

LIVEDEAL INC
Form 10-Q
August 14, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2015

TRANSITION Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 001-33937

LiveDeal, Inc.

(Exact name of registrant as specified in its charter)

Nevada

85-0206668

(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

325 E. Warm Springs Road, Suite 102

89119

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Las Vegas, Nevada

(Zip Code)

(Address of principal executive offices)

(702) 939-0231

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

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

The number of shares of the issuer's common stock, par value \$.001 per share, outstanding as of August 10, 2015 was 16,901,358.

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FOR THE QUARTER ENDED JUNE 30, 2015

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PART I – FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****LIVEDEAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	June 30, 2015 (unaudited)	September 30, 2014
Assets		
Cash and cash equivalents	\$6,605,304	\$8,114,682
Accounts receivable, net	914,813	854,583
Inventory	2,536,839	4,277,145
Prepaid expenses and other current assets	338,449	583,647
Total current assets	10,395,405	13,830,057
Property and equipment, net	98,358	153,114
Deposits and other assets	70,243	65,161
Intangible assets, net	3,727,287	3,071,210
Goodwill	1,169,904	1,169,904
Total assets	\$15,461,197	\$18,289,446
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	\$1,311,013	\$2,282,887
Accrued liabilities	2,538,066	1,046,030
Derivative liability	—	83,580
Note payable, net of debt discount	483,702	920,360
Total current liabilities	4,332,781	4,332,857
Long-term loans	224,364	638,969
Commitments and contingencies	273,500	251,000
Total Liabilities	4,830,645	5,222,826
Stockholders' equity:		
Series E convertible preferred stock, \$0.001 par value, 200,000 shares authorized, 127,840 shares issued and outstanding at June 30, 2015 and September 30, 2014, liquidation preference \$38,203	10,866	10,866
	16,904	14,531

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Common stock, \$0.001 par value, 60,000,000 shares authorized, 16,899,236 and 14,525,248 shares issued and outstanding at June 30, 2015 and September 30, 2014, respectively

Paid in capital	52,852,222	45,038,176
Accumulated deficit	(42,249,440)	(31,996,953)
Total stockholders' equity	10,630,552	13,066,620
Total liabilities and stockholders' equity	\$15,461,197	\$18,289,446

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

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

	Three Month Ended June 30,		Nine Month Ended June 30,	
	2015	2014	2015	2014
Revenues	\$2,939,405	\$2,674,406	\$15,210,436	\$3,945,897
Cost of revenues	1,796,359	2,379,458	8,895,338	2,746,465
Gross profit	1,143,046	294,948	6,315,098	1,199,432
Operating expenses:				
General and administrative expenses	3,941,273	1,606,928	7,429,372	3,658,497
Sales and marketing expenses	899,526	159,555	4,540,708	409,061
Impairment of intangible assets	445,884	—	445,884	—
Total operating expenses	5,286,683	1,766,483	12,415,964	4,067,558
Operating loss	(4,143,637)	(1,471,535)	(6,100,866)	(2,868,126)
Other expense:				
Interest expense, net	(5,678)	(172,708)	(4,202,622)	(284,082)
Other income	(59,076)	126,093	(31,137)	284,480
Gain (loss) on derivative liability	—	(23,751)	83,580	(58,185)
Total other expense, net	(64,754)	(70,366)	(4,150,179)	(57,787)
Net loss	\$(4,208,391)	\$(1,541,901)	\$(10,251,045)	\$(2,925,913)
Loss per share - basic and diluted:	\$(0.26)	\$(0.11)	\$(0.65)	\$(0.23)
Weighted average common shares outstanding:				
Basic and diluted	16,151,289	13,798,880	15,766,001	12,751,344

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

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

	Nine Months Ended June 30,	
	2015	2014
OPERATING ACTIVITIES:		
Net loss	\$(10,251,045)	\$(2,925,913)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	500,699	338,752
Non-cash interest expense associated with convertible debt and warrants	2,194,013	289,493
Non-cash interest expense associated with loan fees	2,004,202	–
Non-cash change in fair value of derivative liability	(83,580)	58,185
Stock based compensation expense	621,311	138,595
Repricing of stock option exercise price	54,677	–
Non-cash issuance of common stock for services	2,008,559	29,653
Gain on disposal of property and equipment	–	(207)
Provision for uncollectible accounts	24,819	(32,667)
Reserve for obsolete inventory	255,110	–
Loss on disposal of fixed assets	48,534	–
Impairment of intangible assets	445,884	–
Changes in assets and liabilities:		
Accounts receivable	(85,049)	(1,377,771)
Prepaid expenses and other current assets	245,198	(586,891)
Inventory	1,485,196	(510,569)
Deposits and other assets	(5,082)	(6,890)
Accounts payable	(971,874)	150,638
Accrued liabilities	13,094	403,824
Net cash used in operating activities	(1,495,334)	(4,031,768)
INVESTING ACTIVITIES:		
Acquisition of businesses, net of cash acquired	–	(324,116)
Expenditures for intangible assets	(52,985)	(11,669)
Proceeds from the sale of property and equipment	–	1,400
Purchases of property and equipment	(43,453)	(46,427)
Net cash used in investing activities	(96,438)	(380,812)
FINANCING ACTIVITIES:		
Issuance of common stock for cash, net of issuance costs	538,441	13,187,715
Payments on notes payable	(556,047)	–
Payments on preferred stock dividends	–	(16,780)

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Proceeds from issuance of convertible debt	100,000	823,595
Net cash provided by financing activities	82,394	13,994,530
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,509,378)	9,581,950
CASH AND CASH EQUIVALENTS, beginning of period	8,114,682	761,458
CASH AND CASH EQUIVALENTS, end of period	\$6,605,304	\$10,343,408
Supplemental cash flow disclosures:		
Interest paid	\$24,312	\$754
Income taxes paid	\$-	\$-
Noncash financing and investing activities:		
Recognition of contingent beneficial conversion feature	\$100,000	\$500,000
Conversion of notes payable and accrued interest into common stock	\$635,756	\$-
Accrued and unpaid dividends	\$1,442	\$1,438

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

LIVEDEAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED JUNE 30, 2015 AND 2014

(unaudited)

Note 1: Organization and Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of LiveDeal, Inc., a Nevada corporation, and its wholly owned subsidiaries (collectively the “Company”). The Company provides specialized online marketing solutions to small-to-medium sized local businesses, or SMBs, that boost customer awareness and merchant visibility. The Company offers affordable tools for SMBs to extend their marketing reach to relevant prospective customers via the internet. The Company also provides SMBs promotional marketing with the ability to offer special deals and activities through LiveDeal.com, mobile applications for iOS and Android users and our online publishing partners. In addition the Company has adopted an acquisition strategy to seek out undervalued companies with little to no online presence. The Company intends for acquisitions to be financed and closed using traditional, non-dilutive debt financing rather than using the Company’s equity.

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (“GAAP”) for audited financial statements. In the opinion of the Company’s management, this interim information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The results of operations for the nine months ended June 30, 2015 are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2015. The accompanying note disclosures related to the interim financial information included herein are also unaudited. This financial information should be read in conjunction with the consolidated financial statements and related notes thereto as of September 30, 2014 and for the fiscal year then ended included in the Company’s Annual Report on Form 10-K filed with the SEC on December 29, 2014, and amended on January 8, 2015.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant estimates and assumptions have been made by management throughout the preparation of the condensed consolidated financial statements, including in conjunction with establishing allowances for customer refunds, non-paying customers, dilution and fees, analyzing the recoverability of the carrying amount of intangible assets, evaluating the merits of pending litigation, estimating forfeitures of stock-based compensation, valuing beneficial conversion features in convertible debt, and evaluating the recoverability of deferred tax assets. Actual results could differ from these estimates.

All data for common stock, options and warrants have been adjusted to reflect the 3-for-1 forward stock split (which took effect on February 11, 2014) for all periods presented. In addition, all common stock prices, and per share data for all periods presented have been adjusted to reflect the 3-for-1 forward stock split.

Note 2: Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements represent the consolidated financial position and results of operations of the Company and include the accounts and results of operations of the Company, LiveDeal, Inc., Local Marketing Experts, Inc., Velocity Marketing Concepts, Inc., 247 Marketing Inc., Telco Billing, Inc., Telco of Canada, Inc., Velocity Local Inc., Modern Everyday, Inc. and its wholly owned subsidiaries, Modern Everyday, LLC and Super Nova, LLC, and Live Goods, LLC and its wholly owned subsidiaries, DealTicker, Inc. The results of operations for Live Goods, LLC, DealTicker, Inc. and Modern Everyday, Inc. have only been included since the date of acquisition of March 7, 2014, May 5, 2014 and August 24, 2014, respectively. All intercompany transactions and balances have been eliminated in consolidation.

Revenue Recognition

Directory Services

Revenue is billed and recognized monthly for services subscribed in that specific month. The Company has historically utilized outside billing companies to perform billing services through two primary channels:

- direct ACH withdrawals; and
- inclusion on the customer's local telephone bill provided by their Local Exchange Carriers, or LECs.

For billings via ACH withdrawals, revenue is recognized when such billings are accepted. For billings via LECs, the Company recognizes revenue based on net billings accepted by the LECs. Due to the periods of time for which adjustments may be reported by the LECs and the billing companies, the Company estimates and accrues for dilution and fees reported subsequent to year-end for initial billings related to services provided for periods within the fiscal year. Such dilution and fees are reported in cost of services in the accompanying consolidated statements of operations. Customer refunds are recorded as an offset to gross revenue.

Revenue for billings to certain customers that are billed directly by the Company and not through the outside billing companies is recognized based on estimated future collections. The Company continuously reviews this estimate for reasonableness based on its collection experience.

Deals Revenue

The Company recognizes revenue from its sales through its strategic publishing partners of discounted goods and services offered by its merchant clients (“Deals”) when the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred; the selling price is fixed or determinable; and collectability is reasonably assured. These criteria are met when the number of customers who purchase the daily deal exceeds the predetermined threshold, where, if applicable, the Deal has been electronically delivered to the purchaser and a listing of Deals sold has been made available to the merchant. At that time, the Company's obligations to the merchant, for which it is serving as an agent, are substantially complete. The Company's remaining obligations, which are limited to remitting payment to the merchant, are inconsequential or perfunctory. The Company records as revenue an amount equal to the net amount it retains from the sale of Deals after paying an agreed upon percentage of the purchase price to the featured merchant excluding any applicable taxes. Revenue is recorded on a net basis because the Company is acting as an agent of the merchant in the transaction.

Deferred Revenue

In some instances, the Company receives payments in advance of rendering services, whereupon such revenues are deferred until the related services are rendered.

Product Revenue

The Company derives product revenue primarily from direct revenue and fulfillment partner revenue from product sales. Product revenue is recognized when the following revenue recognition criteria are met: (1) persuasive evidence

of an arrangement exists; (2) delivery has occurred or the service has been provided; (3) the selling price or fee revenue earned is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured.

The Company evaluates the criteria outlined in ASC Topic 605-45, *Principal Agent Considerations*, in determining whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned as commissions. When the Company is the primary obligor in a transaction, are subject to inventory risk, have latitude in establishing prices and selecting suppliers, or have several but not all of these indicators, revenue is recorded gross. If we are not the primary obligor in the transaction and amounts earned are determined using a fixed percentage, revenue is recorded on a net basis. Currently, all direct revenue and fulfillment partner revenue is recorded on a gross basis, as the Company is the primary obligor. The Company presents revenue net of sales taxes.

Inventory

Inventory is valued at the lower of the inventory's cost (first in, first out basis) or the current market price of the inventory. Management compares the cost of inventory with its market value and an allowance is made to write down inventory to market value, if lower. All inventory at June 30, 2015 consists of finished goods inventory. At June 30, 2015 and September 30, 2014, the allowance for obsolete inventory was \$507,679 and \$252,569, respectively.

Segment Reporting

ASC Topic 280, "Segment Reporting," requires use of the "management approach" model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. The Company determined it has two reportable segments (See Note 18).

Derivative Financial Instruments

The Company evaluates all of its agreements to determine if such instruments have derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statements of operations. For stock-based derivative financial instruments, the Company uses a weighted average Black-Scholes-Merton option pricing model to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

Recently Issued Accounting Pronouncements

No accounting standards or interpretations issued recently are expected to have a material impact on our consolidated financial position, operations or cash flows.

Note 3: Balance Sheet Information

Balance sheet information is as follows:

	June 30, 2015 (unaudited)	September 30, 2014
Receivables, current, net:		
Accounts receivable, current	\$ 1,646,680	\$ 1,611,269
Less: Allowance for doubtful accounts	(731,867)	(756,686)
	\$914,813	\$854,583
Receivables, long term, net:		
Accounts receivable, long term	\$344,572	\$344,572
Less: Allowance for doubtful accounts	(344,572)	(344,572)
	\$-	\$-
Total receivables, net:		
Gross receivables	\$ 1,991,252	\$ 1,955,841
Less: Allowance for doubtful accounts	(1,076,439)	(1,101,258)
	\$914,813	\$854,583
Components of allowance for doubtful accounts are as follows:		
Allowance for dilution and fees on amounts due from billing aggregators	\$ 1,063,617	\$ 1,063,633
Allowance for customer refunds	1,905	2,107
Allowance for other trade receivables	10,917	35,518
	\$ 1,076,439	\$ 1,101,258
Property and equipment, net:		
Furnishings and fixtures	\$ 120,197	\$ 162,642
Office, computer equipment and other	219,734	192,063
	339,931	354,705
Less: Accumulated depreciation	(241,573)	(201,591)
	\$98,358	\$153,114
Intangible assets, net:		

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Domain name and marketing related intangibles	\$ 1,521,015	\$ 1,521,015
Website and technology related intangibles	2,091,164	2,863,509
Software	1,500,000	–
Covenant not to compete	120,000	120,000
	5,232,179	4,504,524
Less: Accumulated amortization	(1,504,892)	(1,433,314)
	\$3,727,287	\$3,071,210
Accrued liabilities:		
Accrued payroll and bonuses	\$ 114,458	\$ 107,224
Accruals under revenue sharing agreements	688	688
Deferred revenue	511,704	548,004
Accrued software costs	1,500,000	–
Accrued expenses - other	411,216	390,114
	\$2,538,066	\$ 1,046,030

Note 4: Intangible Assets

The Company's intangible assets consist of licenses for the use of Internet domain names, Universal Resource Locators, or URLs, capitalized website development costs, other information technology licenses, software, a covenant not to compete, and marketing and technology related intangibles acquired through the acquisition of LiveDeal, Inc. In addition as a result of the acquisition of MEI, the Company recorded goodwill of \$1,169,904. All such assets are capitalized at their original cost and amortized over their estimated useful lives as follows: domain name and marketing - 3 to 20 years; website and technology - 3 to 5 years; software -- 5 years, and covenant not to compete – 4 years. Goodwill is not amortized, but evaluated for impairment on at least an annual basis.

During the nine months ended June 30, 2015, the Company purchased software for \$1,500,000. The Company has the option to pay for the software in cash or in 800,000 shares of the Company's common stock during the first year after acquiring the software. At June 30, 2015, the Company had not made any payments towards the purchase of this software and has reflected the \$1,500,000 purchase price for the software in accrued liabilities in the accompanying condensed consolidated balance sheet.

The following summarizes estimated future amortization expense related to intangible assets for the twelve month periods ending June 30,:

2016	\$793,523
2017	769,749
2018	582,439
2019	517,135
2020	517,135
Thereafter	547,306
	\$3,727,287

Total amortization expense related to intangible assets was \$451,024 and \$305,370 for the nine months ended June 30, 2015 and 2014, respectively.

Note 5: Debt*ICG Convertible Note Transaction*

On January 23, 2014, the Company issued a Note to ICG in the principal amount of \$500,000 (“Note No. 6”). Because the conversion price of \$2.29 was less than the stock price, this gave rise to a beneficial conversion feature valued at \$500,000. The Company recognized this beneficial conversion feature as a debt discount and additional paid in capital. The debt discount is being amortized over the one year term. On December 3, 2014, ICG converted Note No. 6 into 674,370 shares of common stock, therefore the remaining debt discount of \$158,219 was written off and recognized as interest expense. In addition, upon the conversion of Note No. 6, the Company issued to ICG a warrant to acquire 674,370 additional shares of the Company’s common stock at an exercise price of \$0.95 per share. The fair value of the warrants issued in connection with the conversion of note was \$1,853,473 and was immediately recognized as interest expense.

Kingston Convertible Note Transaction (\$10 Million Line of Credit)

On January 7, 2014, the Company entered into a Note Purchase Agreement (the “Kingston Purchase Agreement”) with Kingston Diversified Holdings LLC (“Kingston”), pursuant to which the Investor agreed to purchase for cash up to \$5,000,000 in aggregate principal amount of the Company’s Convertible Notes (“Notes”). The Kingston Purchase Agreement and the Notes, which are unsecured, provide that all amounts payable by the Company to Kingston under the Notes will be due and payable on the second (2nd) anniversary of the date of the Kingston Purchase Agreement (the “Maturity Date”).

The Kingston Purchase Agreement and the Notes provide that:

Either the Company or Kingston will have the right to cause the sale and issuance of Notes pursuant to the Kingston Purchase Agreement, provided that NASDAQ’s approval of the Kingston Purchase Agreement and transactions contemplated thereby is a condition precedent to each party’s right to cause any borrowings to occur under the Kingston Purchase Agreement.

~~Each Note must be in a principal amount of at least \$100,000.~~

~~The Notes are issuable at a 5% discount and will accrue interest at an annual interest rate equal to 8%. All interest will be payable on the Maturity Date or upon the conversion of the applicable Note.~~

~~The Company has the option to prepay each Note, in whole or in part, at any time without premium or penalty.~~

The Company or Kingston may elect at any time on or before the Maturity Date to convert the principal and accrued but unpaid interest due under any Note into shares of the Company's common stock. The conversion price applicable to any such conversion will be an amount equal to 70% of the lesser of: (i) the closing bid price of the common stock on the date of the Kingston Purchase Agreement (i.e., \$3.12 per share); or (ii) the 10-day volume weighted average closing bid price for the common stock, as listed on NASDAQ for the 10 business days immediately preceding the date of conversion (the "Average Price"); provided, however, that in no event will the Average Price per share be less than \$0.33. For example, if the Average Price is \$0.17 per share, then for purposes of calculating the conversion price, the Average Price per share would be \$0.33 per share instead of \$0.17 per share.

If either party elects to convert all or any portion of any Note, the Company must issue to Kingston on the date of the conversion a warrant ("Contingent Warrant") to purchase a number of shares of the Company's common stock equal to the number of shares issuable upon conversion. This number of shares is subject to adjustment in the event of stock splits or combinations, stock dividends, certain *pro rata* distributions, and certain fundamental transactions. Each Contingent Warrant will be exercisable for a period of five (5) years following the date of its issuance at an exercise price equal to 110% of the conversion price of the applicable Note (with the exercise price being subject to adjustment under the same conditions as the number of shares for which the warrant is exercisable.) The Contingent Warrants provide that they may be exercised in whole or in part and include a cashless exercise feature.

The Notes provide that, upon the occurrence of any Event of Default, all amounts payable to Kingston will become immediately due and payable without any demand or notice. The events of default ("Events of Default") which trigger the acceleration of the Notes include (among other things): (i) the Company's failure to make any payment required under the Notes when due (subject to a three-day cure period), (ii) the Company's failure to comply with its covenants and agreements under the Purchase Agreement, the Notes and any other transaction documents, and (iii) the occurrence of a change of control with respect to the Company.

The Company (i) is required to provide certain financial and other information to Kingston from time to time, (ii) must maintain its corporate existence, business, assets, properties, insurance and records in accordance with the requirements set forth in the Kingston Purchase Agreement, (iii) with certain exceptions, must not incur or suffer to exist any liens or other encumbrances with respect to the Company's property or assets, (iv) must not make certain loans or investments except in compliance with the terms of the Kingston Purchase Agreement, and (v) must not enter into certain types of transactions, including dispositions of its assets or business.

The Company agreed to use commercially reasonable efforts to obtain, as promptly as practicable, any approvals of the Company's stockholders required under applicable law or NASDAQ Listing Rules in connection with the transactions contemplated by the Kingston Purchase Agreement. Unless and until any such stockholder approvals are obtained, in no event will Kingston be entitled to convert any Notes and/or exercise any Contingent Warrants to the extent that any such conversion or exercise would result in Kingston acquiring in such transactions a number of shares of the Company's common stock exceeding 19.99% of the number of shares of common stock issued and outstanding immediately prior to the Company's entry into the Kingston Purchase Agreement.

~~Kingston will be entitled to certain anti-dilution adjustments if the Company issues shares of its common stock at a lower price per share than the applicable conversion price for any Note(s) issued pursuant to the Kingston Purchase Agreement. If any such dilutive issuance occurs prior to the conversion of one or more Notes, the conversion price for such Note(s) will be adjusted downward pursuant to its terms (subject to a floor of \$0.23 per share). If any such dilutive issuance occurs after the conversion of one or more Notes, Kingston will be entitled to be issued additional shares of common stock for no consideration, and to an adjustment of the exercise price payable under the applicable Contingent Warrant(s). With respect to each Note actually issued pursuant to the Kingston Purchase Agreement,~~

Kingston's anti-dilution rights will expire two (2) years following the date of issuance.

On October 29, 2014, the Company entered into an amended convertible note purchase agreement with Kingston whereby the Company and Kingston agreed to (i) increase the maximum principal amount of the notes from \$5 million to \$10 million in principal amount, (ii) eliminate the original issue discount provision of the Agreement and replaces it with an execution payment equal to 5% of the maximum loan amount, and (iii) provides certain additional adjustments to the note conversion price and to the warrant exercise price.

On October 16, 2014, the Company issued a Note to Kingston in the principal amount of \$100,000. Because the conversion price of \$0.79 was less than the stock price on the date of issuance, this gave rise to a beneficial conversion feature valued at \$100,000. The Company recognized this beneficial conversion feature as a debt discount and additional paid in capital. The debt discount is being amortized over the one year term. On November 17, 2014, Kingston converted the note into 127,008 shares of common stock, therefore the debt discount of \$100,000 was written off and recognized as interest expense.

In addition, as a result of the October 29, 2014 amendment, the Company was required to issue to Kingston, the original issue discount payment equal to 5% of the maximum loan in shares of the Company's common stock based upon the conversion price of the first conversion which was \$0.79 per shares. The issued 630,252 shares of common stock that had a fair value of \$2,004,202 which was immediately recognized as interest expense.

February 2014 Convertible Note Transaction

On February 27, 2014, the Company issued a one year convertible note to an otherwise unaffiliated, non-institutional third party in the principal amount of \$323,595. The note (i) is unsecured, (ii) bears interest at the rate of six percent per annum, and (iii) was issued without any original issue discount.

The principal is convertible into shares of the Company's common stock at any time and from time-to-time at the instance of either the Company or the holder. The per-share conversion price is an amount equal to ninety percent (90%) of the 10-day volume weighted average closing bid price for the Company's common stock, as reported by The NASDAQ Stock Market, Inc. for the ten (10) trading days immediately preceding the date of the notice of conversion, subject to downward adjustment in the event that the Company issues any securities at a price per share lower than the then-current conversion price; provided, however, that in no event shall the conversion price per share be less than \$1.00. The Company provided the holder with certain negative covenants and events of default, each standard for transactions of this nature.

Due to the "reset" and "dilutive issuance" clause in this note relating to the conversion price from dilutive share issuance, the Company has determined that the conversion feature is considered a derivative liability for the Company, which is detailed in Note 6.

The Company determined an initial derivative liability value of \$139,852, which is recorded as a derivative liability as of the date of issuance while also recording an \$139,852 debt discount on its balance sheet in relation to the bifurcation of the embedded conversion options of the note. The debt discount is being amortized over the one year term. The note was repaid during the nine months ended June 30, 2015, therefore the remaining unamortized debt discount of \$57,665 was written off to interest expense. Also, as a result of the note being repaid, the derivative liability associated with this convertible note was reduced to \$0. The Company recorded \$83,580 of non-cash "change in fair value of derivative" income during the nine months ended June 30, 2015.

Credit line

In connection with the purchase of Modern Everyday, Inc., the Company assumed a credit line from a bank. The credit line is collateralized by all the assets of Modern Everyday, Inc., accrues interest at prime plus 2% and is due on September 28, 2019.

Notes payable of Modern Everyday, Inc.

Outstanding debt at June 30, 2015 and September 30, 2014 consisted of the following:

	June 30, 2015	September 30, 2014
Note payable to individual, payable on demand, interest at 10.0% per annum, unsecured	\$91,274	\$90,168
Convertible note payable to individual, due February 27, 2015, interest at 6.0% per annum, unsecured	–	335,245
Convertible note payable to ICG, due January 23, 2015, interest at 8.0% per annum, unsecured	–	527,889
Acquisition note payable, \$200,000 due February 28, 2015 and \$400,000 due February 28, 2016, non-interest bearing with interest imputed at 2.87% per annum	392,428	581,707
Credit line due 1/1/2024, with interest rate of 2.75%	224,364	240,204
Less Debt Discount	–	(215,884)
Total Debt	708,066	1,559,329
Current portion	483,702	920,360
Long-term portion	\$224,364	\$638,969

Note 6: Derivative Liability

The February 2014 Convertible Note discussed in Note 5 has a reset provision and a dilutive issuance clause that gave rise to a derivative liability.

The fair value of the derivative liability is recorded and shown separately under current liabilities. Changes in the fair value of the derivative liability are recorded in the condensed consolidated statement of income under other income (expense).

The Company evaluates all of its agreements to determine if such instruments have derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statements of operations. For stock-based derivative financial instruments, the Company uses a weighted average Black-Scholes-Merton option pricing model to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

The following table represents the Company's derivative liability activity for both the embedded conversion features for the nine months ended June 30, 2015:

Derivative liability balance, September 30, 2014	\$83,580
Issuance of derivative liability during the nine months ended June 30, 2015	-
Change in derivative liability during the nine months ended June 30, 2015	(83,580)
Derivative liability balance, June 30, 2015	\$-

Note 7: Equity

During the nine months ended June 30, 2015, the Company issued:

- 187,358 shares of common stock for services rendered valued at \$490,559. The value was based on the market value of the Company's common stock on the date of issuance;

- 600,000 shares of common stock issued to officers of the Company as bonuses for services rendered in fiscal years 2012, 2013 and 2014 valued at \$1,518,000. The value was based on the market value of the Company's common stock on the date of issuance;

- 155,000 shares of common stock for net cash proceeds of \$538,441;

- 801,378 share of common stock for the conversion of convertible notes and accrued interest of \$635,756;

- 630,252 shares of common stock as payment for the original issue discount fees associated with the Kingston agreement. The value of the shares of \$2,004,202 was based on the market value of the Company's common stock at

the date of issuance.

At-The-Market Offerings of Common Stock (Chardan Capital Markets LLC)

On January 7, 2014, the Company entered into an Engagement Agreement (the “January 2014 Engagement Agreement”) with Chardan Capital Markets LLC (“Chardan”) pursuant to which the Company agreed to issue and sell up to a maximum aggregate amount of 1,980,000 shares of its common stock from time to time through Chardan as its sales agent, under its shelf Registration Statement on Form S-3 (File No. 333-187397) (the “First Registration Statement”) previously filed with the SEC. During the quarter that ended on March 31, 2014, the Company sold 2,214,612 shares of its common stock under the First Registration Statement, resulting in gross proceeds of \$10,000,000, in an at-the-market offering, in which Chardan was its agent. The Company received net proceeds of \$9,696,013. The Company paid Chardan a total commission of \$299,882 pursuant to the January 2014 Engagement Agreement.

On May 16, 2014, the Company entered into an Engagement Agreement (the “May 2014 Engagement Agreement”) with Chardan pursuant to which the Company may issue and sell up to a maximum aggregate amount of 10,000,000 shares of its common stock from time to time through Chardan as its sales agent, under its shelf Registration Statement on Form S-3 (File No. 333-193971) (the “Second Registration Statement”) previously filed with the SEC, pursuant to which any shares that are issued under the May 2014 Engagement Agreement will be sold.

Upon delivery of a placement notice by the Company, and subject to the terms and conditions of the May 2014 Engagement Agreement, Chardan may sell the common stock by any method that is deemed to be an “at-the-market” offering as defined in Rule 415 promulgated under the Securities Act of 1933, as amended (the “Securities Act”), including by means of ordinary brokers’ transactions at market prices on the NASDAQ Capital Market, in block transactions, through privately negotiated transactions, or as otherwise agreed by Chardan and the Company. Chardan will act as sales agent on a commercially reasonable efforts basis consistent with its normal trading and sales practices and applicable state and federal law, rules and regulations and the rules of NASDAQ.

The offering pursuant to the May 2014 Engagement Agreement will terminate upon the earlier of (i) the sale of all shares of common stock subject to the May 2014 Engagement Agreement, or (ii) termination of the May 2014 Engagement Agreement as permitted therein. The Engagement Agreement may be terminated by Chardan or us at any time upon 15 days’ written notice to the other party.

The Company will pay Chardan a commission equal to up to 3% of the gross proceeds from the sale of the common stock sold through Chardan pursuant to the May 2014 Engagement Agreement and reimburse Chardan up to \$15,000 in expenses. No assurance can be given that the Company will sell any shares under the May 2014 Engagement Agreement, or, if the Company does, as to the price or amount of shares that we will sell, or the dates on which any such sales will take place.

For the quarter ended June 30, 2014, the Company sold 790,236 shares of its common stock under the Second Registration Statement, resulting in gross proceeds of \$3,599,774, in an at-the-market offering, in which Chardan was its agent. The Company received net proceeds of \$3,491,702. The Company paid Chardan a total commission of \$107,993 pursuant to the May 2014 Engagement Agreement.

For the quarter ended September 30, 2014, the Company sold 110,300 shares of its common stock under the Second Registration Statement, resulting in gross proceeds of \$508,598, in an at-the-market offering, in which Chardan was its agent. The Company received net proceeds of \$493,340. The Company paid Chardan a total commission of \$15,258 pursuant to the May 2014 Engagement Agreement.

For the quarter ended March 31, 2015, the Company sold 155,000 shares of its common stock under the Second Registration Statement, resulting in gross proceeds of \$546,652, in an at-the-market offering, in which Chardan was its agent. The Company received net proceeds of \$538,441. The Company paid Chardan a total commission of \$8,211 pursuant to the May 2014 Engagement Agreement.

2014 Omnibus Equity Incentive Plan

On January 7, 2014, our Board of Directors adopted the 2014 Omnibus Equity Incentive Plan (the “2014 Plan”), which authorizes the issuance of distribution equivalent rights, incentive stock options, non-qualified stock options, performance stock, performance units, restricted ordinary shares, restricted stock units, stock appreciation rights, tandem stock appreciation rights and unrestricted ordinary shares to our officers, employees, directors, consultants and advisors. The Company has reserved up to 1,800,000 shares of common stock for issuance under the 2014 Plan. As required under Nasdaq Listing Rule 5635(c), the Company included a proposal at its 2014 Annual Meeting of Stockholders, which was held on July 11, 2014, to obtain approval of the 2014 Plan. The 2014 Plan was approved.

3-for-1 Forward Stock Split

On January 16, 2014, our Board of Directors approved a 3-for-1 forward stock split with respect to the Company's common stock. Stockholders received three shares of common stock for every one share of common stock owned on the record date of February 3, 2014. The forward stock split was effective as of the close of trading on February 11, 2014. The additional shares were distributed as of the close of business on February 11, 2014. In connection with the forward stock split, the Company's authorized shares of common stock also increased from 10,000,000 shares to 30,000,000 shares. All data for common stock, options and warrants have been adjusted to reflect the 3-for-1 forward stock split for all periods presented. In addition, all common stock prices, and per share data for all periods presented have been adjusted to reflect the 3-for-1 forward stock split.

Series E Convertible Preferred Stock

During the year ended September 30, 2002, pursuant to an existing tender offer, holders of 13,184 shares of the Company's common stock exchanged said shares for 131,840 shares of Series E Convertible Preferred Stock, at the then \$0.85 market value of the common stock. The shares carry a \$0.30 per share liquidation preference and accrue dividends at the rate of 5% per annum on the liquidation preference per share, payable quarterly from legally available funds. If such funds are not available, dividends shall continue to accumulate until they can be paid from legally available funds. Holders of the preferred shares are entitled, after two years from issuance, to convert them into common shares on a hundred-to-one basis together with payment of \$0.45 per converted share.

Dividends

During each of the nine months ended June 30, 2015 and 2014, the Company accrued dividends of \$1,442 and \$1,438, respectively, payable to holders of Series E preferred stock.

Note 8: Warrants

The Company issued several Notes in prior periods and converted them resulting in the issuance of warrants. The following table summarizes information about the Company's warrants at June 30, 2015:

	Number of Units	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Intrinsic Value
Outstanding at September 30, 2014	2,866,506	\$ 0.63	3.39	
Granted	674,370	0.95		
Exercised	–			
Outstanding at June 30, 2015	3,540,876	0.69	2.98	\$6,508,276
Exercisable at June 30, 2015	3,540,876	0.69	2.98	\$6,508,276

Most of the above warrants were issued in connection with conversion of convertible notes (See Note 5). When the debt is converted and warrants are issued, the Company determines the fair value of the warrants using the Black-Scholes model and takes a charge to interest expense at the date of issuance.

The exercise price for warrants outstanding and exercisable at June 30, 2015 is as follows:

Outstanding		Exercisable	
Number of	Exercise	Number of	Exercise
Warrants	Price	Warrants	Price
1,631,886	\$0.55	1,631,886	\$0.55
535,716	0.56	535,716	0.56
371,487	0.81	371,487	0.81
1,001,787	0.95	1,001,787	0.95
3,540,876		3,540,876	

Note 9: Stock Options

From time to time, the Company grants stock options and restricted stock awards to officers, directors, employees and consultants. These awards are valued based on the grant date fair value of the instruments, net of estimated forfeitures. The value of each award is amortized on a straight-line basis over the requisite service period.

Stock Options

The following table summarizes stock option activity for the nine months ended June 30, 2015:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Intrinsic Value
Outstanding at September 30, 2014	600,000	\$ 2.76		\$-
Granted	450,000	\$ 2.53		
Exercised	-			
Forfeited	-			
Outstanding at June 30, 2015	1,050,000	\$ 1.87	5.01	\$689,875
Exercisable at June 30, 2015	675,000	\$ 1.73	4.51	\$542,500

The Company recognized compensation expense of \$621,311 and \$138,595 during the nine months ended June 30, 2015, respectively, related to stock option awards granted to certain employees and executives based on the grant date fair value of the awards, net of estimated forfeitures.

At June 30, 2015, the Company had \$351,026 of unrecognized compensation expense (net of estimated forfeitures) associated with stock option awards which the Company expects will be recognized through June 2017.

During the quarter ended June 30, 2015, the Company reduced the exercise price by 50% for the 600,000 options then outstanding. The Company recognized compensation expense of \$54,677 related to the re-pricing of the exercise for these options.

The exercise price for options outstanding and exercisable at June 30, 2015 is as follows:

Outstanding		Exercisable	
Number of Options	Exercise Price	Number of Options	Exercise Price
187,500	\$0.83	187,500	\$0.83
150,000	1.25	150,000	1.25
187,500	1.67	37,500	1.67
37,500	2.08	0	2.08
37,500	2.50	0	2.50
450,000	2.53	300,000	2.53
1,050,000		675,000	

The following table summarizes information about the Company's non-vested shares as of June 30, 2015:

Non-vested Shares	Number of Shares	Weighted-Average Grant-Date Fair Value	
Nonvested at September 30, 2014	450,000	\$	0.73
Granted	450,000	\$	1.92
Vested	(525,000)		

Nonvested
at June 30, 375,000 \$ 1.44
2015

For options granted during 2015 where the exercise price equaled the stock price at the date of the grant, the weighted-average fair value of such options was \$1.92 and the weighted-average exercise price of such options was \$2.53. No options were granted during 2015, where the exercise price was less than the stock price at the date of grant or where the exercise price was greater than the stock price at the date of grant.

The assumptions used in calculating the fair value of options granted using the Black-Scholes option- pricing model for options granted in 2015 are as follows:

Risk-free interest rate	1.01%
Expected life of the options	2.5 to 3.5 years
Expected volatility	140%
Expected dividend yield	0%

Note 10: Net Loss Per Share

Net loss per share is calculated using the weighted average number of shares of common stock outstanding during the applicable period. Basic weighted average common shares outstanding do not include shares of restricted stock that have not yet vested, although such shares are included as outstanding shares in the Company's unaudited Condensed Consolidated Balance Sheet. Diluted net loss per share is computed using the weighted average number of common shares outstanding and if dilutive, potential common shares outstanding during the period. Potential common shares consist of the additional common shares issuable in respect of restricted share awards, stock options and convertible preferred stock. Preferred stock dividends are subtracted from net loss to determine the amount available to common stockholders.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
Net loss applicable to common stock	\$ (4,208,391)	\$ (1,541,901)	\$ (10,251,045)	\$ (2,925,913)
Less: preferred stock dividends	(480)	(479)	(1,442)	(1,438)
Net loss applicable to common stock	\$ (4,208,871)	\$ (1,542,380)	\$ (10,252,487)	\$ (2,927,351)
Weighted average common shares outstanding - basic and diluted	16,151,289	13,798,880	15,766,001	12,751,344
Loss per share - basic and diluted:	\$ (0.26)	\$ (0.11)	\$ (0.65)	\$ (0.23)

The following potentially dilutive securities were excluded from the calculation of diluted net loss per share because the effects were anti-dilutive based on the application of the treasury stock method and because the Company incurred net losses during the period:

	Three Months Ended June 30,		Nine months ended June 30,	
	2015	2014	2015	2014
Options to purchase shares of common stock	600,000	675,000	600,000	675,000
Warrants to purchase shares of common stock	3,540,876	2,866,506	3,540,876	2,866,506
Series E convertible preferred stock	127,840	127,840	127,840	127,840
Shares of non-vested restricted stock	–	21,000	–	21,000
Total potentially dilutive shares	4,268,716	3,690,346	4,268,716	3,690,346

Note 11: Income Taxes

At June 30, 2015, the Company maintained a valuation allowance against its deferred tax assets. The Company determined this valuation allowance was necessary given the current and expected near term losses and the uncertainty with respect to the Company's ability to generate sufficient profits from its new business model.

During the nine months ended June 30, 2015, the Company did not incur any income tax benefit associated with its net loss due to the establishment of a valuation allowance against deferred tax assets generated during the period.

Note 12: Related Party Transactions

Convertible Notes with ICG

The Company entered into a Note Purchase Agreement with ICG, an entity owned by Jon Isaac, the Company's President and Chief Executive Officer and a director of the Company, and subsequently issued a series of Subordinated Convertible Notes thereunder to ICG. In connection with these transactions, the Company received gross proceeds of \$500,000 and \$1,250,000 during the year ended September 30, 2014 and 2013, respectively.

Because the conversion price under ICG's notes was less than the fair market value of the stock on the date of issuance, the Company recognized a beneficial conversion feature which was treated as a debt discount and amortized on a straight line basis as interest expense until the date of conversion, at which time all remaining debt discount was recognized as interest expense. Additionally, the fair value of the warrants that were contingently issuable to ICG upon conversion were recognized as additional interest expense.

On January 23, 2014, the Company issued a Note to ICG in the principal amount of \$500,000.

During the nine months ended June 30, 2015 and 2014, the Company recognized total interest expense of \$2,018,803 and \$14,333, respectively, associated with the ICG notes.

Note 13: Commitments and Contingencies

Purchase price contingency

In connection with acquisition of Modern Everyday, Inc., the Company issued 50,000 shares of the Company's common stock as part of the consideration for the acquisition. The Company has guaranteed the holder of the 50,000 shares that the value of those shares will be at least \$8.00 per shares 30 months after the acquisition date. The Company has agreed to compensate the holder, if the share price is less than \$8.00 at the 30 months anniversary of the acquisition, the difference between \$8.00 and the share price at the 30 month anniversary times the number of shares still owned by the holder. As of June 30, 2015, the Company as recorded a liability of \$273,500 related to this guarantee. The value of these shares was included as part of the purchase price consideration. The Company will adjust this guarantee at