

LIVE VENTURES Inc
Form 10-Q
February 14, 2018

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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 December 31, 2017

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

Live Ventures Incorporated

(Exact name of registrant as specified in its charter)

Nevada

85-0206668

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

325 E. Warm Springs Road, Suite 102

Las Vegas, Nevada

(Address of principal executive offices)

89119

(Zip Code)

(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," "smaller reporting company," and "emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 February 13, 2018 was 1,972,136

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FOR THE QUARTER ENDED DECEMBER 31, 2017

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PART I - FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS**

LIVE VENTURES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2017 (Unaudited)	September 30, 2017
Assets		
Cash and cash equivalents	\$ 1,783,041	\$ 3,972,539
Trade receivables, net	7,884,255	10,636,925
Inventories	43,675,593	34,501,801
Prepaid expenses and other current assets	3,242,516	6,435,891
Total current assets	56,585,405	55,547,156
Property and equipment, net	27,479,364	22,817,860
Restricted cash	1,285,747	—
Deposits and other assets	275,734	77,520
Deferred taxes	5,589,369	9,000,010
Intangible assets, net	3,993,671	4,205,314
Goodwill	36,946,735	36,946,735
Total assets	\$ 132,156,025	\$ 128,594,595
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	\$ 6,607,702	\$ 8,224,057
Accrued liabilities	15,314,194	8,986,734
Income taxes payable	350,545	351,689
Current portion of long-term debt	42,994,795	48,877,536
Total current liabilities	65,267,236	66,440,016
Long-term debt, net of current portion	29,601,254	26,570,271
Note payable, related party	2,000,000	2,000,000
Total liabilities	96,868,490	95,010,287

Commitments and contingencies

Stockholders' equity:

Series B convertible preferred stock, \$0.001 par value, 1,000,000 shares authorized, 214,244 shares issued and outstanding at December 31, 2017 and September 30, 2017	214	214
Series E convertible preferred stock, \$0.001 par value, 200,000 shares authorized, 127,840 shares issued and 77,840 shares outstanding at December 31, 2017 127,840 shares issued and outstanding at September 30, 2017, with a liquidation preference of \$0.30 per share outstanding	128	128
Common stock, \$0.001 par value, 10,000,000 shares authorized, 2,088,186 shares issued and 1,972,136 shares outstanding at December 31, 2017; 2,088,186 shares issued and 1,991,879 shares outstanding at September 30, 2017	2,088	2,088
Paid in capital	63,236,534	63,157,178
Treasury stock common 116,050 shares as of December 31, 2017 and 96,307 shares as of September 30, 2017	(1,248,976)	(999,584)
Treasury stock series E preferred 50,000 shares as of December 31, 2017 and no shares as of September 30, 2017	(4,000)	–
Accumulated deficit	(26,698,453)	(28,575,716)
Total stockholders' equity	35,287,535	33,584,308
Total liabilities and stockholders' equity	\$ 132,156,025	\$ 128,594,595

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

LIVE VENTURES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

	Three Months Ended December 31,	
	2017	2016
Revenues	\$40,368,064	\$32,188,664
Cost of revenues	23,972,174	19,543,432
Gross profit	16,395,890	12,645,232
Operating expenses:		
General and administrative expenses	10,399,130	7,058,674
Sales and marketing expenses	2,075,972	1,907,490
Total operating expenses	12,475,102	8,966,164
Operating income	3,920,788	3,679,068
Other (expense) income:		
Interest expense, net	(2,468,312)	(1,449,476)
Bargain purchase gain on acquisition	3,773,486	–
Other income	77,084	41,890
Total other (expense) income, net	1,382,258	(1,407,586)
Income before provision for income taxes	5,303,046	2,271,482
Provision for income taxes	3,425,491	842,909
Net income	\$1,877,555	\$1,428,573
Earnings per share:		
Basic	\$0.95	\$0.71
Diluted	\$0.50	\$0.37
Weighted average common shares outstanding:		
Basic	1,975,380	1,999,983
Diluted	3,749,041	3,833,523

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

LIVE VENTURES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three Months Ended December 31,	
	2017	2016
OPERATING ACTIVITIES:		
Net income	\$1,877,555	\$1,428,573
Adjustments to reconcile net income to net cash provided by operating activities, net of acquisition:		
Depreciation and amortization	1,395,905	935,047
(Gain) on bargain purchase of acquisition	(3,773,486)	–
(Gain) loss on disposal of property and equipment	(5,294)	–
Amortization of debt issuance cost	58,512	40,136
Stock based compensation expense	79,356	1,443
Change in reserve for uncollectible accounts	14,697	66
Change in reserve for obsolete inventory	18,176	83,613
Change in deferred income taxes	3,410,641	768,135
Changes in assets and liabilities:		
Trade receivables	2,987,973	129,459
Inventories	(1,238,904)	(1,318,562)
Prepaid expenses and other current assets	3,262,722	140,826
Deposits and other assets	6,627	(55,565)
Accounts payable	(1,616,355)	(221,388)
Accrued liabilities	(172,832)	1,246,047
Income taxes payable	(1,144)	–
Net cash provided by operating activities	6,304,149	3,177,830
INVESTING ACTIVITIES:		
Acquisition of business, net of cash acquired and seller financing provided	–	(47,310,900)
Purchase of intangible assets - Software	(24,675)	–
Proceeds from the sale of property and equipment	17,998	–
Purchases of property and equipment	(5,323,308)	(3,052,298)
Net cash used in investing activities	(5,329,985)	(50,363,198)
FINANCING ACTIVITIES:		
Net borrowings under revolver loans	(5,071,969)	14,056,099
Payments of debt issuance costs	–	(1,155,000)
Purchase of series E preferred treasury stock	(4,000)	–

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Proceeds from issuance of notes payable	3,931,591	35,889,321
Purchase of common treasury stock	(249,392)	–
Payments on notes payable	(1,769,892)	(789,194)
Net cash provided by (used in) financing activities	(3,163,662)	48,001,226
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,189,498)	815,858
CASH AND CASH EQUIVALENTS, beginning of period	3,972,539	770,895
CASH AND CASH EQUIVALENTS, end of period	\$1,783,041	\$1,586,753
Supplemental cash flow disclosures:		
Interest paid	\$1,802,658	\$790,580
Noncash financing and investing activities:		
Notes payable issued to sellers of Vintage Stock	\$–	\$10,000,000
Due to sellers of ApplianceSmart, Inc.	\$6,500,000	\$–
Restated equipment deposit as a purchase of equipment in fiscal 2016	\$–	\$1,816,555
Conversion of accrued expense liabilities into common stock	\$–	\$3,384,500
Accrued and unpaid dividends	\$292	\$479

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

LIVE VENTURES INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE MONTHS ENDED DECEMBER 31, 2017 AND 2016

Note 1: Background and Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Live Ventures Incorporated, a Nevada corporation, and its subsidiaries (collectively, the “Company”). Commencing in fiscal year 2015, the Company began a strategic shift in its business plan away from providing online marketing solutions for small and medium sized business to acquiring profitable companies in various industries that have demonstrated a strong history of earnings power. The Company continues to actively develop, revise and evaluate its products, services and its marketing strategies in its businesses. The Company has three operating segments: Manufacturing, Retail and Online (our new name for the previously named Marketplace Platform segment) and Services. With Marquis Industries, Inc. (“Marquis”), the Company is engaged in the manufacture and sale of carpet and the sale of vinyl and wood floorcoverings. With Vintage Stock, Inc. (“Vintage Stock”), the Company is engaged in the sale of new and used movies, music, collectibles, comics, books, games, game systems and components. With ApplianceSmart, Inc. (“ApplianceSmart”), the Company is engaged in the sale of new major appliances through a chain of company-owned retail stores.

The unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by 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 three months ended December 31, 2017 are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2018. This financial information should be read in conjunction with the consolidated financial statements and related notes thereto as of September 30, 2017 and for the fiscal year then ended included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2017, as amended, filed with the U.S. Securities and Exchange Commission (the “SEC”) on January 18, 2018 (the “2017 10-K”).

On November 22, 2016, the Company’s board of directors authorized a one-for-six (1:6) reverse stock split and a contemporaneous one-for-six (1:6) reduction in the number of authorized shares of common stock from 60,000,000 to 10,000,000 shares, to take effect for stockholders of record as of December 5, 2016. No fractional shares were issued. All share, option and warrant related information presented in these financial statements and accompanying footnotes has been retroactively adjusted to reflect the decreased number of shares resulting in this action.

Note 2: Summary of Significant Accounting Policies

Principles of Consolidation

The condensed consolidated financial statements represent the consolidated financial position, results of operations and cash flows of Live Ventures Incorporated and its wholly-owned subsidiaries. On July 6, 2015, the Company acquired 80% of Marquis Industries, Inc. and subsidiaries (“Marquis”). Effective November 30, 2015, the Company acquired the remaining 20% of Marquis. On November 3, 2016, the Company acquired 100% of Vintage Stock, Inc., a Missouri corporation (“Vintage Stock”), through its newly formed, wholly-owned subsidiary, Vintage Stock Affiliated Holdings LLC (“VSAH”). Effective December 30, 2017, the Company acquired 100% of ApplianceSmart Inc., a Minnesota corporation (“ApplianceSmart”), through its newly formed, wholly-owned subsidiary, ApplianceSmart Holdings LLC (“ASH”). All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

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

Significant estimates made in connection with the consolidated financial statements include the estimate of dilution and fees associated with billings, the estimated reserve for doubtful current and long-term trade and other receivables, sales return allowance, the estimated reserve for excess and obsolete inventory, estimated fair value and forfeiture rates for stock-based compensation, fair values in connection with the analysis of goodwill, other intangibles and long-lived assets for impairment, current portion of long-term debt, valuation allowance against deferred tax assets and estimated useful lives for intangible assets and property and equipment.

Financial Instruments

Financial instruments consist primarily of cash equivalents, trade and other receivables, advances to affiliates and obligations under accounts payable, accrued expenses and notes payable. The carrying amounts of cash equivalents, trade receivables and other receivables, accounts payable, accrued expenses and short-term notes payable approximate fair value because of the short maturity of these instruments. The fair value of the long-term debt is calculated based on interest rates available for debt with terms and maturities similar to the Company's existing debt arrangements, unless quoted market prices were available (Level 2 inputs). The carrying amounts of long-term debt at December 31, 2017 and September 30, 2017 approximate fair value.

Cash and Restricted Cash

Cash and cash equivalents consist of highly liquid investments with a maturity of three months or less at the time of purchase. Restricted cash consists of balances on deposit pledged as collateral. Fair value of cash equivalents and restricted cash approximates carrying value.

Trade Receivables

The Company grants trade credit to customers under credit terms that it believes are customary in the industry it operates and does not require collateral to support customer trade receivables. Some of the Company's trade receivables are factored primarily through two factors. Factored trade receivables are sold without recourse for substantially all of the balance receivable for credit approved accounts. The factor purchases the trade receivable(s) for the gross amount of the respective invoice(s), less factoring commissions, trade and cash discounts. The factor charges the Company a factoring commission for each trade account, which is between 0.75-1.00% of the gross amount of the invoice(s) factored on the date of the purchase, plus interest calculated at 3.25%-6% per annum. The minimum annual commission due the factor is \$75,000 per contract year. The total amount of trade receivables factored was \$8,741,531 and \$8,280,697 for the three months ended December 31, 2017 and 2016, respectively.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts, which includes allowances for accounts and factored trade receivables, customer refunds, dilution and fees from local exchange carrier billing aggregators and other uncollectible accounts. The allowance for doubtful accounts is based upon historical bad debt experience and periodic

evaluations of the aging and collectability of the trade receivables. This allowance is maintained at a level which the Company believes is sufficient to cover potential credit losses and trade receivables are only written off to bad debt expense as uncollectible after all reasonable collection efforts have been made. The Company has also purchased accounts receivable credit insurance to cover non-factored trade and other receivables which helps reduce potential losses due to doubtful accounts. At December 31, 2017 and September 30, 2017, the allowance for doubtful accounts was \$1,105,920 and \$1,091,223, respectively.

Inventories

Manufacturing Segment

Inventories are valued at the lower of the inventory's cost (first in, first out basis ("FIFO")) or market. Management compares the cost of inventory with its net realizable value and an allowance is made to write down inventory to net realizable value, if lower. Management also reviews inventory to determine if excess or obsolete inventory is present and a reserve is made to reduce the carrying value for inventory for such excess and or obsolete inventory. At December 31, 2017 and September 30, 2017, the reserve for obsolete inventory was \$91,940.

Retail and Online Segment

Merchandise inventories are valued at the lower of cost or market using the average cost method which approximates FIFO. Under the average cost method, as new product is received from vendors, its current cost is added to the existing cost of product on-hand and this amount is re-averaged over the cumulative units in inventory available for sale. Pre-owned products traded in by customers are recorded as merchandise inventory for the amount of cash consideration or store credit less any premiums given to the customer. Management reviews the merchandise inventory to make required adjustments to reflect potential obsolescence or the lower of cost or market. In valuing merchandise inventory, management considers quantities on hand, recent sales, potential price protections, returns to vendors and other factors. Management's ability to assess these factors is dependent upon forecasting customer demand and to provide a well-balanced merchandise assortment. Merchandise inventory valuation is adjusted based on anticipated physical inventory losses or shrinkage and actual losses resulting from periodic physical inventory counts. Merchandise inventory reserves as of December 31, 2017 and September 30, 2017 were \$1,259,805 and \$1,256,629, respectively.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Expenditures for repairs and maintenance are charged to expense as incurred and additions and improvements that significantly extend the lives of assets are capitalized. Upon sale or other retirement of depreciable property, the cost and accumulated depreciation are removed from the related accounts and any gain or loss is reflected in operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The useful lives of building and improvements are three to forty years, transportation equipment is five to ten years, machinery and equipment are five to ten years, furnishings and fixtures are three to five years and office and computer equipment are three to five years. Depreciation expense was \$1,159,587 and \$870,516 for the three months ended December 31, 2017 and 2016, respectively.

We periodically review our property and equipment when events or changes in circumstances indicate that their carrying amounts may not be recoverable or their depreciation or amortization periods should be accelerated. We assess recoverability based on several factors, including our intention with respect to our stores and those stores projected undiscounted cash flows. An impairment loss would be recognized for the amount by which the carrying amount of the assets exceeds their fair value, as approximated by the present value of their projected discounted cash flows.

Goodwill

The Company accounts for purchased goodwill and intangible assets in accordance with ASC 350, *Intangibles—Goodwill and Other*. Under ASC 350, purchased goodwill is not amortized; rather, they are tested for impairment on at least an annual basis. Goodwill represents the excess of consideration paid over the fair value of underlying identifiable net assets of the business acquired.

We test goodwill annually on July 1 of each fiscal year or more frequently if events arise or circumstances change that indicate that goodwill may be impaired. The Company assesses whether goodwill impairment exists using both the qualitative and quantitative assessments. The qualitative assessment involves determining whether events or circumstances exist that indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If based on this qualitative assessment the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount or if the Company elects not to perform a qualitative assessment, a quantitative assessment is performed using a two-step approach required by ASC 350 to determine whether a goodwill impairment exists.

The first step of the quantitative test is to compare the carrying amount of the reporting unit's assets to the fair value of the reporting unit. If the fair value exceeds the carrying value, no further evaluation is required, and no impairment loss is recognized. If the carrying amount exceeds the fair value, then the second step is required to be completed, which involves allocating the fair value of the reporting unit to each asset and liability using the guidance in ASC 805 ("*Business Combinations, Accounting for Identifiable Intangible Assets in a Business Combination*"), with the excess being applied to goodwill. An impairment loss occurs if the amount of the recorded goodwill exceeds the implied goodwill. The determination of the fair value of our reporting units is based, among other things, on estimates of future operating performance of the reporting unit being valued. We are required to complete an impairment test for goodwill and record any resulting impairment losses at least annually. Changes in market conditions, among other factors, may have an impact on these estimates and require interim impairment assessments.

When performing the two-step quantitative impairment test, the Company's methodology includes the use of an income approach which discounts future net cash flows to their present value at a rate that reflects the Company's cost of capital, otherwise known as the discounted cash flow method ("DCF"). These estimated fair values are based on estimates of future cash flows of the businesses. Factors affecting these future cash flows include the continued market acceptance of the products and services offered by the businesses, the development of new products and services by the businesses and the underlying cost of development, the future cost structure of the businesses, and future technological changes. The Company also incorporates market multiples for comparable companies in determining the fair value of our reporting units. Any such impairment would be recognized in full in the reporting period in which it has been identified.

Intangible Assets

The Company's intangible assets consist of customer relationship intangibles, trade names, licenses for the use of internet domain names, Universal Resource Locators, or URL's, software, and marketing and technology related intangibles. Upon acquisition, critical estimates are made in valuing acquired intangible assets, which include but are not limited to: future expected cash flows from customer contracts, customer lists, and estimating cash flows from projects when completed; tradename and market position, as well as assumptions about the period of time that customer relationships will continue; and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from the assumptions used in determining the fair values. All intangible assets are capitalized at their original cost and amortized over their estimated useful lives as follows: domain name and marketing – 3 to 20 years; software – 3 to 5 years, customer relationships – 7 to 15 years. Intangible amortization expense is \$236,318 and \$61,497 for the three months ended December 31, 2017 and 2016, respectively.

Revenue Recognition

Manufacturing Segment

The Manufacturing Segment derives revenue primarily from the sale of carpet products; including shipping and handling amounts, which are recognized when the following criteria are met: there is persuasive evidence that a sales agreement exists, delivery has occurred, or services have been rendered, the price to the buyer is fixed or determinable, and collectability is reasonably assured. Delivery is not considered to have occurred until the customer takes title to the goods and assumes the risks and rewards of ownership, which is generally on the date of shipment. At the time revenue is recognized, the Company records a provision for the estimated amount of future returns based primarily on historical experience and any known trends or conditions that exist at the time revenue is recognized. Revenues are recorded net of taxes collected from customers.

Retail and Online Segment

The Retail and Online Segment derives product revenue primarily from direct sales. Product revenue is recognized when the following revenue recognition criteria are met: there is persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable, and collectability is reasonably assured. Currently, all direct product revenue is recorded on a gross basis, as the Company is the primary obligor. Revenues are recorded net of taxes collected from customers.

At the time revenue is recognized, the Company records a provision for the estimated amount of future returns based primarily on historical experience and any known trends or conditions that exist at the time revenue is recognized.

Services Segment

The Services Segment recognizes revenue from directory subscription services as billed for and accepted by the customer. Directory services revenue is billed and recognized monthly for directory services subscribed. The Company has utilized outside billing companies to perform direct ACH withdrawals. For billings via ACH withdrawals, revenue is recognized when such billings are accepted by the customer. Customer refunds are recorded as an offset to gross Services Segment revenue.

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

Shipping and Handling

The Company classifies shipping and handling charged to customers as revenues and classifies costs relating to shipping and handling as cost of revenues.

Customer Liabilities

The Company establishes a liability upon the issuance of merchandise credits and the sale of gift cards. Breakage income related to gift cards which are no longer reportable under state escheatment laws of \$28,092 and \$13,305 for the for the period of November 3, 2016 through December 31, 2016, and the three month period ended December 31, 2017, respectively, is recorded in other income in our consolidated financial statements. No amounts were recorded for breakage for any period prior to November 3, 2016.

Fair Value Measurements

ASC Topic 820, "Fair Value Measurements and Disclosures," requires disclosure of the fair value of financial instruments held by the Company. ASC topic 825, "Financial Instruments," defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. The three levels of valuation hierarchy are defined as follows: Level 1 - inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets. Level 2 – to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Income Taxes

The Company accounts for income taxes using the asset and liability method. The asset and liability method requires recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between tax bases and financial reporting bases of the Company's assets and liabilities. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided on deferred taxes if it is determined that it is more likely than not that the asset will not be realized. The Company recognizes penalties and interest accrued related to income tax liabilities in the provision for income taxes in its Consolidated Statements of Income.

Significant management judgment is required to determine the amount of benefit to be recognized in relation to an uncertain tax position. The Company uses a two-step process to evaluate tax positions. The first step requires an entity to determine whether it is more likely than not (greater than 50% chance) that the tax position will be sustained. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the

more-likely-than-not recognition criterion. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements of the Company in future periods.

Lease Accounting

We lease retail stores, warehouse facilities and office space. These assets and properties are generally leased under noncancelable agreements that expire at various dates through 2024 with various renewal options for additional periods. The agreements, which have been classified as operating leases, generally provide for minimum and, in some cases percentage rent and require us to pay all insurance, taxes and other maintenance costs. Leases with step rent provisions, escalation clauses or other lease concessions are accounted for on a straight-line basis over the lease term and includes “rent holidays” (periods in which we are not obligated to pay rent). Cash or lease incentives received upon entering into certain store leases (“tenant improvement allowances”) are recognized on a straight-line basis as a reduction to rent expense over the lease term. We record the unamortized portion of tenant improvement allowances as a part of deferred rent. We do not have leases with capital improvement funding. Percentage rentals are based on sales performance in excess of specified minimums at various stores and are accounted for in the period in which the amount of percentage rent can be accurately estimated.

Stock-Based Compensation

The Company from time to time grants restricted stock awards and options to employees, non-employees and Company executives and directors. Such awards are valued based on the grant date fair-value of the instruments, net of estimated forfeitures. The value of each award is amortized on a straight-line basis over the vesting period.

Earnings Per Share

Earnings per share is calculated in accordance with ASC 260, “*Earnings Per share*”. Under ASC 260 basic earnings per share is computed using the weighted average number of common shares outstanding during the period except that it does not include unvested restricted stock subject to cancellation. Diluted earnings per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of warrants, options, restricted shares and convertible preferred stock. The dilutive effect of outstanding restricted shares, options and warrants is reflected in diluted earnings per share by application of the treasury stock method. Convertible preferred stock is reflected on an if-converted basis.

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 three reportable segments (See Note 17).

Concentration of Credit Risk

The Company maintains cash balances at several banks in several states including, Arkansas, California, Colorado, Georgia, Idaho, Illinois, Kansas, Missouri, Nevada, New Mexico, New York, Oklahoma, Texas, and Utah. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution as of December 31, 2017. At times, balances may exceed federally insured limits.

Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on the previously reported net income or stockholders’ equity.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers* ASU 2014-09, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). Early adoption is not permitted. In August 2015, the FASB issued ASU No. 2015-04, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. The amendment in this ASU defers the effective date of ASU No. 2014-09 for all entities for one year. Public business entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 31, 2016, including interim reporting periods within that reporting period.

In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers*. The standard addresses the implementation guidance on principal versus agent considerations in the new revenue recognition standard. The ASU clarifies how an entity should identify the unit of accounting (i.e. the specified good or service) for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements.

Subsequently, the FASB has issued the following standards related to ASU 2014-09 and ASU No. 2016-08: ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* (“ASU 2016-10”); ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients* (“ASU 2016-12”); ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers* (“ASU 2016-20”); and, ASU 2017-05—*Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* (“ASU 2017-05”). The Company must adopt ASU 2016-10, ASU 2016-12, ASU 2016-20 and ASU 2017-05 with ASU 2014-09 (collectively, the “new revenue standards”). The Company is in the early stages of assessing the provisions of the new standard. We are continuing to evaluate the impact of the transition methods on our financial statements.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. This standard changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This standard is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. We have not adopted this standard and are currently evaluating the impact that this standard will have on our consolidated financial statements.

ASU 2016-02, *Leases (Topic 842)*. The standard requires a lessee to recognize a liability to make lease payments and a right-of-use asset representing a right to use the underlying asset for the lease term on the balance sheet. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

ASU 2016-04, *Recognition of Breakage for Certain Prepaid Stored-Value Products*. The standard specifies how prepaid stored-value product liabilities should be derecognized, thereby eliminating the current and potential future diversity in practice. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

ASU 2016-09, *Compensation- Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting*, introduces targeted amendments intended to simplify the accounting for stock compensation. Specifically, the ASU requires all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) to be recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity also should recognize excess tax benefits, and assess the need for a valuation allowance, regardless of whether the benefit reduces taxes payable in the current period. That is, off balance sheet accounting for net operating losses stemming from excess tax benefits would no longer be required and instead such net operating losses would be recognized when they arise. Existing net operating losses that are currently tracked off balance sheet would be recognized, net of a valuation allowance if required, through an adjustment to opening retained earnings in the period of adoption. Entities will no longer need to maintain and track an "APIC pool." The ASU also requires excess tax benefits to be classified along with other income tax cash flows as an operating activity in the statement of cash flows. In addition, the ASU elevates the statutory tax withholding threshold to qualify for equity classification up to the maximum statutory tax rates in the applicable jurisdiction(s). The ASU also clarifies that cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity. The ASU provides an optional accounting policy election (with limited exceptions), to be applied on an entity-wide basis, to either estimate the number of awards that are expected to vest (consistent with existing U.S. GAAP) or account for forfeitures when they occur. The ASU is effective for public business entities for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted in any interim or annual period for which the financial statements have not been issued or made available to be issued. Certain detailed transition provisions apply if an entity elects to early adopt. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

ASU 2016-15, *Statement of Cash Flows (Topic 230): Restricted Cash* (a consensus of the FASB Emerging Issues Task Force). ASU 2016-15 clarifies whether the following items should be categorized as operating, investing or financing in the statement of cash flows: (i) debt prepayments and extinguishment costs, (ii) settlement of zero-coupon debt, (iii) settlement of contingent consideration, (iv) insurance proceeds, (v) settlement of corporate-owned life insurance (COLI) and bank-owned life insurance (BOLI) policies, (vi) distributions from equity method investees, (vii) beneficial interests in securitization transactions, and (viii) receipts and payments with aspects of more than one class of cash flows. ASU 2016-15 takes effect in 2018 for public companies. If an entity elects early adoption, it must adopt all of the amendments in the same period. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. Under the current implementation guidance in Topic 805, there are three elements of a business—inputs, processes, and outputs. While an integrated set of assets and activities (collectively referred to as a “set”) that is a business usually has outputs, outputs are not required to be present. In addition, all the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs, for example, by integrating the acquired set with their own inputs and processes. The amendments in this Update provide a screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated by public business entities applying the amendments in this Update to annual periods beginning after December 15, 2017, including interim periods within those periods. We have adopted this standard at the end of our fiscal 2017 year and it did not have a significant impact on our consolidated results of operations, financial condition and cash flows.

ASU 2017-04, *Intangibles- Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment*, eliminates step 2 from the goodwill impairment test. As amended, the goodwill impairment test will consist of one step comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. An entity may still perform the optional qualitative assessment for a reporting unit to determine if it is more likely than not that goodwill is impaired. A public business entity that is an SEC filer should prospectively adopt the ASU for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We have adopted this standard effective with our goodwill impairment test date of July 1, 2017.

ASU 2017-09, *Compensation- Stock Compensation (Topic 718): Scope of Modification Accounting*, clarifies such that an entity must apply modification accounting to changes in the terms or conditions of a share-based payment award unless all of the following criteria are met: (1) the fair value of the modified award is the same as the fair value of the original award immediately before the modification. The ASU indicates that if the modification does not affect any of the inputs to the valuation technique used to value the award, the entity is not required to estimate the value immediately before and after the modification; (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the modification; and (3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the modification. The ASU is effective for all entities for fiscal years beginning after December 15, 2017, including interim periods within those years. Early adoption is permitted, including adoption in an interim period. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

In July 2017, the FASB issued ASU No. 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivative and Hedging (Topic 815)*. The standard is intended to simplify the accounting for certain financial instruments with down round features. This ASU changes the classification analysis of particular equity-linked financial instruments (e.g. warrants, embedded conversion features) allowing the down round feature to be disregarded when determining whether the instrument is to be indexed to an entity's own stock. Because of this, the inclusion of a down round feature by itself exempts an instrument from having to be remeasured at fair value each earnings period. The standard requires that entities recognize the effect of the down round feature on EPS when it is triggered (i.e., when the exercise price is adjusted downward due to the down round feature) equivalent to the change in the fair value of the instrument instantly before and after the strike price is modified. An adjustment to diluted EPS calculation may be required. The standard does not change the accounting for liability-classified instruments that occurred due to a different feature or term other than a down round feature. Additionally, entities must disclose the presence of down round features in financial instruments they issue, when the down round feature triggers a strike price adjustment, and the amount of the adjustment necessary. ASU 2017-11 is effective for all fiscal years beginning after December 15, 2018. The Company has decided to early adopt ASU 2017-11 and it did not have a significant impact on its consolidated results of operations, financial condition and cash flows.

Note 3: Comprehensive Income

Comprehensive income is the sum of net income and other items that must bypass the income statement because they have not been realized, including items like an unrealized holding gain or loss from available for sale securities and foreign currency translation gains or losses. For our Company, for three months ended December 31, 2017 and 2016, net income does not differ from comprehensive income.

Note 4: Balance Sheet Detail Information

	December 31, 2017 (Unaudited)	September 30, 2017
Trade receivables, current, net:		
Accounts receivable, current	\$8,645,603	\$11,383,576
Less: Reserve for doubtful accounts	(761,348)	(746,651)
	\$7,884,255	\$10,636,925
Trade receivables , long term, net:		
Accounts receivable, long term	\$344,572	\$344,572
Less: Reserve for doubtful accounts	(344,572)	(344,572)
	\$-	\$-
Total trade receivables, net:		
Gross trade receivables	\$8,990,175	\$11,728,148
Less: Reserve for doubtful accounts	(1,105,920)	(1,091,223)
	\$7,884,255	\$10,636,925
Components of reserve for doubtful accounts are as follows:		
Reserve for dilution and fees on amounts due from billing aggregators	\$1,063,617	\$1,063,617
Reserve for customer refunds	881	978
Reserve for trade receivables	41,422	26,628
	\$1,105,920	\$1,091,223
Inventory		
Raw materials	\$8,052,609	\$7,709,969
Work in progress	1,030,973	987,689
Finished goods	5,128,820	3,922,362
Merchandise	30,829,936	23,230,350
	45,042,338	35,850,370
Less: Inventory reserves	(1,366,745)	(1,348,569)
	\$43,675,593	\$34,501,801
Property and equipment, net:		
Building and improvements	\$9,122,625	\$8,090,797
Transportation equipment	82,266	104,853
Machinery and equipment	22,082,982	17,402,064
Furnishings and fixtures	2,510,281	4,360,820
Office, computer equipment and other	2,189,406	224,822
	35,987,560	30,183,356
Less: Accumulated depreciation	(8,508,196)	(7,365,496)
	\$27,479,364	\$22,817,860
Intangible assets, net:		
Domain name and marketing related intangibles	\$18,957	\$18,957
Lease intangibles	1,033,412	1,033,412
Customer relationship intangibles	2,689,039	2,689,039

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Purchased software	1,620,652	1,595,977
	5,362,060	5,337,385
Less: Accumulated amortization	(1,368,389)	(1,132,071)
	\$3,993,671	\$4,205,314
Accrued liabilities:		
Accrued payroll and bonuses	\$2,200,981	\$2,602,695
Due to seller of ApplianceSmart, Inc.	6,500,000	–
Accrued sales and property taxes	1,031,985	824,206
Deferred rent	484,878	502,617
Accrued gift card liability	1,668,443	1,479,622
Accrued interest payable	547,405	464,184
Accrued bank overdraft	1,802,097	1,367,539
Customer deposits	197,967	182,052
Accrued expenses - other	880,438	1,563,819
	\$15,314,194	\$8,986,734

Note 5: Acquisitions*Acquisition of Vintage Stock Inc.*

On November 3, 2016 (the “Vintage Stock Closing Date”), the Company, through its newly formed, wholly-owned subsidiary, VSAH, entered into a series of agreements in connection with its purchase of Vintage Stock. Vintage Stock is a retailer that sells, buys and trades new and pre-owned movies, video games and music products, as well as ancillary products such as books, comics, toys and collectibles.

Total consideration paid of \$57,653,698 was paid through a combination of \$8,000,000 of capital provided by the Company and debt financing provided by the TCB Revolver (as defined below) in the aggregate amount of approximately \$12,000,000, mezzanine financing from the Capitala Term Loan (as defined below) of approximately \$30 million, and the Company issued \$10,000,000 in subordinated acquisition notes payable to the sellers of Vintage Stock, as more fully described in Note 8.

The following table below summarizes our final purchase price allocation of the consideration paid to the respective fair values of the assets acquired and liabilities assumed in the Vintage Stock acquisition as of the Vintage Stock Closing Date. The Company finalized its estimates after it determined that it had obtained all necessary information that existed as of the Vintage Stock Acquisition Date related to these matters.

Cash and cash equivalents	\$272,590
Trade and other receivables	177,338
Inventory	18,711,192
Prepaid expenses and other current assets	814,201
Property and equipment	4,859,676
Intangible - leases	1,033,412
Intangible - trade names	1,200,000
Intangible - customer list	50,000
Intangible - customer relationship	1,000,000
Goodwill	36,946,735
Notes payable	(542,074)
Accounts payable	(5,165,612)
Accrued expenses	(1,703,760)
	\$57,653,698

In connection with the purchase of Vintage Stock, we incurred bank fees of \$15,000, appraisal fees of \$20,497, legal fees of \$192,339 and consulting fees of \$119,774 – for a total of \$347,610; all of which was recorded as general and administrative expense during the year ended September 30, 2017. Goodwill of \$36,946,735 is the excess of total consideration less identifiable assets at fair value less debt assumed at fair value and is tax deductible. Goodwill is attributable to Vintage Stock’s management, assembled workforce, operating model, the number of stores, locations and competitive presence in each of its respective markets.

The operating results of Vintage Stock have been included in our consolidated financial statements beginning on November 3, 2016 and are reported in our Retail and Online segment.

The estimated fair value of the customer relationship intangible related to Vintage Stock was determined using the income approach, which discounts expected future cash flows to present value. The Company estimated the fair value of this intangible asset using the residual method and a present value discount rate of 17% or \$1,000,000. Customer relationships relate to the Company’s ability to sell existing and future products. The Company is amortizing the Customer relationships intangible asset on a straight-line basis over an estimated life of 5 years.

The estimated fair value of the trade names intangible that Vintage Stock uses – “Vintage Stock”, “EntertainMart” and “Movie Trading Company” was determined using a royalty income approach, which estimates an assumed royalty income stream and then discounts that expected future revenue or cash flow stream to present value. The Company estimated the fair value of this intangible asset using the residual method and a present value discount rate of 17% or \$1,200,000. Trade names relate to the Company’s awareness by consumers in the market place. The Company is amortizing the trade names intangible asset on a straight-line basis over an estimated life of 7 years.

The estimated fair value of the customer list intangible asset was determined using the cost approach, which estimates the cost to acquire each email address in the list. The Company estimated the fair value of this intangible asset to be \$0.19 per acquired email address, less a discount 40% attributable to domain and trade names or a net cost per email address of \$0.11 or approximately \$50,000. The Company is amortizing the customer list intangible asset on a straight-line basis over an estimated life of 3 years.

Acquisition of ApplianceSmart Inc.

On December 30, 2017 (the “ApplianceSmart Closing Date”), the Company, through its newly formed, wholly-owned subsidiary, Appliancesmart Holdings LLC, entered into a series of agreements in connection with its purchase of Appliancesmart. Appliancesmart is a retailer engaged in the sale of new major appliances through a chain of company-owned retail stores.

Total consideration of \$6,500,000 is to be paid to the seller of Appliancesmart by March 31, 2018.

The following table below summarizes our preliminary purchase price allocation of the consideration to be paid to the respective fair values of the assets acquired and liabilities assumed in the Appliancesmart acquisition as of the ApplianceSmart Closing Date.

Trade receivables	\$250,000
Inventory	7,953,064
Prepaid expenses	69,347
Refundable deposits	204,841
Restricted cash	1,285,747
Property and equipment	510,487
Bargain gain on acquisition	(3,773,486)
	\$6,500,000

The preliminary purchase price allocation is subject to change. We will complete this analysis to determine the fair value of accounts receivable, inventory, prepaid expenses, property and equipment, intangibles, deposits, restricted cash and other assets and liabilities on the acquisition date. Once this analysis is complete, we will adjust, if necessary, the provisional amounts assigned to accounts receivable, inventory, prepaid expenses, property and equipment, intangibles, deposits, restricted cash and other assets and liabilities in the accounting period in which the analysis is completed.

The operating results of Appliancesmart are included in our unaudited condensed consolidate financial statements beginning on December 31, 2017 and are reported in our Retail and Online Segment.

Note 6: Intangibles

The Company's intangible assets consist of customer relationship intangibles, trade names, licenses for the use of internet domain names, URL's, software, and marketing and technology related intangibles. 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; software – 3 to 5 years, customer relationships – 7 to 15 years. When certain events or changes in operating conditions occur, an impairment assessment is performed and lives of intangible assets with determined lives may be adjusted. Intangible amortization expense is \$236,318 and \$61,497 for the three months ended December 31, 2017 and 2016, respectively.

The following summarizes estimated future amortization expense related to intangible assets that have net balances as of December 31, 2017:

2018	\$952,310
2019	949,533
2020	782,320
2021	579,433
2022	358,411
Thereafter	371,664
	\$3,993,671

Note 7: Goodwill

Goodwill is not amortized, but rather is evaluated for impairment on July 1 annually or when indicators of a potential impairment are present. The annual evaluation for impairment of goodwill is based on valuation models that incorporate assumptions and internal projections of expected future cash flows and operating plans. We believe such assumptions are also comparable to those that would be used by other marketplace participants.

Note 8: Long Term Debt

Bank of America Revolver Loan

On July 6, 2015, Marquis entered into a \$15 million revolving credit agreement with Bank of America Corporation (“BofA Revolver”). The BofA Revolver is a five-year, asset-based facility that is secured by substantially all of Marquis’ assets. Availability under the Bank of America Revolver is subject to a monthly borrowing base calculation.

Payment obligations under the BofA Revolver include monthly payments of interest and all outstanding principal and accrued interest thereon due in July 2020, which is when the BofA Revolver loan agreement terminates. The BofA Revolver is recorded as a currently liability due to a lockbox requirement, and a subjective acceleration clause as part of the agreement.

Borrowing availability under the BofA Revolver is limited to a borrowing base which allows Marquis to borrow up to 85% of eligible accounts receivable, plus the lesser of 1) \$7,500,000; 2) 65% of the value of eligible inventory; or 3) 85% of the appraisal value of the eligible inventory. For purposes of clarity and definition of the advance rate for inventory – it shall be 55.3% for raw materials, 0% for work-in-process and 70% for finished goods subject to eligibility, special reserves and advance limit. Letters of credit reduce the amount available to borrow under the BofA Revolver by an amount equal to the face value of the letters of credit.

As of February 22, 2017, Marquis’s ability to make prepayments against Marquis subordinated debt, including the related party loan with Isaac Capital Group and pay cash dividends is generally permitted if 1) excess availability under the BofA Revolver is more than \$4 million, and has been for each of the 90 days preceding the requested distribution and 2) excess availability under the BofA Revolver is more than \$4 million, and the fixed charge coverage ratio, as calculated on a pro-forma basis for the prior 12 months is 2:1 or greater. Restrictions apply to our ability to make additional prepayments against Marquis subordinated debt and pay cash dividends if the fixed charge coverage

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ratio, as calculated on a pro-forma basis for the prior 12 months is less than 2:1 and excess availability under the BofA Revolver is less than \$4 million at the time of payment or distribution. There is no restriction on dividends that can be taken by the Company so long as Marquis maintains \$4 million of current availability at the time of the dividend or distribution. This translates to having no restriction on Net Income so long as the Company retains sufficient assets to establish \$4 million of current availability and continues to meet the required fixed charge coverage ratio of 2:1 as stated above.

The BofA Revolver places certain restrictions and covenants on Marquis, including a limitation on asset sales, additional liens, investment, loans, guarantees, acquisitions, incurrence of additional indebtedness for Marquis to maintain a fixed charge coverage ratio of at least 1.05 to 1, tested as of the last day of each month for the twelve consecutive months ending on such day.

The BofA Revolver Loan bears interest at a variable rate based on a base rate plus a margin. The current base rate is the greater of (a) Bank of America prime rate, (b) the current federal funds rate plus 0.50%, or (c) 30-day LIBOR plus 1.00% plus the margin, which varies, depending on the fixed coverage ratio table below. Levels I – IV determine the interest rate to be charged Marquis which is based on the fixed charge coverage ratio achieved.

Level	Fixed Charge Coverage Ratio	Base Rate Revolver	LIBOR Revolver	Base Rate Term	LIBOR Term Loans
I	>2.00 to 1.00	0.50%	1.50%	0.75%	1.75%
II	<2.00 to 1.00 but >1.50 to 1.00	0.75%	1.75%	1.00%	2.00%
III	<1.50 to 1.00 but >1.20 to 1.00	1.00%	2.00%	1.25%	2.25%
IV	<1.2 to 1.00	1.25%	2.25%	1.50%	2.50%

On October 20, 2016, it was agreed that Level IV interest rates would be applicable until October 20, 2017, and then the Level would be adjusted up or down on a quarterly basis going forward based upon the above fixed coverage ratio achieved by Marquis.

The BofA Revolver provides for customary events of default with corresponding grace periods, including failure to pay any principal or interest when due, failure to comply with covenants, change in control of Marquis, a material representation or warranty made by us or the borrowers proving to be false in any material respect, certain bankruptcy, insolvency or receivership events affecting Marquis or its subsidiaries, defaults relating to certain other indebtedness, imposition of certain judgments and mergers or the liquidation of Marquis or certain of its subsidiaries. During the period of October 1, 2017 through December 31, 2017, Marquis cumulatively borrowed \$22,263,030 and repaid \$25,516,014 under the BofA Revolver. Our maximum borrowings outstanding during the same period were \$6,280,675. Our weighted average interest rate on those outstanding borrowings for the period of October 1, 2017 through December 31, 2017 was 3.89%. As of December 31, 2017, total additional availability under the BofA Revolver was \$11,619,176; with \$1,597,831 outstanding, and outstanding standby letters of credit of \$72,715.

Real Estate Transaction

On June 14, 2016, Marquis entered into a transaction with Store Capital Acquisitions, LLC. The transaction included a sale-leaseback of land owned by Marquis and a loan secured by the improvements on such land. The total aggregate proceeds received from the sale of the land and the loan was \$10,000,000, which consisted of \$644,479 from the sale of the land and a note payable of \$9,355,521. In connection with the transaction, Marquis entered into a lease with a 15-year term commencing on the closing of the transaction, which provides Marquis an option to extend the lease upon the expiration of its term. The initial annual lease rate is \$59,614. The proceeds from this transaction were used to pay down the Bank of America Revolver and Term loans, and related party loan, as well as purchasing a building from the previous owners of Marquis that was not purchased in the July 2015 transaction. The note payable bears interest at 9.25% per annum, with principal and interest due monthly. The note payable matures June 13, 2056. For the first five years of the note payable, there is a pre-payment penalty of 5%, which declines by 1% for each year the loan remains un-paid. At the end of 5 years, there is no pre-payment penalty. In connection with the note payable, Marquis incurred \$457,757 in transaction costs that are being recognized as a debt issuance cost that is being amortized and recorded as interest expense over the term of the note payable.

Kingston Diversified Holdings LLC Agreement (\$2 Million Line of Credit)

On December 21, 2016, the Company and Kingston Diversified Holdings LLC (“Kingston”) entered into an agreement (the “December 21 Agreement”) modifying its then existing agreement between the parties. The December 21 Agreement, effective September 15, 2016, memorializes an October 2015 interim agreement to extend the maturity date by twelve months for 55,888 shares of Series B Convertible Preferred Stock with a value on September 15, 2016

of \$2,800,000, as a compromise between the parties in respect of certain of their respective rights and duties under the agreement. The December 21 Agreement also decreases the maximum principal amount of the Notes from \$10,000,000 in principal amount to \$2,000,000 in principal amount, and eliminates any and all actual, contingent, or other obligations of the Company to issue to Kingston any shares of the Company's common stock, or to grant any rights, warrants, options, or other derivatives that are exercisable or convertible into shares of the Company's common stock.

Kingston acknowledges that from the effective date through and including December 31, 2021, it shall not sell, transfer, assign, hypothecate, pledge, margin, hedge, trade, or otherwise obtain or attempt to obtain any economic value from any of the shares of Series B Preferred Stock or any shares into which they may be converted or from which they may be exchanged. As a result of the December 15 Agreement, the Company recorded \$2,800,000 as an outstanding accrued liability as of September 30, 2016. As of December 31, 2017, and September 30, 2017, the Company had no borrowings on the Kingston line of credit. On December 29, 2016, the Company issued 55,888 shares of Series B Convertible Preferred Stock in settlement of the outstanding accrued liability due Kingston of \$2,800,000.

Equipment Loans

On June 20, 2016 and August 5, 2016, Marquis entered into a transaction which provided for a master agreement and separate loan schedules (the "Equipment Loans") with Banc of America Leasing & Capital, LLC which provided:

Note #1 is \$5 million, secured by equipment. The Equipment Loan #1 is due September 23, 2021, payable in 59 monthly payments of \$84,273 beginning September 23, 2016, with a final payment in the sum of \$584,273, interest at 3.8905% per annum.

Note #2 is \$2,209,807, secured by equipment. The Equipment Loan #2 is due January 30, 2022, payable in 59 monthly payments of \$34,768 beginning January 30, 2017, with a final payment in the sum of \$476,729, interest at 4.63% per annum.

Note #3 is \$3,679,514, secured by equipment. The Equipment Loan #3 is due December 30, 2023, payable in 84 monthly payments of \$51,658 beginning January 30, 2017, with a final payment due December 30, 2023, interest rate at 4.7985% per annum.

Note #4 is \$1,095,113, secured by equipment. The Equipment Loan #4 is due December 30, 2023, payable in 81 monthly payments of \$15,901 beginning April 30, 2017, with final payment due December 30, 2023, interest at 4.8907% per annum.

Note #5 is \$3,931,591, secured by equipment. The Equipment Loan #5 is due December 28, 2024, payable in 84 monthly payments of \$54,943 beginning January 28, 2018, with the final payment due December 28, 2024, interest at 4.67% per annum.

Texas Capital Bank Revolver Loan

On November 3, 2016, Vintage Stock entered into a \$20 million credit agreement (as amended on January 23, 2017 and as further amended on September 20, 2017) with Texas Capital Bank (“TCB Revolver”). The TCB Revolver is a five-year, asset-based facility that is secured by substantially all of Vintage Stock’s assets. Availability under the TCB Revolver is subject to a monthly borrowing base calculation.

Payment obligations under the TCB Revolver include monthly payments of interest and all outstanding principal and accrued interest thereon due in November 2020, which is when the TCB Revolver loan agreement terminates. The TCB Revolver has been classified as a currently liability due to a lockbox requirement and a subjective acceleration clause as part of the agreement.

Borrowing availability under the TCB Revolver is limited to a borrowing base which allows Vintage Stock to borrow up to 95% of the appraisal value of the inventory, plus 85% of eligible receivables, net of certain reserves. The borrowing base provides for borrowing up to 95% of the appraisal value for the period of November 4, 2016 through December 31, 2016, then 90% of the appraisal value during the fiscal months of January through September and 92.5% of the appraisal value during the fiscal months of October through December. Letters of credit reduce the amount available to borrow under the TCB Revolver by an amount equal to the face value of the letters of credit.

Vintage Stock’s ability to make prepayments against Vintage Stock subordinated debt including the Capitala Term Loan and pay cash dividends is generally permitted if 1) excess availability under the TCB Revolver is more than \$2

million, and is projected to be within 12 months after such payment and 2) excess availability under the TCB Revolver is more than \$2 million, and the fixed charge coverage ratio, as calculated on a pro-forma basis for the prior 12 months is 1.2:1.0 or greater. Restrictions apply to our ability to make additional prepayments against Vintage Stock subordinated debt including the Capital Term Loan and pay cash dividends if the fixed charge coverage ratio, as calculated on a pro-forma basis for the prior 12 months is less than 1.2:1.0 and excess availability under the TCB Revolver is less than \$2 million at the time of payment or distribution. There is no restriction on dividends that can be taken by the Company so long as Vintage Stock maintains \$2 million of current availability at the time of the dividend or distribution. This translates to having no restriction on Net Income so long as the Company retains sufficient assets to establish \$2 million of current availability and continues to meet the required fixed charge coverage ratio of 1.2:1 as stated above.

The TCB Revolver places certain restrictions on Vintage Stock, including a limitation on asset sales, a limitation of 25 new leases in any fiscal year, additional liens, investment, loans, guarantees, acquisitions and incurrence of additional indebtedness.

The per annum interest rate under the TCB Revolver is variable and is equal to the one-month LIBOR rate for deposits in United States Dollars that appears on Thomson Reuters British Bankers Association LIBOR Rates Page (or the successor thereto) as of 11:00 a.m., London, England time, on the applicable determination date plus a margin of 2.75%.

The TCB Revolver provides for customary events of default with corresponding grace periods, including failure to pay any principal or interest when due, failure to comply with covenants, change in control of Vintage Stock, a material representation or warranty made by us or the borrowers proving to be false in any material respect, certain bankruptcy, insolvency or receivership events affecting Vintage Stock, defaults relating to certain other indebtedness, imposition of certain judgments and mergers or the liquidation of Vintage Stock. During the period of October 1, 2017 through December 31, 2017, Vintage Stock cumulatively borrowed \$18,424,451 and repaid \$20,243,439 under the TCB Revolver. Our maximum borrowings outstanding during the period of October 1, 2017 through December 31, 2017 were \$16,077,015. Our weighted average interest rate on those outstanding borrowings for the period of November 3, 2016 through June 30, 2017 was 4.02731%. As of December 31, 2017, total additional availability under the TCB Revolver was \$6,214,324, with \$10,701,449 outstanding; and outstanding standby letters of credit of \$0. In connection with the TCB Revolver, Vintage incurred \$25,000 in transaction cost that is being recognized as debt issuance cost that is being amortized and recorded as interest expense over the term of the TCB Revolver.

Capitala Term Loan

On November 3, 2016, the Company, through VSAH, entered into a series of agreements in connection with its purchase of Vintage Stock. As a part of those agreements, VSAH and Vintage Stock (the “Term Loan Borrowers”) obtained \$29,871,650 of mezzanine financing from the Lenders as defined in the term loan agreement (the “Term Loan Lenders”), and Capitala Private Credit Fund V, L.P., in its capacity as lead arranger. Wilmington Trust, National Association, acts as administrative and collateral agent on behalf of the Term Loan Lenders (the “Term Loan Administrative Agent”).

The Term loans under the term loan agreement (collectively, the “Capitala Term Loan”) bear interest at the LIBO rate (as described below) or base rate, plus an applicable margin in each case. In their loan notice to the Term Loan Administrative Agent, the Term Loan Borrowers selected the LIBO rate for the initial term loans made under the term loan agreement on the Closing Date.

The interest rate for LIBO rate loans under the term loan agreement is equal to the sum of (a) the greater of (i) a rate per annum equal to (A) the offered rate for deposits in United States Dollars for the applicable interest period and for the amount of the applicable loan that is a LIBOR loan that appears on Bloomberg ICE LIBOR Screen (or any successor thereto) that displays an average ICE Benchmark Administration Limited Interest Settlement Rate for deposits in United States Dollars (for delivery on the first day of such interest period) with a term equivalent to such interest period, determined as of approximately 11:00 a.m. (London time) two business days prior to the first day of such interest period, divided by (B) the sum of one minus the daily average during such interest period of the aggregate maximum reserve requirement (expressed as a decimal) then imposed under Regulation D of the Federal Reserve Board for “Eurocurrency Liabilities” (as defined therein), and (ii) 0.50% per annum, *plus* (b) the sum of (i) 12.50% per annum in cash pay *plus* (ii) 3.00% per annum payable in kind by compounding such interest to the principal amount of the obligations under the Term Loan Agreement on each interest payment date.

The interest rate for base rate loans under the term loan agreement is equal to the sum of (a) the highest of (with a minimum of 1.50%) (i) the federal funds rate plus 0.50%, (ii) the prime rate, and (iii) the LIBO rate plus 1.00%, *plus* (b) the sum of (i) 11.50% per annum payable in cash *plus* (ii) 3.00% per annum payable in kind by compounding such interest to the principal amount of the obligations under the Term Loan Agreement on each interest payment date.

The Term Loans place certain restrictions and covenants on Vintage Stock, including a limitation on asset sales, additional liens, investment, loans, guarantees, acquisitions and incurrence of additional indebtedness for Vintage Stock. Vintage Stock is required to maintain a fixed charge coverage ratio of 1.3 for year ended September 30, 2017, 1.4 for year ended September 30, 2018 and 1.5 for all years thereafter. For years ended September 30, 2017 and thereafter, Vintage Stock is required to incur no more than \$1.2 million in annual capital expenditures subject to

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certain cumulative quarter and year to date covenants. Vintage Stock is required to maintain a total leverage ratio of 3.25 for year ended September 30, 2017, 2.5 for year ended September 30, 2018 and 2.0 for all years thereafter. In addition, for quarter ended December 31, 2017, the total leverage ratio cannot exceed 3.0 and for quarters ended March 31, 2018 and June 30, 2018, the total leverage ratio cannot exceed 2.75.

The Term Loans provide for customary events of default with corresponding grace periods, including failure to pay any principal or interest when due, failure to comply with covenants, change in control of Vintage Stock, a material representation or warranty made by us or the borrowers proving to be false in any material respect, certain bankruptcy, insolvency or receivership events affecting Marquis or its subsidiaries, defaults relating to certain other indebtedness, imposition of certain judgments and mergers or the liquidation of Vintage Stock or certain of its subsidiaries.

The payment obligations under the term loan agreement include (i) monthly payments of interest and (ii) principal installment payments in an amount equal to \$725,000 due on March 31, June 30, September 30, and December 31 of each year, with the first such payment due on December 31, 2016. The outstanding principal amounts of the term loans and all accrued interest thereon under the Term Loan Agreement are due and payable in November 2021.

The Term Loan Borrowers may prepay the term loans under the term loan agreement from time to time, subject to the payment (with certain exceptions described below) of a prepayment premium of: (i) an amount equal to 2.0% of the principal amount of the term loan prepaid if prepaid during the period of time fro