LIVEDEAL INC
Form 10-K
December 29, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark one)

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

For the fiscal year ended September 30, 2011

¨ TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition period from ________ to ____________

Commission File Number: 001-33937

LiveDeal, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Nevada (State or Other Jurisdiction of Incorporation or Organization)	85-0206668 (IRS Employer Identification No.)
2490 East Sunset Road, Suite 100 Las Vegas, Nevada (Address of principal executive offices)	89120 (Zip Code)

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

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

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

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

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

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

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 o

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

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

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 o	Accelerated filer o
Non-accelerated filer o (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 o No x

The aggregate market value of the registrant's common stock held by non-affiliates computed based on the closing price of such stock on March 31, 2011 was $2,378,488.

The number of shares outstanding of the registrant's common stock, as of December 16, 2011, was 2,338,377 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement relating to the Registrant's 2012 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

LIVEDEAL, INC.

FORM 10-K
For the year ended September 30, 2011

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PART I

Forward-Looking Statements

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

Forward-looking statements involve risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Factors and risks that could affect our results and achievements and cause them to materially differ from those contained in the forward-looking statements include those identified in Item 1A. Risk Factors, as well as other factors that we are currently unable to identify or quantify, but may exist in the future.

In addition, the foregoing factors may affect generally our business, results of operations and financial position. Forward-looking statements speak only as of the date the statement was made. We do not undertake and specifically decline any obligation to update any forward-looking statements. Any information contained on our website www.livedeal.com or any other websites referenced in this Annual Report are not a part of this Annual Report.

ITEM 1. Business

Our Company

LiveDeal, Inc., a Nevada corporation (the “Company”, “LiveDeal”, “we”, “us” or “our”) provides online marketing inter directory services for small businesses. LiveDeal, through our wholly-owned subsidiary Velocity Marketing Concepts, Inc., offers an affordable way for businesses to extend their marketing reach to local, relevant customers and manage their online presence.

Summary Business Description

LiveDeal first started in the online marketing industry as YP.com. At the time, YP.com was the first company to bring the print yellow pages to the Internet in 1994. From there we moved into the online classifieds business when we merged with LiveDeal in 2007. Subsequently the company sold YP.com in March 2009 and discontinued the classifieds business in June 2009.

LiveDeal develops and markets tools that help local businesses manage their online presence. These tools include a variety of cloud-based solutions that help businesses extend their marketing reach to local, relevant customers and manage their online presence.

Originally founded as YP.com in 1994, LiveDeal has traditionally provided affordable, entry level, online products to local businesses. Today, we have adapted and adjusted our company goals to reflect the latest online trends in internet marketing with the aim of reaching as many small and medium-sized businesses as possible. In March 2010, we adopted the strategy of developing successor products to our directory business and rebuilding our customer base through mass market sales using LEC billing channels and moving away from the higher-end direct sales products offered through Local Marketing Experts, Inc. (which focused on search engine marketing and website creation services together with additional add-on advertising products.) Since July 2010, the line of business historically known as our yellow page directory service was rebranded and upgraded to the InstantProfile ® product and marketed under our subsidiary Velocity Marketing Concepts, Inc. This new product, which is part of the InstantAgency suite of products, provides online subscription tools and services to broadcast information about a business to the top (based on popularity) Internet directories, search engines results, social media networks, and Points-of-Interest (POI) databases embedded on the leading navigational devices. This ensures that our customers are distributed to sites such as Google, Yahoo, Bing, Facebook, Twitter and others through our distribution network. Additionally, customers receive a communication suite that allows both conference call hosting and electronic fax services. We are focusing our efforts on increasing our sales under Velocity Marketing Concepts, Inc. and expanding the range of products offered to the market through this sales outlet by selling the Instant Profile and Instant Award products. This strategy has culminated in the cessation of all new sales under the Local Marketing Experts, Inc. subsidiary (Direct Sales) on December 1, 2010. In May 2011, the Company assigned its remaining Direct Sales customers to ReachLocal. Also Velocity Marketing Concepts, Inc. sales were paused on July 15, 2011 while the Company evaluates its sales program, products, distribution methods and vendor programs.

Our current strategy is to market to small office/home office businesses as well as local businesses across the country. Our products are affordable and useful to a large portion of the small business market. Our customers include retail businesses such as restaurants, home repair and services companies, as well as professional firms providing legal, accounting and medical services. All share the common challenges of managing their online presence and acquiring customers online.

We rely on telemarketing and online lead generation to drive customer acquisition. We partner with companies that are highly automated and specialize in creating, deploying and managing telemarketing campaigns quickly and efficiently. Our partners have a strong ability to quickly build and scale programs tailored for small businesses.

In recent months, LiveDeal has reworked its product offerings and company structure around this mass-market business model. In the past fiscal year, we have greatly reduced expenses and streamlined the company. LiveDeal managed the expense of acquiring a new customer base while reducing operating losses to their lowest levels in several years. Presently our focus is acquiring additional investment and working capital that will allow us to continue to grow our revenues. The company stopped new sales under Velocity Marketing Concepts July 15, 2011 to improve the current Instant Profile Products and develop new products as we look for additional investments.

Industry Overview

According to BIA/Kelsey, U.S. Local online/digital advertising revenues will rise to $23.3 billion in 2011. “Local search,” that is, searches for products, services and businesses within a geographic region is an increasingly significant segment of the online advertising industry. Local search allows consumers to search for local businesses’ products or services by including geographic area, zip code, city and other geographically targeted search parameters in their search requests. According to a May 2011 study The Kelsey Group estimates that the local search market in the United States will grow from $5.1 billion in 2010 to $8.2 billion in 2015. Consumers who conduct local searches on the Internet (“local searchers”) tend to convert into buying customers at a higher rate than other types of Internet user. As a result, advertisers often pay a significant premium to place their ads in front of local searchers on websites like Local.com or our Network partner websites. Additionally, local small and medium-sized businesses that would not normally compete at the national level for advertising opportunities are increasingly engaging in and competing for local advertising opportunities, including local search, to promote their products and services.

Local search is still relatively new, and as a result it is difficult to determine our current market share or predict our future market share. However, we have a number of competitors that have announced an intention to increase their focus on local search with regard to U.S. online advertising, including some of the leading online advertising companies in the world, Google, Yahoo!, and Microsoft, among many others with greater experience and resources than we have.

We believe that small businesses that can take advantage of emerging Internet capabilities will be able to acquire customers with greater efficiency than before and those that cannot will suffer in comparison. It is becoming widely recognized among small business owners that mastering the Internet arts is essential.

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

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

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

Products and Services

InstantProfile. As described above, our Internet Advertising Product (“IAP”) package was discontinued in 2010 with the launch of the InstantProfile and InstantProfile premium products. All IAP customers were moved to InstantProfile to take advantage of the new product and features. Under this package, the advertiser pays for exposure utilizing our InstantProfile product. The advertiser enjoys the benefit of having its business distributed to top Internet destinations (based on popularity), including search engines, top directories, and social media networks. This gives the advertiser the ability to manage its business information in one location and maximize its reach to many locations, as a consumer may search broadly for local business services. InstantProfile customers also enjoy additional benefits with tools to communicate directly with their customers and employees. The InstantProfile platform includes:

Instant Profile Basic Package

Instant Profile gives customers the benefit of having its business distributed to top Internet destinations (based on popularity), as well as online tools allowing companies to communicate directly with their customers, employees and partners.

- Business profile syndication – InstantProfile broadcasts information about a business to top Internet directories, search engines, and Points-of-Interest (POI) databases embedded on the leading navigational devices. This ensures that our customers are distributed to sites such as Google, Yahoo, Bing, and others through our distribution network. Customers benefit from the ability to manage business information in one location and maximize its reach to many locations, as a consumer may search broadly for local business services.
- Social Media Broadcast - Allows customers to use one location to broadcast their messages across their entire social media network. By leveraging this automation the advertiser eliminates the need to manage multiple logins for individual websites and duplicate submissions and decreases the time required to broadcast their messages from hours to one click of a button.
- Electronic fax – Customers can send and receive unlimited faxes through the InstantProfile product dashboard.
- Conference call services – Customers can host conference calls with up to 10 participants.

InstantProfile Pricing. We generally price our InstantProfile product between $27.50 and $39.95 per month, which includes all of the service benefits previously described. We believe that these prices are comparable to the prices of our competitors, and we believe that our product provides superior value to our customers when considering the many benefits that they receive, including the ease of use, broad internet distribution and communication tools.

Instant Profile Premium Pricing. The Instant Profile Premium product is sold for $49.95 per month and includes the features mentioned above.

Instant Profile Premium - The Instant Profile premium product includes all InstantProfile Standard functionality with two additional features:

- Virtual PBX voice messaging - Provides a professional phone tree for callers that presents any business in a professional light. Voicemails left through this service are conveniently delivered as audio files to the company email; meaning messages are never lost and remain archived as long as needed.
- Online Data Storage – Customers can store up to 10 gigabytes of data on our cloud server and retrieve it from any computer or device with an Internet connection

Product Solutions

Small businesses that take advantage of emerging Internet capabilities will be better equipped to acquire customers and operate with greater efficiency than those that do not. Companies widely understand that engaging with online and social tools is essential. This creates a large market for service providers that help companies leverage this new technology efficiently and at the lowest possible cost.

In 2010, we formed Velocity Marketing, Inc. with the strategy of developing successor products to our directory business and goal of rebuilding our customer base through mass-market sales. This direction moved us away from the higher-end direct sales products offered through Local Marketing Experts, Inc. (search engine marketing, custom website creation, and online video products), which ceased operation in December 2010 and sold its remaining customers to ReachLocal in May 2011.

Velocity Marketing Concepts targets monthly subscription revenue in the $30.00 to $50.00 range. This price range, combined with the value of our offerings, results in a stable level of monthly subscription revenue without the unpredictable margin and churn issues that were associated with Local Marketing Experts.

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

Similar to the local Regional Bell Operating Companies, we are approved to bill our products and services directly on customers' local telephone bill through their LEC, commonly referred to as their local telephone company. We believe that this is an efficient and cost-effective billing method as compared to direct billing methods.

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

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

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

LiveDeal Capabilities

LiveDeal has considerable capabilities in areas of online marketing and product development in addition to the features included in our current product offering. LiveDeal is well-versed in online marketing campaign creation and management. These areas include search engine marketing, search engine optimization, and affiliate marketing. Our company capabilities include both mass and custom website development, as well as marketing video production. These capabilities may be deployed at any time as part of product offerings, of our product offers or as services assisting partners or clients.

The Market - Online Local, Social and Mobile Products

LiveDeal has long offered customer acquisition services for local businesses. Increasingly, that means offering products that make use of local, social and mobile marketing.

According to BIA/Kelsey forecasts, traditional media business segments such as print advertising, Yellow Pages and newspapers are experiencing large reductions in advertising revenues. Meanwhile, U.S. local online/digital advertising revenues will rise to $23.3 billion in 2011, compared with $22.3 billion predicted earlier this year.

Social media advertising revenues will grow from $5.1 billion in 2010 to $8.2 billion in 2015, representing a compound annual growth rate of 10.0 percent, according to BIA/Kelsey's U.S. Local Media Annual Forecast (2010-2015).

The rise of smart phones has changed the game for marketing. Given that smart phones out-sell traditional mobile phones, the consumption of online advertising is quickly moving to mobile devices.

Local mobile advertising targets users with offers or location-based marketing. According to Borrell Associates, local advertisers are on track to spend nearly $800 million this year on mobile advertising and more than $400 million on mobile promotions, including contests, coupons and deals. Borrell's August 2011 Mobile report projects the amount spent on mobile advertising will double every year for the next 5 years. That projection means that mobile advertising would exceed the amount spent on local search advertising today.

LiveDeal will continue to be active in offering online solutions for small and medium sized local businesses.

Marketing

For well over 10 years, LiveDeal has had a long-standing relationship with data and lead providers. We are able to source the highest quality leads available and are able to focus our telemarketing efforts toward the demographics we believe will result in long term customers.

LiveDeal's products are designed and delivered online. LiveDeal will likely expand its customer acquisition strategy to include online marketing through search engines, ad networks and affiliate relationships.

Technology and Infrastructure

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

- Moved to favor of open, best-of-breed solutions
- Lower cost approach
- Lower development costs
- Better back-up and reliability
- Able to partner with any vendor or platform
- Plug and play approach
- Greatly improved speed to market
- Increased flexibility
- We moved to virtualized computing options to replace and maintain outdated hardware

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

The environment leverages technology from world-class infrastructure partners such as VMware, Cisco, HP and EMC2 to achieve unmatched flexibility and control. The clustered grid architecture provides complete physical redundancy to eliminate downtime due to hardware failure. In fact, the system can move applications, operating systems, and databases across physical devices live and with no service interruption. Automated resource balancing provides continuous monitoring and optimization to ensure peak performance. Storage is delivered on a redundant, high-performance Gigabit Ethernet-attached NAS architecture. This allows for the addition of disks to the virtual environment in almost any combination of drive type or capacity.

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

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

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

Competition

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

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

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

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

Employees

As of September 30, 2011, we had 12 full-time and no part-time employees in the United States. None of our employees are covered by any collective bargaining agreements.

Available Information

We file reports with the Securities and Exchange Commission (the "SEC"), including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any other filings required by the SEC. We make available free of charge in the investor relations section of our corporate website (http://investor.livedeal.com) our annual report on form 10-K, quarterly reports on form 10-Q, current reports on form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. References to the Company's corporate website address in this report are intended to be inactive textual references only, and none of the information contained on our website is part of this report or incorporated in this report by reference.

The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

ITEM 1A. Risk Factors

An investment in our common stock involves a substantial degree of risk. Before making an investment decision, you should give careful consideration to the following risk factors in addition to the other information contained in this report. The following risk factors, however, may not reflect all of the risks associated with our business or an investment in our common stock. The trading price of our common stock could decline significantly due to any of these risks and investors may lose all or part of their investments. In assessing these risks, investors should also refer to the other information contained or incorporated by reference in this Annual Report on Form 10-K, including our consolidated financial statements for the fiscal year that ended on September 30, 2011 and related notes.

Risks Related to Our Business

Uncertainty in the market for our products and services.

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

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

During the fiscal year ended September 30, 2011, we incurred substantial operating losses as we transitioned our business toward our new strategic focus. We will continue to incur operating losses as we develop new business products which will be financed through existing cash on hand plus additional equity funding received December 12, 2011. While we believe our existing cash on hand, together with additional cash generated from operations or obtained from other sources, such other sources of cash possibly including stock issuances, loans and advances from our existing LEC clearing houses through their current advance programs or other forms of financing secured by or leveraged off our accounts receivable based on existing programs in place that are being offered to companies similar to ours, is sufficient to finance our operations for the next twelve months, there can be no assurance that we will achieve profitability or positive operating cash flows. To the extent that we cannot achieve profitability or positive operating cash flows, our business will be materially and adversely affected. Further, this new business segment is likely to experience significant volatility in its revenues, operating losses, personnel involved, products or services for sale, and other business parameters, as management implements its strategies and responds to operating results from this new business segment.

We have historically incurred losses and expect to incur losses in the future, which may impact our ability to implement our business strategy and adversely affect our financial condition.

We have a history of losses. We had a net loss of $5.5 million for the fiscal year ended September 30, 2011, and $7.5 million for the year ended September 30, 2010. We have significantly reduced our operating expenses by reviewing all expenses and improving operating efficiencies. We cannot assure you that we will be profitable or generate sufficient profits from operations in the future. If our revenue does not grow, we may experience a loss in one or more future periods. We may not be able to reduce or maintain our expenses in response to any decrease in our revenue, which may impact our ability to implement our business strategy and adversely affect our financial condition.

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

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

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

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

In fiscal year 2009 we made the strategic decision to discontinue our classifieds business and product offerings which have historically generated a majority of our revenues and in December 2010 we made the strategic decision to discontinue our Direct Sales business. These discontinuances will continue to reduce our revenues that were generated from these product lines, particularly with respect to those customers who sought an integrated Yellow Pages and classifieds product.

If we fail to maintain the number of customers purchasing our monthly subscription products, our revenue and our business could be harmed.

Our monthly subscription customers do not have long-term obligations to purchase our products or services and many will cancel their subscriptions each month. As a result of this customer churn, we must continually add new monthly subscription customers to replace customers who cancelled and to grow our business beyond our current customer base.

We face intense competition, including from companies with greater resources, which could adversely affect our growth and could lead to decreased revenues.

Search engine optimization and online marketing services are emerging fields with a considerable amount of competitors in each field. Additionally, major Internet companies, including Google, Microsoft, Verizon, and Yahoo!, currently market Internet Yellow Pages, local search services and other products that directly compete with our legacy business as well as our new product offerings. We may not compete effectively with existing and potential competitors for several reasons, including the following:

§ some competitors have longer operating histories and greater financial and other resources than we have and are in better financial condition than we are;

§ some competitors have better name recognition, as well as larger, more established, and more extensive marketing, customer service, and customer support capabilities than we have;

§ some competitors may be able to better adapt to changing market conditions and customer demand; and

§ barriers to entry are not significant. As a result, other companies that are not currently may enter the market or develop technology that reduces the need for our services.

Increased competitive pressure could lead to reduced market share, as well as lower prices and reduced margins, for our services. If we experience reductions in our revenue for any reason, our margins may continue to decline, which would adversely affect our results of operations. We cannot assure you that we will be able to compete successfully in the future.

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

Our business is subject to a strict regulatory environment.

Like many companies, we are subject to existing and potential government regulation. There are, however, comparatively few laws or regulations specifically applicable to Internet businesses. Accordingly, the application of existing laws to Internet businesses, including ours, is unclear in many instances. There remains significant legal uncertainty in a variety of areas, including, but not limited to: user privacy, the positioning of sponsored listings on search results pages, defamation, taxation, the provision of paid-search advertising to online gaming websites, the legality of sweepstakes, promotions and gaming websites generally, and the regulation of content in various jurisdictions.

Compliance with federal laws relating to the Internet and Internet businesses may impose upon us significant costs and risks, or may subject us to liability if we do not successfully comply with their requirements, whether intentionally or unintentionally. Specific federal laws that impact our business include The Digital Millennium Copyright Act of 1998, The Communications Decency Act of 1996, The Children's Online Privacy Protection Act of 1998 (including related Federal Trade Commission regulations), The Protect Our Children Act of 2008, and The Electronic Communications Privacy Act of 1986, among others. For example, the Digital Millennium Copyright Act, which is in part intended to reduce the liability of online service providers for listing or linking to third-party websites that include materials that infringe the rights of others, was adopted by Congress in 1998. If we violate the Digital Millennium Copyright Act we could be exposed to costly and time-consuming copyright litigation.

There are a growing number of legislative proposals before Congress and various state legislatures regarding privacy issues related to the Internet generally, and some of these proposals apply specifically to paid-search businesses. We are unable to determine if and when such legislation may be adopted. If certain proposals were to be adopted, our business could be harmed by increased expenses or lost revenue opportunities, and other unforeseen ways. We anticipate that new laws and regulations affecting us will be implemented in the future. Those new laws, in addition to new applications of existing laws, could expose us to substantial liabilities and compliance costs.

Our utilization of ACH billing exposes us to review by the National Automated Clearing House Association, or NACHA. Future actions from these and other regulatory agencies could expose us to substantial liability in the future, including fines and criminal penalties, preclusion from offering certain products or services, and the prevention or limitation of certain marketing practices.

Our future results of operations may be subject to fluctuation as a result of seasonality.

In particular, we expect our results of operations for the fourth quarter may demonstrate seasonal weakness because a larger portion of online consumer traffic and advertising is typically focused on holiday gift purchases and there is less advertising for locally-focused services during this quarter. Additionally, as other advertisers significantly increase their bid prices to acquire traffic for the holiday season, we generally keep our bid prices consistent throughout the year, resulting in less traffic to our websites from our SEM efforts. Online consumer traffic will also be lower due to increased holidays and vacation time during this quarter. We generally see an increase in revenue during the first quarter, when we expect to benefit from a higher volume of locally-focused traffic and a higher volume of online consumer traffic due to fewer holidays and vacation time.

Our success depends upon our ability to establish and maintain relationships with our customers.

Our ability to generate revenue depends upon our ability to maintain relationships with our existing customers, to attract new customers to sign up for revenue-generating services, and to generate traffic to our customers' websites. We primarily use telemarketing efforts to attract new customers. These telemarketing efforts may not produce satisfactory results in the future. We attempt to maintain relationships with our customers through customer service and delivery of traffic to their businesses. An inability to either attract additional customers to use our service or to maintain relationships with our customers could have a material adverse effect on our business, prospects, financial condition, and results of operations.

If we do not introduce new or enhanced offerings to our customers, we may be unable to attract and retain those customers, which would significantly impede our ability to generate revenue.

We will need to introduce new or enhanced products and services in order to attract and retain customers and to remain competitive. Our industry has been characterized by rapid technological change, changes in advertiser and user requirements and preferences, and frequent new product and service introductions embodying new technologies. These changes could render our technology, systems, and website obsolete. We may experience difficulties that could delay or prevent us from introducing new products and services. If we do not periodically enhance our existing products and services, develop new technologies that address our customers' and users' needs and preferences, or respond to emerging technological advances and industry standards and practices on a timely and cost-effective basis, our products and services may not be attractive to customers and users, which would significantly impede our revenue growth. In addition, our reputation and our brand could be damaged if any new product or service introduction is not favorably received.

Our results of operations could fluctuate due to factors outside of our control.

Our operating results have historically fluctuated significantly, and we have experienced recent declines in net revenues and operating profits. We could continue to experience fluctuations or continued declining operating results due to factors that may or may not be within our control. Such factors include the following:

§ fluctuating demand for our services, which may depend on a number of factors including:

- changes in economic conditions and our customers' profitability,
- customer refunds or cancellations, and
- our ability to continue to bill through existing means;

- § market acceptance of new or enhanced versions of our services or products;
- § price competition or pricing changes by us or our competitors;
- § new product offerings or other actions by our competitors;
- § the ability of our check processing service providers to continue to process and provide billing information;
- § the amount and timing of expenditures for expansion of our operations, including the hiring of new employees, capital expenditures, and related costs;
- § technical difficulties or failures affecting our systems or the Internet in general;
- § a decline in Internet traffic at our website; and
- § the fixed nature of a significant amount of our operating expenses.

The loss of our ability to bill customers through our ACH billing channel would adversely impact our results of operations.

We bill a significant number of our Directory Services customers through our ACH billing channel. ACH transactions are closely regulated by NACHA – the National Automated Clearing House Association, which develops operating rules and business practices for the ACH network and for electronic payments in the areas of Internet commerce and other electronic payment means. Changes in these rules and business practices could compromise our ability to bill a significant number of our customers through ACH billing, and we would have to transition these customers to other billing channels. Such changes would be disruptive and could result in lost revenue.

We depend upon our executive officers and key personnel.

Our performance depends substantially on the performance of our executive officers and other key personnel. The success of our business in the future will depend on our ability to attract, train, retain, and motivate high quality personnel, especially highly qualified technical and managerial personnel. The loss of services of any executive officers or key personnel could have a material adverse effect on our business, results of operations or financial condition. While we have employment agreements with our executive officers no key man life insurance has been purchased on them.

Competition for talented personnel is intense, and there is no assurance that we will be able to continue to attract, train, retain or motivate other highly qualified technical and managerial personnel in the future. In addition, market conditions may require us to pay higher compensation to qualified management and technical personnel than we currently anticipate. Any inability to attract and retain qualified management and technical personnel in the future could have a material adverse effect on our business, prospects, financial condition, and results of operations.

We depend upon third parties to provide certain services and software, and our business may suffer if the relationships upon which we depend fail to produce the expected benefits or are terminated.

We depend upon third-party software to operate certain of our services. The failure of this software to perform as expected would have a material adverse effect on our business. Additionally, although we believe that several alternative sources for this software are available, any failure to obtain and maintain the rights to use such software would have a material adverse effect on our business, prospects, financial condition, and results of operations. We also depend upon third parties to provide services that allow us to connect to the Internet with sufficient capacity and bandwidth so that our business can function properly and our websites can handle current and anticipated traffic. Any restrictions or interruption in our connection to the Internet would have a material adverse effect on our business, prospects, financial condition, and results of operations.

We may not be able to secure additional capital to expand our operations.

Although we currently have no material long-term needs for capital expenditures, we will likely be required to make increased capital expenditures to fund our anticipated growth of operations, infrastructure, and personnel. We currently anticipate that our cash on hand as of September 30, 2011, together with cash flows from operations or obtained from other sources, such other sources of cash possibly including stock issuances, loans and advances from our existing LEC clearing houses through their current advance programs or other forms of financing secured by or leveraged off our accounts receivable based on existing programs in place that are being offered to companies similar to ours will be sufficient to meet our anticipated liquidity needs for working capital and capital expenditures over the next 12 months. In the future, however, we may seek additional capital through the issuance of debt or equity depending upon our results of operations, market conditions or unforeseen needs or opportunities. Our future liquidity and capital requirements will depend on numerous factors, including the following:

- the pace of expansion of our operations;
- our need to respond to competitive pressures; and
- future acquisitions of complementary products, technologies or businesses.

Our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties and actual results could vary materially as a result of the factors described above. As we require additional capital resources, we may seek to sell additional equity or debt securities. Debt financing must be repaid at maturity, regardless of whether or not we have sufficient cash resources available at that time to repay the debt. The sale of additional equity or convertible debt securities could result in additional dilution to existing stockholders. We cannot provide assurance that any financing arrangements will be available in amounts or on terms acceptable to us, if at all.

Our business is subject to a strict regulatory environment.

Existing laws and regulations and any future regulation may have a material adverse effect on our business. For example, we believe that our direct marketing programs meet existing requirements of the United States Federal Trade Commission (“FTC”). Any changes to FTC requirements or changes in our direct or other marketing practices, however, could result in our marketing practices failing to comply with FTC regulations.

There can be no absolute assurance that the other states or other parties, which were not part of the above-mentioned state consortium, would not attempt to file similar claims against us in the future. However, we believe this risk is somewhat mitigated by the fact that those states did not join the states in filing complaints against us and the fact that we discontinued the use of our check activators.

Our utilization of ACH billing exposes us to review by NACHA. Future actions from these and other regulatory agencies could expose us to substantial liability in the future, including fines and criminal penalties, preclusion from offering certain products or services, and the prevention or limitation of certain marketing practices.

We may not be able to adequately protect our intellectual property rights.

Our success depends both on our internally developed technology and our third party technology. We rely on a variety of trademarks, service marks, and designs to promote our brand names and identity. We also rely on a combination of contractual provisions, confidentiality procedures, and trademark, copyright, trade secrecy, unfair competition, and other intellectual property laws to protect the proprietary aspects of our products and services. Legal standards relating to the validity, enforceability, and scope of the protection of certain intellectual property rights in Internet-related industries are uncertain and still evolving. The steps we take to protect our intellectual property rights may not be adequate to protect our intellectual property and may not prevent our competitors from gaining access to our intellectual property and proprietary information. In addition, we cannot provide assurance that courts will always uphold our intellectual property rights or enforce the contractual arrangements that we have entered into to protect our proprietary technology.

Third parties may infringe or misappropriate our copyrights, trademarks, service marks, trade dress, and other proprietary rights. Any such infringement or misappropriation could have a material adverse effect on our business, prospects, financial condition, and results of operations. In addition, the relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights is unclear. We may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon or otherwise decrease the value of our trademarks and other proprietary rights, which may result in the dilution of the brand identity of our services.

We may decide to initiate litigation in order to enforce our intellectual property rights, to protect our trade secrets, or to determine the validity and scope of our proprietary rights. Any such litigation could result in substantial expense, may reduce our profits, and may not adequately protect our intellectual property rights. In addition, we may be exposed to future litigation by third parties based on claims that our products or services infringe their intellectual property rights. Any such claim or litigation against us, whether or not successful, could result in substantial costs and harm our reputation. In addition, such claims or litigation could force us to do one or more of the following:

§ cease selling or using any of our products that incorporate the challenged intellectual property, which would adversely affect our revenue;

§ obtain a license from the holder of the intellectual property right alleged to have been infringed, which license may not be available on reasonable terms, if at all; and

§ redesign or, in the case of trademark claims, rename our products or services to avoid infringing the intellectual property rights of third parties, which may not be possible and in any event could be costly and time-consuming.

Even if we were to prevail, such claims or litigation could be time-consuming and expensive to prosecute or defend, and could result in the diversion of our management's time and attention. These expenses and diversion of managerial resources could have a material adverse effect on our business, prospects, financial condition, and results of operations.

Capacity constraints may require us to expand our infrastructure and advertiser support capabilities.

Our ability to provide high-quality services largely depends upon the efficient and uninterrupted operation of our computer and communications systems. We may be required to expand our technology, infrastructure, and customer support capabilities in order to accommodate any significant growth in customers. We may not be able to project accurately the rate or timing of increases, if any, in the use of our services or expand and upgrade our systems and infrastructure to accommodate these increases in a timely manner. Our inability to upgrade and expand our infrastructure and customer support capabilities as required could impair the reputation of our brand and our services and diminish the attractiveness of our service offerings to our customers.

Any expansion of our infrastructure may require us to make significant upfront expenditures for servers, routers, computer equipment, and additional Internet and intranet equipment, as well as to increase bandwidth for Internet connectivity. Any such expansion or enhancement will need to be completed and integrated without system disruptions. An inability to expand our infrastructure or customer service capabilities either internally or through third parties, if and when necessary, would materially and adversely affect our business, prospects, financial condition, and results of operations.

Current economic conditions may adversely affect our industry, business and results of operations.

The U.S. and global economy is currently undergoing a gradual and extended recovery from a prolonged recession and a period of unprecedented volatility. It is unclear how prolonged this recovery will be and how it will affect our industry in particular. Many believe that the general future economic environment may continue to be less favorable than that of recent years. If the challenging economic conditions in the U.S. and other key countries persist or worsen, our customers may delay or reduce spending. This could result in reductions in sales of our products and services, longer sales cycles and increased price competition. Any of these events would likely harm our business, results of operations and financial condition.

We may have an adverse resolution of litigation that may harm our operating results or financial condition.

At times, we are a party to lawsuits in the normal course of our business. Litigation can be expensive, lengthy, and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of a particular lawsuit could have a material adverse effect on our business, operating results, or financial condition.

Our business is subject to the risks of earthquakes, fires, floods and other natural catastrophic events and to interruption by man-made problems such as computer viruses or terrorism.

Our systems and operations are vulnerable to damage or interruption from earthquakes, fires, floods, power losses, telecommunications failures, terrorist attacks, acts of war, human errors, break-ins and similar events. For example, a significant natural disaster, such as an earthquake, fire or flood, could have a material adverse impact on our business, operating results and financial condition, and our insurance coverage will likely be insufficient to compensate us for losses that may occur. Our servers may also be vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems, which could lead to interruptions, delays, loss of critical data or the unauthorized disclosure of confidential intellectual property or client data. We may not have sufficient protection or recovery plans in certain circumstances, such as natural disasters affecting the Las Vegas area, and our business interruption insurance may be insufficient to compensate us for losses that may occur. As we rely heavily on our servers, computer and communications systems and the Internet to conduct our business and provide high quality customer service, such disruptions could negatively impact our ability to run our business, which could have an adverse affect on our operating results and financial condition.

We have made strategic acquisitions and divestitures in the past few years and may complete similar transactions in the future and cannot assure you that any future transactions will be successful.

We regularly look for opportunities to support our new business strategy through appropriate acquisitions, divestitures and/or strategic alliances. There can be no assurance that we will be successful in identifying appropriate transaction partners or integrating the results of any such transactions in a way that ultimately supports our business strategy. Any such transactions could also involve the dilutive issuance of equity securities and/or the incurrence of debt. In addition, future strategic transactions may involve numerous other risks, including but not limited to:

§ exposure to unanticipated liabilities of an acquired company (or acquired assets);

§ the potential loss of key customers or key personnel in connection with, or as the result of, a transaction;

§ the recording of goodwill and intangible assets that will be subject to impairment testing on a regular basis and potential periodic impairment charges;

§ the diversion of the attention of our management team from other business concerns, including the day-to-day management of our Company and/or the internal growth strategies that they are currently implementing; and

§ the risk of entering into markets or producing products where we have limited or no experience, including the integration of the purchased technologies and products with our technologies and products.

Risks Related to the Internet

We may not be able to adapt as the Internet and customer demands continue to evolve.

Our failure to respond in a timely manner to changing market conditions or client requirements could have a material adverse effect on our business, prospects, financial condition, and results of operations. The Internet, e-commerce, and the online marketing industry are characterized by:

§ rapid technological change;

§ changes in customer and user requirements and preferences;

§ frequent new product and service introductions embodying new technologies; and

§ the emergence of new industry standards and practices that could render our existing service offerings, technology, and hardware and software infrastructure obsolete.

In order to compete successfully in the future, we must:

§ enhance our existing services and develop new services and technology that address the increasingly sophisticated and varied needs of our prospective or current customers;

§ license, develop or acquire technologies useful in our business on a timely basis; and

§ respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis.

We may be required to keep pace with rapid technological change in the Internet industry.

In order to remain competitive, we will be required continually to enhance and improve the functionality and features of our existing services, which could require us to invest significant capital. If our competitors introduce new products and services embodying new technologies or if new industry standards and practices emerge, our existing services, technologies, and systems may become obsolete. We may not have the funds or technical knowledge to upgrade our services, technologies, and systems. If we face material delays in introducing new services, products, and enhancements, our customers and users may forego the use of our services and select those of our competitors, in which event our business, prospects, financial condition, and results of operations could be materially and adversely affected.

Regulation of the Internet may adversely affect our business.

Due to the increasing popularity and use of the Internet and online services such as online Yellow Pages, federal, state, local, and foreign governments may adopt laws and regulations, or amend existing laws and regulations, with respect to the Internet and other online services. These laws and regulations may affect issues such as user privacy, pricing, content, taxation, copyrights, distribution, and quality of products and services. The laws governing the Internet remain largely unsettled, even in areas where legislation has been enacted. It may take years to determine whether and how existing laws, such as those governing intellectual property, privacy, libel, and taxation apply to the Internet and Internet advertising and directory services. In addition, the growth and development of the market for electronic commerce may prompt calls for more stringent consumer protection laws, both in the United States and abroad, that may impose additional burdens on companies conducting business over the Internet. Any new legislation could hinder the growth in use of the Internet generally or in our industry and could impose additional burdens on companies conducting business online, which could, in turn, decrease the demand for our services, increase our cost of doing business, or otherwise have a material adverse effect on our business, prospects, financial condition, and results of operations.

We may not be able to obtain Internet domain names that we would like to have.

We believe that our existing Internet domain names are an extremely important part of our business. We may desire, or it may be necessary in the future, to use these or other domain names in the United States and abroad. Various Internet regulatory bodies regulate the acquisition and maintenance of domain names in the United States and other countries. These regulations are subject to change. Governing bodies may establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names. As a result, we may be unable to acquire or maintain relevant domain names in all countries in which we plan to conduct business in the future.

The extent to which laws protecting trademarks and similar proprietary rights will be extended to protect domain names currently is not clear. We therefore may be unable to prevent competitors from acquiring domain names that are similar to, infringe upon or otherwise decrease the value of our domain names, trademarks, trade names, and other proprietary rights. We cannot provide assurance that potential users and customers will not confuse our domain names, trademarks, and trade names with other similar names and marks. If that confusion occurs, we may lose business to a competitor and some customers and users may have negative experiences with other companies that those customers and users erroneously associate with us. The inability to acquire and maintain domain names that we desire to use in our business, and the use of confusingly similar domain names by our competitors, could have a material adverse affect on our business, prospects, financial conditions, and results of operations in the future.

Our business could be negatively impacted if the security of the Internet becomes compromised.

To the extent that our activities involve the storage and transmission of proprietary information about our customers or users, security breaches could damage our reputation and expose us to a risk of loss or litigation and possible liability. We may be required to expend significant capital and other resources to protect against security breaches or to minimize problems caused by security breaches. Our security measures may not prevent security breaches. Our failure to prevent these security breaches or a misappropriation of proprietary information may have a material adverse effect on our business, prospects, financial condition, and results of operations.

Our technical systems could be vulnerable to online security risks, service interruptions or damage to our systems.

Our systems and operations may be vulnerable to damage or interruption from fire, floods, power loss, telecommunications failures, break-ins, sabotage, computer viruses, penetration of our network by unauthorized computer users or "hackers," natural disaster, and similar events. Preventing, alleviating, or eliminating computer viruses and other service-related or security problems may require interruptions, delays or cessation of service. We may need to expend significant resources protecting against the threat of security breaches or alleviating potential or actual service interruptions. The occurrence of such unanticipated problems or security breaches could cause material interruptions or delays in our business, loss of data, or misappropriation of proprietary or IAP advertiser-related information or could render us unable to provide services to our customers for an indeterminate length of time. The occurrence of any or all of these events could materially and adversely affect our business, prospects, financial condition, and results of operations.

If we are sued for content distributed through, or linked to by, our website or those of our customers, we may be required to spend substantial resources to defend ourselves and could be required to pay monetary damages.

We aggregate and distribute third-party data and other content over the Internet. In addition, third-party websites are accessible through our website or those of our customers. As a result, we could be subject to legal claims for defamation, negligence, intellectual property infringement, and product or service liability. Other claims may be based on errors or false or misleading information provided on or through our website or websites of our directory licensees. Other claims may be based on links to sexually explicit websites and sexually explicit advertisements. We may need to expend substantial resources to investigate and defend these claims, regardless of whether we successfully defend against them. While we carry general business insurance, the amount of coverage we maintain may not be adequate. In addition, implementing measures to reduce our exposure to this liability may require us to spend substantial resources and limit the attractiveness of our content to users.

If our security measures are breached and unauthorized access is obtained to a client's data, our service may be perceived as not being secure and clients may curtail or stop using our service.

Our service involves the storage and transmission of clients' proprietary information, such as credit card and bank account numbers, and security breaches could expose us to a risk of loss of this information, litigation and possible liability. Our payment services may be susceptible to credit card and other payment fraud schemes, including unauthorized use of credit cards, debit cards or bank account information, identity theft or merchant fraud.

If our security measures are breached in the future as a result of third-party action, employee error, malfeasance or otherwise, and as a result, someone obtains unauthorized access to our clients' data, our reputation will be damaged, our business may suffer and we could incur significant liability. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose sales and clients.

We are subject to a number of risks related to credit card payments we accept. If we fail to be in compliance with applicable credit card rules and regulations, we may incur additional fees, fines and ultimately the revocation of the right to use the credit card company, which would have a material adverse effect on our business, financial condition or results of operations.

A majority of our clients' campaigns were paid for using a credit card or debit card. For credit and debit card payments, we pay interchange and other fees, which may increase over time and raise our operating expenses and adversely affect our net income. We are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. We believe we are compliant with the Payment Card Industry Data Security Standard, which incorporates Visa's Cardholder Information Security Program and MasterCard's Site Data Protection standard. However, there is no guarantee that we will maintain such compliance or that compliance will prevent illegal or improper use of our payment system. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from our clients. A failure to adequately control fraudulent credit card transactions would result in significantly higher credit card-related costs and could have a material adverse effect on our business, financial condition or results of operations.

Our revenue may be negatively affected if we are required to charge sales tax or other transaction taxes on all or a portion of our past and future sales to customers located in jurisdictions where we are currently not collecting and reporting tax.

We generally do not charge, collect or have imposed upon us sales or other transaction taxes related to the products and services we sell, except for certain corporate level taxes and transaction level taxes outside of the United States. However, many states, local jurisdictions or one or more countries may seek to impose sales or other transaction tax obligations on us in the future. A successful assertion by any state, local jurisdiction or country in which we do business that we should be collecting sales or other transaction taxes on the sale of our products or services could result in substantial tax liabilities related to past sales, create increased administrative burdens or costs, discourage clients from purchasing products or services from us, decrease our ability to compete or otherwise substantially harm our business and results of operations. The imposition of new laws requiring the collection of sales or other transaction taxes on the sale of our products or services (or the introduction of new products or services that are subject to existing transaction taxes) could create increased administrative burdens or costs, discourage clients from purchasing products or services from us, decrease our ability to compete or otherwise substantially harm our business and results of operations.

Government regulation of the Internet is evolving, and unfavorable changes could substantially harm our business and operating results.

We are subject to general business regulations and laws as well as regulations and laws specifically governing the Internet. Existing and future laws and regulations may impede the growth in use of the Internet and online services. The application of existing laws to the Internet and online services governing issues such as property ownership, sales and other taxes, libel and personal privacy has not yet been settled. Unfavorable resolution of these issues may substantially harm our business and operating results. Other laws and regulations that have been adopted, or may be adopted in the future, that may affect our business include those covering user privacy, data protection, spyware, "do not email" lists, access to high speed and broadband service, pricing, taxation, tariffs, patents, copyrights, trademarks, trade secrets, export of encryption technology, electronic contracting, click-fraud, acceptable content, search terms, lead generation, behavioral targeting, consumer protection, and quality of products and services. Any changes in regulations or laws that hinder growth of the Internet generally or that decrease the acceptance of the Internet as a communications, commercial and advertising medium could adversely affect our business. See also Part 1, Item 1A, "Risk Factors— If the technology that we currently use to target the delivery of online advertisements is restricted or becomes subject to regulation, our expenses could increase and we could lose clients."

Risks Related to Our Securities

Stock prices of technology companies have declined precipitously at times in the past and the trading price of our common stock is likely to be volatile, which could result in substantial losses to investors.

The trading price of our common stock has been volatile over the past few years and investors could experience losses in response to factors including the following, many of which are beyond our control:

§ decreased demand in the Internet services sector;

§ variations in our operating results;

§ announcements of technological innovations or new services by us or our competitors;

§ changes in expectations of our future financial performance, including financial estimates by securities analysts and investors;

§ our failure to meet analysts' expectations;

§ changes in operating and stock price performance of other technology companies similar to us;

§ conditions or trends in the technology industry;

§ additions or departures of key personnel; and

§ future sales of our common stock.

Domestic and international stock markets often experience significant price and volume fluctuations that are unrelated to the operating performance of companies with securities trading in those markets. These fluctuations, as well as political events, terrorist attacks, threatened or actual war, and general economic conditions unrelated to our performance, may adversely affect the price of our common stock. In the past, securities holders of other companies often have initiated securities class action litigation against those companies following periods of volatility in the market price of those companies' securities. If the market price of our stock fluctuates and our stockholders initiate this type of litigation, we could incur substantial costs and experience a diversion of our management's attention and resources, regardless of the outcome. This could materially and adversely affect our business, prospects, financial condition, and results of operations.

Our stock price may be volatile, and the value of an investment in our common stock may decline.

An active, liquid and orderly market for our common stock may not be developed or sustained, which could depress the trading price of our common stock.

The trading price of our common stock may be subject to wide fluctuations in response to various factors, some of which are beyond our control, including:

- our operating performance and the operating performance of similar companies;
- the overall performance of the equity markets;
- the number of shares of our common stock publicly owned and available for trading;
- threatened or actual litigation;

- changes in laws or regulations relating to our solutions;
- any major change in our board of directors or management;
- publication of research reports about us or our industry or changes in recommendations or withdrawal of research coverage by securities analysts;
- large volumes of sales of our shares of common stock by existing stockholders; and
- general political and economic conditions.

In addition, the stock market in general, and the market for Internet-related companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. This litigation, if instituted against us, could result in very substantial costs, divert our management's attention and resources and harm our business, operating results and financial condition. In addition, the recent distress in the financial markets has also resulted in extreme volatility in security prices.

Certain provisions of Nevada law and in our charter may prevent or delay a change of control of our company.

We are subject to the Nevada anti-takeover laws regulating corporate takeovers. These anti-takeover laws prevent Nevada corporations from engaging in a merger, consolidation, sales of its stock or assets, and certain other transactions with any stockholder, including all affiliates and associates of the stockholder, who owns 10% or more of the corporation's outstanding voting stock, for three years following the date that the stockholder acquired 10% or more of the corporation's voting stock except in certain situations. In addition, our amended and restated articles of incorporation and bylaws include a number of provisions that may deter or impede hostile takeovers or changes of control or management. These provisions include the following:

§ the authority of our board to issue up to 5,000,000 shares of preferred stock and to determine the price, rights, preferences, and privileges of these shares, without stockholder approval;

§ all stockholder actions must be effected at a duly called meeting of stockholders and not by written consent unless such action or proposal is first approved by our board of directors;

§ special meetings of the stockholders may be called only by the Chairman of the Board, the Chief Executive Officer, or the President of our company; and

§ cumulative voting is not allowed in the election of our directors.

These provisions of Nevada law and our articles and bylaws could prohibit or delay mergers or other takeover or change of control of our company and may discourage attempts by other companies to acquire us, even if such a transaction would be beneficial to our stockholders.

Our common stock may be subject to the "penny stock" rules as promulgated under the Exchange Act.

In the event that no exclusion from the definition of "penny stock" under the Exchange Act is available, then any broker engaging in a transaction in our common stock will be required to provide its customers with a risk disclosure document, disclosure of market quotations, if any, disclosure of the compensation of the broker-dealer and its sales person in the transaction, and monthly account statements showing the market values of our securities held in the customer's accounts. The bid and offer quotation and compensation information must be provided prior to effecting the transaction and must be contained on the customer's confirmation of sale. Certain brokers are less willing to engage in transactions involving "penny stocks" as a result of the additional disclosure requirements described above, which may make it more difficult for holders of our common stock to dispose of their shares.

We have experienced difficulties maintaining compliance with applicable requirements for the continued listing of our common stock on The NASDAQ Capital Market, and any future failure to comply with such requirements could result in the delisting of common stock from that trading market.

During fiscal 2011, the Company fell out of compliance with certain requirements for the continued listing of its common stock on The NASDAQ Capital Market, including the requirements that the Company maintain (i) at least 500,000 "publicly held" shares of common stock (i.e., shares not held by directors, officers or 10% stockholders), (ii) at least $2.5 million of stockholders' equity and (iii) a market value of its "publicly held" shares of at least $1.0 million. As of the date of this filing, the Company has addressed all of those compliance issues, and on December 21, 2011, the Company received written notification from NASDAQ indicating that the Company's securities will continue to be listed on The NASDAQ Capital Market based upon the Company's compliance with the terms of a NASDAQ Listing Qualifications Panel decision, which required the Company to evidence compliance with the applicable minimum stockholders' equity requirement of $2.5 million by December 12, 2011. Accordingly, a NASDAQ hearing process that was initiated during the fourth quarter of fiscal 2011 is now closed. The Company is subject to further compliance monitoring by NASDAQ until November 30, 2012.

Notwithstanding the foregoing compliance issues, the Company's common stock has been continuously listed on The NASDAQ Capital Market without interruption. In order to preserve its listing status, the Company must remain in compliance with all applicable NASDAQ listing requirements, including but not limited to the requirements described above. There can be no assurance that the Company will remain in compliance with such listing requirements, or that our common stock will continue to be traded on The NASDAQ Capital Market or any other market. For more information, refer to Note 17 of the notes to our consolidated financial statements, as well as our other filings with the SEC.

ITEM 1B. Unresolved Staff Comments

Not applicable.

ITEM 2. Properties

We entered into a long-term lease, which began in November 2007, for a 12,635 square foot facility in Las Vegas, Nevada that functions as the headquarters and operating facility for LiveDeal, Inc. and our subsidiaries. We pay rent of approximately $315,000 annually under the lease which expires on December 31, 2012. We believe that this facility is adequate for our current and anticipated future needs and that this facility and its contents are adequately covered by insurance. We have subleased a substantial portion of this facility as our requirements for space have diminished.

ITEM 3. Legal Proceedings

Except as described below, as of September 30, 2011, we were not a party to any pending material legal proceedings other than claims that arise in the normal conduct of our business. While we currently believe that the ultimate outcome of these proceedings will not have a material adverse effect on our consolidated financial condition or results of operations, litigation is subject to inherent uncertainties. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on our net income in the period in which a ruling occurs. Our estimate of the potential impact of the following legal proceedings on our financial position and our results of operation could change in the future.

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

On June 6, 2008, Global Education Services, Inc. ("GES") filed a consumer class action lawsuit against the Company in King County (Washington) Superior Court alleging that the Company's use of activator checks violated the Washington Consumer Protection Act. GES seeks injunctive relief against the Company's use of the checks, as well as judgment in an amount equal to three times the alleged damages sustained by the members of the class. LiveDeal denied the allegations and is defending the litigation. Early in 2010, the Court denied both parties' dispositive motions after oral argument. After settlement discussions failed to result in resolution, the parties resumed the litigation in the fall of 2011. GES' motion for class certification is briefed and scheduled to be heard on January 27, 2012. The parties continue to discuss settlement pending hearing on the motion.

ITEM 4. (Removed and Reserved)

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our Common Stock

Our common stock is traded on the NASDAQ Capital Market under the symbol "LIVE".

The following table sets forth the quarterly high and low sale prices per share of our common stock during the last two fiscal years. All prices have been adjusted to reflect the reverse stock split that was completed on September 7, 2010 and the forward stock split that was completed on August 10, 2011.

	Quarter Ended		High		Low
2010	December 31, 2009	$	22.61	$	11.12
	March 31, 2010	$	16.15	$	5.20
	June 30, 2010	$	7.98	$	4.75
	September 30, 2010	$	7.04	$	3.15
2011	December 31, 2010	$	21.14	$	4.06
	March 31, 2011	$	6.83	$	3.33
	June 30, 2011	$	4.48	$	2.34
	September 30, 2011	$	3.23	$	1.50

Holders of Record

On December 1, 2011, there were approximately 176 holders of record of our common stock according to our transfer agent. The Company has no record of the number of stockholders who hold their stock in "street name" with various brokers.

Dividend Policy

We have one class of authorized preferred stock (Series E Preferred Stock), of which there are currently 127,840 shares issued and outstanding. Each share of Series E Preferred Stock is entitled to and receives a dividend of $0.015 per year. At September 30, 2011, we had accrued but unpaid dividends totaling approximately $12,000. Presently, we do not pay dividends on our common stock. The timing and amount of future dividend payments by our Company, if any, will be determined by our Board of Directors based upon our earnings, capital requirements and financial position, general economic conditions, alternative uses of capital, and other pertinent factors.

Issuer Purchases of Equity Securities

During the fiscal year ended September 2011 the company did not purchase any shares of LiveDeal stock and for the fiscal year ended September 30, 2010, the Company acquired an aggregate of 1,341 shares of its common stock at market prices at an aggregate cost of $25,882. At September 30, 2011 the Company had retired all but 4,252 shares of treasury stock.

Securities Authorized for Issuance Under Equity Compensation Plans

Reference is made to Note 14 of the notes to our consolidated financial statements for certain disclosures about the Company's equity compensation plans.

ITEM 6. Selected Financial Data

Not required for smaller reporting companies.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

For a description of our significant accounting policies and an understanding of the significant factors that influenced our performance during the fiscal year ended September 30, 2011, this "Management's Discussion and Analysis" should be read in conjunction with the Consolidated Financial Statements, including the related notes, appearing in Item 8 of this Annual Report.

Forward-Looking Statements

This portion of this Annual Report on Form 10-K includes statements that constitute "forward-looking statements." These forward-looking statements are often characterized by the terms "may," "believes," "projects," "expects," o "anticipates," and do not reflect historical facts. Specific forward-looking statements contained in this portion of the Annual Report include, but are not limited to our (i) expectation that continued investment in online advertising to bring increased traffic to our websites will drive increased revenues; (ii) expectation that cost of sales will continue to be directly correlated to our use of the LEC billing channel and (iii) belief that our existing cash on hand, together with additional cash generated from operations or obtained from other sources, such other sources of cash possibly including stock issuances, loans and advances from our existing LEC clearing houses through their current advance programs or other forms of financing secured by or leveraged off our accounts receivable based on existing programs in place that are being offered to companies similar to ours; will provide us with sufficient liquidity to meet our operating needs for the next 12 months and (iv) belief that our gross profit margin and selling, general and administrative costs will support the company's business plans and opportunities.

Forward-looking statements involve risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Factors and risks that could affect our results and achievements and cause them to materially differ from those contained in the forward-looking statements include those identified in Item 1A. Risk Factors, as well as other factors that we are currently unable to identify or quantify, but that may exist in the future.

In addition, the foregoing factors may affect generally our business, results of operations and financial position. Forward-looking statements speak only as of the date the statement was made. We do not undertake and specifically decline any obligation to update any forward-looking statements. Any information contained on our website www.livedeal.com or any other websites referenced in this Annual Report are not a part of this Annual Report.

Executive Overview

Our Company

LiveDeal, Inc. provides local internet marketing services for small businesses. LiveDeal, through our wholly-owned subsidiary (Velocity Marketing Concepts, Inc.), offers an affordable way for businesses to extend their marketing reach to local, relevant customers via the Internet.

LiveDeal first started in the online marketing industry as YP.com. At the time, we were the first company to bring the print yellow pages to the Internet in 1994. From there we moved into the online classifieds business when we merged with LiveDeal in 2007. The YP.com URL was sold March 2009 and the classifieds business was sold June 2009.

LiveDeal uses the latest technologies to deliver best-in-breed online marketing solutions to our small business customers. We have online advertising solutions to help small businesses grow their company and realize online success.

Summary Business Description

LiveDeal delivers affordable acquisition services to the small business segment through the InstantAgency Suite of products and services. These products are currently sold through Velocity Marketing Concepts which targets complimentary aspects of the small business market.

The InstantAgency® products include:

InstantProfile distributes a small business' key contact and service information to the top Internet destinations (based on popularity), including the search engines, internet directories, and social media networks. This gives the advertiser the ability to manage their business information in one location and maximize their reach to the many destinations a consumer may search for local business services.

InstantProfile's social media platform, InstantBUZZ, not only creates a presence for the advertiser in select social media networks, it also allows them to use one location to broadcast their messages across their entire social media network. By leveraging this automation our customers eliminate the need to manage multiple logins for individual websites and duplicate submissions and decreases the time required to broadcast their messages from hours to one click of a button.

Additionally, InstantProfile customers enjoy a suite of communication tools that assist them in communicating directly with their customers and employees. These communication tools include a conferencing solution to host conference calls with up to 10 participants and an online electronic fax solution with unlimited faxes included.

The key attribute the InstantAgency® products and services all have in common is high value, low cost marketing options that service the many needs of the small business customer. The suite of products and services were strategically chosen service entry level products and services that can grow with the small business as it continues to grow. For those starting with the more customized products and services, InstantAgency® can continue to drive more online visitors, callers and in turn customers based on the customer budget. Our strategic advantage is the ability to service the small business customer regardless of their budget or online knowledge.

Recent Events & Transactions

Financial Performance

We have embarked on a significant change in business strategy to re-emphasize our legacy business (directory services offering) and update it to meet current market requirements and move ahead of our competitors in this market segment. As a result, we have continued to experience a decline in revenues and gross profit over the last several quarters, but have also reduced our ongoing costs and expenses and reduced ongoing losses. Within fiscal year 2011, the quarterly losses have decreased from $1,730,000 in the first quarter to $314,000 in the fourth quarter. While we have yet to achieve sufficient sales in our new InstantProfile business to allow us to achieve operating profitability, we began to achieve growth in revenues in this business segment during fiscal 2010 with sales officially launching in July 2010. The company has not yet achieved profitability with the InstantProfile business and ceased sales in July 2011 in order to review and improve our sales program, products, distribution methods and vendor programs.

Change in Business Strategy

In March 2010, we evaluated our business and adopted a new business strategy that addressed each of our business segments as separate entities and re-launched and restructured our legacy line of business. This evaluation was necessitated by the challenges facing our Direct Sales business lines that provide Internet-based customer acquisition strategies for small business, as well as declining revenues from our traditional business line (i.e. directory services). Additionally, current economic and regulatory forces, both general and specific to our industry, impacted our consideration of our existing business model and strategy. Some of these factors include the following:

- The current effects of the recovery from the recent recession and general economic downturn;
- Our perception that the general economic downturn could lead our business customers to seek lower-cost customer acquisition methods, primarily through the Internet;
- The reconstitution of our management team;
- The termination of certain significant directory business contracts related to the traditional business; and
- Continuing losses in our Direct Sales business.

As a result, we made significant changes to our business strategy during the second quarter of fiscal 2010. We decided to move our strategic focus towards our directory services business and bring it up to current market standards and regulatory requirements and away from our Direct Sales business line. This strategy culminated in the termination of all new sales under the Direct Sales business line on December 1, 2010. In May 2011 we transferred the remaining Direct Sales customers to another company and will receive an immaterial portion of the revenues from these customers for the 24 months after the sale.

Our new strategic focus is on delivering a suite of Internet-based, local search driven, customer acquisition services for small businesses, sold via telemarketing using LEC billing channels as well as other billing channels and targeting all segments of the SMB market through our Velocity Marketing Concepts, Inc. subsidiary. The company paused new Velocity sales July 15, 2011 while we evaluate the current and future sales programs.

Discontinued Operations

As part of our strategy to evaluate each of our business segments as separate entities, management noted that the Direct Sales business segment had incurred operating losses and declining revenues and did not fit with our change in strategic direction. Accordingly, in March 2011, we made the strategic decision to discontinue our Direct Sales business and product offerings. Prior year financial statements have been restated to present the Direct Sales business segment as a discontinued operation.

We initiated shutdown activities in March 2011 and completed such activities in May 2011. In conjunction with the discontinued operations, we recorded the following charges in fiscal 2011:

- Employee contract termination charges of $7,083 reflecting the reduction in force of 7 employees;
- Non cash impairment charges of $367,588 consisting of the write-off of net intangible assets;

The Direct Sales business segment accounted for $1,341,430 and $3,838,479 of net revenues for the years ended September 30, 2011 and 2010, respectively, which are now included as part of income (loss) from discontinued operations, including disposal costs, in the accompanying consolidated statements of operations.

Management Changes

On November 23, 2009, we and Richard F. Sommer, our then-current Chief Executive Officer, entered into an amendment to Mr. Sommer's Employment Agreement dated as of May 19, 2009. This amendment, provided that Mr. Sommer was entitled to an option to purchase 26,316 shares of our common stock at an exercise price of $18.53 per share, which was equal to the closing price of our common stock on the date of grant. The option was granted pursuant to our 2003 Stock Plan and was scheduled to vest according to the following schedule: 25% on October 29, 2010 (the first anniversary of the date of grant) and 1/36 of the remainder each month beginning on November 29, 2010.

Previously, the Employment Agreement provided that Mr. Sommer was entitled to a success fee payable in cash equal to 2% of the excess above $9,000,000 of any cash distributed to or received by our stockholders in the form of a dividend, in the event of liquidation or upon a change of control. Pursuant to this amendment, that provision was deleted and replaced with the option grant described above. Other than as described above, the original terms of Mr. Sommer's Employment Agreement remained in full force and effect.

Effective January 2, 2010, Rajeev Seshadri resigned as our Chief Financial Officer and was replaced by Lawrence W. Tomsic. Mr. Tomsic recently served as Controller for Alliance Residential Company, an apartment complex with 3,221 units and $90 million in annual sales. Previously, he was a Controller and Chief Financial Officer for various clients of JKL Consulting (including a planned unit development and a concrete contractor) from 2006-2008 and Chief Financial Officer of John R. Wood, Inc. (a real estate brokerage focusing on luxury residential housing and commercial properties) from 1997-2006. Mr. Tomsic worked as a financial officer and in other management positions for various companies (including U.S. Home Corporation and Collier Enterprises) from 1983-1997. He was also a senior auditor for Deloitte &Touche for three years. Mr. Tomsic earned a B.S. in Accounting from the University of Delaware and M.B.A. from the University of Denver.

On January 4, 2010, Richard Sommer resigned as our Chief Executive Officer. As a result of his departure, Mr. Sommer also resigned as a member of our Board of Directors. Following Mr. Sommer's departure, Kevin A. Hall was appointed as our interim Chief Operating Officer (COO). Mr. Hall had been serving as our General Counsel and Vice President of Human Resources and Business Development since April 2009. Prior to that time, Mr. Hall was a partner in the San Francisco, California and New York, New York offices of Reed Smith LLP, an international law firm with more than 1,500 attorneys worldwide, from 2006 until 2008. Previously, he was a senior associate and later a partner in the New York, New York office of Linklaters, a London-based global law firm, from 1998 until 2006. Mr. Hall, who is admitted to practice law in California and New York, specializes in general corporate law, finance, structured finance, and other complex commercial and financial transactions (including mergers and acquisitions). He holds a B.A. in History and French Literature from Columbia College, a Master's Degree in International Affairs from Columbia University, and a law degree from Cornell School of Law.

On May 20, 2010, we appointed Kevin A. Hall as our President and Chief Operating Officer. Mr. Hall's compensation and benefits were not affected by his appointment as President.

On March 24, 2011 Mr. Hall was appointed as our Chief Executive Officer. In connection with his appointment, Mr. Hall entered into an employment agreement which provides for a two-year term of employment, which may be extended upon the parties' mutual agreement, and an annual base salary of $225,000. Mr. Hall will be entitled to receive an annual performance bonus in the event that we reach certain performance measures established by our Board of Directors or our Compensation Committee. The performance milestones will be weighted 75% financial and 25% personal, and Mr. Hall's target bonus will be equal to 50% of his base salary.

The agreement further provides that Mr. Hall is entitled to an option to purchase 13,487 shares of our common stock at an exercise price of $3.53 per share, which was equal to the closing price of our common stock on the date of grant. The option was granted pursuant to our 2003 Stock Plan and will vest according to the following schedule: 25% on March 24, 2012 (the first anniversary of the grant date) and 1/36 of the remainder each month beginning on April 24, 2012. Notwithstanding the foregoing, all unvested shares will immediately vest and become exercisable upon a change in control.

If we terminate Mr. Hall's employment during the first year of his term of employment without cause (as defined in the agreement) and certain other conditions are met (including that Mr. Hall provide a valid release of claims in favor of the Company), Mr. Hall will be entitled to receive a lump sum severance payment equal to his then current monthly salary for three months. After March 24, 2012 but prior to the end of his term of employment, if we terminate Mr.

Hall's employment without cause, Mr. Hall will be entitled to a severance payment equal to his then current monthly salary for six months. The agreement also provides that we will reimburse Mr. Hall for reasonable business expenses and allows him to participate in its regular benefit programs.

On May 20, 2011, in connection with our continued employment of Mr. Tomsic as its Chief Financial Officer, we entered into an employment agreement with Mr. Tomsic. The agreement provides for a one-year term of employment, which may be extended upon the parties' mutual agreement, and an annual base salary of $220,000. Mr. Tomsic will be entitled to receive an annual performance bonus in the event that we reach certain performance measures established by the Chief Executive Officer or the Board of Directors (or its Compensation Committee). Mr. Tomsic's target bonus will be equal to $80,000.

Pursuant to the employment agreement, on May 20, 2011, Mr. Tomsic was granted an option to purchase 10,526 shares of our common stock at an exercise price of $3.77 per share, which was equal to the closing price of our common stock on the date of grant. The options will vest and be exercisable according to the following schedule: 3,728 options vesting immediately and the remainder shall vest 1/31 at the end of each month thereafter over the next 31 months so long as Mr. Tomsic continues to provide services to our company. Notwithstanding the foregoing, all unvested shares shall become immediately vested and exercisable upon a change of control.

Restructuring Activities

On January 4, 2010, our Board of Directors approved a reduction in force that resulted in the termination of approximately 33% of the Company's workforce, effective January 7, 2010. On February 23, 2010, our Board of Directors approved an additional reduction in force that resulted in the termination of approximately 20% of our workforce, effective March 4, 2010. These reductions in force were related to our ongoing restructuring and cost reduction efforts as the Board of Directors explores a variety of strategic alternatives, including the potential sale of the Company or certain of its assets and/or the acquisition of other entities or businesses.

We incurred charges of $143,000 in connection with the reductions in force, consisting of one-time employee termination benefits. All amounts were paid as of September 30, 2010.

On November 30, 2010, our Board of Directors approved a reduction in force that resulted in the termination of 36 employees of the Company, or approximately 60% of the Company's workforce, effective December 1, 2010. The reduction in force was related to the Company's ongoing restructuring and cost reduction efforts and strategy of focusing its resources on the development and expansion of its core InstantProfile product, the successor to the Company's LEC-billed directory product. All terminated employees were involved in the marketing and sale of the Company's InstantPromote product by its subsidiary, Local Marketing Experts, Inc.

We incurred expenses of $99,319 in connection with the reduction in force, of which $37,500 was incurred for one-time employee termination benefits payable in cash. The remaining expenses relate to salaries and wages payable in cash to the affected employees which were paid in the first quarter of fiscal 2011.

In May 2011, we ceased the Direct Sales business and transferred the remaining customers to Reach Local in exchange for ten and five percent of gross revenues derived from such customers during the first and second year, respectively. We recorded $5,773 in revenues for this agreement during the year ended September 30, 2011. In connection with the discontinued Direct Sales business, seven employees were terminated and we recorded employee contract termination charges of $7,083.

Critical Accounting Estimates and Assumptions

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. As such, in accordance with the use of accounting principles generally accepted in the United States of America, our actual realized results may differ from management's initial estimates as reported. Summaries of our significant accounting policies are detailed in the notes to the consolidated financial statements, which are an integral component of this filing.

The following summarizes critical estimates made by management in the preparation of the consolidated financial statements.

Revenue Recognition

We recognize revenue for our services when all of the following criteria are satisfied:

- persuasive evidence of an arrangement exists;
- services have been performed;
- the selling price is fixed or determinable; and
- collectability is reasonably assured.

Velocity Marketing Concepts, Inc. (formerly Directory Services). We generate revenue from customer subscriptions for directory and advertising services. We recognize revenues as services are rendered. In some instances, we receive payments in advance of rendering services, whereupon such revenues are deferred until the related services are rendered. Our billing and collection procedures include significant involvement of outside parties, referred to as aggregators for LEC billing and service providers for ACH billing. We provide allowances for customer refunds, non-paying customers and fees which are estimated at the time of billing.

Local Marketing Experts, Inc. (former Direct Sales – Customer Acquisition Services). Our direct sales contracts typically involve upfront billing for an initial payment followed by monthly billings over the contractual period. We recognize revenue on a straight line basis over the contractual period. Billings in excess of recognized revenue are included as deferred revenue in the accompanying consolidated balance sheets.

Previously, we recognized the value of the noncancelable portion of the Direct Sales' customer contract as a receivable and billed the customer for the amount of the contract over the period of the contract. We only recognized a portion of the contract value as revenue each month, approximately pro-rating the contract to a monthly amount, with the remainder of the noncancelable portion of the contract maintained as a deferred revenue liability. In the quarter ended June 30, 2009, we corrected our balance sheet presentation related to our direct sales contracts to include in accounts receivable only those amounts that are still outstanding receivables after having been billed in accordance with the terms of the contract.

Allowance for Doubtful Accounts

We estimate allowances for doubtful accounts for accounts that are billed directly by us as well as those serviced by third party aggregators and service providers (Processors).

We reflect the amounts held in reserve by the Processors as accounts receivable in the accompanying consolidated balance sheets. During the period that we received settlements from our billings through these LEC channels, the level of the reserves held by the Processors changed accordingly and the Processors often calculated the holdback amounts from the settlements due to us as 'rolling reserves' that we believe are actuarially estimated by them based on the level of business, the expectation of future billings from which to replenish such reserves, and other factors. The costs and expenses related to such settlements and reserve holdback amounts were recorded as expenses during the period that the settlements were received. With the cessation of such settlements, the costs and expenses are now related to the maintenance of the reserves held by the Processors. The reserves now held are not changing due to the cessation of billing activities by us, and accordingly, we have now made estimates of the costs and expenses that we are likely to incur to collect the holdback amounts held as reserves. These estimates lead to an accrual of expected costs over the expected length of the collection period of the accounts receivable and, therefore, to an increase in the allowances, instead of recording such expenses as period costs as they are actually incurred as would have been the case if we continued to have regular billings through the Processors.

The allowance at September 30, 2011 included a reserve allowance of $703,732 resulting from the Chapter 11 Bankruptcy filing of one of our LEC aggregators, representing a reduction in the estimated collectability of our entire pre-petition outstanding receivable balance of $777,755. The aggregate of accounts receivable balances from the LEC operations that do not have billing activity as of September 30, 2011 was $1,241,097 and the aggregate of corresponding allowances was $1,069,048. These aggregate amounts include the accounts receivable balances and allowances for the accounts held by the Chapter 11 trustee.

Carrying Value of Intangible Assets

Our intangible assets consist of licenses for the use of Internet domain names or Universal Resource Locators, or URLs, capitalized website development costs, other information technology licenses and marketing and technology related intangibles acquired through the acquisition of LiveDeal, Inc. All such assets are capitalized at their original cost (or at fair value for assets acquired through business combinations) and amortized over their estimated useful lives. We capitalize internally generated software and website development costs in accordance with the provisions of the FASB Accounting Standards Codification ("ASC") ASC 350, "Intangibles – Goodwill and Other".

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

Goodwill

We evaluate our goodwill for potential impairment on an annual basis or whenever events or circumstances indicate that impairment may have occurred in accordance with the provisions of ASC 350, which requires that goodwill be tested for impairment using a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the estimated fair value of the reporting unit containing our goodwill with the related carrying amount. If the estimated fair value of the reporting unit exceeds its carrying amount, the reporting unit's goodwill is not considered to be impaired and the second step is unnecessary.

Income Taxes

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

We have estimated net deferred income tax assets (net of valuation allowances) of $0 at September 30, 2011 and 2010. A full valuation allowance has been established against all net deferred tax assets as of September 30, 2011 and 2010 based on estimates of recoverability. While we have optimistic plans for our new business strategy, we determined that such a valuation allowance was necessary given the current and expected near term losses and the uncertainty with respect to our ability to generate sufficient profits from our new business model. Therefore, we established a valuation allowance for all deferred tax assets in excess of those expected to be realizable through the application of operating loss carrybacks.

We performed an analysis of uncertain tax positions and we did not identify any significant uncertainties that would affect the carrying value of our deferred tax assets and liabilities as of September 30, 2011 and 2010.

Stock-Based Compensation

From time to time, we grant restricted stock awards and options to employees, directors, executives, and consultants. Such awards are valued based on the grant date fair-value of the instruments, net of estimated forfeitures. The value of each award is amortized on a straight-line basis over the vesting period. The impacts of changes in such estimates on unamortized deferred compensation cost are recorded as an adjustment to compensation expense in the period in which such estimates are revised.

We account for stock-based compensation based on fair value. We follow the attribution method that requires companies to reduce current stock-based compensation expenses by the effect of anticipated forfeitures. We estimate forfeitures based upon our historical experience, which has resulted in a small expected forfeiture rate.

The fair value of each award is estimated on the date of the grant and amortized over the requisite service period, which is the vesting period.

We use the Black-Scholes option pricing model to estimate the fair value of stock-based payment awards on the date of grant. Determining the fair value of stock-based awards at the grant date under this model requires judgment, including estimating our value per share of common stock, volatility, expected term and risk-free interest rate. The assumptions used in calculating the fair value of stock-based awards represent our best estimates based on management judgment and subjective future expectations. These estimates involve inherent uncertainties. If any of the assumptions used in the Black-Scholes model significantly changes, stock-based compensation for future awards may differ materially from the awards granted previously.

Results of Operations

Note: Due to discontinued operations, the information for the year ended September 30, 2010 was restated and revised in this report.

Net Revenues

	Net Revenues			
	2011	2010	Change	Percent
Year Ended September 30,	$ 4,083,412	$ 4,238,955	$ (155,543)	(4)%

Net revenues in fiscal 2011 decreased by approximately $156,000, caused by the $1,106,000 Legacy sales decline due to the slow attrition of the Legacy customer base less the $930,000 increase in Velocity sales due to new customers added by the current sales program and $20,000 increase in Web sales.

Cost of Services

	Cost of Services			
	2011	2010	Change	Percent
Year Ended September 30,	$ 3,606,143	$ 1,127,970	$ 2,478,173	220 %

Cost of services increased in fiscal 2011 as compared to fiscal 2010, as a result of increased costs for the new Velocity program, consisting of commissions for new customers of $1,323,000, fulfillment costs of $1,140,000, and leads of $124,000 offset by decreases in miscellaneous costs of $52,000 and internet site costs of $57,000.

Gross Profit

	Gross Profit			
	2011	2010	Change	Percent
	$ 477,269	$ 3,110,985	$ (2,633,716)	(85)%

Year Ended September 30,				

Gross profit decreased approximately $2,634,000 in fiscal 2011 as compared to fiscal 2010 reflecting a decrease in net revenues and an increase in cost of services as described above.

General and Administrative Expenses

	General and Administrative Expenses			
	2011	2010	Change	Percent
Year Ended September 30,	$ 5,721,351	$ 11,734,123	$ (6,012,772)	(51)%

General and administrative expenses decreased in fiscal 2011 as compared to fiscal 2010 as outlined below:

- Decreased compensation costs of approximately $3,372,000 reflecting the impacts of our restructuring actions and reduction in force during 2010 and 2011 from 111 employees at September 30, 2009 to 12 employees as of September 30, 2011;

- Decreased professional fees of approximately $1,009,000 related to reductions in legal costs of $248,000 due to the resolution and wind-down of certain litigation activities, IT consultants of $305,000, investment banker fees of $188,000, accounting fees of $83,000, marketing consultants of $78,000 ,other miscellaneous consultant costs of $60,000 and outside sales service costs of $47,000;

- Software costs decrease of $550,000 reflecting a decrease in IT infrastructure and product development costs;

- Other expense decreases of $467,000, including, but not limited to, rent and utilities, services and fees, office and supplies expenses, office closure expenses, travel and entertainment and other corporate expenses associated with our office closures, reductions in force and other cost containment initiatives;

- A reduction of $305,000 in damages paid in a legal settlement incurred in fiscal 2010;

- Decreased depreciation and amortization expense of $310,000;

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

	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Compensation for employees, leased employees, officers and directors	$ 340,888	$ 422,901	$ 536,269	$ 936,426	$ 1,048,094	$ 967,323	$ 1,352,109	$ 2,241,197
Professional fees	360,221	378,960	539,950	453,062	551,394	677,507	1,023,582	488,994
Depreciation and amortization	88,868	79,227	190,254	205,477	214,617	215,102	218,200	225,653
Other general and administrative costs	174,887	291,448	344,909	377,604	462,278	497,865	544,163	1,006,045

Sales and Marketing Expenses

	Sales and Marketing Expenses			
	2011	2010	Change	Percent
Year Ended September 30,	$ 57,652	$ 226,442	$ (168,790)	(75)%

Sales and marketing expenses decreased in fiscal 2011 as compared to fiscal 2010 primarily due to reduced spending on Robo Dialer and clicks for new customers of $219,000 partially offset by marketing of new web services of approximately $50,000.

Operating Loss

	Operating Income (Loss)			
	2011	2010	Change	Percent
Year Ended September 30,	$ (5,301,734)	$ (8,849,580)	$ 3,547,846	(40)%

The decrease in our operating loss for fiscal 2011 as compared to fiscal 2010 reflect our cost containment efforts and change in strategic direction, which caused a variety of changes in net revenues, cost of sales, general and administrative expenses, and sales and marketing expenses, each of which are described above.

Total Other Income (Expense)

	Total Other Income (Expense)			
	2011	2010	Change	Percent
Year Ended September 30,	$ (82,159)	$ 41,189	$ (123,348)	(299)%

Other income (expense) in fiscal 2011 consisted of:

- ($72,000) of interest expense;
- ($13,000) loss on disposal of fixed assets; partially offset by
- $3,000 of interest income on cash balances.

Other income (expense) in fiscal 2010 consisted of:

- $50,000 adjustment to the gain on sale of our customer list from fiscal 2009 reflecting adjustments to certain accruals;
- $18,000 of interest income on cash balances; partially offset by
- ($27,000) loss on disposal of fixed assets.

Income Tax Provision (Benefit)

	Income Tax Provision (Benefit)			
	2011	2010	Change	Percent
Year Ended September 30,	$ -	$ (230,382)	$ 230,382	(100)%

In the second quarter of fiscal 2009, the Company established a valuation allowance against all deferred tax assets given the uncertainty with respect to future operations and we continue to maintain a full valuation allowance against such assets. Accordingly, there is no tax expense or benefit for fiscal 2011. The income tax provision during fiscal 2010 reflects true-ups to our income tax receivable based on information received during the preparation of our 2009 tax returns.

Income (Loss) from Discontinued Operations

	Income (Loss) from Discontinued Operations			
	2011	2010	Change	Percent
Year Ended September 30,	$ (118,355)	$ 1,121,291	$ (1,239,646)	(111)%

In March 2011, the Company decided to discontinue the Direct Sales business and closed that business segment in May 2011 and accordingly, are reflected as discontinued operations in our consolidated financial statements for all periods presented The decline in profitability between fiscal 2011 and fiscal 2010 reflects our wind-down of this business as well as approximately $375,000 of impairment and employee termination charges associated with our discontinued line of business recorded in the second fiscal quarter of 2011.

Net Loss

	Net Loss			
	2011	2010	Change	Percent
Year Ended September 30,	$ (5,502,248)	$ (7,456,718)	$ 1,954,470	(26)%

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

Liquidity and Capital Resources

Net cash used in operating activities increased by $381,000, or 10%, to ($4,321,000) for the year ended September 30, 2011, compared to ($3,940,000) for the year ended September 30, 2010. This change in cash flows is attributable to the following: although our net loss decreased by approximately $1,954,000 in fiscal 2011 as compared to fiscal 2010, this was offset by a decrease in non-cash charges and other adjustments of $626,000 in fiscal 2011 as compared to fiscal 2010. Cash flows from operations were also impacted by a decrease of $1,709,000 in changes in working capital and other assets in fiscal 2011 as compared to fiscal 2010, primarily attributable to the collection of income taxes receivable in 2010 resulting from net operating loss carrybacks. Our primary source of cash inflows has historically been net remittances from Directory Services customers processed in the form of ACH billings and LEC billings. As of September 30, 2011, three such entities accounted for 31%, 25% and 20% of gross accounts receivable.

We discontinued the Direct Sales Services business in May 2011 as described above. We previously received upfront payments averaging approximately one-sixth of the gross contract amount. Subsequent payments were received on an installment basis after the application of the initial payment amounts and were billed ratably over the remaining life of the contract.

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

Net cash used for investing activities totaled approximately $100,000 for fiscal 2011 consisting of $101,000 from a certificate of deposit redeemed partially offset by $1,000 for expenditures for software development, . Net cash used in investing activities during fiscal 2010 was approximately $286,000, consisting primarily of expenditures for intangible assets primarily made up of software development and purchases of equipment in support of our new product offerings.

During fiscal 2011, our cash flows from financing activities consisted of $1,238,000 received from debt obtained of $1,000,000, the issuance of stock to investors of $300,000, partially offset by $62,000 of payments on capital lease obligations. Net cash used for financing activities was approximately $114,000 during fiscal 2010 and consisted of $26,000 of treasury stock repurchases and $88,000 of principal repayments on capital lease obligations.

We had a working capital deficit of $1,050,000 as of September 30, 2011 compared to working capital of $3,201,000 as of September 30, 2010 with current assets decreasing by $3,484,000 and current liabilities increasing by $767,000 from September 30, 2010 to September 30, 2011. Declines in working capital are primarily attributable to our operating net loss.

While our existing cash on hand is insufficient to sustain our current operating activities, we believe that we will be able to secure additional resources to fund our operations or to repay the loan facility. Other sources of financing may include: stock issuances; additional loans; advances from our existing LEC clearing houses through their current advance programs; or other forms of financing secured by or leveraged off our accounts receivable based on existing programs in place that are being offered to companies similar to ours. There can be no assurance that we will generate sufficient revenue or will achieve profitability, positive operating cash flows, or sufficient cash flows for operations. To the extent that we cannot repay the loan when it comes due or achieve profitability or sufficient operating cash flows, our business will be materially and adversely affected. Further, our business is likely to experience significant volatility in its revenues, operating losses, personnel involved, products or services for sale, and other business parameters, as management implements its strategies and responds to operating results. Although we paused new Velocity product sales July 15, 2011, we continue to maintain the Legacy business and we are simultaneously exploring other strategic alternatives. We cannot provide any assurance that additional financing arrangements will be available in amounts or on terms acceptable to us, if at all.

Contractual Obligations

The following table summarizes our contractual obligations at September 30, 2011 and the effect such obligations are expected to have on our future liquidity and cash flows:

	Payments Due by Fiscal Year					
	Total	2012	2013	2014	2015	Thereafter
Operating lease commitments	$514,871	$375,747	$114,965	$24,159	$-	$-
Capital lease commitments	37,417	37,417	-	-	-	-
	$552,288	$413,164				