnifying Party will not relieve the Indemnifying Party of any liability that it may have to any Indemnified Party, except to the extent that the Indemnifying Party demonstrates that the defense of such third-party claim is prejudiced by the Indemnified Party’s failure to give such notice. After notice to the Indemnifying Party, the Indemnified Party shall promptly deliver to the Indemnifying Party copies of all notices and documents (including court papers) relating to that third-party claim.

(b) If an Indemnified Party gives notice to the Indemnifying Party of the assertion of a third-party claim (the “Third Party Claim Notice”), the Indemnifying Party shall be entitled to participate in the defense of such third-party claim with counsel of its own choice or to assume the defense of such third-party claim with counsel reasonably satisfactory to the Indemnified Party. Subject to the provisions hereof, if the Indemnifying Party does not give notice to the Indemnified Party of its election to assume the defense of such third-party claim, the Indemnifying Party will be bound by any determination made in such third-party claim or any compromise or settlement effected by the Indemnified Party, including, without limitation, the payment of reasonable attorneys’ fees, costs and expenses incurred in connection therewith; provided that the Indemnifying Party shall not be liable for any compromise or settlement made by an Indemnified Party unless the Indemnified Party has provided at least 20 business days’ advance written notice of a pending compromise or settlement (which notice shall set forth or describe all material terms of the pending compromise or settlement in reasonable detail) and within such period Indemnifying Party does not give notice to Indemnified Party of both its rejection of the terms of the compromise or settlement and its election to assume the defense of the related third party claim.

(c) After notice from the Indemnifying Party to the Indemnified Party of its election to assume the defense of such third-party claim, the Indemnifying Party shall keep the Indemnified Party reasonably informed as to the status of the third-party claim. The Indemnifying Party shall not, so long as it diligently conducts such defense, be liable to the Indemnified Party under this Article 7 for any fees of other counsel or any other expenses with respect to the defense of such third-party claim, in each case subsequently incurred by the Indemnified Party (after assumption of the defense by the Indemnifying Party) if the Indemnified Party decides to participate in any such proceeding with counsel of its choice and at its own expense. Notwithstanding the foregoing, the Indemnifying Party shall be responsible for costs of investigation and fees of counsel or any other expenses already incurred by the Indemnified Party prior to the assumption by the Indemnifying Party of the defense of such third-party claim (provided that the Indemnified Party has timely provided a Third Party Claim Notice). Furthermore, to the extent that counsel for the Indemnified Party and the Indemnifying Party reasonably conclude in good faith that, in light of any actual or potential conflict of interest or different and material legal defenses available to the Indemnifying Party and the Indemnified Party, it would be inappropriate for legal counsel selected by the Indemnifying Party to represent the Indemnified Party with respect to certain claims or defenses, the Indemnified Party shall be entitled to retain separate counsel at the Indemnifying Party’s expense with respect to such claims and defenses.

(d) If the Indemnifying Party assumes the defense of, and diligently defends, a third-party claim, no compromise or settlement of such third-party claims may be effected by the Indemnifying Party without the Indemnified Party's prior written consent; provided that such consent of the Indemnified Party shall not be required if (i) there is no finding or admission of any violation of laws which affect the Indemnified Party or (ii) either (A) the sole relief provided is monetary damages that are paid in full by the Indemnifying Party, or (B) the Indemnifying Party agrees in writing to pay any amounts payable pursuant to a settlement agreement and such settlement includes an unconditional and irrevocable release of the Indemnified Party. The Indemnified Party shall have no Liability with respect to any compromise or settlement of such third-party claims affected without its consent.

(e) Notwithstanding the foregoing, the Indemnifying Party will not be entitled to assume (or retain, as applicable) control of such defense if (A) the claim for indemnification is with respect to any criminal proceeding, indictment or allegation against the Indemnified Party, or (B) upon the Indemnifying Party failing to diligently defend such claim in good faith, which failure continues for a period of 30 days following written notice from the Indemnified Party to the Indemnifying Party.

7.5 **Survival of Representations and Warranties.** Unless specified otherwise in this Agreement, the representations and warranties of Parent, Seller and Buyer in this Agreement shall survive Closing for a period of nine months, except for (i) those contained in Sections 3.1 (Organization of Seller), 3.2 (Authority), 3.3 (No Conflict; Required Consents), 3.6 (Taxes), 4.1 (Organization and Qualification of Buyer), 4.2 (Authority) and 4.3 (No Conflict; Required Consents), which shall survive indefinitely. Neither Parent, Seller nor Buyer shall have any liability under Sections 7.1(a) and 7.2(a), respectively, unless a claim for Losses for which indemnification is sought thereunder is asserted by Buyer, on the one hand, or Parent or Seller, on the other hand, within the applicable survival period.

7.6 **Indemnification Limitations.** The aggregate dollar amount of all payments Parent or Seller shall be obligated to make pursuant to Section 7.1 of this Agreement shall be \$1,000,000.00 (the "Cap"). No Buyer Indemnitee shall be entitled to any indemnification pursuant to this Article 7 until such time as the Losses of all Buyer Indemnitees exceed \$50,000.00 (the "Basket") and thereupon Parent and Seller shall become obligated to indemnify the Buyer Indemnitees only for the amount by which such claims or Losses exceed the Basket. Notwithstanding the foregoing, the Cap and Basket shall not apply to any Losses resulting from (i) the material breach of any representation or warranty contained in Sections 3.2, 3.3 or 3.6, (ii) an adjustment to the Purchase Price in accordance with Section 2.3, (iii) settlement of credits processed in error by LECs or clearinghouses in accordance with Section 2.6, or (iv) actual fraud, willful misconduct or intentional misrepresentation by Parent or Seller.

7.7 **Net of Insurance Recoveries.** With respect to the amount of any Losses subject to indemnification under Article 7, the determination of such Losses shall be calculated net of any actual recoveries obtained by the Indemnified Party or any of its Affiliates from any other third party; provided, however, that notwithstanding the foregoing, nothing herein shall be deemed to require any Indemnified Party to use efforts to effect recovery of available insurance claims in connection with any claim for any Losses, or to purchase insurance with respect to matters subject to indemnification hereunder, and decisions regarding the purchase of such insurance shall be at each Party's sole discretion.

7.8 **No Consequential Damages.** Notwithstanding anything to the contrary elsewhere in this Agreement, no Party shall, in any event, be liable to any other person for any consequential, incidental, indirect, special or punitive damages of such other person, including loss of future revenue, income or profits, or loss of business reputation or opportunity relating to the breach or alleged breach hereof.

7.9 **Sole and Exclusive Remedy.** From and after the Closing, the remedies provided for in this Article 7 shall be the sole and exclusive remedy of any Indemnified Party for any claim arising out of or related to this Agreement, the exhibits and schedules hereto or the transactions contemplated hereby or thereby (regardless of the Legal Requirement or legal theory upon which claim is based), including, but not limited to, the breach of any representation, warranty or covenant contained in this Agreement, any exhibit or schedules to this Agreement, or any other certificate or document delivered by the Parties hereto pursuant to the terms hereof; provided, however, that nothing contained in this Agreement shall limit or impair any right that an Indemnified Party may have to sue and obtain equitable relief, including specific performance and other injunctive relief, or any right or remedy that the Indemnified Party may have against any Indemnifying Party for any Losses incurred as a result of claims brought on the basis of fraud or willful misconduct.

ARTICLE 8  
**MISCELLANEOUS PROVISIONS**

8.1 **Expenses.** Except as otherwise provided in this Agreement, each of the Parties shall pay its own expenses and the fees and expenses of its counsel, accountants, and other experts in connection with this Agreement.

8.2 **Waivers.** No action taken pursuant to this Agreement, including any investigation by or on behalf of any party hereto, shall be deemed to constitute a waiver by the party taking the action of compliance with any representation, warranty, covenant or agreement herein. The waiver by any party hereto of any condition or of a breach of another provision of this Agreement shall not operate or be construed as a waiver of any other condition or subsequent breach. The waiver by any party of any of the conditions precedent to its obligations under this Agreement shall not preclude it from seeking redress for breach of this Agreement other than with respect to the condition so waived.

8.3 **Notices.** All notices, requests, demands, applications, services of process, and other communications which are required to be or may be given under this Agreement shall be in writing and shall be deemed to have been duly given if sent by facsimile transmission, courier, certified first class mail, postage prepaid, return receipt requested, or overnight delivery service to the Parties hereto at the following addresses:

To Seller: LiveDeal, Inc.  
2490 E. Sunset Rd., Suite 100  
Las Vegas, NV 89120  
Attention: Michael Edelhart  
Facsimile: 702-974-1180

Copy to: Snell & Wilmer L.L.P.  
One Arizona Center  
Phoenix, AZ 85004-2202  
Attention: Dan Mahoney  
Facsimile: 602-382-6070

To Buyer: Local.com Corporation  
One Technology Drive, Building G  
Irvine, CA 92618  
Attention: Chief Financial Officer  
Facsimile: 949-341-5396

Copy to: Rutan & Tucker, LLP  
611 Anton Blvd, Suite 1400  
Costa Mesa, CA 92626  
Attention: Derek D. Dundas  
Facsimile: (714) 546-9035

or to such other address as any party shall have furnished to the other by notice given in accordance with this Section. Such notice shall be effective, (i) if sent by facsimile transmission, when confirmation of transmission is received, or (ii) otherwise, upon actual receipt or rejection by the intended recipient.

8.4 **Publicity.** Parent and Buyer shall consult with and cooperate with the other with respect to the content and timing of all press releases and other public announcements. Except as required by applicable legal requirements, neither Seller nor Buyer shall make any such release, announcement, or statements without the prior written consent and approval of the other, and each shall keep the existence and terms of this Agreement confidential.

8.5 **Binding Effect; Benefits.** This Agreement shall inure to the benefit of and be binding upon the Parties and their respective successors and permitted assigns. Except for the assignment by Buyer to any Affiliate of Buyer, neither Buyer nor Seller shall assign this Agreement or delegate any of its duties hereunder to any other party without the prior written consent of the other, which consent shall not be unreasonably withheld.

8.6 **Entire Agreement; Amendments.** This Agreement and the Exhibits and Schedules hereto embody the entire agreement between the Parties with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral or written, with respect thereto. This Agreement may not be modified orally, but only by an agreement in writing signed by the Party or Parties against whom any waiver, change, amendment, modification, or discharge may be sought to be enforced.

8.7 **Governing Law.** The validity, performance, and enforcement of this Agreement shall be governed by the laws of the State of California, without giving effect to the principles of conflicts of law of such state. The Parties agree that any suit, action or proceeding seeking to enforce any provision of, or based on any matter arising out of or in connection with, this Agreement or the transactions contemplated hereby or thereby may be brought in the United States District Court for the Central District of California, Orange County Division, and each of the Parties hereby consents to the jurisdiction of such courts (and of the appropriate appellate courts therefrom) in any such suit, action or proceeding.

8.8 **Counterparts.** This Agreement may be executed in any number of counterparts, each of which, when executed, shall be deemed to be an original and all of which together will be deemed to be one and the same instrument.

8.9 **Further Assurances.** From time to time after Closing, Seller shall, if requested by Buyer, make, execute and deliver to Buyer such additional assignments, bills of sale, deeds and other instruments of transfer, as may be necessary or proper to transfer to Buyer all of Seller's right, title, and interest in and to the Assets.

8.10 **Attorneys' Fees.** The prevailing party in any action to enforce the terms of this Agreement shall be entitled to reimbursement by the other party for all costs (including reasonable attorneys' fees) incurred in connection with such proceeding, in addition to any other remedies to which it may be entitled.

8.11 **Schedules and Exhibits; Headings.** All references herein to schedules and exhibits are to the schedules and exhibits attached hereto, which shall be incorporated in and constitute a part of this Agreement by such reference. The headings in this Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning of this Agreement.

8.12 **Remedies Cumulative.** Except as expressly provided otherwise in this Agreement, in addition to any remedies provided in this Agreement, the Parties will have all remedies provided at law or in equity. The rights and remedies provided in this Agreement or otherwise under applicable laws will be cumulative and the exercise of any particular right or remedy will not preclude the exercise of any other rights or remedies in addition to, or as an alternative of, such right or remedy, except as expressly provided otherwise in this Agreement.

[Signature page follows.]



IN WITNESS WHEREOF, The Parties have executed this Agreement as of the date set forth above.

**BUYER:**

**Local.com Corporation**

/s/ Heath B. Clarke

By: Heath B. Clarke

Its: Chief Executive Officer

**PARENT:**

**LiveDeal, Inc.**

/s/ Michael Edelhart

By: Michael Edelhart

Its: Chief Executive Officer

**SELLER:**

**Telco Billing, Inc.**

/s/ Michael Edelhart

By: Michael Edelhart

Its: President



**EMPLOYMENT AGREEMENT**

This AGREEMENT is entered into by and between LiveDeal, Inc. ("Company"), and Dean Heistad ("Employee"), effective October 1, 2008.

**WHEREAS**, Company and Employee desire to enter into an Agreement setting forth the terms and conditions of Employee's employment with Company;

**NOW, THEREFORE**, in consideration of the mutual covenants and agreements hereinafter set forth, Employer and Employee agree as follows:

**1. Role and Term of Agreement.**

**a. Role.**

Employee shall serve as Vice President, Technology Strategy. In this role, Employee reports to the Company's CEO.

**b. Initial Term; Extensions.**

The term of this Agreement shall be from January 5, 2009 through December 31, 2009. The Agreement may be extended beyond December 31, 2009 upon mutual agreement of the parties with 30 days written notice.

**2. Duties and Responsibilities.**

Employee shall perform all of the duties of Vice President, Technology Strategy as well as such other tasks as may be assigned by the Company's CEO, which may include duties outside the usual scope of the basic job description.

**3. Compensation.**

**a. Base Salary.**

Employee shall be paid a base salary of \$180,000 per year. Salary will be paid in accordance with the Company's payroll policy then in force.

**b. Incentive Compensation.**

In addition to the above, Employee will receive the following Incentive Compensation:

\$20,000 paid quarterly, based on achieving milestones set mutually with the Company's CEO. The particulars of these milestones will be set in a document to be delivered to you within 30 days of the initiation of your employment with the Company.

**c. Shares Compensation.**

Subject to the Company's Common Stock Option Plan, the vote of the Company's Board of Directors, and approval by the Company's shareholders, Company will offer Employee, for his work as Executive Vice President, the option to purchase 50,000 shares in the Company. Options will vest on the following four-year schedule: 25% on the one-year anniversary of your employment with the Company and then 1/36<sup>th</sup> per month for the next 36 months, provided that you remain an employee in good standing at the end of each month.

In the event the Company experiences a "Change of Control" in ownership, which is defined as an entity not currently an investor in the company owning more than 50% of the total shares outstanding and/or owning materially all the operating assets of the company, vesting of Employee's options under this agreement will immediately accelerate 12 months forward.

**d. Withholding and Deductions.**

All compensation paid to Employee shall be subject to withholding and deductions required by law.

**4. Other Employment Benefits.**

**a. Medical Benefits.**

Employee and Employee's eligible spouse and dependants, if any, shall be entitled to participate in Employer's medical plan, if any, pursuant to the plan's terms and conditions and subject to the plan's eligibility requirements. Nothing in this Agreement shall preclude Employer from terminating or amending any employee benefit plan or program from time to time.

**b. Vacation Leave.**

Employee shall be entitled to vacation leave and personal days in accordance with Company's written policies regarding the accrual and use of vacation and personal days.

**c. Holidays.**

Employee shall be entitled to those paid holidays recognized by Employer.

**d. Retirement.**

Employee shall be entitled to participate in Employer's retirement plan, if any, subject to that plan's eligibility requirements and contribution limits.

**e. Expense Reimbursement**

Employee shall be entitled to reimbursement of reasonable business-related expenses upon providing satisfactory documentation to the Employer.

5. **Location.** Employee acknowledges that his employment will require him to spend substantial time at the Company's offices in Las Vegas and Santa Clara, as well as at other locations the Company may require from time to time.

6. **Termination of Agreement.**

Employer may terminate this agreement with or without cause at any time.

If the termination is without cause, Employee shall be entitled to a lump sum payment of pay in a sum equivalent to that required by applicable law at the time of termination, to be paid to Employee within 15 days of receiving notice of his termination (the "Severance"). If Employee agrees to execute and deliver a release to Employer upon such a termination whereby Employee expressly and unconditionally agrees to release and forever discharge Employer, its affiliates, attorneys, agents, successors and assigns, jointly and individually, of and from any and all possible claims, rights, demands, costs, actions, causes of action, obligations, damages, and liabilities ("claims") whether known or unknown and of whatever kind or nature, which arose on or before the date of termination of the Employee, arising out of or in any way related to, or as a consequence of, Employee's employment or other affiliation with the Employer, the terms and conditions of that employment, and the termination of such employment, as well as the continuing effects thereof, then Employee shall be paid one month of Employee's base pay for each full year of employment of Employee by the Company in consideration for such a release of claims by Employee.

If the termination is with cause, Employee shall not be entitled to any compensation beyond the termination of his employment, nor shall he be entitled to notice, beyond that required by law. "Cause" for purposes of this Agreement shall include: (i) conviction of a felony, any act involving moral turpitude, or a misdemeanor where imprisonment is imposed, (ii) commission of any act of theft, fraud, material dishonesty, or falsification of any employment or other records belonging to Employer, (iii) improper disclosure of the confidential or proprietary information of Employer, (iv) any material breach of this Agreement, which breach is not cured within thirty (30) days following written notice of such breach, (v) a course of conduct amounting to gross incompetence or violation of Employer's employment policies, including but not limited to its policies against discrimination and harassment, (vi) misappropriation of funds or property of Employer.

Employee may terminate this Agreement at any time, upon 30 days' notice to the Employer. Upon such termination by Employee, he shall provide reasonable assistance to the Employer in locating a successor. Upon such termination by Employee, Employee hereby expressly and unconditionally releases and forever discharges Employer, its affiliates, attorneys, agents, successors and assigns, jointly and individually, of and from any and all claims, whether known or unknown and of whatever kind or nature, which arose on or before the date of termination of the Employee, arising out of or in any way related to, or as a consequence of, Employee's employment or other affiliation with the Employer, the terms and conditions of that employment, and the termination of such employment, as well as the continuing effects thereof.

**7. Non-Competition.**

During employment with Employer, Employee will not compete with Employer's present or contemplated business, nor will Employee plan or organize any competitive business activity. Employee will not enter into any agreement which conflicts with Employee's duties or obligations to Employer. Employee will not during employment with Employer, and for one year thereafter, without Employer's express written consent, solicit or encourage any employee, agent, independent contractor, supplier, or consultant to terminate or alter a relationship with Employer and/or its employees.

**8. Confidentiality.**

Employee agrees, except as required by law, to keep confidential and not discuss, disclose, or reveal, directly or indirectly, the terms of this Agreement to any person, corporation or entity with the exception of members of Employee's immediate family, Employee's attorney or Employee's accountant. Employee also agrees to keep confidential all non-public Employer business, personnel and financial information, acquired or used while Employee is employed by or otherwise associated with Employer.

Employer and Employee acknowledge and agree that during the term of this Agreement and in the course of performing Employee's duties hereunder, Employee shall have access to and become acquainted with Proprietary and Confidential Information concerning the operation of Employer.

Proprietary Information is all information and any idea whatever form, tangible or intangible, pertaining in any manner to the business of Employer, or its employees, consultants, or business associates, which was produced by any employee or consultant of Employer in the course of his or her employment or consulting relationship or otherwise produced or acquired by or on behalf of Employer. All Proprietary Information not generally known outside of Employer's organization or that of its customers, and all Proprietary Information so known only through improper means, shall be deemed "Confidential Information". By example and without limiting the foregoing definition, Proprietary and Confidential Information shall include, but not be limited to:

- (i) formulas, research and development techniques, processes, trade secrets, computer programs, software, electronic codes, mask works, inventions, innovations, patents, patent applications, discoveries, improvements, data, know-how, formats, test results, and research projects;
- (ii) information about costs, profits, markets, sales, contracts and lists of distributors;
- (iii) business, marketing, and strategic plans;

(iv) forecasts, unpublished financial information, budgets, projections, and customer identities, contact information, characteristics, preferences and agreements;

(v) Employee personnel files and compensation information.

“Confidential Information” includes all information that has or could have commercial value or other utility in the business in which Employer is engaged or contemplates engaging, and all information of which the unauthorized disclosure could be detrimental to the interests of Employer, whether or not such information is identified as Confidential Information by Employer.

Employer owns and has developed and compiled, and will develop and compile, certain trade secrets, proprietary techniques and other Confidential Information which have great value to its business. This Confidential Information includes not only information disclosed by Employer to Employee, but also information developed or learned by Employee during the course of employment with Employer.

Employee will not, directly or indirectly, use, make available, sell, disclose or otherwise communicate to any third party, other than in Employee’s assigned duties and for the benefit of Employer, any of Employer's Confidential Information, either during or after employment with Employer. Employee acknowledges being aware that the unauthorized disclosure of Confidential Information may be highly prejudicial to its interests, an invasion of privacy, and an improper disclosure of trade secrets.

Employee further agrees that all files, records, documents, equipment, and similar items relating to Employer's business, whether prepared by Employee or others, are and shall remain exclusively the property of Employer.

The obligations contained in this section shall survive termination of this Agreement.

## **9. Proprietary Rights, Inventions and New Ideas.**

### **a. Definition.**

The term "Subject Ideas or Inventions" includes any and all ideas, processes, trademarks, service marks, inventions, designs, technologies, computer hardware or software, original works of authorship, formulas, discoveries, patents, copyrights, copyrightable works, products, marketing and business ideas, and all improvements, know-how, data, rights, and claims related to the foregoing that, whether or not patentable, are conceived, developed or created which: (i) relate to the current or contemplated business or activities of Employer; (ii) relate to the actual or demonstrably anticipated research or development of Employer; (iii) result from any work performed by Employee for Employer; (iv) involve the use of the equipment, supplies, facilities or trade secrets of Employer; (v) result from or are suggested by any work done by Employer or at the request of Employer, or any projects specifically assigned to Employee; or (vi) result from Employee's access to any of the memoranda, notes, records, drawings, sketches, models, maps, customer lists, research results, data, formulae, specifications, inventions, processes, equipment or other materials of Employer (collectively, "Employer Materials").

### **b. Employer Ownership.**

To the fullest extent permitted by law, all right, title and interest in and to all Subject Ideas and Inventions, including but not limited to all registrable and patent rights which may subsist therein, shall be held and owned solely by Employer, and where applicable, all Subject Ideas and Inventions shall be considered works made for hire. Employee shall mark all Subject Ideas and Inventions with the copyright or other proprietary notice of Employer, as directed by Employer, and shall take all actions deemed necessary by Employer to protect the rights of those parties therein. In the event that the Subject Ideas and Inventions shall be deemed not to constitute works made for hire, or in the event that Employee should otherwise, by operation of law, be deemed to retain any rights (whether moral rights or otherwise) to any Subject Ideas and Inventions, Employee agrees to assign to Employer, without further consideration, Employee's entire right, title and interest in and to each and every such Subject Idea and Invention.

The obligations contained in this section shall survive termination of this Agreement.

## **10. Assignment and Transfer.**

Employee's rights and obligations under this Agreement shall not be transferable by assignment or otherwise, and any purported assignment, transfer or delegation thereof shall be void. This Agreement shall inure to the benefit of, and be binding upon and enforceable by, any purchaser of substantially all of Employer's assets, any corporate successor to Employer or any assignee thereof.



## **11. No Inconsistent Obligations.**

Employee is aware of no obligations, legal or otherwise, inconsistent with the terms of this Agreement or with undertaking employment with Employer. Employee will not disclose to Employer, or use, or induce Employer to use, any proprietary information or trade secrets of others, including prior employers of Employee. Employee represents and warrants that Employee has returned all property and confidential information belonging to all prior employers.

## **11. Miscellaneous.**

### **c. Attorneys' Fees.**

Should either party hereto, or any heir, personal representative, successor or assign of either party hereto, resort to legal proceedings in connection with this Agreement or Employee's employment with Employer, the party or parties prevailing in such legal proceedings shall be entitled, in addition to such other relief as may be granted, to recover its or their reasonable attorneys' fees and costs in such legal proceedings from the non-prevailing party or parties.

### **d. Governing Law and Forum Selection.**

This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to its conflict of law principles and any dispute arising under this Agreement shall be adjudicated exclusively in the state and federal courts of Santa Clara County.

### **e. Entire Agreement.**

This Agreement contains the entire agreement and understanding between the parties hereto and supersedes any prior or contemporaneous written or oral agreements, representations and warranties between them respecting the subject matter hereof.

### **f. Amendment.**

This Agreement may be amended only by a writing signed by Employee and by a duly authorized representative of Employer.

### **g. Severability.**

If any term, provision, covenant or condition of this Agreement, or the application thereof to any person, place or circumstance, shall be held to be invalid, unenforceable or void, the remainder of this Agreement and such term, provision, covenant or condition as applied to other persons, places and circumstances shall remain in full force and effect.

**h. Construction.**

The headings and captions of this Agreement are provided for convenience only and are intended to have no effect in construing or interpreting this Agreement. The language in all parts of this Agreement shall be in all cases construed according to its fair meaning and not strictly for or against Employer or Employee.

**i. Rights Cumulative.**

The rights and remedies provided by this Agreement are cumulative, and the exercise of any right or remedy by either party hereto (or by its successor), whether pursuant to this Agreement, to any other agreement, or to law, shall not preclude or waive its right to exercise any or all other rights and remedies.

**j. Nonwaiver.**

No failure or neglect of either party hereto in any instance to exercise any right, power or privilege hereunder or under law shall constitute a waiver of that right or any other right, power or privilege. All waivers by either party hereto must be contained in a written instrument signed by the party to be charged and, in the case of Employer, by an officer of Employer (other than Employee) or other person duly authorized by Employer.

**k. Notices.**

Any notice, request, consent or approval required or permitted to be given under this Agreement or pursuant to law shall be sufficient if in writing, and if and when sent by certified or registered mail, with postage prepaid, to Employee's residence (as noted in Employer's records), or to Employer's principal office, as the case may be.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the date set forth below.

By: /s/ Mike Edelhart  
Mike Edelhart, CEO Live Deal, Inc.

/s/ Dean Heistad  
Dean Heistad

Dated: October 1, 2008

Dated: October 1, 2008

---

**EMPLOYMENT AGREEMENT**

This AGREEMENT is entered into by and between LiveDeal, Inc. ("Company"), and Gregg Thaler ("Thaler"), effective October 1, 2008.

**WHEREAS**, Company and Thaler desire to enter into an Agreement setting forth the terms and conditions of Thaler's employment with Company;

**NOW, THEREFORE**, in consideration of the mutual covenants and agreements hereinafter set forth, Employer and Thaler agree as follows:

**1. Role and Term of Agreement.**

(a) **Role.**

Thaler shall serve as Executive Vice President, Sales of the Company. In this role, Thaler reports to the Company's CEO, Mike Edelhart.

(b) **Initial Term; Extensions.**

The term of this Agreement shall be from October 1, 2008 through September 30, 2010. The Agreement will be extended automatically for two years, unless Company or Thaler provide 30 days' written notice of intent not to renew.

**2. Duties and Responsibilities.**

Thaler shall perform all of the duties of Executive Vice President, Sales as well as such other tasks as may be assigned by the Company's CEO.

**3. Compensation.**

(a) **Base Salary.**

Thaler shall be paid a base salary of \$15,000 per month. The parties both acknowledge that this salary represents 100% of Thaler's professional time and energy being devoted to LiveDeal, Inc., and that this amount of time and energy is consistent with that typically devoted by CEOs of startup technology companies ("Full Time"). Thaler's base salary will be reviewed no less than once each calendar year.

(b) **Override.**

Thaler will receive an override of 3% of earned and collected revenue from the Company's Direct Sales business. This override will be paid monthly based upon the previous month's sales revenue. Commissions shall be paid on the 15<sup>th</sup>, or on the last business day before the 15<sup>th</sup>, of each month.

(c) **Incentive Compensation.**

In addition to the above, Thaler will receive the following Incentive Compensation:

1. For each month in which earned revenue from Direct Sales exceeds 120% of the amount in the Company's 2009 Operating Budget, Thaler will earn a bonus of:

---

\$3000 per month in fiscal Q1  
\$4000 per month in fiscal Q2  
\$4500 per month in fiscal Q3  
\$5000 per month in fiscal Q4

For this bonus b1 only, the payments for fiscal Q1 and fiscal Q2 are guaranteed. The bonus for Q3 and Q4 are not guaranteed.

2. Milestone bonuses, which are paid once when the specified milestone is reached:

Bonus for \$8M in earned, collected revenue	Fully vested options to purchase 10,000 shares of Company stock subject to the limitations in section d) below.
Bonus for 9M in earned, collected revenue	Fully vested options to purchase 10,000 shares of Company stock subject to the limitations in section d) below
Bonus for positive p/1 contribution in or before Jan 2009	\$ 5,000
Bonus for first \$1M sales month	\$ 5,000

(d) **Shares Compensation.**

Subject to the Company's Common Stock Option Plan, the vote of the Company's Board of Directors, and approval by the Company's shareholders, Company will offer Thaler, for his work as Executive Vice President, the option to purchase 150,000 shares in the Company. Options will vest on the following schedule: 1/48<sup>th</sup> at the end of each month of employment.

In the event the Company experiences a "Change of Control" in ownership, which is defined as an entity not currently an investor in the company owning more than 50% of the total shares outstanding and/or owning materially all the operating assets of the company, vesting of Thaler's options under this agreement will accelerate 12 months forward. Mr. Thaler's options would immediately accelerate and vest an additional 12 months forward it upon or within 180 days of, any change of control of the Company Mr. Thaler's employment was terminated not for cause.

(e) **Withholding and Deductions.**

All compensation paid to Thaler shall be subject to withholding and deductions required by law.

4. **Other Employment Benefits.**

(a) **Medical Benefits.**

Thaler and Thaler's eligible spouse and dependents, if any, shall be entitled to participate in Company's medical plan, if any, pursuant to the plan's terms and conditions and subject to the plan's eligibility requirements, Nothing in this Agreement shall preclude Company from terminating or amending any employee benefit plan or program from time to time.

(b) **Vacation Leave.**

Thaler shall be entitled to vacation leave and personal days in accordance with Company's written policies regarding the accrual and use of vacation and personal days.

(c) **Holidays.**

Thaler shall be entitled to those paid holidays recognized by Employer.

(d) **Retirement.**

Thaler shall be entitled to participate in Employer's retirement plan, if any, subject to that plan's eligibility requirements and contribution limits.

(e) **Expense Reimbursement**

Thaler shall be entitled to reimbursement of reasonable business-related expenses upon providing satisfactory documentation to the Employer.

**5. Termination of Agreement.**

Employer may terminate this agreement with or without cause at any time. If the termination is without cause, Thaler shall be entitled to a lump sum payment equivalent to his base pay for the 3-month period ending on the last day of the month prior to the month in which notice is given, to be paid to Thaler within 15 days of receiving notice of his termination. If, at the time of termination without cause, revenue from Mr. Thaler's areas of responsibility (currently the Las Vegas direct sales operation) are within 90% of budget, Mr. Thaler will receive, in addition to the base salary stated above, a lump sum payment equal to the 3% management override earned during the 3-month period ending on the last day of the month prior to the month in which notice is given. If the termination is with cause, Thaler shall not be entitled to any compensation beyond the termination of his employment, nor shall he be entitled to notice, beyond that required by law. "Cause" for purposes of this Agreement shall include any of the following events, occurring after the effective date of this Agreement: (i) conviction of a felony, any act involving moral turpitude, or a misdemeanor where imprisonment is imposed, (ii) commission of any act of theft, fraud, material dishonesty, or falsification of any employment or other records belonging to Employer, (iii) improper disclosure of the confidential or proprietary information of Employer, (iv) any material breach of this Agreement, which breach is not cured within thirty (30) days following written notice of such breach, (v) a course of conduct amounting to gross incompetence or violation of Employer's employment policies, including but not limited to its policies against discrimination and harassment, which course of conduct is not abated within thirty (30) days following written notice of same, or (vi) misappropriation of funds or property of Employer.

Thaler may terminate this Agreement at any time, upon 30 days' notice to the Employer. Upon such termination by Thaler, he shall provide reasonable assistance to the Employer in locating a successor.

**6. Non-Competition.**

During employment with Company, Thaler will not compete with Company's present or contemplated business, nor will Thaler plan or organize any competitive business activity. Thaler will not enter into any agreement which conflicts with Thaler's duties or obligations to Company. Thaler will not during employment with Company, and for one year thereafter, without Company's consent, solicit or encourage any employee, agent, independent contractor, supplier, or consultant to terminate or alter a relationship with Company and/or its employees.

## 7. Confidentiality.

Company and Thaler acknowledge and agree that during the term of this Agreement and in the course of performing Thaler's duties hereunder, Thaler shall have access to and become acquainted with Proprietary and Confidential Information concerning the operation of Company.

Proprietary Information is all information and any idea whatever form, tangible or intangible, pertaining in any manner to the business of Company, or its employees, consultants, or business associates, which was produced by any employee or consultant of Company, other than Thaler, in the course of his or her employment or consulting relationship or otherwise produced or acquired by or on behalf of Company. All Proprietary Information not generally known outside of Company's organization or that of its customers, and all Proprietary Information so known only Through improper means, shall be deemed "Confidential Information". By example and without limiting the foregoing definition, Proprietary and Confidential Information shall include, but not be limited to:

- (i) formulas, research and development techniques, processes, trade secrets, computer programs, software, electronic codes, mask works, inventions, innovations, patents, patent applications, discoveries, improvements, data, know-how, formats, test results, and research projects;
- (ii) information about costs, profits, markets, sales, contracts and lists of distributors;
- (iii) business, marketing, and strategic plans;
- (iv) forecasts, unpublished financial information, budgets, projections, and customer identities, contact information, characteristics, preferences and agreements;
- (v) Employee personnel files and compensation information.

"Confidential Information" includes all information that has or could have commercial value or other utility in the business in which Company is engaged or contemplates engaging, and all information of which the unauthorized disclosure could be detrimental to the interests of Company, whether or not such information is identified as Confidential Information by Company.

Company owns and has developed and compiled, and will develop and compile, certain trade secrets, proprietary techniques and other Confidential Information which have great value to its business. This Confidential Information includes not only information disclosed by Company to Thaler, but also information developed or learned by Thaler during the course of employment with Company

Thaler will not, directly or indirectly, use, make available, sell, disclose or otherwise communicate to any third party, other than in Thaler's assigned duties and for the benefit of Company, any of Company's Confidential Information, either during or after employment with Company. Thaler acknowledges being aware that the unauthorized disclosure of Confidential Information may be highly prejudicial to its interests, an invasion of privacy, and an improper disclosure of trade secrets.



Thaler further agrees that all files, records, documents, equipment, and similar items relating to Company's business, whether prepared by Thaler or others, are and shall remain exclusively the property of Company.

The obligations contained in this section shall survive termination of this Agreement.

**8. Proprietary Rights, Inventions and New Ideas.**

**(a) Definition.**

The term "Subject Ideas or Inventions" includes any and all ideas, processes, trademarks, service marks, inventions, designs, technologies, computer hardware or software, original works of authorship, formulas, discoveries, patents, copyrights, copyrightable works, products, marketing and business ideas, and all improvements, know-how, data, rights, and claims related to the foregoing that, whether or not patentable, are conceived, developed or created which: (i) relate to the current or contemplated business or activities of Company; (ii) relate to the actual or demonstrably anticipated research or development of Company; (iii) result from any work performed by Thaler for Company; (iv) involve the use of the equipment, supplies, facilities or trade secrets of Company; (v) result from or are suggested by any work done by Company or at the request of Company, or any projects specifically assigned to Thaler; or (vi) result from Thaler's access to any of the memoranda, notes, records, drawings, sketches, models, maps, customer lists, research results, data, formulae, specifications, inventions, processes, equipment or other materials of Company (collectively, "Company Materials").

**(b) Company Ownership.**

To the fullest extent permitted by law, all right, title and interest in and to all Subject Ideas and Inventions, including but not limited to all registrable and patent rights which may subsist therein, shall be held and owned solely by Company, and where applicable, all Subject Ideas and Inventions shall be considered works made for hire. Thaler shall mark all Subject Ideas and Inventions with the copyright or other proprietary notice of Company, as directed by Company, and shall take all actions deemed necessary by Company to protect the rights of those parties therein. In the event that the Subject Ideas and Inventions shall be deemed not to constitute works made for hire, or in the event that Thaler should otherwise, by operation of law, be deemed to retain any rights (whether moral rights or otherwise) to any Subject Ideas and Inventions, Thaler agrees to assign to Company, without further consideration, Thaler's entire right, title and interest in and to each and every such Subject Idea and Invention.

The obligations contained in this section shall survive termination of this Agreement.

**9. Assignment and Transfer.**

Thaler's rights and obligations under this Agreement shall not be transferable by assignment or otherwise, and any purported assignment, transfer or delegation thereof shall be void. This Agreement shall inure to the benefit of, and be binding upon and enforceable by, any purchaser of substantially all of Company's assets, any corporate successor to Company or any assignee thereof, provided Thaler agrees upon disclosure of any sale or transfer of assets that such transaction does not constitute a Change in Control as defined in Section 5 of this Agreement

**10. No Inconsistent Obligations.**

Thaler is aware of no obligations, legal or otherwise, inconsistent with the terms of this Agreement or with undertaking employment with Employer. Thaler will not disclose to Company, or use, or induce Company to use, any proprietary information or trade secrets of others, including prior employers of Thaler. Thaler represents and warrants that Thaler has returned all property and confidential information belonging to all prior employers.

11. **Miscellaneous.**

(a) **Governing Law and Forum Selection.**

This Agreement shall be governed by and construed in accordance with the laws of the State of Nevada without regard to its conflict of law principles and any dispute arising under this Agreement shall be adjudicated exclusively in the state and federal courts of Santa Clara County.

(b) **Entire Agreement.**

This Agreement contains the entire agreement and understanding between the parties hereto and supersedes any prior or contemporaneous written or oral agreements, representations and warranties between them respecting the subject matter hereof.

(c) **Amendment.**

This Agreement may be amended only by a writing signed by Thaler and by a duly authorized representative of Company.

(d) **Severability.**

If any term, provision, covenant or condition of this Agreement, or the application thereof to any person, place or circumstance, shall be held to be invalid, unenforceable or void, the remainder of this Agreement and such term, provision, covenant or condition as applied to other persons, places and circumstances shall remain in full force and effect.

(e) **Construction.**

The headings and captions of this Agreement are provided for convenience only and are intended to have no effect in construing or interpreting this Agreement. The language in all parts of this Agreement shall be in all cases construed according to its fair meaning and not strictly for or against Company or Thaler.

(f) **Rights Cumulative**

The rights and remedies provided by this Agreement are cumulative, and the exercise of any right or remedy by either party hereto (or by its successor), whether pursuant to this Agreement, to any other agreement, or to law, shall not preclude or waive its right to exercise any or all other rights and remedies.

(g) **Nonwaiver.**

No failure or neglect of either party hereto in any instance to exercise any right, power or privilege hereunder or under law shall constitute a waiver of that right or any other right, power or privilege. All waivers by either party hereto must be contained in a written instrument signed by the party to be charged and, in the case of Company, by an officer of Company (other than Thaler) or other person duly authorized by Company.

**(h) Notices.**

Any notice, request, consent or approval required or permitted to be given under this Agreement or pursuant to law shall be sufficient if in writing, and if and when sent by certified or registered mail, with postage prepaid, to Thaler's residence (as noted in Company's records), or to Company's principal office, as the case may be.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the date set forth below.

By: /s/ Mike Edelhart  
Mike Edelhart, CEO Live Deal, Inc.

/s/ Gregg Thaler  
Gregg Thaler

Dated: November 25, 2008

Dated: November 25, 2008



CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY

I, Michael Edelhart, certify that:

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

Date: May 15, 2009

/s/ Michael Edelhart  
Michael Edelhart  
Chief Executive Officer

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CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY

I, Rajeev Seshadri, certify that:

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

Date: May 15, 2009

/s/ Rajeev Seshadri

Rajeev Seshadri  
Chief 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, Michael Edelhart, the Chief Executive Officer of LiveDeal, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of LiveDeal, Inc. on Form 10-Q for the quarter ended March 31, 2009 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of LiveDeal, Inc.

Date: May 15, 2009

/s/ Michael Edelhart  
Michael Edelhart  
Chief Executive Officer

I, Rajeev Seshadri, the Chief Financial Officer of LiveDeal, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of LiveDeal, Inc. on Form 10-Q for the quarter ended March 31, 2009 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of LiveDeal, Inc.

Date: May 15, 2009

/s/ Rajeev Seshadri  
Rajeev Seshadri  
Chief Financial Officer



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