

LIVEDEAL INC
Form 10-K
January 07, 2011
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark one)

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

For the fiscal year ended September 30, 2010

TRANSITION REPORT UNDER 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)

Registrant's telephone number, including area code: (702) 939-0230

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$.001 Par Value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No

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

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

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 aggregate market value of the registrant's common stock held by non-affiliates computed based on the closing price of such stock on March 31, 2010 was \$3,611,352.

The number of shares outstanding of the registrant's common stock, as of December 17, 2010, was 613,391 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement relating to the Registrant's 2011 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

LIVEDEAL, INC.

FORM 10-K

For the year ended September 30, 2010

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PART I

Forward-Looking Statements

Part I of this Annual Report on Form 10-K includes statements that constitute “forward-looking statements.” These forward-looking statements are often characterized by the terms “may,” “believes,” “projects,” “expects,” or “anticipates,” and not reflect historical facts. Specific forward-looking statements contained in Part I of this Annual Report include, but are not limited to, our (i) belief that local exchange carrier, or LEC, billing will continue to be a significant billing channel in the future; (ii) expectation of increasing revenues through our national accounts programs, fulfillment contracts, web hosting and other arrangements; (iii) belief in the continued growth of Internet usage and demand for online marketing; (iv) belief in the growth of the local search and information market; (v) belief that existing cash on hand and additional cash generated from operations together with additional cash obtained from other sources will provide us with sufficient liquidity to meet our needs for the next 12 months, such other sources of cash possibly including stock issuances and loans; (vi) belief that we would be able to obtain advances from our existing LEC clearing houses through their current advance programs; (vii) belief that we could obtain other forms of financing secured by or leveraged off our increasing accounts receivable based on existing programs in place that are being offered to companies similar to ours; and (viii) belief that existing facilities are adequate for our current and anticipated future needs and that our facilities and their contents are adequately covered by insurance.

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 Item 1A. Risk Factors, as well as other factors that we are currently unable to identify or quantify, but 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. Any information contained on our website www.livedeal.com or any other websites referenced in this Annual Report are not a part of this Annual Report.

ITEM 1. Business

Our Company

LiveDeal, Inc., a Nevada corporation (the “Company”, “LiveDeal”, “we”, “us” or “our”) provides local customer acquisition services for small businesses. LiveDeal, through our two primary wholly-owned subsidiaries (Velocity Marketing Concepts, Inc. and Local Marketing Experts, Inc.), offers an affordable way for businesses to extend their marketing reach to local, relevant customers via the Internet.

Summary Business Description

LiveDeal first started in the online marketing industry as YP.com. At the time, YP.com was the first company to bring the print yellow pages to the Internet in 1994. From there we moved into the online classifieds business when we merged with LiveDeal in 2007.

We believe that small businesses that can take advantage of emerging Internet capabilities will be able to acquire customers with efficiency never-before-possible and that those that cannot will suffer in comparison. So, it is becoming widely recognized among small business owners that mastering the Internet arts is essential.

But there is a gap. These new Internet services are inherently technological. They require a deep dedication of time, technological skills, language and presentation expertise and other masteries that few small business operators have, or have the intention of acquiring. We recognize that, to succeed, a small business person needs to remain intensely focused on the fundamentals of his/her business. Small businesses therefore need a partner with the necessary expertise and understanding to manage emerging Internet audience acquisition services on their behalf. They need this partner to operate quickly, proactively and at the lowest possible cost.

To that end, we have strategically created and delivered a suite of products and services designed to deliver agency quality products at an affordable cost. This new suite of products delivers high end agency products and services without the costs typically associated with a high end, online, agency firm. The suite of services has a variety of online products and various price points. These products allow LiveDeal to become the small business audience acquisition partner.

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LiveDeal customers are small business owners who work 24/7 to deliver real value to their customers in their own communities with little time left over to craft the powerful, multi-faceted, online marketing and advertising programs that today's world demands. LiveDeal has stepped up to this challenge, drawing from a decade of experience as a directory provider.

Today, we have adapted and adjusted our company goals to reflect the latest online trends with the aim of reaching as many small and medium-sized businesses as possible. In March 2010 we adopted the strategy of developing successor products to our directory business and rebuilding our customer base through mass market sales using LEC billing channels and moving away from the higher-end direct sales products offered through Local Marketing Experts, Inc (which focused on search engine marketing and website creation services together with additional add-on advertising products.). Since July 2010, the line of business historically known as our yellow page directory service was rebranded and upgraded to the InstantProfile® product and marketed under our subsidiary Velocity Marketing Concepts, Inc. This new product, which is part of the InstantAgency suite of products, provides online subscription tools and services to broadcast information about a business to the top (based on popularity) Internet directories, search engines results, social media networks, and Points-of-Interest (POI) databases embedded on the leading navigational devices. This ensures that our customers are distributed to sites such as Google, Yahoo, Bing, Facebook, Twitter and others through our distribution network. Additionally, customers receive a communication suite that allows both conference call hosting and electronic fax services. This strategy has culminated in the cessation of all new sales under the Local Marketing Experts, Inc. subsidiary on December 1, 2010. Based on the fact that sales of the InstantProfile product have exceeded our expectations, we are focusing our efforts on increasing our sales under Velocity Marketing Concepts, Inc. and expanding the range of products offered to the market through this sales outlet.

Products and Services

InstantProfile. As described above, our Internet Advertising Product ("IAP") package was discontinued this year with the launch of the InstantProfile product. All IAP customers were moved to InstantProfile to take advantage of the new product and features. Under this package, the advertiser pays for exposure utilizing our InstantProfile product. The advertiser enjoys the benefit of having its business distributed to top Internet destinations (based on popularity), including the search engines, top directories, and social media networks. This gives the advertiser the ability to manage its business information in one location and maximize its reach to many locations, as a consumer may search broadly for local business services. InstantProfile customers also enjoy additional benefits with tools to communicate directly with their customers and employees. The InstantProfile platform includes:

§ One location to manage business contact information through the syndication network to the top search engines, directories, and social media networks.

§ Broadcasting messages to the top social media networks.

§ Conference call solution.

§ Electronic faxing solution.

InstantProfile Pricing. We generally price our InstantProfile product between \$27.50 and \$49.00 per month, which includes all of the service benefits previously described. We believe that these prices are comparable to the prices of our competitors, and we believe that our product provides superior value to our advertisers when considering the many benefits that they receive, including the ease of use, broad internet distribution and communication tools.

Billing. Our billing process allows us to deliver high levels of service to our customers through convenient and timely billing and payment options. We currently bill our advertisers through (i) their local exchange carrier ("LEC"), (ii) Automated Clearing House ("ACH") billing, (iii) their credit card or (iv) direct bill invoices.

Similar to the local Regional Bell Operating Companies, we are approved to bill our products and services directly on some of our advertisers' local telephone bill through their LEC, commonly referred to as their local telephone

company. We believe that this is an efficient and cost-effective billing method as compared to direct billing methods.

In order to bill our advertisers through their LECs, we are required to use one or more billing service aggregators. These aggregators have been approved by various LECs to provide billing, collection, and related services through the LECs. Under these agreements, our service aggregators bill and collect our charges to our advertisers through LEC billing and remit to us the proceeds, net of fees, bad debt reserves, customer returns, and unbillable accounts, typically within 90 days of submission.

We also use billing service providers to process billings via recurring direct bank account withdrawal options through ACH billings. These service providers process direct bank withdrawals through an Automated Clearing House and remit the proceeds, net of fees and refunds to advertisers that cancel their service, typically within 15 days of settlement.

Under our contractual agreements with our LEC billing service aggregators, these third parties are entitled to withhold certain amounts from our net proceeds to serve as a security deposit or “holdbacks” or “reserves.” Such amounts are generally remitted to us over a 12-18 month period, depending on the terms of the respective agreements. An ACH processor maintains a fixed security deposit as a reserve.

Direct Sales, now known as Local Marketing Experts, Inc. In February 2008, we 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 on using telesales and sophisticated Internet audience acquisition technologies to deliver a suite of audience acquisition services to small businesses. This line of business became known as Local Marketing Experts, Inc. in April 2010. As described above, on December 1, 2010 we ceased all new sales under this line of business to focus more of the company's resources and capital on expansion and further development of the InstantProfile product and its companion products. We will continue to support, fulfill and maintain all customers acquired under this line of business as long as it is economically beneficial to do so.

Local Marketing Experts, Inc. customers signed up for a one year contract paid equally over twelve months. Products and services ranged in price from \$4,500 per year to \$10,000 a year paid via credit card in 12 monthly installments.

The Internet Yellow Pages Advertising Market

According to The Kelsey Group (a leading consultant in the local advertising market) it is expected that by 2014, the U.S. local media advertising will reach \$145.2 billion. Overall, the interactive advertising market is showing a strong rebound from economic challenges.

The Kelsey Group is forecasting that the percentage of local searches will surge from 12.7% in 2009 to 17% in 2010. In fact, Google executives have openly commented that they are observing 20% of searches to be local. Given the overall search engine mix, The Kelsey Group is estimating the percentage across all U.S. search engines to be 17%. Additionally the number of searches per person per month will grow substantially from 90 in 2009 to 110 in 2010. ComScore tracking shows similar per searcher results at midyear 2010, increasing overall confidence.

§ Total Local advertising spend is forecast at \$133.33 billion in 2010, rising to \$137.3 billion in 2012 and to \$145.2 billion in 2014.

§ The local advertising market is currently dominated by traditional media, however, there is a steady increase in online spending from \$19.6 billion in 2010 to \$35.2 billion projected in 2014.

§ By comparison, classifieds and verticals ended 2009 at \$3.9 billion, down \$1 billion from 2008. Classified performance last year declined substantially, down 30% in the second quarter, year over year, and down 21% for the full year. Classifieds as a format continues to struggle.

We believe the following factors will cause our Online Marketing Spend to continue to grow:

§ Online advertising reaches more users as search queries continue to increase as local newspapers, printed directories and other local printed mediums continue to reduce circulation (and, in turn, their impact and reach) due to high cost and in turn their reach.

§ Online users are becoming trained to use the Internet as a whole and not only their computer largely due to the broad accessibility via computers and hand-held devices, such as mobile phones and personal digital assistant.

§ Features such as mapping, direct calling to the advertiser, and e-mail at the click of a button have become more prevalent.

Additionally, online advertising generally delivers trackable returns on investment. For every marketing dollar spent, there is the ability to access and modify displays and advertisements, which allows for opportunistic or targeted specials or discounts; something the consumer has been trained to expect.

Search engines are a common method by which users navigate the Internet. We expect to expand our distribution network to allow our advertisers to benefit from this growth by seeking prominent placement for them in search engine results.

Marketing

Today, we utilize various online marketing methods to drive users and advertisers to our website properties. In fact, we utilize the very products and services we offer to the small businesses to market ourselves. These services include our corporate and product websites, Search Engine Marketing, website videos, and Display Advertising. In addition to online marketing, we generate leads for our telemarketing group through industry specific trade show event participation, referral partnerships with vertical specific trade associations, referral bounties from existing customers and traditional list purchases.

Each subsidiary (Local Marketing Experts, Inc and Velocity Marketing Concepts, Inc.) has its own website, brand and overall product target message while the LiveDeal.com corporate website defines our company story and also promotes the overall line of products and services.

We do not currently sell our products via e-commerce. We believe that our products and services are best suited for the telesales process. We offer a consultative sales process that interviews the customer regarding their needs and their goals. We recommend products and services that are customized to achieve the small business' goals. We have a strategic line up of products and services that cover an array of online needs.

Technology and Infrastructure

We believe best of breed technology partnerships enable the company to continually evaluate and align ourselves with the best technology solutions available. In today's high technology world, applications and tools can be outdated in weeks let alone months. Costs associated with technology development at the risk of being outdated have encouraged us to research and attain the best product available in each of our product categories.

§	Eliminated homegrown systems in favor of open, best-of-breed solutions
-	Lower cost approach
-	No future development costs
-	Better back-up and reliability
§	Able to partner with any vendor or platform
-	Plug and play approach
-	Greatly improved speed to market
-	Increased flexibility

§ We have gone to cloud computing options to replace and maintain outdated hardware

The cloud technology we have chosen to embrace combines the power and flexibility of infrastructure-as-a-service with the security and availability that organizations with mission-critical computing needs demand of their infrastructure. Because it is based on resources, not large and inflexible server units, cloud technology allows for precise and dynamic allocation of computing resources when and where they are needed.

The environment leverages technology from world-class infrastructure partners such as VMware, Cisco, HP and IBM to achieve unmatched flexibility and control. The clustered grid architecture provides complete physical redundancy to eliminate downtime due to hardware failure. In fact, the system can even move applications across physical devices live and with no service interruption. And automated resource balancing provides continuous monitoring and optimization to ensure peak performance. Storage is delivered on a redundant, high-performance Fibre-attached SAN architecture. This allows for the addition of disks to virtual servers in increments of 1GB to 512GB when needed from the storage pool.

Security in the cloud is also an issue that is addressed through the provision of a highly secure foundation for our business applications, with an architecture designed to help meet today's critical compliance and certification requirements, including SAS 70 Type II, PCIDSS and Safe Harbor.

End user software is web-based. The deployment of this software allows us the maximum level of flexibility to implement strategic product and marketing partners. Using premier SaaS (software as a service) vendors, we are able to deploy products and initiatives in a fast and efficient manner.

We have deployed sales force automation and customer relationship management software including Salesforce.com to organize, collaborate and synchronize business processes related to customer acquisition and support. We use this technology to manage all aspects of the sales and customer lifecycle including prospect management, the sale, product provisioning and post-sale support.

Billing is completed through specialized subscription management software. We are able to automate and manage subscription billing via credit card, checking/ACH or LEC (local exchange carrier) billing. We are able to bill any type of recurring subscription as well as rate usage charges giving us full pricing and package flexibility.

Our technology provides a strong but flexible framework for our operation that allows us to grow and adapt with the Market.

Competition

We operate in the highly competitive and rapidly expanding and evolving business-to-business Internet services market. Our largest competitors are LECs, which are generally known as local telephone companies, and national search engines such as Yahoo! and Google that have recently expanded their presence in the local search market. We compete with other online Yellow Pages services, website operators, advertising networks, and traditional offline media, such as traditional Yellow Pages directory publishers, television, radio, and print share advertising. Our services also compete with many directory website production businesses and Internet information service providers. Our audience acquisition services compete with advertising agencies and other businesses providing somewhat similar services.

The principal competitive factors in the markets in which we compete include personalization of service, ease of use of directories, quality and responsiveness of search results, availability of quality content, value-added products and services, and access to end-users. We compete for advertising listings with the suppliers of Internet navigational and informational services, high-traffic websites, Internet access providers, and other media. This competition could result in significantly lower prices for advertising and reductions in advertising revenues. Increased competition could have a material adverse effect on our business.

Many of our competitors have greater capital resources than we have. These capital resources could allow our competitors to engage in advertising and other promotional activities that will enhance their brand name recognition at levels we cannot match. The LECs and national search engines also have advantages in terms of brand name recognition.

We believe that we are in a position to successfully compete in these markets due to our experience at sourcing, selling and servicing large numbers of small business accounts, the comprehensiveness of our database, and the effectiveness of our marketing programs and our distribution network. We also believe that our products provide a simple and affordable way of creating a web presence and marketing their products and services to local audiences. We further believe that we can compete effectively by continuing to provide quality services at competitive prices and by actively developing new products and services for customers that enable us to become a one-stop shop for all online marketing needs of the small business regardless of the price point.

Employees

As of December 6, 2010, we had 23 full-time and no part-time employees in the United States. None of our employees are covered by any collective bargaining agreements.

ITEM 1A. Risk Factors

An investment in our common stock involves a substantial degree of risk. Before making an investment decision, you should give careful consideration to the following risk factors in addition to the other information contained in this report. The following risk factors, however, may not reflect all of the risks associated with our business or an investment in our common stock. The trading price of our common stock could decline significantly due to any of these risks and investors may lose all or part of their investments. In assessing these risks, investors should also refer to the other information contained or incorporated by reference in this Annual Report on Form 10-K, including our consolidated financial statements for the fiscal year that ended on September 30, 2010 and related notes.

Risks Related to Our Business

Uncertainty in the market for our products and services.

The demand and market acceptance for our services may be subject to a high level of uncertainty. Advertisers and users may not adopt or continue to use our Internet-based marketing services and other online services that we may offer in the future. Advertisers may find our Internet-based marketing services to be less effective for meeting their business needs than other methods of advertising and marketing. Our business, prospects, financial condition or results of operations will be materially and adversely affected if we do not execute our strategy or our services are not adopted by a sufficient number of advertisers.

We will incur operating losses and significant volatility in operations while we develop our new business segment.

During the fiscal year ended September 30, 2010, we incurred substantial operating losses as we transitioned our business toward our new strategic focus. We will continue to incur operating losses as we develop our new business segment, which will be financed through existing cash on hand. While we believe our existing cash on hand, together with additional cash generated from operations or obtained from other sources, such other sources of cash possibly including stock issuances, loans and advances from our existing LEC clearing houses through their current advance programs or other forms of financing secured by or leveraged off our increasing accounts receivable based on existing programs in place that are being offered to companies similar to ours; is sufficient to finance our operations for the next twelve months, there can be no assurance that we will achieve profitability or positive operating cash flows. To the extent that we cannot achieve profitability or positive operating cash flows, our business will be materially and

adversely affected. Further, this new business segment is likely to experience significant volatility in its revenues, operating losses, personnel involved, products or services for sale, and other business parameters, as management implements its strategies and responds to operating results from this new business segment.

We have sold a significant portion of our assets and customer list associated with our directory services business.

During fiscal 2009, as part of our changing business strategy, we sold our primary URL, www.yip.com, as well as a portion of our customer list. Further, certain fulfillment contracts were terminated during the fiscal year 2009. These transactions will continue to result in a significant loss of future revenue which could adversely impact our financial condition and results of operations.

As a result of the cessation of billing of the accounts subject to these sales or terminations of billing contracts during the fiscal year 2009, the reserves held by the LEC processors, and carried by us as accounts receivable, are no longer increasing as a result of continued billing for services provided to directory business customers. Further, the LEC processors continue to deduct their expenses from these reserves. We have made reasonable estimates of these potential expenses over the expected period of collection of these reserve amounts held-back by the LEC processors. However, it is possible that the actual expenses billed by the LEC processors in the future could vary significantly from the estimates made by the Company, thereby affecting the amounts collectible from the booked accounts receivable.

The discontinuance of our classifieds and Direct Sales businesses could adversely impact our financial condition.

In fiscal year 2009 we made the strategic decision to disco