WEBDIGS INC
Form 10-Q
June 15, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 30, 2009

OR

¨ TRANSITION REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______

Commission File Number 0-53359

WEBDIGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	11-3820796
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3433 West Broadway St, NE, Suite 501, Minneapolis, MN
(Address of Principal Executive Offices)

(612) 767-3854
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed from last report)

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 x No ¨

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

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

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

As of June 15, 2009 there were 31,097,056 shares of the issuer’s common stock, $0.001 par value, outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements.

WEBDIGS, INC.

CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

FOR THE THREE AND SIX MONTH
PERIODS ENDED APRIL 30, 2009 AND 2008

WEBDIGS, INC.

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WEBDIGS, INC.

CONSOLIDATED BALANCE SHEETS
(Unaudited)

	April 30, 2009 (Unaudited)	October 31, 2008 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,553	$ 37,802
Commissons and fees receivable	17,994	12,467
Prepaid expenses and deposits	63,856	14,011
Debt issuance costs, net	2,000	-
Other current assets	6,080	6,125
Total current assets	96,483	70,405
Investment in Marketplace Home Mortgage Webdigs, LLC	20,967	2,182
Office equipment and furniture, net	23,513	30,202
Intangible assets, net	260,700	351,430
Total assets	$ 401,663	$ 454,219

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

WEBDIGS, INC.

CONSOLIDATED BALANCE SHEETS (continued)
(Unaudited)

		April 30, 2009 (Unaudited)		October 31, 2008 (Audited)
LIABILITIES AND STOCKHOLDERS' DEFICIT				
Current liabilities:				
Current portion of capital lease obligations	$	4,008	$	3,828
Accounts payable		306,986		377,538
Accounts payable - minority stockholder		631,885		550,206
Due to officers		53,007		27,277
Accrued expenses:				
Professional fees		18,000		50,000
Payroll and commissions		47,300		32,269
Lease expenses for vacated office space		55,913		55,913
Other		14,287		15,170
Convertible note payable, net of discount		176,207		-
Liabilities for warrant to purchase common stock		13,596		-
Embedded derivatives of convertible debt instruments		177,695		-
Total current liabilities		1,498,884		1,112,201
Long term liabilities:				
Capital lease obligation, less current portion		8,380		10,431
Total liabilities		1,507,264		1,122,632
Stockholders' deficit:				
Common stock - $.001 par value; 125,000,000 shares authorized as common stock and an additional 125,000,000 shares designated as common or preferred stock; 22,739,511 and 22,308,711 common shares issued and outstanding at April 30, 2009 and October 31, 2008, respectively		22,740		22,309
Additional paid-in-capital		2,280,265		2,002,226
Accumulated deficit		(3,408,606)		(2,692,948)
Total stockholders' deficit		(1,105,601)		(668,413)
Total liabilities and stockholders' deficit	$	401,663	$	454,219

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

WEBDIGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended April 30,		Six Months Ended April 30	
	2009 (unaudited)	2008 (unaudited)	2009 (unaudited)	2008 (unaudited)
Revenue:				
Gross revenues	$ 91,166	$ 371,308	$ 179,192	$ 565,964
Less: commissions, rebates and third party agent commissions	(31,925)	(41,329)	(81,324)	(66,603)
Net revenues	59,241	329,979	97,868	499,361
Operating expenses:				
Selling	163,070	775,536	327,485	1,345,720
General and administrative	191,582	180,852	348,264	341,158
Total operating expenses	354,652	956,388	675,749	1,686,878
Operating loss	(295,411)	(626,409)	(577,881)	(1,187,517)
Other income (expense):				
Equity in income (loss) from Marketplace Home Mortgage - Webdigs, LLC	(68)	-	18,785	-
Interest expense	(55,812)	(2,344)	(92,854)	(4,554)
Loss on change in fair value of derivatives and warrants	(38,154)	-	(63,708)	-
Total other income (expense)	(94,034)	(2,344)	(137,777)	(4,554)
Net loss before income taxes	(389,445)	(628,753)	(715,658)	(1,192,071)
Income tax provision	-	-	-	-
Net loss	$ (389,445)	$ (628,753)	$ (715,658)	$ (1,192,071)
Net loss per common share - basic and diluted	$ (0.02)	$ (0.03)	$ (0.03)	$ (0.06)
Weighted average common shares outstanding - basic and diluted	22,739,511	20,984,507	22,622,239	20,131,891

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

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WEBDIGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Six Months Ended April 30, 2009 and 2008
(Unaudited)

	Six Months Ended April 30, 2009 (unaudited)	Six Months Ended April 30, 2008 (unaudited)
Cash flows from operating activities:		
Net loss	$ (715,658)	$ (1,192,071)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation	6,689	15,586
Amortization of intangible assets	90,730	97,581
Amortization of convertible note payable discounts	73,790	-
Amortization or debt issuance costs	2,000	-
Loss on change in fair value of derivatives and warrants	63,708	-
Loss on disposal of fixed assets	-	267
Equity in the (income) loss of Marketplace Home Mortgage - Webdigs, LLC	(18,785)	-
Share-based compensation	130,970	83,453
Common stock issued for services	7,000	-
Changes in operating assets and liabilities:		
Commissions and fees receivable	(5,527)	(23,258)
Prepaid expenses and deposits	70,155	6,606
Other current assets	45	-
Accounts payable	(70,552)	178,916
Accounts payable - minority stockholder	81,679	66,013
Accrued expenses and other liabilities	2,148	(18,356)
Net cash flows used in operating activities	(281,608)	(785,263)
Cash flows from investing activities:		
Purchase of equipment and fixtures	-	(18,216)
Net cash flows used in investing activities	-	(18,216)
Cash flows from financing activities:		
Issuance of common stock	500	826,500
Proceeds from issuance of convertible debentures, net of debt issuance costs of $4,000 and payment of unrelated accrued legal fees of $20,000	226,000	-
Increase (decrease) in due to officers	25,730	(17,601)
Principal payments on capital lease obligations	(1,871)	(4,362)
Net cash flows provided by financing activities	250,359	804,537
Net change in cash and cash equivalents	(31,249)	1,058
Cash and cash equivalents, beginning of period	37,802	113,280

Cash and cash equivalents, end of period	$	6,553	$	114,338

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

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WEBDIGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Six Months Ended April 30, 2009 and 2008
(Unaudited)

	Six Months Ended April 30, 2009 (unaudited)	Six Months Ended April 30, 2008 (unaudited)
Supplemental cash flow information		
Cash paid for interest	$ 11,497	$ 2,210
Supplemental disclosure of non-cash investing and financing activities		
Issuance of common stock to convertible debt holder as a discount on the debt	$ 20,000	$ -
Discount on convertible debt due to detachable warrant and embedded conversion options	$ 127,583	$ -
Accrued legal fees paid by withholding from debt proceeds	$ 20,000	$ -
Related party contribution to consultant for prepaid consulting fees	$ 40,000	$ -
Common stock issued for prepaid consulting fees	$ 80,000	$ -

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

WEBDIGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the Three and Six Month Periods Ended April 30, 2009 and 2008

1 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial information has been prepared by Webdigs, Inc. (the “Company”) in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (SEC). Accordingly, it does not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement of this financial information have been included. Financial results for the interim period presented are not necessarily indicative of the results that may be expected for the fiscal year as a whole or any other interim period. This financial information should be read in conjunction with the audited consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended October 31, 2008.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Webdigs, Inc. (“the Company”) was incorporated on May 25, 1994 under the name of Select Video, Inc. The Company changed to its current name on October 23, 2007. Select Video, Inc. was an inactive shell from February 29, 2000 to October 24, 2007 when they entered into a Share Exchange and Acquisition Agreement whereby it agreed to issue 15,818,251 shares of its common stock to its subsidiary Select Video Acquisition, LLC which in-turn used those shares to acquire all of the outstanding units of Webdigs, LLC, a private company organized in the state of Minnesota resulting in Webdigs, LLC as the surviving entity. Webdigs, LLC, based in Minneapolis, MN, was organized on May 1, 2007 and consists of two strategic operating segments; (1) web-assisted real estate broker, offering the same customer experience as a full service broker utilizing a flat fee structure for listing services to their selling customers and a graduated fee structure for their buying customers by rebating up to one-half of its broker commissions and (2) mortgage broker, assisting homeowners in refinancing their home mortgages and assisting new home buyers in qualifying for home mortgages and brokering the financing. The mortgage broker segment operates as an unconsolidated joint venture under the name of Marketplace Home Mortgage - Webdigs, LLC. The web-assisted real estate broker segment operates as Webdigs, LLC.

Upon completion of the transaction on October 24, 2007, Webdigs, LLC became a wholly owned subsidiary of Webdigs, Inc. Since the transaction resulted in the existing members of Webdigs, LLC acquiring control of Webdigs, Inc., for financial statement purposes, the merger has been accounted for as a recapitalization of Webdigs, Inc. (a reverse merger with Webdigs, LLC as the accounting acquirer). The operations of Webdigs, LLC are the only continuing operations of the Company.

WEBDIGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the Three and Six Month Periods Ended April 30, 2009 and 2008

Consolidation Policies

The consolidated financial statements for the six month periods ended April 30, 2009 and 2008, include the accounts of Webdigs, Inc. and its wholly-owned subsidiary, Webdigs, LLC, which includes wholly owned subsidiaries of Marquest Financial, Inc., Home Equity Advisors, LLC, and Credit Garage, LLC. The investment in Marketplace Home Mortgage - Webdigs, LLC (49% ownership) is recorded on the equity method. All significant intercompany accounts and transactions have been eliminated in the consolidation.

On June 3, 2009, the Company unwound its acquisition of Marquest Financial, Inc. (see Note 14).

Segment Information

SFAS No. 131 Disclosure About Segments of an Enterprise and Related Information defines operating segments as components of a company about which separate financial information is evaluated regularly by the chief decision maker in deciding how to allocate resources and assess performance. The Company has identified two operating segments: web-assisted real estate brokerage and mortgage brokerage.

Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Debt Issuance Costs

The Company accounts for debt issuance costs and other debt discounts by amortizing the amounts using the effective interest method over the term of the related debt instrument.

WEBDIGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the Three and Six Month Periods Ended April 30, 2009 and 2008

Investment in Marketplace Home Mortgage – Webdigs, LLC

On August 1, 2008, the Company contributed non-cash assets into a joint venture created with Marketplace Home Mortgage, LLC for a 49% ownership interest (see Note 6). The Company accounts for its investment in the joint venture using the equity method. Accordingly, the Company records an increase in its investment for contributions to the joint venture and for its 49% share of the income of the joint venture, and a reduction in its investment for its 49% share of any losses of the joint venture or disbursements of profits from the joint venture.

Accounting for Convertible Debentures, Warrants and Derivative Instruments

The Company does not enter into derivative contracts for purposes of risk management or speculation. However, from time to time, the Company enters into contracts that are not considered derivative financial instruments in their entirety but that include embedded derivative features.

The Company accounts for its embedded conversion features and freestanding warrants pursuant to SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133) and EITF 00-19, Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in, a Company’s Own Stock (EITF 00-19) which requires freestanding contracts that are settled in a company’s own stock to be designated as an equity instrument, asset, or a liability. Under the provisions of EITF 00-19, a contract designated as an asset or a liability must be carried at fair value on a company’s balance sheet, with any changes in fair value recorded in the results of operations.

In accordance with EITF 00-19, certain warrants to purchase common stock and embedded conversion options are accounted for as liabilities at fair value and the unrealized changes in the values of these derivatives are recorded in the statement of operations as “gain or loss on warrants and derivatives.” Contingent conversion features that reduce the conversion price of warrants and conversion features are included in the valuation of the warrants and the conversion features. The recognition of the fair value of derivative liabilities (i.e. warrants and embedded conversion options) at the date of issuance is applied first to the proceeds. The excess fair value, if any, over the proceeds from a debt instrument, is recognized immediately in the statement of operations as interest expense. The value of warrants or derivatives associated with a debt instrument is recognized at inception as a discount to the debt instrument. This discount is amortized over the life of the debt instrument using the effective interest method. A determination is made upon settlement, exchange, or modification of the debt instruments to determine if a gain or loss on the extinguishment has been incurred based on the terms of the settlement, exchange, or modification and on the value allocated to the debt instrument at such date.

WEBDIGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the Three and Six Month Periods Ended April 30, 2009 and 2008

The Company uses the Black-Scholes pricing model to determine fair values of its derivatives. Valuations derived from this model are subject to ongoing internal verification and review. The model uses market-sourced inputs such as interest rates, exchange rates, and option volatilities. Selection of these inputs involves management's judgment and may impact net income (loss). The fair value of the derivative liabilities are subject to the changes in the trading value of the Company's common stock. As a result, the Company's financial statements may fluctuate from quarter-to-quarter based on factors, such as the bid price of the Company's stock at the balance sheet date, the amount of shares converted by note holders and/or exercised by warrant holders, and changes in the determination of market-sourced inputs. Consequently, the Company's financial position and results of operations may vary materially from quarter-to-quarter based on conditions other than its operating revenues and expenses.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, as clarified by FIN No. 48, which requires an asset and liability approach to financial accounting and reporting for income taxes. Accordingly, deferred tax assets and liabilities arise from the difference between the tax basis of an asset or liability and its reported amount in the consolidated financial statements. Deferred tax amounts are determined using the tax rates expected to be in effect when the taxes will actually be paid or refunds received, as provided under currently enacted tax law. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense or benefit is the tax payable or refundable, respectively, for the period plus or minus the change in deferred tax assets and liabilities during the period. The Company has recorded a full valuation allowance for its net deferred tax assets as of April 30, 2009 and 2008 because realization of those assets is not reasonably assured.

FIN No. 48 requires the recognition of a financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

Recently Issued Accounting Pronouncements

In February 2008, the FASB issued FASB Staff Position FAS 157-2 ("FSP FAS 157-2") Effective Date of FASB Statement No. 157 which delays the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities that are recognized or disclosed in the financial statements on a nonrecurring basis to fiscal years beginning after November 15, 2008. These non-financial items include assets and liabilities such as reporting units measured at fair value in a goodwill impairment test and non-financial assets acquired and non-financial liabilities assumed in a business combination. The Company has not applied the provisions of SFAS No. 157 to its non-financial assets and non-financial liabilities in accordance with FSP FAS 157- 2.

WEBDIGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the Three and Six Month Periods Ended April 30, 2009 and 2008

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No. 51. SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The adoption of this statement is not expected to have a material effect on our future reported financial position or results of operations.

In June 2008, the FASB ratified the consensus reached by the EITF on Issue No. 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock ("EITF No. 07-5").EITF No. 07-5 addresses the determination of whether an instrument (or embedded feature) is indexed to an entity's own stock. EITF No. 07-5 would require the entity to account for embedded conversion options as derivatives and record them on the balance sheet as a liability with subsequent fair value changes recorded in the income statement. EITF-07-5 is effective for the financial statements issued for fiscal years beginning after December 15, 2008, and early adoption is prohibited. The Company has not yet determined the effect that the adoption of EITF 07-5 will have on its consolidated financial statements, particularly with respect to its Convertible Note Payable (See Note 7).

In April 2009, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. FAS 157-4, "Determining Fair Values When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly." This FSP provides guidance on (1) estimating the fair value of an asset or liability when the volume and level of the activity for the asset or liability have significantly declined and (2) identifying transactions that are not orderly. This FSP also amends certain disclosure provisions of SFAS No. 157 to require, among other things, disclosures in interim periods of the inputs and valuation techniques used to measure fair value. For the Company, this FSP is effective prospectively beginning April 1, 2009. The Company is currently evaluating the impact of this standard, but would not expect it to have a material impact on our financial position, results of operations, or cash flows.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments." This FSP essentially expands the disclosure about fair value of financial instruments that were previously required only annually to be also required for interim period reporting. In addition, this FSP requires certain additional disclosures regarding the methods and significant assumptions used to estimate the fair value of financial instruments. For the Company, these additional disclosures will be required beginning with the quarter ending July 31, 2009. We are currently evaluating the requirement of these additional disclosures.

WEBDIGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the Three and Six Month Periods Ended April 30, 2009 and 2008

3 GOING CONCERN

The Company has incurred significant operating losses for the six month periods ended April 30, 2009 and 2008. At April 30, 2009, the Company reports a negative working capital position of $1,402,401, accumulated deficit of $3,408,606 and a stockholders' deficit of $1,105,601. It is management's opinion that these facts raise substantial doubts about the Company's ability to continue as a going concern without additional debt or equity financing.

In order to meet its working capital needs through the next twelve months, the Company plans to raise additional funds through the issuance of additional shares of common stock and debt through private placements. The Company has already begun reducing operating expenditures and expects to increase revenues through its existing customer base and website traffic.

4 RELATED PARTY TRANSACTIONS

Accounts Payable – Minority Stockholder

The Company's principal advertising agency/website developer was owed $631,885 at April 30, 2009 and $550,206 at October 31, 2008. The two principals of the website developer are also minority stockholders in the Company – holding less than 2% of the Company's outstanding shares at April 30, 2009. For the six months ended April 30, 2009 and 2008 respectively, the Company incurred $81,679 and $396,894 in services from this minority stockholder. Included in these amounts is office rent expense of $21,000 and $15,000 for the six months ended April 30, 2009 and 2008, respectively.

There is no ongoing commitment from the Company or the related party regarding rental office space for which the Company currently pays a market rate rent of $3,500 per month.

Due to Officers

As of April 30, 2009 and October 31, 2008, the Company was indebted to its officers for amounts totaling $53,007 and $27,277, respectively, for business expenses and consulting services. The indebtedness includes $47,977 of non-interest bearing payables due on demand and $5,030 of interest bearing debt.

The interest bearing short term loan includes a principal of $5,000 and accrued interest at 1% simple interest per month of $30. The Company repaid the short term officer loan in full in May 2009.

WEBDIGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the Three and Six Month Periods Ended April 30, 2009 and 2008

5 PREPAID EXPENSES

Prepaid expenses consist of two components: prepaid consulting fees and other prepaid expenses. The prepaid consulting fees are calculated amounts from the issuance of common stock to consultants for various services. In January 2009, the Company issued 200,000 shares of the Company's common stock and agreed to pay $15,000 to consultants as repayments for services to be performed over the next six to nine months. In addition, in January 2009, one of the Company's minority stockholders transferred 100,000 shares of the Company's common stock owned by the stockholder to one of these consultants on behalf of the Company. This transfer of the Company's common stock held by the minority shareholder was treated as a capital contribution. All of the shares issued to the consultants were valued at $0.40 per share, which represented the trading fair value of the stock on the date the agreements were finalized. The amortization periods coincide with the terms of the agreements which are expected to be completed in August 2009.

The other prepaid expenses contain miscellaneous amounts the Company has prepaid for an annual software subscription and general insurance premiums. These prepaid items are being expensed as they are being utilized.

Components of prepaid expenses are as follows:

	April 30, 2009 (unaudited)	October 31, 2008 (audited)
Prepaid consulting fees	$ 60,000	$ -
Other prepaid expenses	3,856	14,011
Total	$ 63,856	$ 14,011

6 INVESTMENT IN MARKETPLACE HOME MORTGAGE - WEBDIGS, LLC

On August 1, 2008, the Company entered into a joint venture arrangement with Marketplace Home Mortgage, LLC whereby they created a new joint venture entity called Marketplace Home Mortgage – Webdigs, LLC. The Company contributed assets with a net book value totaling $34,804 less transferred liabilities of $23,558 for a 49% ownership stake in the joint venture, and Marketplace Home Mortgage, LLC contributed cash totaling $23,039 for 51% ownership. The assets and liabilities contributed came entirely from the Company's mortgage brokerage subsidiaries; Marquest Financial, Inc. and Home Equity Advisors, LLC. All mortgage brokerage activity previously performed within these entities will now take place under the new joint venture created August 1, 2008. Because the Company has the ability to exercise significant influence as a result of rights granted in the purchase agreement and its 49% ownership stake, the Company has accounted for this transaction as an equity investment.

WEBDIGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the Three and Six Month Periods Ended April 30, 2009 and 2008

Summarized financial information for this joint venture is as follows:

Summary Balance Sheet

		April 30, 2009
Current assets	$	42,230
Other assets		19,509
Liabilities		(1,377)
Net equity	$	60,362
The Company's share in the equity in Marketplace Home Mortgage - Webdigs, LLC (49%)	$	29,577
Less: Deferred gain on excess of fair value received over net book value of assets contributed to Marketplace Home Mortgage - Webdigs, LLC (1)		(8,610)
Investment in Marketplace Home Mortgage - Webdigs, LLC at April 30, 2009	$	20,967

(1) At April 30, 2009, the Company's share of the underlying assets of Marketplace Home Mortgage – Webdigs, LLC exceeded its investment by $8,610. The excess, which relates to office equipment, is being amortized into income over the estimated remaining life of the respective assets (34 months).

WEBDIGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the Three and Six Month Periods Ended April 30, 2009 and 2008

Summary Statement of Operations

	Three Months Ended April 30, 2009	Six Months Ended April 30, 2009
Revenue	$ 77,293	$ 246,413
Operating expenses	(78,982)	(211,177)
Operating income	(1,689)	35,236
Other expense	-	-
Net income	$ (1,689)	$ 35,236
The Company's share in the income of Marketplace Home Mortgage Webdigs, LLC (49%)	$ (828)	$ 17,265
Amortization of deferred gain on transfer of non-cash assets	760	1,520
Net equity in the income of Marketplace Home Mortgage - Webdigs, LLC	$ (68)	$ 18,785

7 CONVERTIBLE NOTE PAYABLE

On December 12, 2008, the Company entered into a $250,000 convertible debt promissory note (the Note) with Lantern Advisers, LLC ("Lantern"). The Note contains a simple interest rate of 12% per annum with $2,500 (1%) payable to the lender on a monthly basis. The Note proceeds were reduced by issuance and legal costs of $24,000 to arrive at net proceeds of $226,000. The Note terms require repayment on or before September 30, 2009. Company executive officers and managers have pledged as collateral 4,510,910 shares of the Company's common stock which would be awarded to Lantern in the event of non-fulfillment of the terms of the Note. The Company's Chairman/CEO has also provided a personal guaranty for the entire amount of the Note.

In connection with the Note, the Company issued Lantern 200,000 shares of common stock valued at $0.10 per share. The share price of $.10 per share was based on the most recent share price at which the Company had sold shares for cash to accredited investors (prior to the listing of the Company's stock on the OTC bulletin board on December 19, 2008). The issuance of these shares was recorded as a discount to the Note and will be recognized over the term of the Note using the effective interest method.

WEBDIGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the Three and Six Month Periods Ended April 30, 2009 and 2008

As additional consideration for the Note, the Company issued Lantern a three-year detachable warrant expiring December 11, 2011 to purchase up to 200,000 shares of its common stock at an exercise price of $0.30 per share (the “Warrant”) which was deemed to have a fair market value of $1,651 at the time of issuance. The Company used the Black-Scholes pricing model as a method for determining the estimated fair value of the warrants issued. The following assumptions were used to estimate the fair market value of the warrant: risk free interest rate of 1.1%; expected life of 1.5 years; no expected dividends; and volatility of 74%. The expected life of the Warrant was determined using management’s estimate. The risk-free interest rate is based on the Federal Reserve Board’s constant maturities of U.S. Treasury bond obligations with terms comparable to the expected life of the warrants valued. The Company’s volatility is based on the historical volatility of publicly traded companies with similar business and risk characteristics of the Company. The expense for the Warrant was recorded as a discount to the Note and will be recognized over the term of the Note using the effective interest method.

In addition to the above conditions, the Note is convertible at the option of Lantern at any time into shares of the Company's common stock at a price equal to 75% of the lowest bid price during the five trading days immediately preceding conversion of the Note. On December 12, 2008, this conversion feature would have converted into 3,333,333 common shares of the Company’s stock at a conversion price of $.075 per share. At April 30, 2009, the Note would have converted into 1,666,667 shares at a conversion price of $0.15 per share.

Pursuant to SFAS 133 and EITF 00-19 Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company’s Own Stock, the conversion features and warrant of the Note are considered embedded derivatives requiring bifurcation from the debt host and they are included in the balance sheet as liabilities at fair value. The embedded derivatives are revalued at each balance sheet date and marked to fair value with the corresponding adjustment recognized as “gain or loss on warrants and derivatives” in the consolidated statement of operations.

The embedded derivatives and the warrants were initially measured at fair value using the Black-Scholes option valuation technique. In selecting the appropriate fair value technique, the Company considers the nature of the instrument, the market risks that it embodies, and the expected means of settlement.

The embedded derivative liability is re-valued at each balance sheet date and marked to fair value with the corresponding adjustment recognized as “gain or loss on warrants and derivatives” in the statement of operations. As of April 30, 2009 and December 12, 2008, the fair values of the derivatives embedded in the Note were $177,695 and $125,932, respectively.

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The warrant liability is revalued at each balance sheet date and marked to fair value with the corresponding adjustment recognized as "gain or loss on warrants and derivatives" in the statement of operations. As of April 30, 2009 and December 12, 2008, the fair values of the warrant were $13,596 and $1,651, respectively.

For the three and six months ended April 30, 2009 the Company adjusted its embedded derivative liability (conversion feature) and warrant liability by $38,154 and $63,708, respectively. This adjustment was recorded as a loss on the change in fair market value of derivatives and warrants in the consolidated statement of operations.

The following table summarizes the convertible note balance as of April 30, 2009:

Original gross proceeds received December 12, 2008	$ 250,000
Less: Debt discount arising from issuance of common stock	(20,000)
Net proceeds prior to paying transaction costs	230,000
Less: Fair value assigned to conversion feature and detachable warrants	(127,583)
Net balance at December 12, 2008	102,417
Plus: Amortization of debt discount, conversion feature and warrant for the period from December 12, 2008 to April 30, 2009	73,790
Balance at April 30, 2009	$ 176,207

8 SHARE- BASED COMPENSATION

Stock Options

In May 2008, the Board of Directors approved the issuance of incentive stock options totaling 600,000 shares to its non-employee directors. The exercise price of the options to purchase common stock was at the fair market value of such shares on the date of the grant. Options generally become exercisable ratably on the anniversary of the date of the grant over a period of up to 2 years. There are no vesting provisions tied to performance conditions for any outstanding options. Vesting for all outstanding options is based solely on continued service as a director of the Company and vest one-half on the grant date and one-quarter on each of the next two yearly anniversaries of the grant. Options to purchase shares expire not later than five years after the grant of the option.

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The Company recognizes compensation expense for the stock options over the requisite service period for vesting of the award. Total stock-based compensation expense included in the Company's consolidated statements of operations for the six months ended April 30, 2009 and 2008 is $9,249 and $0, respectively. This expense is included in general and administrative expense. The compensation expense had less than a $0.01 per share impact on the basic loss per common share for the six months ended April 30, 2009. There were no stock option grants during the six months ended April 30, 2009. There were no stock option grants prior to April 30, 2008, and thus no option expense for the six months ended April 30, 2008. As of April 30, 2009, the Company had $18,493 of unrecognized compensation expense related to the outstanding stock options, which will be recognized over a weighted-average period of 1.25 years.

The fair value of each option grant was estimated as of the date of the grant using the Black-Scholes pricing model.

The following is summary of stock option activity for the six months ended April 30, 2009:

	Number of options	Weighted average exercise price	Aggregate intrinsic value	Weighted average remaining contractual term (years)
Outstanding at October 31, 2008	600,000	$ 0.25	$ 132,000	4.50
Granted	-	-	-	-
Exercised	-	-	-	-
Cancelled	-	-	-	-
Outstanding at April 30, 2009	600,000	$ 0.25	$ 132,000	4.00
Exercisable at April 30, 2009	300,000	$ 0.25	$ 66,000	4.00

The aggregate intrinsic value in the table above represents the difference between the closing stock price on April 30, 2009 of $0.47 per share and the exercise price of $0.25 per share, multiplied by the number of in-the-money options that would have been received by the option holders had all option holders exercised their options on April 30, 2009. There were no options exercised during the six months ended April 30, 2009.

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Restricted Stock Compensation

As of April 30, 2009, the Company had 6,629,280 of time-based restricted common stock (non-vested shares) outstanding to certain officers and employees of the Company. This is the remaining balance after forfeitures of an original grant of 8,610,347 restricted shares. The original grants took place during the period ended October 31, 2007. As a condition of the award, the officers and employees must be employed with the Company in order to continue to vest in their shares over a two year period. The fair value of the non-vested shares is equal to the fair market value on the date of grant and is amortized ratably over the vesting period. No additional awards were made during the six months ended April 30, 2009 or during the year ended October 31, 2008.

The Company recorded $121,721 and $83,454 of compensation expense in the consolidated statement of operations related to vested shares (restricted stock) for the six months ended April 30, 2009 and 2008, respectively.

A summary of the status of non-vested shares and changes as of April 30, 2009 is set forth below:

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	Restricted Shares	Unearned Compensation
Outstanding, October 31, 2007	4,686,904	$ 365,398
Granted	-	-
Vested	(577,806)	(41,727)
Forfeited/canceled	-	-
Outstanding, January 31, 2008	4,109,098	323,671
Granted	-	-
Vested	(577,806)	(41,727)
Forfeited/canceled	-	-
Outstanding, April 30, 2008	3,531,292	281,944
Granted	-	-
Vested	(577,806)	(41,727)
Forfeited/canceled	-	-
Outstanding, July 31, 2008	2,953,486	240,217
Granted	-	-
Vested	(659,344)	(41,727)
Forfeited/canceled	(353,329)	-
Outstanding, October 31, 2008	1,940,813	198,490
Granted	-	-
Vested	(652,311)	(60,860)
Forfeited/canceled		-
Outstanding, January 31, 2009	1,288,502	137,630
Granted	-	-
Vested	(652,309)	(60,861)
Forfeited/canceled	-	-
Outstanding, April 30, 2009	636,193	$ 76,769

The remaining 636,193 shares and associated unearned compensation of $76,769 will all vest and be recognized as compensation expense in the Company’s consolidated statement of operations during the fiscal year ending October 31, 2009.

9 STOCKHOLDERS' EQUITY

On January 12, 2009, the Company sold 2,000 shares to a third-party accredited investor for $500 ($0.25 per share) in cash proceeds.

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On January 2, 2009, the Company issued 200,000 shares to third parties at a value of $80,000 or $0.40 per share, the trading value of the Company's common stock at that time, for prepaid consulting services. (Note 5)

On December 12, 2008, the Company issued 200,000 shares to an investment company as issuance costs in connection with the $250,000 convertible note payable at a value of $20,000 or $0.10 per share. The $0.10 represents the most recent price received for cash sales of shares, which occurred prior to December 12, 2008. (Note 8)

On November 15, 2008, the Company issued 28,800 shares for $7,000 or $0.243 per share for consulting services performed for the Company. The $0.243 represents the most recent price received for cash sales of shares which occurred prior to November 15, 2008..

10 FAIR VALUE MEASUREMENT

Effective November 1, 2008, the Company adopted the methods of measuring fair value described in SFAS No. 157, Fair Value Measurements. As defined in SFAS No. 157, fair value is based on the prices that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, SFAS No. 157 establishes a three-tier fair value hierarchy that prioritizes the inputs used to measure fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

For the six months ended April 30, 2009, using level 2 inputs, the Company adjusted its derivative liabilities by $63,708 and recorded a loss on the change in fair value of derivatives and warrants in the consolidated statement of operations.

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Fair values recorded as of April 30, 2009 are set forth below:

		Fair Value Measurements at Reporting Date		
Description	Total	Quoted Prices for Active Markets for identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Embedded derivatives	$ 177,695	$ -	$ 177,695	$ -
Warrants	13,596		13,596	
Total	$ 191,291	$ -	$ 191,291	$ -

11 COMMITMENTS AND CONTINGENCIES

The Company's mortgage operation vacated its Bloomington, Minnesota, leased office space in October, 2008. The mortgage operation had leased this space under a non-cancelable operating lease expiring August, 2009. As a cost of exiting this leased office space, the Company accrued the costs of the remaining 10 months of unpaid rent (including its share of insurance, taxes, operating expenses, and common area expenses) as of October 31, 2008. There have been no payments against the accrued amounts since October 31, 2008.

	Six Months Ended April 30, 2009
Accrued exit costs at October 31, 2009	$ 55,913
Additional expenses accrued during the period	-
Payments made during the period	-
Accrued exit costs at April 30, 2009	$ 55,913

With the unwinding of the acquisition of Marquest Financial, Inc, in June 2009, (see Note 14), the Company will eliminate this contingency in future reporting periods.

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12 BASIC AND DILUTED EARNINGS PER SHARE

The Company computes earnings per share in accordance with FASB Statement of Financial Accounting Standards No. 128, Earnings Per Share ("SFAS 128"). SFAS 128 requires companies to compute earnings per share under two different methods, basic and diluted, and present per share data for all periods in which statements of operations are presented. Basic earnings per share are computed by dividing net income by the weighted average number of shares of common stock outstanding. Diluted earnings per share are computed by dividing net income by the weighted average number of common stock and common stock

The following table provides a reconciliation of the numerators and denominators used in calculating basic and diluted earnings per share for the three and six months ended April 30, 2009 and 2008.

	Three Months Ended April 30,		Six Months Ended April 30,	
	2009	2008	2009	2008
Basic earnings per share calculation:				
Net loss to common shareholders	$ (389,445)	$ (628,753)	$ (715,658)	$ (1,192,071)
Weighted average of common shares outstanding	22,739,511	20,984,507	22,622,239	20,131,891
Basic net loss per share	$ (0.02)	$ (0.03)	$ (0.03)	$ (0.06)
Diluted earnings per share calculation:				
Net loss to common shareholders	$ (389,445)	$ (628,753)	$ (715,658)	$ (1,192,071)
Weighted average of common shares outstanding	22,739,511	20,984,507	22,622,239	20,131,891
Stock options, warrants, and convertible debt (1)	-	-	-	-
Diluted weighted average common shares outstanding	22,739,511	20,984,507	22,622,239	20,131,891
Diluted net loss per share	$ (0.02)	$ (0.03)	$ (0.03)	$ (0.06)

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(1) The computation of diluted net loss per share as of April 30, 2009 does not differ from the basic computation because potentially dilutive issuable securities of warrants and options of 500,000 shares and 1,666,667 conversion shares related to the convertible debt promissory note would be anti-dilutive. There were no potentially anti-dilutive shares as of April 30, 2008.

13 SEGMENT FINANCIAL INFORMATION

The Company has two reporting segments that fall within two primary business groups: web-assisted real estate broker and mortgage broker.

The main distinction offered by the Company’s web-assisted real estate brokerage services is that of a flat fee structure for listing services and a graduated fee structure offering customers a rebate up to 50% of the Company’s broker commission for real estate buyers. This business segment operates as Webdigs, LLC. Its principal market is the United States.

The mortgage broker segment assists homeowners in refinancing their home mortgages and assists prospective home buyers in qualifying for a home mortgage and brokering the financing. This business segment operated as Marquest Financial (from October 22, 2007) and Home Equity Advisors (from July 15, 2007) to July 31, 2008. Starting in August 2008, the Company created a new joint venture and began operating this segment in Minnesota as a limited liability company under the name Marketplace Home Mortgage - Webdigs, LLC.

The corporate segment consists primarily of investments in fixed assets, personnel and other operating expenses associated with the Company’s corporate offices in Minneapolis, and certain technology initiatives.

Selected financial information about the Company’s operations by segment for the three and six month periods ended April 30, 2009 and 2008 is as follows:

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	Web-Assisted Real Estate Brokerage	Retail Mortgage Brokerage	Corporate and Other	Total
Six Months Ended April 30, 2009				
Net revenues	$ 97,868	$ -	$ -	$ 97,868
Operating loss	(199,072)	(8,277)	(370,532)	(577,881)
Equity in income from Marketplace Home Mortgage - Webdigs, LLC	-	18,785	-	18,785
Interest expense	-	-	92,854	92,854
Depreciation & amortization	75,609	21,810	-	97,419
Assets	246,714	65,429	89,520	401,663
Capital expenditures and website development costs	-	-	-	-
Six Months Ended April 30, 2008				
Net revenues	$ 65,333	$ 434,028	$ -	$ 499,361
Operating loss	(845,088)	(79,902)	(262,527)	(1,187,517)
Equity in loss from Marketplace Home Mortgage - Webdigs, LLC	-	-	-	-
Interest expense	-	4,512	42	4,554
Depreciation & amortization	73,392	39,775	-	113,167
Assets	371,130	194,318	114,338	679,786
Capital expenditures and website development costs	15,938	2,278	-	18,216

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	Web-Assisted Real Estate Brokerage	Retail Mortgage Brokerage	Corporate and Other	Total
Three Months Ended April 30, 2009				
Net revenues	$ 59,241	$ -	$ -	$ 59,241
Operating loss	(103,306)	5,009	(197,114)	(295,411)
Equity in loss from Marketplace Home Mortgage - Webdigs, LLC	-	(68)	-	(68)
Interest expense	-	-	55,812	55,812
Depreciation & amortization	37,750	10,905	-	48,655
Three Months Ended April 30, 2008				
Net revenues	$ 46,237	$ 283,742	$ -	$ 329,979
Operating loss	(458,926)	(13,930)	(153,553)	(626,409)
Equity in loss from Marketplace Home Mortgage - Webdigs, LLC	-	-	-	-
Interest expense	-	2,302	42	2,344
Depreciation & amortization	37,099	19,924	-	57,023

14 SUBSEQUENT EVENTS

Convertible Debt Promissory Note

On May 14, 2009, the Company agreed to revised terms for a convertible debt promissory note originally issued on December 12, 2008 in favor of Lantern Advisers, LLC. The revisions to the promissory note eliminated an optional conversion feature which had purported to give Lantern Advisers the right to convert amounts due and owing under the promissory note into shares of the Company common stock at a price equal to 75% of the lowest bid price during the five trading days immediately preceding conversion. As consideration for the elimination of the conversion feature, the Company issued Lantern Advisers a warrant to purchase up to 300,000 shares of the Company common stock at $0.01 per share on or before December 12, 2009. Other than as described above, there were no other changes to the terms of the promissory note.

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In connection with the above-described revision to the promissory note, the Company paid Lantern Advisers $100,000 in principal under the promissory note, thereby reducing the outstanding principal amount to $150,000. This amount, plus all then accrued but unpaid interest remains due on September 30, 2009.

Loan from Related Party

On May 14, 2009, the Company's Chairman and Chief Executive Officer loaned the Company $55,000. The proceeds of this loan were used to cover short-term working capital needs. The principal amount of the loan was accrued at a simple interest at the rate of 1% per month. The Company's Chairman and CEO received no additional consideration for this loan which has been repaid in full as of the filing date of this document.

Private Placement Transaction

On May 14, 2009, the Company agreed to issue an aggregate of 1,750,000 shares of common stock in a private placement transaction that was exempt for the registration requirements of Section 5 under the Securities Act of 1933. All shares in this transaction were offered and sold at the per-share price of $0.10. Of these shares, our Chairman and Chief Executive Officer, Robert A. Buntz, Jr., purchased 500,000 common shares. Two other accredited investors also participated in the transaction and together received the remaining 1,250,000 common shares sold in the transaction.

Conversion of Accrued Compensation

On May 18, 2009, and with the approval of the board of directors of the Company, its Chairman and Chief Executive Officer (CEO), together with its Chief Financial Officer (CFO) converted a portion of their accrued but unpaid compensation owed to them by the Company. The Chairman and CEO and CFO respectively converted $50,000 and $5,000 of their accrued but unpaid compensation into shares of the Company's common stock at a per-share price of $0.35. As a result, the Company's Chairman received 142,857 common shares and its CFO received 14,286 common shares. Each of the officers also received a warrant to purchase up to the same number of shares issued to them at the per-share price of $0.47, on or before May 31, 2012.

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Unwinding of the Acquisition of Marquest Financial, Inc.

On May 3, 2009, the Company and Mr. Edward Graca (previous owner of Marquest Financial, Inc.) formally agreed to unwind the Company's October 22, 2007 acquisition of Marquest Financial, Inc. (Marquest). Under the terms of the agreement, Mr. Graca returned the shares of Webdigs, Inc. common stock he received in October 2007 as consideration for the sale of Marquest Financial, Inc. and shares previously issued in his continuing employment agreement to the Company. In exchange, the Company returned 100% of the outstanding shares of Marquest Financial, Inc. to Mr. Graca.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our Management's Discussion and Analysis of Financial Condition and Results of Operation set forth below should be read in conjunction with our audited consolidated financial statement contained in our Form 10K filed with the SEC on February 13, 2009 relating to our fiscal year ended October 31, 2008.

Cautionary Note Regarding Forward-Looking Statements

Some of the statements made in this section of our report are forward-looking statements. These forward-looking statements generally relate to and are based upon our current plans, expectations, assumptions and projections about future events. Our management currently believes that the various plans, expectations, and assumptions reflected in or suggested by these forward-looking statements are reasonable. Nevertheless, all forward-looking statements involve risks and uncertainties and our actual future results may be materially different from the plans, objectives or expectations, or our assumptions and projections underlying our present plans, objectives and expectations, which are expressed in this section.

In light of the foregoing, prospective investors are cautioned that the forward-looking statements included in this filing may ultimately prove to be inaccurate—even materially inaccurate. Because of the significant uncertainties inherent in such forward-looking statements, the inclusion of such information should not be regarded as a representation or warranty by Webdigs, Inc. or any other person that our objectives, plans, expectations or projections that are contained in this filing will be achieved in any specified time frame, if ever. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document. The risks discussed in the 10K filed with the SEC on February 13, 2009 should be considered in evaluating our prospects and future performance.

General Overview

We are a web-based, full service real estate company that offers innovative services to home buyers and sellers. We share with each buyer up to one-half (50%) of the commission we receive from the seller or listing broker, with a minimum fee of $3,000 per transaction to the Company. Using a generally accepted industry average fee of 2.7% for buyer representation, any customer purchasing a home for a price exceeding $111,000 may benefit financially from using Webdigs as the broker. Using the same 2.7% buyer's broker fee, a customer purchasing a home for a price exceeding $222,000 will receive a commission rebate of approximately 1.35% of purchase price (or one-half of the 2.7% buyer's brokers fee). Again using the same 2.7% buyer's broker fee, a buyer purchasing a home with a sales price between $111,000 and $222,000 will pay Webdigs a flat $3,000 broker fee with the remainder of the buyer's broker fee being returned to him as a non-taxable rebate. We believe this gives buyers a financial incentive to use our services. We primarily target those home buyers who are willing and able to independently begin their home search on the Internet. As part of our website interface and personal service, we also offer home buyers tools to manage their purchase transactions from initial search to the closing of their purchase.

In our main Twin Cities market, we provide our home sellers with Northstar MLS listings for a fee of 3.9% of final sale price at closing. This represents more than a 33% savings compared to the standard real estate fee of 6% of sales price in the Twin Cities market. Assuming a sales price of $300,000, a Webdigs listing customer may save 2.1% of the sales price ($6,300) by using Webdigs as their listing broker. The savings result from the Webdigs customer paying Webdigs only 1.2% to Webdigs for the services we charge for a home listing. To ensure that our customers receive the same attention from agents representing potential buyers of a home listed by Webdigs, we typically offer the standard 2.7% of sales price commission to brokers who represent buyers who end up purchasing a home listed by Webdigs. The Northstar MLS contains listings from Minnesota, portions of western Wisconsin, northern Iowa, and eastern North and South Dakota. Our listings also appear on Realtor.com and 14 other national home-listing websites. In addition to providing home sellers with a home listing, Webdigs arranges for virtual home tours of our sellers' homes so that the resulting virtual tour may become a part of the listing on our website. To assist with the pricing of a seller's home, we provide a comparative market analysis to the seller and individual consultation on pricing strategies. Finally, we also provide a range of individual strategies for readying a seller's home for sale, including appropriately staging the home. We support these services with marketing and advertising campaigns designed to drive traffic to our website.

We currently offer our services in three states-Minnesota, Wisconsin, and Florida. When we represent buyers, we share with them up to one-half of our buyer broker commission, which we receive from the seller or listing broker. For the three month period ended April 30, 2009, our net real estate brokerage revenue increased by 28% to $59,241 versus the $46,237 closed in the three months ended April 30, 2008. For the six month period ended April 30, 2009, our net real estate brokerage revenue increased by 50% to $97,868 versus the $65,333 closed in the six month period ended April 30, 2008. After paying out customer rebates, we averaged net commissions of $3,613 on each of the 11 buyer transactions we closed in the quarter ended April 30, 2009, and averaged net commissions of $3,675 on each of the 16 buyer transactions we closed in the six month period ended April 30, 2009. On a quarterly transaction basis, we closed a total of 15 real estate transactions (11 buyer and 4 listings) in the quarter ended April 30, 2009 compared to 17 in the same period last fiscal year. As noted above, despite the slight decline in number of closed transactions for the quarter ended April 30, 2009 compared to the same period last fiscal year, we increased our core real estate operating revenue from $46,237 to $59,241. We accomplished this 28% revenue growth in spite of a 92% decrease in advertising & promotion expenses of $245,782 from $268,230 to $22,448 for the periods ended April 30, 2008 and 2009, respectively. For the six month period ended April 30, 2009, we closed a total of 25 real estate transactions (16 buyer and 9 listings) compared to 21 in the same periods last year. On average, each of the 16 customers who purchased a home through Webdigs for the six months ended April 30, 2009 received a rebate check of over $3,000. Our net revenues for the quarter ended April 30, 2009 can be broken down as follows: buyers - $39,738, sellers – $9,700, and miscellaneous administrative fees - $9,803. Our net revenues for the six months ended April 30, 2009 can be broken down as follows: buyers - $58,802, sellers - $25,112, and miscellaneous fees - $13,954. The miscellaneous fees consist primarily of $295 per closed transaction in administrative fees charged and some non-refundable up front payments from clients who are listing their homes with us for virtual photo tours, yard signs and our administrative time to get all of their homes' data onto the on-line multiple listing service.

Currently, our revenues consist primarily of web-assisted real estate brokerage commissions received as agents in residential real estate transactions, at the time a real estate transaction closes. We record revenues as gross revenue. Consumer rebates and third-party agent commissions paid to buyer's brokers (in those instances where we represent the seller of a home) are treated as offsetting reductions to gross revenue. Our net revenues are principally driven by the number of transactions we close and the average net revenue per transaction. Average net revenue per transaction is a function of the home purchase price and percentage commission we receive on each transaction. In addition to traditional financial measures, we use several tools to monitor the overall health of our real estate business. Some of the key performance indicators we use are the following: website traffic, daily number of contacts initiated by potential customers, number of new customers (i.e., both buyers and sellers) added weekly, weekly number of transactions closed, and overall pipeline of active customers. We also monitor daily cash flow and the average time it takes to close a transaction (i.e., time elapsed between the creation of a customer relationship and the closing date for a transaction related to that customer).

Since we commenced our real estate broker operations after the U.S. housing industry had already entered its well publicized slump, it is difficult to assess the affect the real estate industry's difficulties have had on our ability to grow our business. We do believe our brokerage model, with the lower prices we offer, will be seen favorably by customers looking to save money when buying or selling a home in a difficult market.

We are encouraged that the new Presidential administration has placed an emphasis on stabilizing the housing and mortgage markets and is injecting hundreds of billions of dollars to do so. We believe the federal government's economic stimulus package coupled with low interest rates is already helping the Twin Cities real estate market stabilize.

Mortgage and Insurance

Since August 1, 2008 and for the entire six month period ended April 30, 2009, all mortgage operations have been generated through our investment in our mortgage joint venture, Marketplace Home Mortgage - Webdigs, LLC (MHMW). Prior to the establishment of the joint venture, we consolidated revenues from our two wholly owned mortgage subsidiaries, Marquest Financial, Inc., and Home Equity Advisors, LLC. The operations from these two subsidiaries were transferred into the joint venture on August 1, 2008. Once the joint venture was established, we no longer consolidate revenues from this operation. Instead, we report only our share of the net profits and losses from the joint venture as other income. Revenues are reported in a separate footnote (See Note 6 of the consolidated financial statements). Therefore, in the six month period ended April 30, 2009, we recorded no mortgage revenue compared to $283,742 and $434,028 for the three and six month periods ended April 30, 2008.

MHMW has its own staff of mortgage loan officers that obtain mortgages for customers who are refinancing existing mortgages or obtaining new mortgages. MHMW bears no risk of loan default nor determines loan eligibility. All mortgage fee income is paid by the loan underwriter (typically a large bank) to MHMW for finding the customer and processing the paperwork for the loan.

There are two types of fees paid by banks to MHMW for its work as a mortgage broker. The first is loan origination fees, which may be considered as commissions. Typically, loan origination fees are a percentage of the total value of the loan. A second fee source is referred to as “yield spread premium.” In certain cases, a mortgage broker might find it possible to increase the interest rate charged on a mortgage above the rate considered acceptable by the bank. In those cases, the bank will pay a second fee “yield spread premium” to the mortgage broker for obtaining a more favorable interest rate for the bank. The ability to earn a “yield spread premium” has become more difficult in the last few months due to market pressures. A 1% loan origination fee is considered average by the U.S. mortgage industry. Yield spread premiums are also occasionally paid by mortgage underwriters. When they are earned, a typical yield spread would range from 0% to 1%.

Significant Trends and Uncertainties

We are experiencing sales growth in our web-assisted real estate brokerage segment but do face significant liquidity constraints due to the costs associated with developing our real estate business. Since inception (May 1, 2007) to April 30, 2009, we have incurred net losses totaling $3,408,606.

Fortunately, our quarterly operating losses continue to lessen; $295,411 for the most recent quarter ended April 30, 2009 and $577,881 for the six months ended April 30, 2009 as compared to $626,409 and $1,187,517 for the three and six month periods ended April 30, 2008, respectively. As mentioned in more detail below and elsewhere in this filing, we will require additional financing to maintain operations and to achieve our expansion goals. If our efforts to raise additional capital take longer than we expect or we are unsuccessful in securing capital, we expect to decrease our advertising, identify other areas to reduce current costs, and concentrate on continuing to build market share and real estate revenue in the Minneapolis-St. Paul metropolitan area and Wisconsin. As part of this plan, we would intend to have our Florida real estate operations continue for as long as possible, even in a diminished capacity, if necessary. We do expect, however, that we would cease operating in Florida prior to any significant reduction in operations in Minneapolis-St. Paul or Wisconsin. Due to the difficult markets for obtaining equity and debt financing, we are exploring a wide variety of potential financing sources and arrangements.

In addition to the uncertainties surrounding our cash and liquidity situation, current real estate and credit market conditions present a significant uncertainty for our business. We believe that our business in the latter parts of fiscal 2008 was adversely affected by the well publicized problems in these markets, resulting in lower real estate activity and fewer real estate brokerage transactions. Dramatic declines in the housing market during 2008, with falling home prices, decreasing home sales volume, and increasing foreclosures and unemployment, have resulted in many lenders and institutional investors reducing, and in some cases, ceasing to provide funding to borrowers (including other financial institutions).

The market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally.

Fortunately, as reported by the National Association of Realtors (NAR) on June 4, 2009, the Pending Home Sales Index, a forward-looking indicator based on contracts signed in April, rose 6.7 percent to 90.3 from a reading of 84.6 in March, and is 3.2 percent above April 2008, when it was 87.5. In the Midwest, Webdigs' main territory, the index rose 9.8 percent to 90.4 and is 11.1 percent above April 2008.

Supporting the rebound in home sales, NAR also reported on June 2, 2009 that their Housing Affordability Index2 is in record territory. The affordability index rose to 174.8 in April from an upwardly revised 171.9 in March, and was the second highest monthly reading on record after peaking at 176.9 in January of this year. The HAI is a broad measure of housing affordability using consistent values and assumptions over time, which examines the relationship between home prices, mortgage interest rates and family income; tracking began in 1970.

We are hopeful that these two NAR leading indicators, along with the intense national focus on restoring American capital markets and stabilizing our banking system portend a revival in the housing and real estate markets.

Results of Operation

For the three month periods ended April 30, 2009 and 2008

The Company incurred operating losses of $295,411 for the three months ended April 30, 2009 and $626,409 for the three month period ended April 30,, 2008. On a consolidated level, net revenues decreased from $329,979 for the quarter ended April 30, 2008 to $59,241 for the quarter ended April 30, 2009. Because our mortgage subsidiaries were transferred into the joint venture, Marketplace Home Mortgage – Webdigs, LLC, we no longer include their revenue in our total revenue amount. We only report our percentage share of net profit from the joint venture in our financial statements. The shifting of our mortgage brokerage to MHMW has affected our reported revenues significantly. This change in reporting revenues accounted for a $283,742 decrease in net revenues for the three month period ended April 30, 2009 from one year ago. We are pleased, however, that our core real estate operations continue to grow; net sales were up 28% from $46,237 in the quarter ended April 30, 2008 to $59,241 for the same period ended April 30, 2009, despite a $245,782 decrease in advertising & promotion expenses. We believe that the growth in real estate revenues is derived largely from positive references made by previously satisfied customers. While we re-initiated a focused direct response marketing campaign in the three months ended April 30, 2009, we lack any other explanation for continued sales growth despite a year over year 92% reduction in marketing support for the three months ended April 30, 2009.

The mortgage market continued to offer favorable lending conditions during the three month period ended April 30, 2009. Unfortunately, due to some unexpected resignations of key personnel at our joint venture MHMW, we did not attain the mortgage profit we had expected for the quarter ended April 30, 2009. For the three months ended April 30, 2009, the joint venture recorded essentially break-even results with a net loss of $1,689. Our 49% share of the net loss, which we adjusted for amortization of a deferred gain on the initial transfer of assets we made to the joint venture amounted to $68. (See Note 6 of the consolidated financial statements for more details).

The quarter ended April 30, 2009 marked a continuation of our shift in strategy towards low cost highly targeted real estate marketing and a focus on becoming cash flow positive on a quarterly basis before the end of this fiscal year. To achieve these goals, we reduced selling expenses from $775,536 in three months ended April 30, 2008 to $163,070 for the three months ended April 30, 2009. Most significant among the selling cost decreases were three items: website development, compensation, and advertising and promotion. We cut our www.webdigs.com website upkeep and development and other information technology expenses from $112,690 for the three months ended April 30, 2008 to $32,541 for the three months ended April 30, 2009. For the same periods, we reduced sales compensation costs from $288,264 to $61,419 and advertising and promotion from $268,230 to $22,448. Of the $226,845 decrease in sales compensation expenses, approximately $193,000 relate to the switch of Marquest's personnel to our Marketplace Home Mortgage – Webdigs, LLC joint venture. Fortunately, our www.webdigs.com website is fully operational and currently requires very limited maintenance.

Our general and administrative spending allows less flexibility than selling costs. For the three months ended April 30, 2009, we incurred $191,582 in general and administrative expense spending compared to $180,852 for three months ended April 30, 2008. The most significant general and administrative items were non-cash compensation and professional fees. Non-cash compensation is addressed in the financial statements footnotes. Non-cash stock compensation costs increased from $41,727 for the three months ended April 30, 2008 to $65,485 for the three months ended April 30, 2009. Additionally, professional fees increased by 100% from $42,526 to $84,846. The entire increase in professional fees can be attributed to a significant increase in non-cash investor relations consulting fees (satisfied by the issuance of Webdigs common stock). These costs totaled $40,000 in the current quarter ended April 30, 2009. For the same period ended April 30, 2008, we had zero non-cash investor relations consulting fees. In total, we incurred investor relations expenses of $47,502 for the three months ended April 30, 2009. No investor relations expenses were incurred in the quarter ended April 30, 2008. Excluding the $40,000 incurred for the non-cash consulting fees, we reduced general and administrative costs by $29,270. The biggest factor in the reduction of other general and administrative costs is the savings in rent for the three months ended April 30, 2009. We incurred rent expenses of $9,803 and $32,259 for the three months ended April 30, 2009 and 2008, respectively. This rent reduction was achieved by eliminating the two office leases held by Marquest Financial's mortgage operation, which is now part of the Marketplace home Mortgage – Webdigs, LLC joint venture. We are very focused on lowering our monthly break-even point. Equally important to increasing sales to reach break-even is control of fixed expenses. The rent reduction is a significant step in positioning us for quarterly profitability this fiscal year.

For the six month periods ended April 30, 2009 and 2008

The Company incurred operating losses of $577,881 for the six month periods ended April 30, 2009 compared to a loss of $1,187,517 for the same period last year. On a consolidated level, net revenues decreased from $499,361 for the six months ended April 30, 2008 to $97,868 for the six months ended April 30, 2009. For the same period, our core real estate sales were up 50% from $65,333 to $97,868. As mentioned above, the number of real estate transactions closed increased from 21 to 25 for the six month periods ended April 30, 2008 and 2009, respectively. The shifting of our mortgage brokerage to MHMW also affected our reported revenues significantly for the six months ended April 30, 2009. This change in reporting revenues accounted for a $434,028 decrease in net revenues for the six month period ended April 30, 2009 from one year ago.

In addition to the sales growth mentioned above, our joint venture recorded net income of $35,236 for the six month period ended April 30, 2009. Our 49% share of the net income, which we adjusted for amortization of a deferred gain on the initial transfer of assets we made to the joint venture amounted to $18,785. (See Note 6 of the consolidated financial statements for more details).

In order to reflect a shift in our strategy towards lower cost targeted real estate marketing, we significantly reduced selling expenses from $1,345,720 for the six month period ended April 30, 2008 to $327,485 for the six month period ended April 30, 2009. Most significant among the selling cost decreases were three items: website development, compensation, and advertising and promotion. We cut our www.webdigs.com website development and upkeep expenses from $269,556 for the six month periods ended 2008 to $34,837 for the six month period ended April 30, 2009. For the same period, we reduced sales compensation costs from $490,211 to $129,875 and advertising and promotion from $350,602 to $43,728. Much of the decrease (approximately $276,000) in sales compensation cost results from moving Marquest Financial's mortgage operation into the Marketplace Home Mortgage – Webdigs, LLC joint venture.

For the six month period ended April 30, 2009, we incurred $348,264 in general and administrative expense spending compared to $341,158 for the same period last year. The most significant general and administrative items were non-cash compensation and professional fees. Non-cash stock compensation costs increased from $83,454 for the six month period ended April 30, 2008 to $130,970 for the six month period ended April 30, 2009. Partially, offsetting the increase in non-cash compensation was a decrease in rent expenses of $40,898 due to the office consolidation noted above. We also cut outside contracted administrative consulting costs from $27,169 for the six months ended April 30, 2008 to zero in the current fiscal year. We spent the $27,169 in the prior year for temporary accounting and computer software consulting support. We now have improved accounting and IT systems such that temporary consulting support is not needed.

Assets and Employees; Research and Development

Our primary assets are cash and intellectual-property rights, which are the foundation for our services. We recently unwound the Marquest Financial, Inc. acquisition we originally closed on October 22, 2007. We also are actively looking for strategic real-estate and mortgage brokerage assets/partners to strengthen our overall position in these two areas of focus. Notwithstanding, we do not anticipate any imminent or significant changes in the number of employees. We have increased and will continue to increase the number of independent contractor real estate agents upon whom we rely to provide personal services in the event that we expand into other markets and to accommodate transaction growth in our current markets.

We expect that we will invest time, effort and expense in the continued refinement of our website and user interface. Currently, we expect to spend approximately $100,000 in such improvement activities over the course of fiscal 2009. As mentioned above, as of April 30, 2009 we have spent approximately $35,000 of our anticipated $100,000 current fiscal year website spending.

Liquidity and Capital Resources; Anticipated Financing Needs

As of April 30, 2009, we had $6,553 cash and cash equivalents, and current liabilities of $1,498,884 On December 12, 2008, we obtained a convertible promissory note in the amount of $250,000 from an investment group affiliated with current shareholders of the Company (See Note 8 of the consolidated financial statements for note conditions and details) for working capital needs.

We used $281,608 of cash in operating activities during the six months ended April 30, 2009 compared to $785,263 for the six months ended April 30, 2008. Cash used in operations for the six months ended April 30, 2009 included a net loss of $715,658, which was partially offset by $356,102 of various non-cash expenses for depreciation, amortization, share-based compensation, debt discount and issuance cost amortization, unrealized losses on derivatives, change in our equity position with our joint venture and shares issued for vendor payment. For the six months ended April 30, 2008, these non-cash expenses totaled $196,887. For the six months ended April 30, 2009, we were able to make progress on reducing balances owed to key vendors, thereby using $70,552 of cash for a reduction in accounts payable. The decrease in accounts payable was offset by an increase in amounts owed to related parties of $81,679.

In total, financing activities provided $250,359 and $804,537 for the six month periods ended April 30, 2009 and 2008, respectively. As mentioned above, the promissory note we issued in December provided cash of $226,000 (after paying $4,000 in issuance costs and $20,000 in accrued legal fees). During the six months ended April 30, 2008, we generated $826,500 from the issuance of common stock. In the current six month period ended April 30, 2009, we have received $500 from common stock issuances. In addition, in the current six month period ended April 30, 2009, we received $25,730 cash from increased officer payables.

As it pertains to investing activities, we did not make any investments in the six month period ended April 30, 2009. For the same period last year, we invested $18,216 in computer equipment.

For our one issuance of common stock in the private placement offering, we relied on the exemption from federal registration under Section 4(2) of the Securities Act of 1933 and Rule 506 promulgated thereunder. We relied on this exemption and the safe harbor thereunder based on the fact that there was one single investor who qualified as an “accredited investors” under Rule 501 of the Securities Act of 1933 and who had knowledge and experience in financial and business matters such that it was capable of evaluating the risks of the investment. The securities offered and sold in the transaction were not registered under the Securities Act of 1933 and therefore may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. The disclosure about the private placement offering contained in this information statement is not an offer to sell or a solicitation of an offer to buy any securities of the Company.

Given our relatively low cash position, our near term focus in fiscal 2009 continues to be creating some positive operating cash flow from our web-assisted real estate brokerage and mortgage brokerage operations. We believe that our projected revenue growth during the third and fourth quarters will not fund us beyond the end the current fiscal year ending October 31, 2009. Therefore, we have agreed on extended payment terms with our key vendors to maintain sufficient working capital to fund ongoing operations. We are also actively engaged in seeking additional financing to fund working capital needs and expansion into additional markets.

The proceeds from the $250,000 convertible promissory note financing obtained in December 2008 have provided critical liquidity to our business operations. We expect this note along with the sale of unregistered securities will provide us working capital sufficient to fund current operations through the note's maturity date on September 30, 2009. In addition, we have obtained express or tacit extended payment agreements with our vendors relating to an aggregate of $700,000 in payables that are presently due. In those cases where we do not have an express agreement with vendors, it is possible that a vendor may demand payment or refuse to provide services that are critical to the ability of the Company to either continue to operate or to timely file required reports with the SEC. If any such risk materializes, it would likely decrease our likelihood of obtaining financing on terms acceptable to us, if at all. In addition, if we fail to reach sales revenue objectives (for any reason, including due to continued poor real estate and credit market conditions beyond our control), additional financing may not be available on terms favorable to us, if at all.

If additional funds are raised by the issuance of our equity securities, such as through the issuance of common stock and exercise of stock options and warrants, then existing stockholders will experience dilution of their ownership interest. If additional funds are raised by the issuance of debt or other types of (typically preferred) equity instruments, then we may be subject to certain limitations in our operations, and issuance of such securities may have rights senior to those of the then existing holders of our common stock. If adequate funds are not available or not available on acceptable terms, we may be unable to fund expansion, develop or enhance products or respond to competitive pressures.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. We evaluate these estimates on an on-going basis. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We consider the following accounting policies to be those most important to the portrayal of our results of operations and financial condition:

Revenue Recognition

Our online real estate brokerage business recognizes revenue at the closing of a real estate transaction. Commissions and rebates due to third party real estate agents or consumers are accrued at the time of closing and treated as an offset to gross revenues. Our mortgage brokerage business recognizes commissions received and loan fees earned at the time a mortgage loan closes.

Share-Based Compensation

The Company accounts for stock incentive plans under the recognition and measurement provisions of FASB Statement No. 123(R), Share-Based Payments, which requires the measurement and recognition of compensation expense for all stock-based awards based on estimated fair values, net of estimated forfeitures. Share-based compensation expense includes compensation cost for restricted stock awards.

Intangible Assets

We have two types of intangible assets.

Website Development
The primary interface with the customer in our web-assisted real estate broker operation is the Webdigs.com website. Certain costs incurred in development of this website have been capitalized according to provision in Emerging Issues Task Force Issue No. 00-2, Accounting for Website Development Costs (EITF 00-2), and AICPA Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. These capitalized costs total $413,516. Amortization is on a straight-line method over the estimated useful life of the website of 3 years. No additional costs were capitalized for the year ended October 31, 2008 or the six months ended April 30, 2009. All costs incurred in 2008 and 2009 relating to the website were determined to be operational type costs and were properly expensed.

Customer Lists
The Company accounts for customer lists under Statement of Financial Accounting Statements (“SFAS”) No. 142, Goodwill and Other Intangible Assets (“SFAS 142”). Amortization expense is calculated using the straight-line method (which approximates the anticipated revenue stream back to the Company) over the lists estimated 2-3 year life.

With the June, 2009 unwinding of the October 22, 2007 acquisition of Marquest Financial, Inc., the Company will no longer have rights to the customer list acquired as part of the Marquest Financial acquisition. The Company has not yet performed the accounting for this transaction but it does not expect to retain any value for the Marquest customer list after accounting for the unwinding has been completed.

Investment in Marketplace Home Mortgage

On August 1, 2008, the Company contributed non-cash assets into a joint venture created with Marketplace Home Mortgage, LLC for a 49% ownership interest (see Note 5 to the consolidated financial statements). The Company accounts for its investment in the joint venture using the equity method. Accordingly, the Company records an increase in its investment for contributions to the joint venture and for its 49% share of the income of the joint venture, and a reduction in its investment for its 49% share of any losses of the joint venture or disbursements of profits from the joint venture.

Accounting for Convertible Debentures, Warrants and Derivative Instruments

The Company does not enter into derivative contracts for purposes of risk management or speculation. However, from time to time, the Company enters into contracts that are not considered derivative financial instruments in their entirety but that include embedded derivative features.

The Company accounts for its embedded conversion features and freestanding warrants pursuant to SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133) and EITF 00-19, Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in, a Company's Own Stock (EITF 00-19) which requires freestanding contracts that are settled in a company's own stock to be designated as an equity instrument, asset, or a liability. Under the provisions of EITF 00-19, a contract designated as an asset or a liability must be carried at fair value on a company's balance sheet, with any changes in fair value recorded in the results of operations.

In accordance with EITF 00-19, certain warrants to purchase common stock and embedded conversion options are accounted for as liabilities at fair value and the unrealized changes in the values of these derivatives are recorded in the statement of operations as "gain or loss on warrants and derivatives." Contingent conversion features that reduce the conversion price of warrants and conversion features are included in the valuation of the warrants and the conversion features. The recognition of the fair value of derivative liabilities (i.e. warrants and embedded conversion options) at the date of issuance is applied first to the proceeds. The excess fair value, if any, over the proceeds from a debt instrument, is recognized immediately in the statement of operations as interest expense. The value of warrants or derivatives associated with a debt instrument is recognized at inception as a discount to the debt instrument. This discount is amortized over the life of the debt instrument using the effective interest method. A determination is made upon settlement, exchange, or modification of the debt instruments to determine if a gain or loss on the extinguishment has been incurred based on the terms of the settlement, exchange, or modification and on the value allocated to the debt instrument at such date.

The Company uses the Black-Scholes pricing model to determine fair values of its derivatives. Valuations derived from this model are subject to ongoing internal verification and review. The model uses market-sourced inputs such as interest rates, exchange rates, and option volatilities. Selection of these inputs involves management's judgment and may impact net income (loss). The fair value of the derivative liabilities are subject to the changes in the trading value of the Company's common stock. As a result, the Company's financial statements may fluctuate from quarter-to-quarter based on factors, such as the bid price of the Company's stock at the balance sheet date, the amount of shares converted by note holders and/or exercised by warrant holders, and changes in the determination of market-sourced inputs. Consequently, the Company's financial position and results of operations may vary materially from quarter-to-quarter based on conditions other than its operating revenues and expenses.

Recently Issued Accounting Pronouncements

In February 2008, the FASB issued FASB Staff Position FAS 157-2 ("FSP FAS 157-2") Effective Date of FASB Statement No. 157 which delays the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities that are recognized or disclosed in the financial statements on a nonrecurring basis to fiscal years beginning after November 15, 2008. These non-financial items include assets and liabilities such as reporting units measured at fair value in a goodwill impairment test and non-financial assets acquired and non-financial liabilities assumed in a business combination. The Company has not applied the provisions of SFAS No. 157 to its non-financial assets and non-financial liabilities in accordance with FSP FAS 157- 2.

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements-an amendment of ARB No. 51. SFAS No. 160 establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The adoption of this statement is not expected to have a material effect on our future reported financial position or results of operations.

In June 2008, the FASB ratified the consensus reached by the EITF on Issue No. 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock ("EITF No. 07-5").EITF No. 07-5 addresses the determination of whether an instrument (or embedded feature) is indexed to an entity's own stock. EITF No. 07-5 would require the entity to account for embedded conversion options as derivatives and record them on the balance sheet as a liability with subsequent fair value changes recorded in the income statement. EITF-07-5 is effective for the financial statements issued for fiscal years beginning after December 15, 2008, and early adoption is prohibited. The Company has not yet determined the effect that the adoption of EITF 07-5 will have on its consolidated financial statements, particularly with respect to its Convertible Note Payable (See Note 7).

In April 2009, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. FAS 157-4, "Determining Fair Values When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly." This FSP provides guidance on (1) estimating the fair value of an asset or liability when the volume and level of the activity for the asset or liability have significantly declined and (2) identifying transactions that are not orderly. This FSP also amends certain disclosure provisions of SFAS No. 157 to require, among other things, disclosures in interim periods of the inputs and valuation techniques used to measure fair value. For the Company, this FSP is effective prospectively beginning April 1, 2009. The Company is currently evaluating the impact of this standard, but would not expect it to have a material impact on our financial position, results of operations, or cash flows.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments." This FSP essentially expands the disclosure about fair value of financial instruments that were previously required only annually to be also required for interim period reporting. In addition, this FSP requires certain additional disclosures regarding the methods and significant assumptions used to estimate the fair value of financial instruments. For the Company, these additional disclosures will be required beginning with the quarter ending July 31, 2009. We are currently evaluating the requirement of these additional disclosures.

Seasonality of Business

The residential real estate market has traditionally experienced seasonality, with a peak in the spring and summer seasons and a decrease in activity during the fall and winter seasons. We expect revenues in each quarter to be significantly affected by activity during the prior quarter, given the time lag between contract execution and closing.

Going Concern

We have incurred significant operating losses for the six month period ended April 30, 2009 and 2008. At April 30, 2009, we reported a negative working capital position of $1,402,401, accumulated deficit of $3,408,606 and a stockholders' deficit of $1,105,601. It is our opinion that these facts raise substantial doubts about our ability to continue as a going concern without additional debt or equity financing.

As noted above, in order to meet its working capital needs through the six months, we plan to seek from $500,000 to $1,000,000 in additional financing over the next three- four months. We have already begun reducing operating expenditures. May, 2009 produced our highest monthly revenue since we began operations two years ago and we expect to increase revenues further in the next two fiscal quarters through referrals and repeat transactions from our existing customer base and targeted direct marketing campaigns.

Our consolidated financial statements included do not include any adjustments related to recoverability and classification of asset carrying amounts, or the amount and classification of liabilities that might result, should we be unable to continue as a going concern. Our ability to continue as a going concern ultimately depends on achieving profitability, producing revenues or raising additional capital to sustain operations. Although we intend to obtain additional financing to meet our cash needs, we may be unable to secure any additional financing on terms that are favorable or acceptable to us, if at all.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures.

Management’s Report On Internal Control Over Financial Reporting

Under the supervision of, and the participation of, our management, including our Chief Executive Officer and Chief Financial Officer, we have conducted an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this Quarterly Report on Form 10-Q to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms, and is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure.

Based on this evaluation and taking into account that certain material weaknesses existed as of October 31, 2008, our Chief Executive Officer and Chief Financial Officer have each concluded that our disclosure controls and procedures were not effective. As a result of this conclusion, the financial statements for the period covered by this Quarterly Report on Form 10-Q were prepared with particular attention to the material weaknesses previously disclosed. Notwithstanding the material weaknesses in internal controls that continue to exist as of April 30, 2009, we have concluded that the financial statements included in this Quarterly Report on Form 10-Q present fairly, the financial position, results of operations and cash flows of the Company as required for interim financial statements.

Changes in Internal Controls

During the fiscal quarter ended April 30, 2009, there was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Management has concluded that the material weaknesses in internal control as described in Item 9A of the Company's Form 10-K for the year ended October 31, 2008 have not been remediated. Due to the small number of employees dealing with general administrative and financial matters and the expenses associated with increases to remediate the disclosure controls and procedures that have been identified, the Company continued to operate without changes to its internal controls over financial reporting for the period covered by this Quarterly Report on Form 10-Q while continuing to seek the expertise it needs to remediate the material weaknesses.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors.

None.

Item 2. Unregistered Sales of Equity Securities
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During the six month period ended April 30, 2009, the Company offered and sold 2,000 shares of common stock in a private placement at a per share price of $0.25. The Company received gross proceeds from this sale of $500 and paid no commissions or fees in connection with the private placement.

For our one issuance of common stock in the private placement offering, we relied on the exemption from federal registration under Section 4(2) of the Securities Act of 1933 and Rule 506 promulgated thereunder. We relied on this exemption and the safe harbor thereunder based on the fact that there was one single investor who qualified as an "accredited investors" under Rule 501 of the Securities Act of 1933 and who had knowledge and experience in financial and business matters such that it was capable of evaluating the risks of the investment. The securities offered and sold in the transaction were not registered under the Securities Act of 1933 and therefore may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. The disclosure about the private placement offering contained in this information statement is not an offer to sell or a solicitation of an offer to buy any securities of the Company.

Item 3. Defaults Upon Senior Securities

None.

Item 4 Submission of Matters to a Vote of Shareholders

None.

Item 5. Other Information

None.

Item 6. Exhibits.

Exhibit No.	Description
31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

WEBDIGS, INC.

/s/ Robert A. Buntz, Jr.
Robert A. Buntz, Jr.
Chief Executive Officer

Dated: June 15, 2009

/s/ Edward Wicker
Edward Wicker
Chief Financial Officer
Dated: June 15, 2009

INDEX TO EXHIBITS FILED WITH THIS REPORT

Exhibit No.	Description
31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002