

LIVEDEAL INC
Form 10-K
January 15, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark one)

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

For the fiscal year ended September 30, 2012

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.)

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6240 McLeod Drive, Suite 120, Las Vegas, Nevada 89120 89120
(Address of principal executive offices) (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 No

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

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

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

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

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

Large accelerated filer

Accelerated filer

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

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

The aggregate market value of the registrant’s common stock held by non-affiliates computed based on the closing sales price of such stock on March 31, 2012 was 4,738,678.

The number of shares outstanding of the registrant’s common stock, as of December 31, 2012, was 2,753,270 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement relating to the Registrant’s 2013 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, 2012

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Forward-Looking Statements

This Annual Report on Form 10-K may include certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. We may also make forward-looking statements in other reports filed with the Securities and Exchange Commission, in materials delivered to our stockholders, in press releases, or in oral or written statements made by our representatives. These forward-looking statements, which are often characterized by the terms “may,” “believes,” “projects,” “expects,” “plans”, or “anticipates,” do not reflect historical facts but instead are based on our current assumptions and predictions regarding future events, such as business and financial performance. Specific forward-looking statements contained in this Annual Report include, but are not limited to, our (i) belief in the continued growth of internet usage, particularly via mobile devices, and demand for web-based marketing; (ii) belief in the continued growth in the demand for local search and information, (iii) belief that small and medium businesses will continue to outsource their online marketing efforts to third parties; (iv) belief that the cash on hand and additional cash generated from operations together with potential sources of cash through issuance of debt or equity will provide the company with sufficient liquidity for the next 12 months; and (v) belief that the outcome of pending legal proceedings will not have a material adverse effect on business, financial position and results of operations, cash flow or liquidity.

Forward-looking statements involve risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Some factors and risks that could so affect our results and achievements include the cautionary statements set forth below under the heading Item 1A. “Risk Factors.” Readers should carefully review such cautionary statements as they identify certain important factors that could cause actual results to differ materially from those in the forward-looking statements and from historical trends. Those cautionary statements are not exclusive and are in addition to other factors and risks (i) that are discussed elsewhere in this Annual Report, in our filings with the SEC, and in materials incorporated therein by reference, (ii) that apply to companies generally, or (iii) that we are currently unable to identify or quantify or that we currently deem immaterial. In addition, the foregoing factors and risks 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.

PART I

ITEM 1. Business

Our Company

LiveDeal, Inc., which, together with its subsidiaries, we refer to as the Company, LiveDeal, “we”, “us” or “our”, provides online customer acquisition services for small-to-medium sized local businesses, or SMBs. We offer affordable tools for SMBs to extend their marketing reach to relevant prospective customers via the internet. We also provide SMBs promotional marketing with the ability to offer special deals and activities through our online publishing partners.

Our principal offices have been recently relocated to 6240 McLeod Drive, Suite 120, Las Vegas, Nevada 89120, our telephone number is (702) 939-0230, and our corporate website (which does not form part of this report) is located at www.livedeal.com. Our common stock trades on the NASDAQ Capital Market under the symbol “LIVE”.

Summary Business Description

We provide marketing solutions that boost customer awareness and merchant visibility on the internet. We recently launched two new business lines under new management after a period of re-evaluating our sales program, products, distribution methods and vendor programs. In November 2012, we commenced the sale of marketing tools that help local businesses manage their online presence under our Velocity Local™ brand, which we refer to as online presence marketing. In August 2012, we commenced sourcing local deal and activities to strategic publishing partners under our LiveDeal® brand, which we refer to as promotional marketing. We continue to actively develop, revise and evaluate these products and services and our marketing strategies and procedures. We continue to generate most of our revenue from servicing our existing customers under our legacy product offerings, primarily our InstantProfile® line of products and services. Because of the change in our business strategy and product lines, we no longer accept new customers under our legacy product offerings.

Products and Services

We are in the process of developing and marketing a suite of products and services designed to meet the online marketing needs of SMBs at affordable prices. Our target customers are SMB owners who work long hours to deliver real value to their customers in their own communities without the time or expertise to develop the powerful, multi-faceted, online marketing and advertising programs necessary for successful online marketing. Our offerings draw on a decade of experience servicing SMBs in the internet technology environment.

Online Presence Marketing. We offer our SMB customers packages of services to create and maintain an online presence. Products and services we offer include template and custom website design, either optimized for desktop or mobile devices, social media marketing, or SMM, and content marketing, or CM. In combination, these products offer a comprehensive online marketing strategy for SMBs at affordable rates. We believe that our online presence marketing products are useful to a large share of SMBs because they enable potential customers to gain awareness of and locate an SMB and to learn about and purchase its products and services.

Mobile Web Apps. We believe that SMBs which take advantage of emerging mobile internet capabilities, will have greater success in acquiring customers, and that SMB owners are recognizing that mastering marketing to mobile internet users is essential for success in today's technological environment. Accordingly we offer our customers websites targeted to work with the most popular mobile devices, such as iPhones and Android-powered smartphones, that take on the look and feel of a mobile app, without the inconvenience and delay attendant to finding, downloading and installing a mobile app.

We can base these “mobile web apps” on our proprietary templates at affordable prices, or design customized mobile web apps for customers with larger budgets. Our website design professionals can incorporate text and graphics they create to our customer’s specifications, or utilize text and graphics provided by our customer (such as from its traditional website or its other marketing materials). We endeavor to make these mobile web apps clean, trendy and easily usable on the smaller display area available on smart phones. Our mobile web apps can integrate key features such as click-to-call, Google Maps (providing directions and street view), service or product offerings (such as menus), and live Twitter feeds. We continue to develop and refine our templates to add common options, to serve the special needs of specific industries, and to respond to customer demand and market changes.

Traditional Website Design. We also offer custom website design services for websites targeted at traditional desktop and laptop internet users. Our website design team is composed of experienced web design and creation professionals and graphic designers who create customized websites tailored to the needs and goals of our customers. Our design team can assist with layout as well as content creation (text and images).

Content Marketing (CM). Simply having a website, even one optimized for viewing on mobile devices, does not mean potential customers will actually know about or visit the website. We provide content marketing services, including blog postings (relevant to our customer specifically or to its industry generally) and commenting, updating our client’s websites, blog commenting, social bookmarking, social media directory listing, and profile submission to the major search engines.

Social Media Marketing (SMM). We enable our customers to create an online presence which builds their customer base and enables them to keep in touch with their customers, supporters, and other businesses using popular social networks such as Facebook, Twitter, and Google+. We employ dedicated research groups to find relevant information about our clients and writes posts, tweets, and comments which can be posted on relevant social networks to increase visibility to and interaction with their followers and potential customers. These activities can also serve to improve our customer's search engine rankings.

Promotional Marketing. We also source local special deals and activities for SMBs. With the growth of special deal promotions, many SMBs are experimenting with special offers to drive new customers to their locations. We offer our clients a solution that utilizes our business channels to market our clients' products and services to potential customers. To use this service, an SMB will generally offer a discount for select products or services, or create a specially priced bundle. Our salespeople assist and guide the SMBs to create enticing and marketable deals. We then find an appropriate channel to publish the deal to relevant potential customers.

Potential customers can gain awareness of our clients' businesses through these deal publications, and transact business with our SMB clients by purchasing a deal. Our SMB clients benefit from their increased visibility, additional business and the opportunity to gain loyal customers.

Our business strategy includes partnering established strategic publishing partners to publish and sell our client's deals in exchange for a share of the revenue. We have entered into sourcing agreements with several reputable publishers who have large user bases, including Travelzoo, Google Local, and Amazon, and act as an intermediary to connect SMBs to our publishing partners. Our business thus relies on the ability of our partners to display our clients' deals to a large, relevant audience and to sell the offers.

InstantProfile® (Legacy). In addition to our current product offerings, we continue to service customers acquired under our legacy product offerings, primarily our InstantProfile® line of products and services. These services primarily consist of directory listing services. We currently generate most of our revenue from these legacy product offerings, but are no longer acquiring customers for them.

Marketing

We rely on telemarketing and online lead generation to drive customer acquisition. We have created our own telemarketing sales team which works with highly automated technology and specializes in creating, deploying and managing telemarketing campaigns quickly and efficiently. We believe that our telemarketing structure enables us to build and scale sales programs quickly.

We have long-standing relationships with data and lead providers, which enable us to source high quality leads and to focus our telemarketing efforts toward the demographics we believe most likely to result in long-term customers. We primarily market our products and services to SMBs in lists we acquire from third party data companies.

Online Presence Marketing. Our current strategy is to market our online presence marketing services to small office, home office and local businesses across the country. Our target customers include retail SMBs, such as restaurants, home repair and services companies, as well as professional firms providing legal, accounting and medical services, which share the common challenges of managing and optimizing their online presence to acquire and retain customers.

Our Market

More than 27 million SMBs operate in the United States today. While about half of SMBs have a website, most of them do not effectively generate business for the SMB. SMB owners frequently lack the time, expertise or resources necessary to make their website a relevant, effective part of their marketing efforts, or to exploit the additional internet marketing channels needed for successful online marketing. Our target customers are SMBs which normally do not market their products and services nationally, but wish to utilize local marketing opportunities, including local search, to promote their products and services.

Effective online marketing requires the dedication of time, the marshaling of resources, and the development of technological, language, presentation and other skills and expertise that few SMB owners have, or have the intention or realistic ability to acquire. We recognize that, to succeed, many SMB owners must remain intensely focused on the fundamentals of their business.

At the same time, we believe that many SMB owners realize that an effective internet presence – including engaging with online and social tools – is essential to their marketing efforts, and SMBs are shifting their marketing budgets from traditional media to online channels. According to BIA/Kelsey forecasts, traditional media business segments such as print advertising, Yellow Pages and newspapers are experiencing large declines in advertising revenues, whereas 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 percent. According to internet research firm ComScore, online ad spending increased to just over \$30 billion in the U.S. in 2011, a 20.2% increase over 2010.

According to PricewaterhouseCoopers and the Interactive Advertising Bureau, or PWC and IAB, local online/digital advertising revenues in the United States rose 14% in the first half of 2012 and will continue to rise steeply through the end of 2012. Searches for products, services or businesses constrained by geographical search parameters, such as municipality or zip code, which we refer to as local searches, are an increasingly significant segment of the online marketing industry. According to a May 2011 study, The Kelsey Group estimates that the local search market in the United States will grow from \$5.7 billion in 2011 to \$10.2 billion in 2016. PWC and IAB also report that revenue from search is 47% of the total internet advertising revenue.

Accordingly, many SMBs need a partner with the necessary expertise and understanding to manage evolving internet audience acquisition services. We believe that this creates a large market opportunity for nimble, reliable and reputable service providers that help companies leverage these new channels efficiently and at affordable prices.

The continued rise in smart phones, which now outsell traditional mobile phones, has changed the ground rules for online marketing, with the consumption of online advertising rapidly moving to mobile devices. eMarketer anticipates that overall spending on mobile advertising in the United States, including display, search and messaging-based ads served to mobile phones and tablets, will rise to \$4 billion in 2012 (a 180% increase over 2011), \$7.19 billion in 2013, and nearly \$21 billion by 2016. Borrell Associates' August 2011 Mobile Report projects the amount spent on mobile advertising will double every year for the next 5 years. If borne out, in five years mobile advertising would exceed the amount spent on local search advertising today.

We see SMBs quickly adapting to the local and mobile marketing opportunities because of the great potential to retain existing and draw in new customers at affordable prices. We anticipate that soon most online searches will be conducted using a mobile phone, which greatly increases the effectiveness of mobile marketing.

Competition

Online Presence. Our online presence business operates in the highly competitive, rapidly expanding and evolving market for internet marketing for SMBs. Our largest competitors are local exchange carriers, which are widely known as regional telephone operators, and national search engines such as Yahoo! and Google, that are actively expanding their presence in the local search market. We compete with website designers and operators, Yellow Pages services, advertising networks and outlets, and search engine optimization, CM and SMM service providers, as well as traditional offline media, such as traditional Yellow Pages directory publishers and television, radio, and print share advertising. Our services also compete with 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 this market include personalization of service, ease of use, quality of services, availability of quality content, value-added products and services, access to consumers, effectiveness at driving business to our clients, and price.

Many boutique firms offer services similar to our online presence marketing products. Generally these small firms cannot provide all the comprehensive services we do. However, these small firms provide many options for web design, social media marketing, internet marketing, and search engine optimization.

Because of efficiencies stemming from our proprietary software and business structure, we are generally able to provide these services at a lower recurring cost and with lower upfront charges to commence a complete marketing campaign and build a client's mobile-optimized website.

We also compete against larger companies which offer a similar or more expanded set of products. Our principal competitive advantages over these companies are our lower prices and the better quality and service of our website design, particularly our web app platform. We believe our combination of outstanding service and low cost will enable us to provide a suite of attractive packages to our clients.

Promotional Marketing. Our promotional marketing business competes for local deals with several large competitors, such as Groupon and LivingSocial, and many smaller competitors. This business is part of a new market which has operated at a substantial scale for only a limited period of time. We expect competition in this market to continue to increase because no significant barriers to entry exist. Contracts with deal publishers typically contain exclusivity provisions which restrict SMBs from offering deals through other outlets.

We seek desirable local products and services which we can provide to our publishing partners. We believe that we are in a position to compete in this market successfully due to our experienced sales managers, 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 the diversity of our publisher distribution network. Our distribution partnerships allow our clients to reach large audiences and promote their products and services in innovative ways.

General. Many of our competitors have access to greater capital resources than we do. These resources could enable our competitors to engage in advertising and other promotional activities that will enhance their brand name recognition and market share. We believe, however, that our products provide a simple and affordable way for our clients to create a web presence to market their products and services to local audiences. We further believe that we can compete effectively by continuing to provide quality services at competitive prices and by actively developing new products and services for potential clients that enable us to become a single vendor for the online marketing needs of SMBs.

Intellectual Property

Our success will depend significantly on our ability to develop and maintain the proprietary aspects of our technology and operate without infringing upon the intellectual property rights of third parties. We currently rely primarily on a combination of copyright, trade secret and trademark laws, confidentiality procedures, contractual provisions, and similar measures to protect our intellectual property.

We estimate that reliance upon trade secrets and unpatented proprietary know-how will continue to be our principal method of protecting our trade secrets and other proprietary technologies. While we have hired third-party contractors to help develop our proprietary software and to provide various fulfillment services, we generally own (or have permissive licenses for) the intellectual property provided by these contractors. Our proprietary software is not substantially dependent on any third-party software, although our software does utilize open source code. Notwithstanding the use of this open source code, we do not believe our usage requires public disclosure of our own source code nor do we believe the use of open source code will have a material impact on our business.

We register some of our product names, slogans and logos in the United States. In addition, we generally require our employees, contractors and many of those with whom we have business relationships to sign non-disclosure and confidentiality agreements. Neither intellectual property laws, contractual arrangements, nor any of the other steps we have taken to protect our intellectual property, can ensure that third parties will not exploit our technologies or develop similar technologies.

Our proprietary publishing system provides an advanced set of integrated tools for design, service, and modifications to support our mobile web app services. Our mobile web app builder software enables easy and efficient design, end user modification and administration, and includes a variety of other tools accessible by our team members.

Employees

As of December 31, 2012, we had 38 full-time and no part-time employees in the United States, none of whom is covered by a collective bargaining agreement.

Corporate History

We were originally incorporated in Nevada in 1996 as Renaissance Center, Inc. We started in the online marketing industry with YP.com, which had introduced the print yellow pages to the internet. We moved into the online classifieds business when we acquired LiveDeal, Inc., a California corporation, in June 2007, and changed our corporate name to LiveDeal, Inc. in August 2007.

On July 10, 2007, we acquired a Manila, Philippines-based call center to provide telemarketing services to support our directory services business. In February 2008, we commenced sales of higher-end direct sales products which focused on search engine marketing, website creation services and add-on advertising products. We sold the YP.com domain in March 2009, and in June 2009 discontinued our classifieds business and the operations at our Philippines-based call center.

In March 2010, we began mass market sales of a suite of internet-based, local search driven, customer acquisition services for small businesses using local exchange carrier, or LEC, billing channels, and curtailed sales of our higher-end direct sales products. In July 2010, we rebranded our traditional yellow page directory service as InstantProfile® and upgraded our services to provide online subscription tools and services to broadcast information about a business to the most popular internet directories, search engines, social media networks, and Points-of-Interest (POI) databases embedded on the leading navigational devices, as well as a communication suite that enabled both conference call hosting and electronic fax services. On December 1, 2010, we ceased all new sales of our higher-end direct sales products, and in May 2011 we assigned all remaining customers in that business segment to ReachLocal, Inc. On July 15, 2011, we discontinued all new sales of our InstantProfile® product while we evaluated our sales program, products, distribution methods and vendor programs, but we continue to service existing customers.

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In August 2012 we acquired substantially all of the assets of LiveOpenly, Inc., which sourced, published and sold discounted goods and services offered by SMBs.

In addition to our renewed marketing efforts for our online presence and promotional marketing product lines described above, in the past fiscal year we have continued our prolonged efforts to reduce our expenses and streamline our operations. We also intend to seek additional investment and working capital that will enable us to continue to expand and improve our product offerings and grow our revenues.

Available Information

We regularly file reports with 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 these reports available free of charge in the investor relations section of our corporate website (<http://investor.livedeal.com/>) as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. References to our 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 inspect and copy materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also access these materials, and other information regarding issuers like us that file information electronically with the SEC, from the SEC's internet website at <http://www.sec.gov/>.

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 risks and information described in this report. The following risk factors, however, do 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, 2012 and related notes.

Risks Related to Our Business

Our management, personnel, strategic partners, and products and services are new.

Our management team, many of our business and strategic partners, and a large majority of our personnel are new to our company. On July 15, 2011, we discontinued all sales of our prior principal product line, InstantProfile, while we commenced an evaluation of our sales program, products, distribution methods and vendor programs. In December 2011, we sold a controlling interest in our company to an unaffiliated group of new investors. In January 2012, our board appointed Jon Isaac, who is the owner of one of the December 2011 investors in our company, as President and CEO. Since that time, the company has hired a new management team, implemented a new company strategy, designed new products and services around that strategy, and hired new personnel and formed new business relationships to implement that strategy.

The products and services we are currently offering, as well as our current marketing practices, are new and are still being developed and tested for market acceptance, which cannot be assured. Our management team is in the process of actively evaluating and attempting to improve our marketing efforts and our product and service offerings, as well as contracting with new partners and hiring and training personnel for management, sales and fulfillment. Any new product offering is subject to certain risks, including customer acceptance, competition, product differentiation, challenges relating to economies of scale and the ability to attract and retain qualified personnel, including management and designers. Many of our contracts with third party vendors, including our strategic partnerships, permit our partners to terminate the contract, with short or no prior notice, for convenience, as well as for default in the event we fail to meet our contractual obligations.

The development of new products involves considerable costs and any new product may not generate sufficient consumer interest and sales to become a profitable brand or to cover the costs of its development and subsequent promotions. There can be no assurance that we will be able to develop and grow our current offerings, or any other

new offerings, to a point where they will become profitable, or generate positive cash flow. We may modify or terminate our current product and services offerings if our management determines that they are not yielding or will not yield desired results.

Our product introductions and improvements, along with our other marketplace initiatives, are designed to capitalize on customer demands and trends. In order to be successful, we must anticipate and react to changes in these demands and trends, and to modify existing products or develop new products or processes to address them.

Uncertainty in the market for our products and services.

Our current product and service offerings are new, and the demand and market acceptance for these products and services is uncertain. Potential customers may not subscribe to our current offerings or other online marketing products and services that we may offer in the future. Customers we acquire may not continue to use our products and services or other online marketing products and services that we may offer in the future, including because they find these products and services to be too costly, ineffective or 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 products and 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 offerings.

During the fiscal year ended September 30, 2012, 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 potential additional debt or equity financings. While we believe our existing cash on hand, together with additional cash generated from operations or obtained from other sources, such as stock issuances, loans 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 (including working capital and needed capital expenditures) 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 adversely affected. Further, our new business lines are likely to experience significant volatility in their respective revenues, operating results, personnel, products or services for sale, and other business parameters, as management implements its strategies and responds to operating results.

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

We have a history of losses. We had a net loss of \$1.6 million for the fiscal year ended September 30, 2012, and \$5.5 million for the year ended September 30, 2011. While we have significantly reduced our operating expenses by reviewing all expenses and improving operating efficiencies, we may not be able to reduce or maintain our expenses in response to any decrease in our revenues, which may impact our ability to implement our new business strategies and would adversely affect our financial condition.

We are losing our LEC billing channels.

We have historically billed a significant amount of our legacy business revenues through LEC billing channels. The largest LEC billing companies have issued a notice to all clearinghouses that they will cease billing for third parties as of December 28, 2012. We anticipate that the three remaining LEC billing companies will also cease processing for third parties as of the end of 2012. If we are not able to obtain alternative billing methods for these customers, the number of customers and our revenues will decline, which could materially and adversely affect our operating results and financial condition.

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 cancel their subscriptions each month. As a result of 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.

In addition, as the result of the discontinuation of LEC billing services in or before December 2012 noted above, we anticipate that we will lose a material number of subscribers. If we do not add sufficient new subscribers to compensate for these lost subscribers, our operating results and our financial performance may be materially and adversely affected.

Our senior management lacks substantial experience implementing our business strategy and most of our personnel has been recently hired.

Our senior management's track record and achievements in their respective prior endeavors are not necessarily indicative of future results that will be achieved by them on our behalf. Our senior management's skills, experience and expertise may not be as well suited to our current objectives, strategies and requirements as they were in their respective prior businesses. In particular, our most senior management is relatively inexperienced in marketing services to SMBs and in providing online marketing services, and our products and services, marketing strategy, operating environment and regulatory limitations differ markedly from the other businesses which our senior management has managed and operated. In addition, the great majority of our personnel, including our management, has been hired relatively recently, and there can be no assurance that they will be able to work together effectively or provide the necessary level of services to succeed in implementing our current business strategies.

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

Content marketing and other online marketing services are emerging fields with a considerable amount of competitors in each field. Major internet companies, including Google, Microsoft, Verizon, AT&T 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 and major deal companies, like Groupon and Living Social, currently market daily deals that directly compete with our promotional marketing business. Other existing and potential competitors include website design and development service and software companies; internet service providers and application service providers; internet search engine providers; domain registrars; website hosting providers; local business directory providers; and ecommerce platform and service providers.

We may not compete effectively with existing and potential competitors for several reasons, including the following:

some competitors have longer operating histories, larger and more established subscriber bases, and greater financial and other resources than we have and are in better financial condition than we are, enabling them to engage in more extensive research and development, more aggressive pricing policies, and more advertising and other promotional activities that will enhance their brand name recognition and increase their market share;

some competitors may release free tools, including open source tools, which perform some or many of the services we offer to our customers;

some competitors have better name recognition or reputations, 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, and new competitors may enter our markets or develop technologies 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.

As a result of an anticipated increase in competition in our markets, and the likelihood that some of this competition will come from companies with more established brands and resources than us, we believe brand name recognition

and reputation will become increasingly important. If we are not successful in quickly building brand awareness, we could be placed at a competitive disadvantage to companies whose brands are more recognizable than ours.

Our business is subject to an uncertain and developing regulatory environment.

While relatively few laws and regulations apply specifically to internet businesses, the application of other laws and regulations to internet businesses, including ours, is unclear in many instances. There remains significant legal uncertainty in a variety of areas, including intellectual property, user privacy, the positioning of sponsored listings on search results pages, defamation, taxation, product liability, 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.

Our utilization of ACH billing exposes us to review by the National Automated Clearing House Association. 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.

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 Federal Trade Commission, or 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, or could require us to change our marketing strategies or practices, which could adversely impact our ability to acquire new clients.

The application of certain laws and regulations to our promotional marketing business, as a new product category, is uncertain. These include federal and state laws governing considered gift cards, gift certificates, stored value cards or prepaid cards, such as the federal Credit Card Accountability Responsibility and Disclosure Act of 2009, or the CARD Act, and unclaimed and abandoned property laws. Numerous class action lawsuits that have been filed in federal and state court claiming that vouchers used in promotional marketing are subject to the CARD Act and various state laws governing gift cards and that the defendants have violated these laws by issuing vouchers with expiration dates and other restrictions. If we are required to alter our promotional marketing business practices as a result of any laws and regulations, our revenue could decrease, our costs could increase and our business could otherwise be harmed. In addition, the costs and expenses associated with defending any actions related to such additional laws and regulations and any payments of related penalties, judgments or settlements could adversely impact our financial condition and results of operations.

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 products and 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 may need to introduce new or enhanced products and services in order to attract and retain customers and to remain competitive. Our industries have been characterized by rapid technological change, changes in advertiser and user requirements and preferences, and frequent new product and service introductions embodying new technologies and business logic. These changes could render our technology, systems, and services obsolete or uncompetitive. We may experience difficulties that could delay or prevent us from introducing new or enhanced 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 or their users, which would significantly impede our revenue growth. In addition, our reputation and our brand could be damaged if any new or enhanced 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 could continue to experience fluctuations or revert to 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,

- § changes in technologies favored by consumers,

- § 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 clients through our ACH billing channel. ACH transactions are closely regulated by 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 clients and revenue.

We are subject to a number of risks related to credit card payments.

We bill a large portion of our clients using credit and debit cards. 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.

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 sales, 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. We do not have term employment agreements with, or key man life insurance covering, any of our executive officers.

Competition for talented personnel is intense, and there is no assurance that we will be able to continue to attract, train, retain or motivate 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 could 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 could have a material adverse effect on our business, prospects, financial condition, and results of operations. We also depend upon third parties who provide the cloud computing services which host our customers' websites, including the mobile web apps, to be sufficiently reliable and provide sufficient capacity and bandwidth so that our business can function properly and our customers' websites are responsive to current and anticipated traffic. Any restrictions or interruption in those providers' services or connection to the internet could have a material adverse effect on our business, prospects, financial condition, and results of operations. If we are forced to switch hosting facilities, we may not be successful in finding an alternative service provider on acceptable terms or in hosting the required computer servers and implementing the required technology ourselves. We may also be limited in our remedies against these providers in the event of a failure of service.

We expect that our anticipated future growth, including through potential acquisitions, may strain our management, administrative, operational and financial infrastructure, which could adversely affect our business.

We anticipate that significant expansion of our present operations will be required to compensate for the loss of clients related to the cessation of LEC billing and to capitalize on potential growth in market opportunities, and that this

expansion will place a significant strain on our management, operational and financial resources. We expect to add a significant number of additional key personnel in the future, including key managerial, sales and technical employees who will have to be fully integrated into our operations. In order to manage our growth, we will be required to continue to implement and improve our operational, marketing and financial systems, to expand existing operations, to attract and retain superior management and personnel, and to train, manage and expand our employee base. We may not be able to expand our operations effectively, our systems, procedures and controls may be inadequate to support our expanded operations, and our management may fail to implement our business plan successfully.

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. In the future, we may need to 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 pace of expansion of our operations;

· our need to respond to competitive pressures; and

· future acquisitions of complementary products, technologies or businesses.

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.

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

Our success depends both on our internally developed technology and licensed 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 obtain and protect our proprietary technology.

Third parties, including our partners, contractors or employees, 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 or to determine the validity and scope of our proprietary rights. Any such litigation could result in substantial expense, 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 or misappropriate 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 and services that incorporate the subject intellectual property, which would adversely affect our revenue;

attempt to obtain a license from the holder of the intellectual property right alleged to have been infringed or misappropriated, which license may not be available on reasonable terms; and

attempt to redesign or, in the case of trademark claims, rename our products or services to avoid infringing or misappropriating the intellectual property rights of third parties, which may 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.

We may be subject to intellectual property claims that create uncertainty about ownership or use of technology essential to our business and divert our managerial and other resources.

Our success depends, in part, on our ability to operate without infringing the intellectual property rights of others. Third parties may, in the future, claim our current or future services, products, trademarks, technologies, business methods or processes infringe their intellectual property rights, or challenge the validity of our intellectual property rights. We may be subject to patent infringement claims or other intellectual property infringement claims that would be costly to defend and could limit our ability to use certain critical technologies or business methods. We may also become subject to interference proceedings conducted in the patent and trademark offices of various countries to determine the priority of inventions.

The defense and prosecution, if necessary, of intellectual property suits, interference proceedings and related legal and administrative proceedings can become very costly and may divert our technical and management personnel from their normal responsibilities. We may not prevail in any of these suits or proceedings. An adverse determination of any litigation or defense proceedings could require us to pay substantial compensatory and exemplary damages, could restrain us from using critical technologies, business methods or processes