

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q/A  
Amendment No. 1

(Mark One)

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

For the quarterly period ended March 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**

(State or other jurisdiction of incorporation or organization)

**85-0206668**

(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, smaller reporting company, or an emerging growth 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. (Check one)

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 March 31, 2017 was 2,058,064

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## EXPLANATORY NOTE

We are filing this Amendment No. 1 on Form 10-Q/A to amend and restate in their entirety the following items of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 as originally filed with the Securities and Exchange Commission on May 11, 2017 (the “Original Form 10-Q”): (i) Item 1 of Part I “Financial Information,” (ii) Item 2 of Part I, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and (iii) Item 6 of Part II, “Exhibits”, and we have also updated the signature page, the certifications of our Chief Executive Officer and Chief Financial Officer in Exhibits 31.1, 31.2, 32.1 and 32.2, and our financial statements formatted in Extensible Business Reporting Language (XBRL) in Exhibits 101. No other sections were affected, but for the convenience of the reader, this report on Form 10-Q/A restates in its entirety, as amended, our Original Form 10-Q. This report on Form 10-Q/A is presented as of the filing date of the Original Form 10-Q and does not reflect events occurring after that date or modify or update disclosures in any way other than as required to reflect the restatement described below.

Our previously issued consolidated financial statements for the quarterly period ended March 31, 2017 has been reclassified and restated. As described in more detail in Note 3 to our consolidated financial statements, we have determined that our previously reported results for the quarter ended March 31, 2017 erroneously (i) classified certain debt of our subsidiaries Marquis Industries, Inc. (“Marquis”) and Vintage Stock, Inc. (“Vintage Stock”) as long-term debt when it should have been classified as short-term debt, (ii) characterized deposits (advance payments) on the purchase of Marquis carpet manufacturing equipment and the related cash flow presentation (operating versus investing), (iii) accounted for the down round provisions contained in certain convertible notes and related warrants we issued in 2012, 2013 and 2014, which warrants were subsequently amended to remove such provisions in December 2014, (iv) classified certain amounts relating to shares of our Series E Preferred Stock, and (v) classified certain prepaid expenses and other current assets as receivables. We have made necessary conforming changes in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” resulting from the correction of these errors.

**INDEX TO FORM 10-Q/A FILING  
FOR THE QUARTER ENDED MARCH 31, 2017**

**TABLE OF CONTENTS**

**PART I  
FINANCIAL INFORMATION**

	<b>Page</b>
Item 1. <a href="#">Financial Statements</a>	2
<a href="#">Condensed Consolidated Balance Sheets</a> as of March 31, 2017 (Unaudited) (Restated) and September 30, 2016	2
<a href="#">Condensed Consolidated Statements of Income</a> (Unaudited) for the Three months and Six months ended March 31, 2017 and 2016	3
<a href="#">Condensed Consolidated Statements of Cash Flows</a> (Unaudited) for the Six months ended March 31, 2017 (Restated) and 2016	4
<a href="#">Notes to the Condensed Consolidated Financial Statements</a> (Unaudited) (Restated)	5
Item 2. <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	26
Item 3. <a href="#">Quantitative and Qualitative Disclosures about Market Risk</a>	37
Item 4. <a href="#">Controls and Procedures</a>	37

**PART II  
OTHER INFORMATION**

Item 1. <a href="#">Legal Proceedings</a>	38
Item 2. <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	38
Item 3. <a href="#">Defaults upon Senior Securities</a>	38
Item 4. <a href="#">Mine Safety Disclosures</a>	38
Item 5. <a href="#">Other Information</a>	38
Item 6. <a href="#">Exhibits</a>	39
<a href="#">Signatures</a>	40

**PART I – FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**LIVE VENTURES INCORPORATED AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS**

	<u>March 31, 2017</u>	<u>September 30, 2016</u>
	<b>(Restated)</b>	
	<b>(Unaudited)</b>	
<b>Assets</b>		
Cash and cash equivalents	\$ 752,449	\$ 770,895
Trade receivables, net	8,697,684	7,602,764
Inventories, net	33,653,031	11,053,085
Prepaid expenses and other current assets	4,203,206	5,792,018
Total current assets	<u>47,306,370</u>	<u>25,218,762</u>
Property and equipment, net	21,498,366	14,014,501
Deposits and other assets	77,520	19,765
Deferred taxes	10,655,287	12,524,582
Intangible assets, net	2,865,025	1,689,790
Goodwill	39,066,061	–
Total assets	<u>\$ 121,468,629</u>	<u>\$ 53,467,400</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 8,095,639	\$ 5,402,654
Accrued liabilities	5,169,659	6,396,772
Income taxes payable	433,519	–
Current portion of long-term debt	21,210,899	2,011,880
Total current liabilities	<u>34,909,716</u>	<u>13,811,306</u>
Long-term debt, net of current portion	53,640,801	13,460,282
Note payable, related party	2,000,000	2,000,000
Total liabilities	<u>90,550,517</u>	<u>29,271,588</u>
<b>Commitment and contingencies</b>		
<b>Stockholders' equity:</b>		
Series B convertible preferred stock, \$0.001 par value, 1,000,000 shares authorized, 214,244 shares issued and outstanding at March 31, 2017 and at September 30, 2016	214	–
Series E convertible preferred stock, \$0.001 par value, 200,000 shares authorized, 127,840 shares issued and outstanding at March 31, 2017 and at September 30, 2016, with a liquidation preference \$38,352	128	128
Common stock, \$0.001 par value, 10,000,000 shares authorized, 2,088,186 shares issued and 2,058,064 shares outstanding at March 31, 2017; 2,819,327 shares issued and 2,789,205 shares outstanding at September 30, 2016	2,088	2,819
Paid in capital	63,023,008	59,568,471
Treasury stock (30,122 shares)	(300,027)	(300,027)
Accumulated deficit	(31,807,299)	(35,075,579)
Total equity	<u>30,918,112</u>	<u>24,195,812</u>
Total liabilities and equity	<u>\$ 121,468,629</u>	<u>\$ 53,467,400</u>

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

**LIVE VENTURES, INCORPORATED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**(UNAUDITED)**

	<b>Three Months Ended March 31,</b>		<b>Six Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Revenues	\$ 38,536,425	\$ 19,839,923	\$ 70,725,089	\$ 39,944,357
Cost of revenues	22,061,055	14,233,724	41,604,487	27,928,283
Gross profit	<u>16,475,370</u>	<u>5,606,199</u>	<u>29,120,602</u>	<u>12,016,074</u>
Operating expenses:				
General and administrative expenses	9,149,865	2,158,398	16,208,539	4,524,271
Sales and marketing expenses	2,054,648	2,249,323	3,962,138	5,246,073
Total operating expenses	<u>11,204,513</u>	<u>4,407,721</u>	<u>20,170,677</u>	<u>9,770,344</u>
Operating income	5,270,857	1,198,478	8,949,925	2,245,730
Other (expense) income:				
Interest expense, net	(2,035,053)	(334,986)	(3,484,529)	(680,469)
Other income	143,272	355,016	185,162	367,569
Total other (expense) income, net	<u>(1,891,781)</u>	<u>20,030</u>	<u>(3,299,367)</u>	<u>(312,900)</u>
Income before provision for income taxes	3,379,076	1,218,508	5,650,558	1,932,830
Provision for income taxes				
Current tax expense:				
Federal	238,274	–	268,705	353,691
State	198,977	–	243,320	60,289
Total Current tax expense	<u>437,251</u>	<u>–</u>	<u>512,025</u>	<u>413,980</u>
Deferred tax expense:				
Federal	891,181	–	1,598,673	–
State	209,978	–	270,621	–
Total Deferred tax expense	<u>1,101,159</u>	<u>–</u>	<u>1,869,294</u>	<u>–</u>
Total provision for income taxes	<u>1,538,410</u>	<u>–</u>	<u>2,381,319</u>	<u>413,980</u>
Net income	1,840,666	1,218,508	3,269,239	1,518,850
Net income attributed to noncontrolling interest	–	–	–	124,194
Net income attributed to Live Ventures, Incorporated	<u>1,840,666</u>	<u>1,218,508</u>	<u>\$ 3,269,239</u>	<u>\$ 1,394,656</u>
Earnings per share:				
Basic	<u>0.89</u>	<u>0.43</u>	<u>\$ 1.61</u>	<u>\$ 0.49</u>
Diluted	<u>0.47</u>	<u>0.37</u>	<u>\$ 0.84</u>	<u>\$ 0.42</u>
Weighted average common shares outstanding:				
Basic	<u>2,058,064</u>	<u>2,815,951</u>	<u>2,029,023</u>	<u>2,816,734</u>
Diluted	<u>3,917,228</u>	<u>3,265,638</u>	<u>3,874,666</u>	<u>3,289,712</u>

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

**LIVE VENTURES INCORPORATED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	Six Months Ended March 31,	
	2017 (Restated)	2016
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 3,269,239	\$ 1,518,850
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,023,245	1,061,018
Amortization of debt issuance cost	98,647	–
Stock based compensation expense	69,520	174,885
Non-cash interest expense associated with convertible debt and warrants	–	9,352
Non-cash issuance of common stock for services	–	15,000
Change in reserve for uncollectible accounts	38,432	(2,326)
Change in reserve for obsolete inventory	155,266	(68,250)
Change in contingent liability	–	(316,000)
Change in deferred income taxes	1,869,295	–
Changes in assets and liabilities:		
Accounts receivable	(1,019,852)	(1,142,274)
Prepaid expenses and other current assets	632,410	416,905
Inventories	(2,595,120)	948,847
Deposits and other assets	(57,755)	5,593
Accounts payable	(1,150,525)	1,493,616
Accrued liabilities	(373,633)	(324,522)
Income taxes payable	433,519	(376,000)
	<u>3,392,688</u>	<u>3,414,694</u>
<b>INVESTING ACTIVITIES:</b>		
Acquisition of business, net of cash acquired, and seller financing provided	(47,310,900)	–
Purchase of intangible assets - Software	(96,659)	–
Purchases of property and equipment	(5,283,507)	(123,204)
	<u>(52,691,066)</u>	<u>(123,204)</u>
<b>FINANCING ACTIVITIES:</b>		
Net borrowings under revolver loans	15,155,743	806,304
Payments of debt issuance costs	(1,155,000)	–
Payment for the purchase of the noncontrolling interest	–	(2,000,000)
Proceeds from issuance of notes payable	36,984,434	–
Payment of Series E preferred stock dividends	(959)	(959)
Purchase of treasury stock	–	(80,292)
Payments on notes payable	(1,704,286)	(477,672)
Payments on notes payable, related party	–	(845,566)
	<u>49,279,932</u>	<u>(2,598,185)</u>
	<u>(18,446)</u>	<u>693,305</u>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<u>770,895</u>	<u>2,727,818</u>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<u>\$ 752,449</u>	<u>\$ 3,421,123</u>
<b>Supplemental cash flow disclosures:</b>		
Interest paid	\$ 2,547,563	\$ 680,469
Income taxes paid	\$ –	\$ 790,000
<b>Noncash financing and investing activities:</b>		
Notes payable issued to sellers of Vintage Stock	\$ 10,000,000	\$ –
Conversion of accrued expense liabilities into common stock	\$ 3,384,500	\$ –
Accrued and unpaid dividends	\$ 959	\$ 959
Note payable issued for purchase of noncontrolling interest	\$ –	\$ 500,000
Restated equipment deposit as a purchase of equipment in fiscal year 2016	\$ (1,816,855)	\$ –

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

**LIVE VENTURES INCORPORATED AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED MARCH 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 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 - Marketplace Platform segment) and Services. With Marquis Industries, Inc., the Company is engaged in the manufacture and sale of carpet and the sale of vinyl and wood floorcoverings. With its acquisition of Vintage Stock, Inc., the Company has expanded its engagement in the retail space with the sale of new and used movies, music, collectibles, comics, books, games, game systems and components.

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 three months and six months ended March 31, 2017 are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2017. This financial information should be read in conjunction with the consolidated financial statements and related notes thereto as of September 30, 2016 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, 2016.

All data for common stock, options and warrants have been adjusted to reflect the 1-for-6 reverse stock split (which took effect on December 5, 2016) for all periods presented. In addition, all common stock prices, and per share data for all periods presented have been adjusted to reflect the 1-for-6 reverse stock split.

**Note 2: Summary of Significant Accounting Policies**

**Principles of Consolidation**

The accompanying 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. through its newly formed, wholly-owned subsidiary, Vintage Stock Affiliated Holdings LLC. All intercompany transactions and balances have been eliminated in consolidation.

**Non-Controlling Interest**

The Company follows Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810, “Consolidation,” which governs the accounting for and reporting of non-controlling interests (“NCI”) in partially owned consolidated subsidiaries and the loss control of subsidiaries. Certain provisions of this standard indicate, among other things, that NCI’s be treated as a separate component of equity, not as a liability, that increases and decreases in the parent’s ownership interest that leave control intact be treated as an equity transaction rather than as step acquisitions or dilution gains or losses, and that losses of a partially owned consolidated subsidiary be allocated to the NCI even when such allocation might result in a deficit balance. This standard also required changes to certain presentation and disclosure requirements.

The net income (loss) attributed to the NCI is separately designated in the accompanying consolidated statements of operations. Losses attributable to the NCI in a subsidiary may exceed the NCI’s interests in the subsidiary’s equity. The excess attributable to the NCI is attributed to those interests. The NCI shall continue to attribute its share of losses, if applicable, even if that attribution results in a deficit NCI balance.

**Use of Estimates**

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 accompanying 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, the estimated reserve for excess and obsolete inventory, estimated 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 notes payable, 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.

### **Cash and Cash Equivalents**

Cash and Cash equivalents consist of highly liquid investments with a maturity of three months or less at the time of purchase. Fair value of cash equivalents 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 which is recorded as general and administrative expense. 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 \$17,426,473 and \$17,331,892 for the six months ended March 31, 2017 and 2016, respectively.

### **Reserve for Doubtful Accounts**

The Company maintains a reserve for doubtful accounts, which includes reserves for accounts and other receivables, customer refunds, dilution and fees from local exchange carrier billing aggregators and other uncollectible accounts. The reserve for doubtful accounts is based upon historical bad debt experience and periodic evaluations of the aging and collectability of the trade and other receivables. This reserve is maintained at a level which the Company believes is sufficient to cover potential credit losses and trade and other 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 March 31, 2017 and September 30, 2016, the allowance for doubtful accounts was \$1,199,868 and \$1,161,434, respectively.

### **Inventories**

#### *Manufacturing Segment*

Inventories are 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. 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 March 31, 2017 and September 30, 2016, the reserve for obsolete inventory was \$91,940 and \$91,940, respectively.

#### *Retail and Online Segment*

Merchandise Inventories are valued at the lower of cost or market generally using the average cost method which approximates first in first out or 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 over-valuation as a result of cost exceeding 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 March 31, 2017 and September 30, 2016 were \$2,562,048 and \$1,013,870, 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 ranging from three to forty years. Depreciation expense was \$1,900,250 and \$945,158 for the six months ended March 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 and Intangibles

The Company accounts for purchased goodwill and intangible assets in accordance with ASC 350, *Intangibles—Goodwill and Other*. Under ASC 350, purchased goodwill and intangible assets with indefinite lives are not amortized; rather, they are tested for impairment on at least an annual basis. Goodwill represents the excess of purchase price over the underlying net assets of business acquired. Intangible assets with finite lives are amortized over their useful lives. 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.

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.

The Company's intangible assets consist of goodwill, customer relationships intangible, licenses for the use of internet domain names, Universal Resource Locators, or 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 – 15 years. Goodwill is not amortized, but rather evaluated for impairment on at least an annual basis. Intangible amortization expense is \$159,581 and \$115,866 for the three months and six months ending March 31, 2017.

## 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 in-store, direct online and fulfillment partner sales of new and used products.

In-Store product revenue is recognized when the following revenue recognition criteria are met: the sales price is fixed or determinable, collection is reasonably assured, and the customer takes possession of the merchandise. Revenue from the sales of our products is recognized at the time of sale, net of sales discounts and net of an estimated sales return reserve, based on historical return rates.

We provide customers with the opportunity to trade in used merchandise in exchange for cash consideration or merchandise credit. Merchandise inventory is recorded at a cost equal to the cash offered to the customer. If a customer chooses merchandise credit, credit is issued for the amount of the cash offer plus a premium. Premiums associated with merchandise credit issued as a result of trade in transactions are recorded as expense in the period in which the credits are issued. Customer liabilities and other deferred revenues for our gift cards and customer credits are included in Accrued Liabilities.

Currently, all direct online and fulfillment partner product revenue is recorded on a gross basis, as the Company is the primary obligor.

In addition, the Retail and Online Segment derives 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 price to the buyer 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 remaining 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 recognizes revenue in 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.

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, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, revenue is recorded gross. If the Company is not the primary obligor in the transaction and amounts earned are determined using a fixed percentage, revenue is recorded on a net basis.

Revenues do not include sales taxes or other taxes collected from customers.

### *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. Revenue is subsequently recognized when the credits and gift cards are redeemed. In addition, breakage is recognized quarterly on unused customer liabilities older than two years to the extent that our management believes the likelihood of redemption by the customer is remote, based on historical redemption patterns. To the extent that future redemption patterns differ from those historically experienced, there will be variations in the recorded breakage. Breakage of \$73,092 for the period of November 3, 2016 through March 31, 2017 is recorded in other income in our consolidated financial statements.

## 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

Income taxes are accounted for using the asset and liability method. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. A valuation allowance would be provided for those deferred tax assets for which if it is more-likely-than-not that the related benefit will not be realized. The Company classifies tax-related penalties and interest as a component of income tax expense for financial statement presentation. As of March 31, 2017, there are no uncertain tax positions for federal or state income tax purposes. The Company is not under audit in any jurisdiction. The Company's policy is to record uncertain tax positions as a component of income tax expense.

## 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 2022 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 rentals 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, which includes renewal option periods when we are reasonably assured of exercising the renewal options 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, which includes renewal option periods when we are reasonably assured of exercising the renewal options. 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 rentals 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 net 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 net 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 16).

## 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 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. There were no derivative financial instruments as of March 31, 2017 and September 30, 2016, respectively.

## 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 March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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 ASI 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. The ASU is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2017, with early adoption permitted. We are in the initial stages of evaluating the effect of the standard on our financial statements and continue to evaluate the available transition methods.

In March 2016, the FASB issued 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.

In February 2016, the FASB issued ASU 2016-02, *Leases*. 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.

In July 2015, the FASB issued ASU 2015-11, *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 do not anticipate that adoption of this standard will have a material impact to our consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update 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, certain not-for-profit entities, and certain employee benefit plans 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. We are in the initial stages of evaluating the effect of the standard on our financial statements and continue to evaluate the available transition methods.

Other recent accounting pronouncements issued by the FASB, including its Emerging Issues Task Force, the American Institute of Certified Public Accountants, and the Securities and Exchange Commission are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

### Note 3: Reclassifications and Restatements

Our previously issued consolidated financial statements for quarter and six months ended March 31, 2017 and September 30, 2016 have been reclassified and restated.

Classification of Marquis and Vintage Stock lines of credit with both a subjective acceleration clause and lock box arrangement were not properly classified as current liabilities according to ASC 470. The Company determined that \$15,378,332 of long-term debt should have been classified as a current liability in the condensed consolidated balance sheet.

Characterization of deposits (advance payments) on the purchase of Marquis carpet manufacturing equipment and the related cash flow presentation (operating vs. investing) in the statement of cash flows was an error and not presented correctly. The Company determined that cash from operations was overstated and cash used in investing were overstated by \$1,816,855 in the condensed consolidated statement of cash flows.

Conversion features on convertible notes and related warrants issued in 2012, 2013 and 2014 required bifurcation and derivative liability accounting due to the down round protection features included within the agreements in accordance with ASC 815. On December 22, 2014, the Company executed an amendment to remove the down round provisions for the convertible notes and warrants. As a result of these errors, the Company determined that accumulated deficit and additional paid-in capital were understated by \$6,238,516 of the condensed consolidated balance sheet.

We reclassified \$10,738 from Series E Preferred Stock to additional paid in capital.

Other receivables of \$802,871 have been reclassified to prepaid expenses and other current assets.

	Fiscal Quarter and Six Months Ended March 31, 2017		
	As Previously Reported	Change	(Restated)
Consolidated balance sheet as of March 31, 2017			
Trade receivables, net	\$ 9,500,555	\$ (802,871)	\$ 8,697,684
Prepaid expenses and other current assets	3,400,335	802,871	4,203,206
Total assets	121,468,629		121,468,629
Current portion of long- term debt	5,832,567	15,378,332	21,210,899
Long-term debt, net of current portion	69,019,133	(15,378,332)	53,640,801
Total liabilities	90,550,517		90,550,517
Paid in capital	56,773,754	6,249,254	63,023,008
Accumulated deficit	(25,568,783)	(6,238,516)	(31,807,299)
Series E convertible preferred stock	10,866	(10,738)	128
Total shareholders' equity	30,918,112	-	30,918,112
Consolidated statement of cash flows for the six months ended March 31, 2017			
Change in accounts receivable	(1,090,686)	70,834	(1,019,852)
Change in prepaid expenses and other current liabilities	2,520,099	(1,887,689)	632,410
Net cash provided by operations	5,209,543	(1,816,855)	3,392,688
Purchases of property and equipment	(7,100,362)	1,816,855	(5,283,507)
Net cash used in investing activities	(54,507,921)	1,816,855	(52,691,066)

**Note 4: Balance Sheet Detail Information**

	March 31, 2017 (Restated)	September 30, 2016
Trade receivables, current, net:		
Accounts receivable, current	\$ 9,552,980	\$ 8,419,626
Less: Reserve for doubtful accounts	(855,296)	(816,862)
	<u>\$ 8,697,684</u>	<u>\$ 7,602,764</u>
Trade receivables, long term, net:		
Accounts receivable, long term	\$ 344,572	\$ 344,572
Less: Reserve for doubtful accounts	(344,572)	(344,572)
	<u>\$ —</u>	<u>\$ —</u>
Total trade receivables, net:		
Gross trade and other receivables	\$ 9,897,552	\$ 8,764,198
Less: Reserve for doubtful accounts	(1,199,868)	(1,161,434)
	<u>\$ 8,697,684</u>	<u>\$ 7,602,764</u>
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	1,073	1,230
Reserve for other trade receivables	135,178	96,587
	<u>\$ 1,199,868</u>	<u>\$ 1,161,434</u>
Inventory		
Raw materials	\$ 7,048,743	\$ 6,664,286
Work in progress	602,353	773,238
Finished goods, includes merchandise	28,655,923	4,721,371
	36,307,019	12,158,895
Less: Inventory reserves	(2,653,988)	(1,105,810)
	<u>\$ 33,653,031</u>	<u>\$ 11,053,085</u>
Property and equipment, net:		
Land and improvements	\$ —	\$ —
Building and improvements	7,535,395	6,780,959
Transportation equipment	77,419	77,419
Machinery and equipment	16,902,361	10,211,565
Furnishings and fixtures	1,936,723	192,701
Office, computer equipment and other	212,147	216,793
	26,664,045	17,479,437
Less: Accumulated depreciation	(5,165,679)	(3,464,936)
	<u>\$ 21,498,366</u>	<u>\$ 14,014,501</u>
Intangible assets, net:		
Domain name and marketing related intangibles	\$ 18,957	\$ 18,957
Website and software related intangibles	1,497,737	—
Customer Relationships intangible	439,039	439,039
Purchased software	1,500,000	1,500,000
	3,455,733	1,957,996
Less: Accumulated amortization	(590,708)	(268,206)
	<u>\$ 2,865,025</u>	<u>\$ 1,689,790</u>
Accrued liabilities:		
Accrued payroll and bonuses	\$ 867,575	\$ 685,410
Accrued software costs	—	584,500
Accrued fee due Kingston Diversified Holdings LLC	—	2,800,000
Accrued expenses - other	4,302,084	2,326,862
	<u>\$ 5,169,659</u>	<u>\$ 6,396,772</u>

## Note 5: Acquisition

### *Vintage Stock Inc.*

On November 3, 2016 (the “Closing Date”), Live Ventures Incorporated (“Live Ventures”), through its newly formed, wholly-owned subsidiary, Vintage Stock Affiliated Holdings LLC (“VSAH”), entered into a series of agreements in connection with its purchase of Vintage Stock, Inc., a Missouri corporation (“Vintage Stock”). Vintage Stock is a retailer that sells, buys and trades new and used movies, books, collectibles, games, comics, music and other retail products.

Total consideration paid was \$57,653,698. The following table summarizes our preliminary 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 closing date:

Cash and cash equivalents	\$	342,798
Trade and other receivables		113,500
Inventory		20,160,092
Prepaid expenses and other current assets		860,453
Property and equipment		2,084,246
Intangible - software		1,401,078
Goodwill		39,066,061
Notes payable		(542,074)
Accounts payable		(3,843,510)
Accrued expenses		(1,988,946)
Consideration paid	\$	<u>57,653,698</u>

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

In connection with the purchase of Vintage, there were no additional one-time expenses incurred during the last three months ended March 31, 2017. However, 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 in one-time expenses; all of which was recorded as general and administrative expense during the first three months ended December 31, 2016. The Company issued \$10,000,000 in subordinated acquisition notes payable to the sellers of Vintage Stock as more fully described in Note 7.

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

## Note 6: Goodwill and other Intangibles

The Company’s intangible assets consist of goodwill, customer relationships intangible, licenses for the use of internet domain names, Universal Resource Locators, or 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 – 5 years, customer relationships – 15 years. Goodwill is not amortized, but rather evaluated for impairment on at least an annual basis.

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

2017	\$	673,290
2018		672,884
2019		672,884
2020		240,140
2021		240,140
Thereafter		365,687
	\$	<u>2,865,025</u>

## Note 7: Long Term Debt

### *Bank of America Revolver Loan*

On July 6, 2015, Marquis entered into a \$15 million credit agreement with Bank of America (“BofA Revolver”). The Bank of America 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 current 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 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.

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 Bank of America 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, 2016 through March 31, 2017, Marquis cumulatively borrowed \$45,174,161 and repaid \$42,689,056 under the BofA Revolver. Our maximum borrowings outstanding during the same period were \$7,770,651. Our weighted average interest rate on those outstanding borrowings for the period of October 1, 2016 through March 31, 2017 was 3.45%. As of March 31, 2017, total additional availability under the BofA Revolver was \$10,027,547; with \$2,707,694 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 modifying its agreement between the parties. This agreement, effective September 15, 2016, memorializes an October 2015 interim agreement to extend the maturity date by twelve months for 55,888 shares of to be issued and certificated Series B Convertible Preferred shares 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 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 the Purchaser 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 or any shares into which they may be converted or from which they may be exchanged. As a result of this agreement, the Company recorded \$2,800,000 as an outstanding accrued liability as of September 30, 2016. As of March 31, 2017, and September 30, 2016, 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 shares 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.

### *Texas Capital Bank Revolver Loan*

On November 3, 2016, Vintage Stock entered into a \$20 million credit agreement 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 current 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 subordinated debt including the Capitala 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.

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 November 3, 2016 through March 31, 2017, Vintage Stock cumulatively borrowed \$43,325,404 and repaid \$30,654,766 under the TCB Revolver. Our maximum borrowings outstanding during the period of November 3, 2016 through March 31, 2017 were \$14,460,716. Our weighted average interest rate on those outstanding borrowings for the period of November 3, 2016 through March 31, 2017 was 3.44606%. As of March 31, 2017, total additional availability under the TCB Revolver was \$2,252,845, with \$12,670,638 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, Live Ventures Incorporated ("Live Ventures"), through its newly formed, wholly-owned subsidiary, Vintage Stock Affiliated Holdings LLC ("VSAH"), entered into a series of agreements in connection with its purchase of Vintage Stock, Inc., a Missouri corporation ("Vintage Stock"). As a part of those agreements, VSAH and Vintage Stock, Inc. (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"), 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 FRB 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 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 from and after the Closing Date up to the first anniversary of the Closing Date; (ii) 1.0% of the principal amount of the term loan prepaid if prepaid during the period of time from and after the first anniversary of the Closing Date up to the second anniversary of the Closing Date; and (iii) zero if prepaid from and after the second anniversary of the Closing Date.

The Term Loan Borrowers may make the following prepayments of the term loans under term loan agreement without being required to pay any prepayment premium:

- (i) an amount not to exceed \$3 million of the term loans;
- (ii) in addition to any amount prepaid in respect of item (i), an additional amount not to exceed \$1.45 million, but only if that additional amount is paid prior to the first anniversary of the Closing Date; and
- (iii) in addition to any amount prepaid in respect of item (i), an additional amount not to exceed the difference between \$2.9 million and any amount prepaid in respect of item (ii), but only if that additional amount is paid from and after the first anniversary of the Closing Date but prior to the second anniversary of the Closing Date.

There are also various mandatory prepayment triggers under the term loan agreement, including in respect of excess cash flow, dispositions, equity and debt issuances, extraordinary receipts, equity contributions, change in control, and failure to obtain required landlord consents. Our weighted average interest rate on our Capitala Term Loan outstanding borrowings for the period of November 3, 2016 through March 31, 2017 was 16.19730%. In connection with the Capitala Term Loan, Vintage incurred \$1,088,000 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 Capitala Term Loan.

#### *Sellers Subordinated Acquisition Note*

In connection with the purchase of Vintage Stock, Inc., on November 3, 2016, VSAH and Vintage Stock entered into a seller financed mezzanine loan in the amount of \$10 million with the previous owners of Vintage Stock, Inc. The Sellers Subordinated Acquisition Note bears interest at 8% per annum, with interest payable monthly in arrears. The Sellers Subordinated Acquisition Note matures five years and six months from November 3, 2016.

We are currently in compliance with all covenants under our existing revolving and other loan agreements.

Long-Term Debt as of March 31, 2017 and September 30, 2016 consisted of the following:

	March 31, 2017 <u>(Restated)</u>	September 30, 2016 <u></u>
Bank of America Revolver Loan - variable interest rate based upon a base rate plus a margin, interest payable monthly, maturity date July 2020, secured by substantially all Marquis assets	\$ 2,707,694	\$ 222,590
Texas Capital Bank Revolver Loan - variable interest rate based upon the one-month LIBOR rate plus a margin, interest payable monthly, maturity date November 2020, secured by substantially all Vintage Stock assets	12,670,638	—
Note Payable Capitala Term Loan - variable interest rate based upon a base rate plus a margin, 3% per annum interest payable in kind, with the balance of interest payable monthly in cash, principal due quarterly in the amount of \$725,000, maturity date November 2021, note subordinate to Texas Capital Bank Revolver Loan, secured by Vintage Stock Assets	28,923,526	—
Note Payable to the Sellers of Vintage Stock, interest at 8% per annum, with interest payable monthly, maturity date May 2022, note subordinate to both Texas Capital Bank Revolver and Capitala Term Loan, secured by Vintage Stock Assets	10,000,000	—
Note #1 Payable to Banc of America Leasing & Capital LLC - interest at 3.8905% per annum, with interest and principal payable monthly in the amount of \$84,273 for 59 months, beginning September 23,2016, with a final payment due in the amount of \$584,273, maturity date September 2021, secured by equipment	4,518,901	4,931,937
Note #2 Payable to Banc of America Leasing & Capital LLC - interest at 4.63% per annum, with interest and principal payable monthly in the amount of \$34,768 for 59 months, beginning January 30, 2017, with a final payment due in the amount of \$476,729, maturity date January 2022, secured by equipment	2,130,778	—
Note #3 Payable to Banc of America Leasing & Capital LLC - interest at 4.7985% per annum with interest and principal payable monthly in the amount of \$51,658 for 84 months, beginning January 30, 2017, secured by equipment.	3,568,236	—
Note #4 Payable to Banc of America Leasing & Capital LLC - interest at 4.8907% per annum, with interest and principal payable monthly in the amount of \$15,901 for 81 months, beginning April 30, 2017, secured by equipment.	1,095,113	—
Note Payable to Store Capital Acquisitions, LLC, - interest at 9.25% per annum, with interest and principal payable monthly in the amount of \$73,970 for 480 months, beginning July 1, 2016, maturity date of June 2056, secured by Marquis land and buildings	9,340,275	9,351,796
Note Payable to Cathay Bank, variable interest rate, Prime Rate plus 2.50%, with interest payable monthly, maturity date December 2017, secured by substantially all Modern Everyday assets	185,622	198,569
Note Payable to Cathay Bank, variable interest rate, Prime Rate plus 1.50%, with interest payable monthly, maturity date December 2017, secured by substantially all Modern Everyday assets	249,766	249,766
Note payable to individual, interest at 11% per annum, payable on a 90 day written notice, unsecured	206,529	206,529
Note payable to individual, interest at 10% per annum, payable on a 90 day written notice, unsecured	500,000	500,000
Note payable to individual, interest at 8.25% per annum, payable on a 120 day written demand notice, unsecured	225,000	225,000
Total notes payable	<u>76,322,078</u>	<u>15,886,187</u>
Less unamortized debt issuance costs	<u>(1,470,378)</u>	<u>(414,025)</u>
Net amount	74,851,700	15,472,162
Less current portion	<u>(21,210,899)</u>	<u>(2,011,880)</u>
Long-term portion	<u>\$ 53,640,801</u>	<u>\$ 13,460,282</u>



Future maturities of debt at March 31, 2017 are as follows which does not include related party debt separately stated:

Years ending March 31,	
2018	\$ 21,444,943
2019	4,780,675
2020	4,865,404
2021	4,951,952
2022	19,732,283
Thereafter	20,546,821
Total	<u>\$ 76,322,078</u>

#### **Note 8: Note Payable, Related Party**

In connection with the purchase of Marquis by the Company, Marquis entered into a mezzanine loan in the amount of up to \$7,000,000 with Isaac Capital Fund, a private lender whose managing member is Jon Isaac, the Chief Executive Officer of the Company.

The Isaac Capital Fund mezzanine loan bears interest at 12.5% with payment obligations of interest each month and all principal due in January 2021. As of March 31, 2017, and September 30, 2016, there was \$2,000,000 outstanding on this mezzanine loan.

#### **Note 9: Stockholders' Equity**

##### *Series B Convertible Preferred Stock*

On December 27, 2016 the Company established a new series of preferred stock, convertible Series B preferred stock. The shares, as a series, are entitled to dividends on our Common Stock as declared by the Board of Directors, subject to a \$1.00 (in the aggregate for all then-issued and outstanding shares of Series B Convertible Preferred Stock). The series does not have any redemption rights or Stock basis, except as otherwise required by the Nevada Revised Statutes. The series does not provide for any specific allocation of seats on the Board of Directors. At any time and from time to time, the shares of Series B Convertible Preferred Stock; are convertible into shares of Common Stock at a ratio of one series B preferred share into five common shares, subject to equitable adjustment in the event of forward stock splits and reverse stock splits.

The holders of shares of the Series B Convertible Stock have agreed not to sell transfer, assign, hypothecate, pledge, margin, hedge, trade, or otherwise obtain or attempt to obtain any economic value from any of such shares or any shares into which they may be converted (e.g. Common Stock) or for which they may be exchanged. This "lockup" agreement expires on December 31, 2021. Our Warrant Agreements with ICG have been amended to provide that the shares underlying those warrants are exercisable into shares of Series B Convertible Preferred Stock, which warrant shares are also subject to the same "lockup" agreement as the currently outstanding shares of Series B Convertible Preferred Stock.

During the six months ended March 31, 2017, the Company issued:

55,888 shares of series B convertible preferred stock were issued to Kingston Diversified Holdings LLC on December 29, 2016 to settle and pay for an outstanding accrued liability in the amount of \$2,800,000. The 55,888 shares of Series B convertible preferred stock issued is convertible at an exchange ratio of (five) shares of common for each share of Series B convertible preferred stock, or 279,440 shares of common.

158,356 shares of Series B convertible preferred stock were issued to Isaac Capital Group ("ICG") on December 27, 2016 in exchange for 791,758 shares of our common stock at an exchange ratio of (five) shares of common stock for each share of Series B convertible preferred stock.

##### *Series E Convertible Preferred Stock*

As of March 31, 2017, there were 127,840 shares of series E convertible preferred stock issued and outstanding. The shares accrue dividends at the rate of 5% per annum on the liquidation preference per share, payable quarterly from legally available funds. The shares carry a cash liquidation preference of \$0.30 per share, plus any accrued but unpaid dividends. 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 shares of our common stock on a one-to-one basis together with payment of \$85.50 per converted share.

### Series E Convertible Preferred Stock Dividends

During the six months ended March 31, 2017 and March 31, 2016, the Company accrued dividends of \$959 and \$959, respectively, payable to holders of Series E preferred stock. As of March 31, 2017, and September 30, 2016 unpaid dividends were \$959 and \$959, respectively.

### Common Stock

On November 22, 2016, the Company's board of directors authorized a one-for-six reverse stock split and a contemporaneous one-for-six (1:6) reduction in the number of authorized shares of common stock, par value \$0.001 per share from 60,000,000 to 10,000,000 shares, to take effect for stockholders of record as of December 5, 2016. No fractional shares will be 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.

During the six months ended March 31, 2017, the Company issued:

58,334 of common stock were issued to Novalk Apps S.A.S. on December 28, 2016 to settle and pay for an outstanding accrued liability in the amount of \$584,500. The value was based on the market value of the Company's common stock on the date of issuance.

2,284 of common stock were issued to various holders of fractional shares of the Company's common stock pursuant to the 1:6 stock split effective for stockholders of record on December 5, 2016. All fractional shares of the Company's common stock were eliminated.

During the six months ended March 31, 2016, the Company issued:

1,617 shares of common stock for services rendered at \$15,000. The value was based on the market value of the Company's common stock on the date of issuance.

### Treasury Stock

For the year ended September 30, 2016, the Company purchased 30,122 shares of its common stock in the open market (treasury shares) for \$300,027. The Company accounted for the purchase of these treasury shares using the cost method. There were no purchases of common stock by the Company on the open market in the six months ended March 31, 2017.

### 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 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 directors, officer, employees, consultants and advisors. The Company has reserved up to 300,000 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.

### Note 10: Series B Convertible Preferred Stock 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 March 31, 2017:

	Number of units - Series B Convertible preferred warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Intrinsic Value
Outstanding at September 30, 2016	118,029	\$ 20.80	1.73	\$ 4,307,493
Granted	—			
Exercised	—			
Outstanding at March 31, 2017	118,029	\$ 20.80	1.23	\$ 6,927,741
Exercisable at March 31, 2017	118,029	\$ 20.80	1.23	\$ 6,927,741

Most of the above warrants were issued in connection with the conversion of convertible notes from Isaac Capital Group. When the debts were converted, and warrants were issued; the Company determined the fair value of the warrants using the Black-Scholes-Merton model and took a charge to interest expense at the date of issuance.

On December 27, 2016, ICG and the Company agreed to amend and exchange the common stock warrants for warrants of series B convertible preferred shares, and the number of warrants held adjusted by an exchange ratio of 5:1 common shares for series B convertible shares. ICG, the holder of the warrants outstanding, is not permitted to sell, transfer, assign, hypothecate, pledge, margin, hedge, trade or otherwise obtain or attempt to obtain any economic value from the series B convertible preferred shares should the warrants be exercised prior to December 31, 2021. All warrant related information presented in these condensed consolidated financial statements and accompanying footnotes has been retroactively adjusted to reflect the conversion of all common stock warrants outstanding to series B convertible preferred share warrants resulting in this action.

The exercise price for the warrants outstanding and exercisable into series B convertible preferred shares at March 31, 2017 is as follows:

Series B Convertible Preferred			
Outstanding		Exercisable	
Number of Warrants	Exercise Price	Number of Warrants	Exercise Price
54,396	\$ 16.60	54,396	\$ 16.60
17,857	16.80	17,857	16.80
12,383	24.30	12,383	24.30
33,393	28.50	33,393	28.50
<u>118,029</u>		<u>118,029</u>	

#### Note 11: Stock-Based Compensation

From time to time, the Company grants stock options and restricted stock awards to directors, officers and employees. These awards are valued at the grant date by determining the 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 six months ended March 31, 2017:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Intrinsic Value
Outstanding at September 30, 2016	175,000	\$ 11.22	3.75	\$ 346,500
Granted	36,668	22.52		
Exercised	—			
Forfeited	—			
Outstanding at March 31, 2017	<u>211,668</u>	<u>\$ 13.19</u>	<u>3.98</u>	<u>\$ 899,875</u>
Exercisable at March 31, 2017	<u>168,750</u>	<u>\$ 8.85</u>	<u>2.54</u>	<u>\$ 899,875</u>

The Company recognized compensation expense of \$69,520 and \$174,885 during the six months ended March 31, 2017 and 2016, respectively, related to stock option awards granted to certain employees and officers based on the grant date fair value of the awards, net of estimated forfeitures.

At March 31, 2017 the Company has \$495,796 of unrecognized compensation expense (net of estimated forfeitures) associated with stock option awards which the company expects to recognize as compensation expense through December of 2021.



The exercise price for stock options outstanding and exercisable at March 31, 2017 is as follows:

Outstanding		Exercisable	
Number of Options	Exercise Price	Number of Options	Exercise Price
31,250	\$ 5.00	31,250	\$ 5.00
25,000	7.50	25,000	7.50
31,250	10.00	31,250	10.00
4,167	10.86		
4,167	10.86		
4,167	10.86		
4,167	10.86		
6,250	12.50	6,250	12.50
6,250	15.00	–	15.00
75,000	15.18	75,000	15.18
4,000	23.41		
4,000	27.60		
4,000	31.74		
4,000	36.50		
4,000	41.98		
<u>211,668</u>		<u>168,750</u>	

The following table summarizes information about the Company's non-vested shares as of March 31, 2017:

Non-vested Shares	Number of Shares	Weighted Average Grant-Date Fair Value
Non-vested at September 30, 2016	6,250	\$ 14.22
Granted	36,668	\$ 17.70
Vested	–	
Non-vested at March 31, 2017	<u>42,918</u>	\$ 17.19

Options were granted during 2017 and 2016, where the exercise price was less than the common stock price at the date of grant or where the exercise price was greater than the common stock price at the date of grant. The assumptions used in calculating the fair value of stock options granted use the Black-Scholes option pricing model for options granted were as follows:

Risk-free interest rate	1.25%
Expected life of the options	5.0 to 10.0 years
Expected volatility	107%
Expected dividend yield	0%

#### Note 12: Earnings Per Share

Net earnings 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 Consolidated Balance Sheet. Diluted net earnings 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 earnings to determine the amount available to common stockholders.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2017	2016	2017	2016
<i>Basic</i>				
Net income attributed to Live Ventures Incorporated	\$ 1,840,666	\$ 1,218,508	\$ 3,269,239	\$ 1,394,656
Less: preferred stock dividends	(480)	(479)	(959)	(959)
Net income applicable to common stock	<u>\$ 1,840,186</u>	<u>\$ 1,218,029</u>	<u>\$ 3,268,280</u>	<u>\$ 1,393,697</u>
Weighted average common shares outstanding	<u>2,058,064</u>	<u>2,815,951</u>	<u>2,029,023</u>	<u>2,816,734</u>
Basic earnings per share	<u>\$ 0.89</u>	<u>\$ 0.43</u>	<u>\$ 1.61</u>	<u>\$ 0.49</u>
<i>Diluted</i>				
Net income applicable to common stock	\$ 1,840,186	\$ 1,218,029	\$ 3,268,280	\$ 1,393,697
Add: preferred stock dividends	480	479	959	959
Net income applicable for diluted earnings per share	<u>\$ 1,840,666</u>	<u>\$ 1,218,508</u>	<u>\$ 3,269,239</u>	<u>\$ 1,394,656</u>
Weighted average common shares outstanding	2,058,064	2,815,951	2,029,023	2,816,734
Add: Options	69,979	16,319	56,458	19,184
Add: Common Stock Warrants	–	305,528	–	325,954
Add: Series B Preferred Stock	1,071,200	–	1,071,200	–
Add: Series B Preferred Stock Warrants	590,145	–	590,145	–
Add: Series E Preferred Stock	127,840	127,840	127,840	127,840
Assumed weighted average common shares outstanding	<u>3,917,228</u>	<u>3,265,638</u>	<u>3,874,666</u>	<u>3,289,712</u>
Diluted earnings per share	<u>\$ 0.47</u>	<u>\$ 0.37</u>	<u>\$ 0.84</u>	<u>\$ 0.42</u>

There are 20,000 common stock options that are anti-dilutive that are not included in the three month and six months ended March 31, 2017 diluted earnings per share computations.

#### Note 13: Related Party Transactions

During the six months ended March 31, 2017 and March 31, 2016, the Company recognized total interest expense of \$126,388 and \$371,230, respectively, associated with the ICG notes. The two outstanding Cathay Bank notes are guaranteed by Tony Isaac, a director of the company.

Also see Notes 8, 9 and 10.

#### Note 14: Commitments and Contingencies

##### Litigation

The Company is party to certain legal proceedings from time to time incidental to the conduct of its business. These proceedings could result in fines, penalties, compensatory or treble damages or non-monetary relief. The nature of legal proceedings is such that the Company cannot assure the outcome of any particular matter, and an unfavorable ruling or development could have a materially adverse effect on our consolidated financial position, results of operations and cash flows in the period which a ruling or settlement occurs. However, based on information available to the Company's management to date, the Company's management does not expect that the outcome of any matter pending against us is likely to have a materially adverse effect on the Company's consolidated financial position as of March 31, 2017, results of operations, cash flows or liquidity of the Company.

**Note 15: Income Taxes**

The income tax rate for the six months ended March 31, 2017 and March 31, 2016 was 42.1% and 21.4% respectively. The effective income tax rate differs than the U.S. federal statutory rate primarily due to state taxes, goodwill impairment, and certain non-deductible expenses. As of March 31, 2017, and March 31, 2016 the Company had no uncertain tax positions. The Company is subject to taxation and files income tax returns in the U.S., and various state jurisdictions. The Company is subject to audit for U.S. purposes for the current and prior three years; and for state purposes the current and prior four years. The Company has net operating loss carry-forwards of approximately \$24.6M for U.S. income tax purposes, these net operating loss carryforwards are subject to IRC Section 382 limitations and begin to expire in 2027.

**Note 16: Concentration of Credit Risk**

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

**Note 17: Segment Reporting**

The Company operates in three segments which are characterized as: (1) Manufacturing, (2) Retail and Online and (3) Services. The Manufacturing Segment consists of Marquis Industries, the Retail and Online segment consists of Vintage Stock, Modern Everyday and LiveDeal.com, and the Services segment consists of the directory services business.

The following tables summarize segment information for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2017	2016	2017	2016
<b>Revenues</b>				
Retail and Online	\$ 19,975,533	\$ 1,135,110	\$ 34,752,256	\$ 4,776,752
Manufacturing	18,343,692	18,448,094	35,531,226	34,638,124
Services	217,200	256,719	441,607	529,481
	<u>\$ 38,536,425</u>	<u>\$ 19,839,923</u>	<u>\$ 70,725,089</u>	<u>\$ 39,944,357</u>
<b>Gross profit</b>				
Retail and Online	\$ 11,084,654	\$ 255,204	\$ 19,123,899	\$ 1,850,459
Manufacturing	5,186,082	5,105,793	9,577,738	9,659,467
Services	204,634	245,202	418,965	506,148
	<u>\$ 16,475,370</u>	<u>\$ 5,606,199</u>	<u>\$ 29,120,602</u>	<u>\$ 12,016,074</u>
<b>Operating income (loss)</b>				
Retail and Online	\$ 2,535,159	\$ (1,395,769)	\$ 4,250,763	\$ (2,299,574)
Manufacturing	2,531,388	2,349,500	4,281,011	4,040,985
Services	204,310	244,747	418,151	504,319
	<u>\$ 5,270,857</u>	<u>\$ 1,198,478</u>	<u>\$ 8,949,925</u>	<u>\$ 2,245,730</u>
<b>Depreciation and amortization</b>				
Retail and Online	\$ 326,675	\$ 67,967	\$ 555,106	\$ 136,243
Manufacturing	761,523	447,219	1,468,139	924,775
Services	—	—	—	—
	<u>\$ 1,088,198</u>	<u>\$ 515,186</u>	<u>\$ 2,023,245</u>	<u>\$ 1,061,018</u>
<b>Interest Expenses</b>				
Retail and Online	\$ 1,603,120	\$ 44,066	\$ 2,682,426	\$ 110,973
Manufacturing	431,933	290,920	802,103	569,496
Services	—	—	—	—
	<u>\$ 2,035,053</u>	<u>\$ 334,986</u>	<u>\$ 3,484,529</u>	<u>\$ 680,469</u>
<b>Net income (loss) before provision for income taxes</b>				
Retail and Online	\$ 1,193,591	\$ (935,830)	\$ 2,016,338	\$ (1,745,298)
Manufacturing	1,981,175	1,911,769	3,216,069	3,186,532
Services	204,310	242,569	418,151	491,596
	<u>\$ 3,379,076</u>	<u>\$ 1,218,508</u>	<u>\$ 5,650,558</u>	<u>\$ 1,932,830</u>

	As of March 31, 2017	As of September 30, 2016
<b>Total Assets</b>		
Retail and Online	\$ 43,037,955	\$ 15,053,993
Manufacturing	43,695,402	38,333,437
Services	34,735,272	79,970
	<u>\$ 121,468,629</u>	<u>\$ 53,467,400</u>
<b>Intangible assets</b>		
Retail and Online	\$ 41,543,268	\$ 1,287,338
Manufacturing	387,818	402,452
Services	—	—
	<u>\$ 41,931,086</u>	<u>\$ 1,689,790</u>

**Note 18: Subsequent Events**

None.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For a description of our significant accounting policies and an understanding of the significant factors that influenced our performance during the three months and six months ended March 31, 2017, this "Management's Discussion and Analysis of Financial Condition and Results of Operations" (hereafter referred to as "MD&A") should be read in conjunction with the condensed consolidated financial statements, including the related notes, appearing in Part I, Item 1 of this Quarterly Report on Form 10-Q, as well as our Annual Report on Form 10-K for the fiscal year ended September 30, 2016.

### Note about Forward-Looking Statements

This Quarterly Report on Form 10-Q includes statements that constitute "forward-looking statements." These forward-looking statements are often characterized by the terms "may," "believes," "projects," "intends," "plans," "expects," or "anticipates," and do not reflect historical facts.

Specific forward-looking statements contained in this portion of the Quarterly Report include, but are not limited to statements that are based on current projections and expectations about the markets in which we operate, (ii) statements about current projections and expectations of general economic conditions, (iii) statements about specific industry projections and expectations of economic activity, (iv) statements relating to our future operations and prospects, (v) statements about future results and future performance, (vi) statements that the cash on hand and additional cash generated from operations together with potential sources of cash through issuance of debt or equity will provide the company with sufficient liquidity for the next 12 months; and (vii) statements that the outcome of pending legal proceedings will not have a material adverse effect on business, financial position and results of operations, cash flow or liquidity.

Forward-looking statements involve risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Factors and risks that could affect our results, future performance and capital requirements and cause them to materially differ from those contained in the forward-looking statements include those identified in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016 under Item 1A "Risk Factors", as well as other factors that we are currently unable to identify or quantify, but that may exist in the future.

In addition, the foregoing factors may generally affect our business, results of operations and financial position. Forward-looking statements speak only as of the date the statements were made. We do not undertake and specifically decline any obligation to update any forward-looking statements. Any information contained on our website [www.live-ventures.com](http://www.live-ventures.com) or any other websites referenced in this Quarterly Report are not part of this Quarterly Report.

### Our Company

Live Ventures Incorporated is a holding company for diversified businesses, which, together with our subsidiaries, we refer to as the "Company", "Live Ventures", "we", "us" or "our." We acquire and operate profitable companies in various industries that have demonstrated a strong history of earnings power. We currently have three segments to our business, Manufacturing, Retail and Online, and Services.

Under the Live Ventures brand, we seek opportunities to acquire profitable and well-managed companies. We will work closely with consultants who will help us identify target companies that fit within the criteria we have established for opportunities that will provide synergies with our businesses.

Our principal offices are located at 325 E. Warm Springs Road, Suite 102, Las Vegas, Nevada 89119, our telephone number is (702) 939-0231, and our corporate website (which does not form part of this report) is located at [www.live-ventures.com](http://www.live-ventures.com). Our common stock trades on the NASDAQ Capital Market under the symbol "LIVE".

## **Manufacturing Segment**

### *Marquis Industries*

Our Manufacturing segment is comprised of Marquis Affiliated Holdings LLC and wholly-owned subsidiaries (“Marquis”). Marquis is a leading carpet manufacturer and a manufacturer of innovative yarn products, as well as a reseller of hard surface flooring products. Over the last decade, Marquis has been an innovator and leader in the value-oriented polyester carpet sector, which is currently the market’s fastest-growing fiber category. We focus on the residential, niche commercial, and hospitality end-markets and serve over 2,000 customers.

Since its founding in 1990, Marquis has built a strong reputation for outstanding value, styling, and customer service. Its innovation has yielded products and technologies that differentiate its brands in the flooring marketplace. Marquis’s state-of-the-art operations enable high quality products, unique customization, and exceptionally short lead-times. Furthermore, the Company has recently invested in additional capacity to grow several attractive lines of business, including printed carpet and yarn extrusion. Through its A-O Division, utilizes its state-of-the-art yarn extrusion capacity to market monofilament textured yarn products to the artificial turf industry.

## **Retail and Online Segment**

Our Retail and Online Segment is comprised of Vintage Stock Affiliated Holdings LLC and wholly-owned subsidiaries (“Vintage”), Modern Everyday, Inc. (“MEI”) and LiveDeal Inc. (“LiveDeal”).

### *Vintage Stock*

On November 3, 2016, Live Ventures through its wholly-owned subsidiary Vintage Stock Holdings LLC acquired 100% of Vintage Stock, V-Stock, Movie Trading Company and EntertainMart (collectively “Vintage Stock”). Vintage Stock is a leading specialty entertainment retailer. Since its founding in 1980, Vintage Stock has established a strong reputation for being America’s largest entertainment superstore. Vintage Stock offers a large selection of entertainment products including new and pre-owned movies, video games and music products, as well as ancillary products such as books, comics, toys and collectibles all available in a single location. With its integrated buy-sell-trade business model, Vintage Stock buys, sells and trades new and pre-owned movies, music, video games, electronics and collectibles through 33 Vintage Stock, 3 V-Stock, 13 Movie Trading company and 8 EntertainMart retail locations strategically positioned across Texas, Idaho, Oklahoma, Kansas, Missouri, Colorado, Illinois, Arkansas and New Mexico.

### *Modern Everyday*

Modern Everyday, Inc. (“MEI”) was a specialty retailer offering consumers a selection of products that range from home, kitchen and dining products, apparel and sporting goods to children’s toys and beauty products. Some of MEI’s products remain available for sale on amazon.com. The Company has decided not to invest additional funds in this line of business and is in the process of selling the remaining inventory.

### *LiveDeal*

LiveDeal Inc. - LiveDeal.com is a real time “deal engine” connecting restaurants with consumers. LiveDeal.com provides marketing solutions to restaurants to boost customer awareness and merchant visibility on the internet. The marketing solutions that LiveDeal.com provides have not provided any revenue to date. The Company is evaluating possibilities for using the LiveDeal.com deal engine for alternative marketable purposes.

## **Services Segment**

### *Telco*

Telco Billing Inc. (“Telco”) provides legacy services primarily under our InstantProfile<sup>®</sup> line of directory listing services. We no longer accept new customers under our legacy service offerings.

## Critical Accounting Policies

Our unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and do not include all disclosures required under GAAP for complete financial statements. Preparation of these statements requires us to make judgments and estimates. Some accounting policies have a significant and material impact on amounts reported in these financial statements. Estimates and assumptions are based on management's experience and other information available prior to the issuance of our financial statements. Our actual realized results may differ materially from management's initial estimates as reported. For a summary of significant accounting policies and the means by which we develop estimates thereon, see (“Part 1, Item 1 of this 10-Q report – Financial Statements - Notes to unaudited condensed consolidated financial statements Note 2 – summary of significant accounting policies), which are an integral component of this filing.

## Results of Operations

The following table sets forth certain statement of operations items and as a percentage of revenue, for the periods indicated:

	Three Months Ended March 31, 2017		Three Months Ended March 31, 2016	
Statement of Income Data:				
Revenue	\$ 38,536,425	100.0%	\$ 19,839,923	100.0%
Cost of Revenue	22,061,055	57.2%	14,233,724	71.7%
Gross Profit	16,475,370	42.8%	5,606,199	28.3%
General and Administrative Expense	9,149,865	23.7%	2,158,398	10.9%
Selling & Marketing Expense	2,054,648	5.3%	2,249,323	11.3%
Operating Income	5,270,857	13.7%	1,198,478	6.0%
Interest (Expense), Net	(2,035,053)	-5.3%	(334,986)	-1.7%
Other Income	143,272	0.4%	355,016	1.8%
Net Income before Income taxes	3,379,076	8.8%	1,218,508	6.1%
Provision for Income Taxes	1,538,410	4.0%	–	0.0%
Net Income before Noncontrolling Interest	1,840,666	4.8%	1,218,508	6.1%
Net Income attributed to Noncontrolling Interest	–	0.0%	–	0.0%
Net Income attributed to Live Ventures	<u>\$ 1,840,666</u>	<u>4.8%</u>	<u>\$ 1,218,508</u>	<u>6.1%</u>

	Six Months Ended March 31, 2017		Six Months Ended March 31, 2016	
Statement of Income Data:				
Revenue	\$ 70,725,089	100.0%	\$ 39,944,357	100.0%
Cost of Revenue	41,604,487	58.8%	27,928,283	69.9%
Gross Profit	29,120,602	41.2%	12,016,074	30.1%
General and Administrative Expense	16,208,539	22.9%	4,524,271	11.3%
Selling & Marketing Expense	3,962,138	5.6%	5,246,073	13.1%
Operating Income	8,949,925	12.7%	2,245,730	5.6%
Interest (Expense), Net	(3,484,529)	-4.9%	(680,469)	-1.7%
Other Income	185,162	0.3%	367,569	0.9%
Net Income before Income taxes	5,650,558	8.0%	1,932,830	4.8%
Provision for Income Taxes	2,381,319	3.4%	413,980	1.0%
Net Income before Noncontrolling Interest	3,269,239	4.6%	1,518,850	3.8%
Net Income attributed to Noncontrolling Interest	–	0.0%	124,194	0.3%
Net Income attributed to Live Ventures	<u>\$ 3,269,239</u>	<u>4.6%</u>	<u>\$ 1,394,656</u>	<u>3.5%</u>

The following tables set forth revenues for key product categories, percentages of total revenue and gross profits earned by key product category and gross profit percent as compared to revenues for each key product category indicated:

	Three Months Ended March 31, 2017		Three Months Ended March 31, 2016	
	Net Revenue	Percent of Total	Net Revenue	Percent of Total
Revenue				
Used Movies, Music, Games and Other	\$ 11,295,891	29.3%	\$ –	
New Movies, Music, Games and Other	8,333,393	21.6%	–	
Rentals, Concessions and Other	320,618	0.8%	–	
Kitchen and Home Products	25,631	0.1%	1,135,110	5.7%
Carpets	13,726,027	35.6%	14,246,801	71.8%
Hard Surface Products	3,277,930	8.5%	2,956,863	14.9%
Synthetic Turf Products	1,339,735	3.5%	1,244,430	6.3%
Directory Services	217,200	0.6%	256,719	1.3%
Total Revenue	<u>\$ 38,536,425</u>	<u>100.0%</u>	<u>\$ 19,839,923</u>	<u>100.0%</u>

	Three Months Ended March 31, 2017		Three Months Ended March 31, 2016	
	Gross Profit	Gross Profit %	Gross Profit	Gross Profit %
Gross Profit				
Used Movies, Music, Games and Other	\$ 8,696,689	77.0%	\$ –	
New Movies, Music, Games and Other	2,197,935	26.4%	–	
Rentals, Concessions and Other	188,630	58.8%	–	
New Kitchen and Home Products	1,400	5.5%	255,204	22.5%
Carpets	3,386,745	24.7%	3,571,465	25.1%
Hard Surface Products	882,248	26.9%	753,298	25.5%
Synthetic Turf Products	917,089	68.5%	781,030	62.8%
Directory Services	204,634	94.2%	245,202	95.5%
Total Gross Profit	<u>\$ 16,475,370</u>	<u>42.8%</u>	<u>\$ 5,606,199</u>	<u>28.3%</u>

## Revenue

Revenue increased \$18,696,502, or 94.2% for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016.

The increase in revenue was primarily attributable to the following:

Revenue from our new acquisition Vintage Stock –Used Movies, Music, Games and Other \$11,295,891 or 29.3% of total revenue, New Movies, Music, Games and Other \$8,333,393 or 21.6% of total revenue, Rentals, Concessions and Other \$320,618 or 0.8% of total revenue

Revenue increased in the following categories as compared to the prior year period:

Hard Surface Products \$321,067 or 10.9%, Synthetic Turf Products \$95,305 or 7.7%

The revenue increases were partially offset by the following decreases in revenue as compared to the prior year period:

Kitchen and Home Products \$1,109,479 or 97.7%

Carpets \$520,774 or 3.7%

Directory Services \$39,519 or 15.4%



## **Cost of Revenue**

Cost of revenue increased \$7,827,331, or 55.0% for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016, primarily as a result of the change in revenue discussed above as well as the changes in gross profit discussed below.

## **Gross Profit**

Gross profit increased \$10,869,171 or 193.9%, for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016.

The increase in gross profit was primarily attributable to the following:

Gross Profits from our new acquisition Vintage Stock -Used Movies, Music, Games and Other \$8,696,689 or 77.0% gross profit margin, New Movies, Music, Games and Other \$2,197,935 or 26.4% gross profit margin, Rentals, Concessions and Other \$188,630 or 58.8% gross profit margin.

Gross profit increased in the following categories as compared to the prior year period:

Hard Surface Products gross profit increased \$128,950 or 17.1%, Synthetic Turf Products gross profit increased \$136,059 or 17.4%. Hard surface products gross profit margin increased to 26.9% from 25.5% or 14bps due to improved cost of goods sold. Synthetic Turf Products gross profit margin increased to 68.5% from 62.8% or 57bps due to increased training expenses.

Gross profit increases were partially offset by the following decreases in gross profit as compared to the prior year period.

Kitchen and Home Products gross profit decreased \$253,804 or 99.5%. Kitchen and Home Products gross profit margin decreased to 5.5% from 22.5% or 170bps due to the mix of products sold, and aggressive discounting of remaining inventory held for sale.

Carpets gross profit decreased \$184,720 or 5.2%. Carpets gross profit margin decreased to 24.7% from 25.1% or 4bps due to increased expense related to removing old and installing new equipment.

Directory Services \$40,568 or 16.5%. Directory Services gross profit margin decreased to 94.2% from 95.5% or 13bps due to increased billing processing fees.

## **General and Administrative Expense**

General and Administrative expense increased \$6,991,467 or 323.9%, for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016. The increase in general and administrative expense was primarily attributable to general and administrative expense from our new acquisition Vintage Stock of \$7,356,236; partially offset by a decrease of general and administrative expense associated with Kitchen and Home products of \$357,375, a decrease of \$7,263 associated with Marquis and a decrease of \$131 associated with our Directory services business Telco.

## **Selling and Marketing Expense**

Selling and marketing expense decreased \$194,675 or 8.7%, for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016. The decrease in selling and marketing expense was primarily attributable to the decrease in selling and marketing expense associated with Kitchen and Home products of \$423,295 due to declining revenue and a decrease in Marquis selling and marketing expense of \$94,336; partially offset by an increase from our new acquisition Vintage Stock of \$322,956.

## **Operating Income**

As a result of the factors described above, operating income of \$5,270,857 for the three months ended March 31, 2017, represented an increase of \$4,072,379 over the comparable prior year period of \$1,198,478, or 339.8%.

## **Interest Expense, net**

Interest expense net increased \$1,700,067 or 507.5%, for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016 primarily due to the new financing related to the acquisition of Vintage Stock as more fully discussed in Notes 4 and 6 of these unaudited condensed consolidated financial statements.

## Other Income and Expense

Other income and expense decreased \$211,744 or 59.6%, for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016. The decrease in other income and expense was primarily the result of the absence of the Modern Everyday Inc. contingency purchase price adjustment gain of \$316,000.

## Provision for Income Taxes

Provision for income taxes increased \$1,538,410 or 100%, for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016. The increase in provision for income taxes is primarily attributable to the increase in pre-provision income and the application of an estimated effective tax rate of 39.7%. The income tax provision is primarily deferred due to the Company's approximately \$24.6 million of net operating loss carryforwards for federal income tax purposes.

## Net Income

The factors described above led to net income of \$1,840,666 for the three months ended March 31, 2017, or a 51.1% increase from net income of \$1,218,508 for the three months ended March 31, 2016.

	Six Months Ended March 31, 2017		Six Months Ended March 31, 2016	
	Net Revenue	Percent of Total	Net Revenue	Percent of Total
Revenue				
Used Movies, Music, Games and Other	\$ 19,093,309	27.0%	\$ –	
New Movies, Music, Games and Other	15,041,319	21.3%	–	
Rentals, Concessions and Other	497,651	0.7%	–	
Kitchen and Home Products	119,977	0.2%	4,776,752	12.0%
Carpets	26,562,577	37.6%	27,367,153	68.5%
Hard Surface Products	6,468,533	9.1%	5,068,618	12.7%
Synthetic Turf Products	2,500,116	3.5%	2,202,353	5.5%
Directory Services	441,607	0.6%	529,481	1.3%
Total Revenue	<u>\$ 70,725,089</u>	<u>100.0%</u>	<u>\$ 39,944,357</u>	<u>100.0%</u>

	Six Months Ended March 31, 2017		Six Months Ended March 31, 2016	
	Gross Profit	Gross Profit %	Gross Profit	Gross Profit %
Gross Profit				
Used Movies, Music, Games and Other	\$ 14,812,644	77.6%	\$ –	
New Movies, Music, Games and Other	4,006,873	26.6%	–	
Rentals, Concessions and Other	289,665	58.2%	–	
New Kitchen and Home Products	43,080	35.9%	1,850,459	38.7%
Carpets	6,132,352	23.1%	6,949,318	25.4%
Hard Surface Products	1,759,617	27.2%	1,291,908	25.5%
Synthetic Turf Products	1,657,406	66.3%	1,418,241	64.4%
Directory Services	418,965	94.9%	506,148	95.6%
Total Gross Profit	<u>\$ 29,120,602</u>	<u>41.2%</u>	<u>\$ 12,016,074</u>	<u>30.1%</u>

## Revenue

Revenue increased \$30,780,732, or 77.1% for the six months ended March 31, 2017 as compared to the six months ended March 31, 2016.

The increase in revenue was primarily attributable to the following:

Revenue from our new acquisition Vintage Stock for the short period of November 3, 2016 through March 31, 2017—Used Movies, Music, Games and Other \$19,093,309 or 27.0% of total revenue, New Movies, Music, Games and Other \$15,041,319 or 21.3% of total revenue, Rentals, Concessions and Other \$497,651 or 0.7% of total revenue

Revenue increased in the following categories as compared to the prior year period:

Hard Surface Products \$1,399,915 or 27.6%, Synthetic Turf Products \$297,763 or 13.5%

The revenue increases were partially offset by the following decreases in revenue as compared to the prior year period:

Kitchen and Home Products \$4,656,775 or 97.5%

Carpets \$804,576 or 2.9%

Directory Services \$87,874 or 16.6%

## Cost of Revenue

Cost of revenue increased \$13,676,204, or 49.0% for the six months ended March 31, 2017 as compared to the six months ended March 31, 2016, primarily as a result of the change in revenue discussed above as well as the changes in gross profit discussed below.

## Gross Profit

Gross profit increased \$17,104,528 or 142.3%, for the six months ended March 31, 2017 as compared to the six months ended March 31, 2016.

The increase in gross profit was primarily attributable to the following:

Gross Profits from our new acquisition Vintage Stock for the short period of November 3, 2016 through March 31, 2017—Used Movies, Music, Games and Other \$14,812,644 or 77.6% gross profit margin, New Movies, Music, Games and Other \$4,006,873 or 26.6% gross profit margin, Rentals, Concessions and Other \$289,665 or 58.2% gross profit margin.

Gross profit increased in the following categories as compared to the prior year period:

Hard Surface Products gross profit increased \$467,709 or 36.2%, Synthetic Turf Products gross profit increased \$239,165 or 16.9%. Hard surface products gross profit margin increased to 27.2% from 25.5% or 17bps due to improved cost of goods sold. Synthetic Turf Products gross profit margin increased to 66.3% from 64.4% or 19bps due to increased training expenses and better productivity.

Gross profit increases were partially offset by the following decreases in gross profit as compared to the prior year period.

Kitchen and Home Products \$1,807,379 or 97.7%. Kitchen and Home Products gross profit margin decreased to 35.9% from 38.7% or 28bps due to the mix of products sold, and aggressive discounting of remaining inventory available for sale.

Carpets \$816,966 or 11.8%. Carpets gross profit margin decreased to 23.1% from 25.4% or 23bps due to increased expense related to removing old and installing new equipment.

Directory Services \$87,183 or 17.2%. Directory Services gross profit margin decreased to 94.9% from 95.6% or 7bps due to increased billing processing fees.

### **General and Administrative Expense**

General and Administrative expense increased \$11,684,268 or 258.3%, for the six months ended March 31, 2017 as compared to the six months ended March 31, 2016. The increase in general and administrative expense was primarily attributable to general and administrative expense from our new acquisition Vintage Stock for the short period of November 3, 2016 through March 31, 2017 of \$12,725,352, of which \$347,610 were one-time expenses related to Vintage acquisition expenses – see Note 4; partially offset by a decrease of general and administrative expense associated with Kitchen and Home products of \$880,195, a decrease of \$159,874 associated with Marquis and a decrease of \$1,015 associated with our Directory services business Telco.

### **Selling and Marketing Expense**

Selling and marketing expense decreased \$1,283,935 or 24.5%, for the six months ended March 31, 2017 as compared to the six months ended March 31, 2016. The decrease in selling and marketing expense was primarily attributable to the decrease in selling and marketing expense associated with Kitchen and Home products of \$1,654,573 due to declining revenue and a decrease in Marquis selling and marketing expense of \$161,881; partially offset by an increase from our new acquisition Vintage Stock of \$532,519.

### **Operating Income**

As a result of the factors described above, operating income of \$8,949,925 for the six months ended March 31, 2017, represented an increase of \$6,704,195 over the comparable prior year period of \$2,245,730, or 298.5%.

### **Interest Expense, net**

Interest expense net increased \$2,804,060 or 412.1%, for the six months ended March 31, 2017 as compared to the six months ended March 31, 2016 primarily due to the new financing related to the acquisition of Vintage Stock as more fully discussed in Notes 5 and 7 of these unaudited condensed consolidated financial statements.

### **Other Income and Expense**

Other income and expense decreased \$182,407 or 49.6%, for the six months ended March 31, 2017 as compared to the six months ended March 31, 2016. The decrease in other income and expense was primarily the result of the absence of the Modern Everyday Inc. contingency purchase price adjustment gain of \$316,000.

### **Provision for Income Taxes**

Provision for income taxes increased \$1,967,339 or 475.2%, for the six months ended March 31, 2017 as compared to the six months ended March 31, 2016. The increase in provision for income taxes is primarily attributable to the increase in pre-provision income and the application of an estimated effective tax rate of 39.7%. The income tax provision is primarily deferred due to the Company's approximately \$24.6 million of net operating loss carryforwards for federal income tax purposes.

### **Net Income**

The factors described above led to net income of \$3,269,239 for the six months ended March 31, 2017, or a 134.4% increase from net income of \$1,394,656 for the six months ended March 31, 2017.

### **Segment Performance**

We report our business in the following segments: Retail and Online, Manufacturing and Services. We identified these segments based on a combination of business type, customers serviced and how we divide management responsibility. Our revenues and profits are driven through our physical stores, e-commerce, individual sales reps and our internet services.

Operating income (loss) by operating segment, is defined as income (loss) before net interest expense, other income and expense, provision for income taxes and income (loss) attributable to non-controlling interest.

	Three Months Ended March 31, 2017				Three Months Ended March 31, 2016			
	Segments in \$				Segments - \$			
	Retail & Online	Mfg	Services	Total	Retail & Online	Mfg	Services	Total
Revenue	\$ 19,975,533	\$ 18,343,692	\$ 217,200	\$ 38,536,425	\$ 1,135,110	\$ 18,448,094	\$ 256,719	\$ 19,839,923
Cost of Revenue	8,890,879	13,157,610	12,566	22,061,055	879,906	13,342,301	11,517	14,233,724
Gross Profit	11,084,654	5,186,082	204,634	16,475,370	255,204	5,105,793	245,202	5,606,199
General and Administrative Expense	8,204,504	945,037	324	9,149,865	1,205,643	952,300	455	2,158,398
Selling and Marketing Expense	344,991	1,709,657	–	2,054,648	445,330	1,803,993	–	2,249,323
Operating Income (Loss)	\$ 2,535,159	\$ 2,531,388	\$ 204,310	\$ 5,270,857	\$(1,395,769)	\$ 2,349,500	\$ 244,747	\$ 1,198,478

	Three Months Ended March 31, 2017				Three Months Ended March 31, 2016			
	Segments in %				Segments - %			
	Retail & Online	Mfg	Services	Total	Retail & Online	Mfg	Services	Total
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Revenue	44.5%	71.7%	5.8%	57.2%	77.5%	72.3%	4.5%	71.7%
Gross Profit	55.5%	28.3%	94.2%	42.8%	22.5%	27.7%	95.5%	28.3%
General and Administrative Expense	41.1%	5.2%	0.1%	23.7%	106.2%	5.2%	0.2%	10.9%
Selling and Marketing Expense	1.7%	9.3%	0.0%	5.3%	39.2%	9.8%	0.0%	11.3%
Operating Income (Loss)	12.7%	13.8%	94.1%	13.7%	-123.0%	12.7%	95.3%	6.0%

### Retail and Online Segment

Segment results for Retail and Online include Vintage, Modern Everyday and LiveDeal. Revenue for the three months ended March 31, 2017 increased \$18,840,423, or 1659.8%, as compared to the prior year period, as a result of the acquisition of the Vintage business on November 3, 2016 which provided \$11,295,891 of Used movies, music, games and other revenue; \$8,333,393 of New movies, music, games and other revenue; \$320,618 of Movie Rental, concession and other revenue; partially offset by a decrease in New kitchen and home products revenue of \$1,109,479, or 97.7% from the prior year period. Cost of revenue for the three months ended March 31, 2017 increased \$8,010,973, or 910.4%, as a result of the new Vintage business which had cost of revenue for Used movies, music, games and other of \$2,599,202; New movies, music, games and other of \$6,135,458; Movie Rental, concession and other of \$131,988; partially offset by a decrease in cost of revenue for New Kitchen and home products of \$855,675, or 97.2% from the prior year period. Operating income for the three months ended March 31, 2017 increased \$3,930,928, as a result of increased gross profit of \$10,829,450, partially offset by an increase in general and administrative expense of \$6,998,861, which included one-time acquisition related expense related to Vintage Stock of \$347,610, and a decrease in selling and marketing expense of \$100,339.

### Manufacturing Segment

Segment results for Manufacturing include Marquis, which is our carpet, hard surface and synthetic turf products business. Revenue for the three months ended March 31, 2017 decreased \$104,402, or 0.6%, as compared to the prior year period, as a result of increased sales of hard surface products of \$321,067, synthetic turf products of \$95,305, offset by a decrease in carpet sales of \$520,774. Cost of revenue for the three months ended March 31, 2017 decreased \$184,691, or 1.4%, as compared to the prior year period, as a result of increased training expenses related to our new turf line, and increased expenses related to installing new and removing old twist and heat set equipment; partially offset by improved margin for hard surface products by 1.4%. Operating income for the three months ended March 31, 2017 increased \$181,888, or 7.7%, as compared to the prior year period, as a result of an increase in gross profit of \$80,289, a decrease in general and administrative expense of \$7,263 and a decrease in selling and marketing expense of \$94,336.

## Services Segment

Segment results for Services include Telco results, which is our directory services business. Revenues for the three months ended March 31, 2017 decreased \$39,519, or 15.4%, as compared to the prior year period, as a result of decreasing renewals. Operating earnings for the three months ended March 31, 2017 decreased \$40,437, or 16.5% compared to the prior year period, primarily due to decreased renewal revenues. We expect revenue and operating income from this segment to continue to decrease in the future. We are no longer accepting new customers in our directory services business.

	Six Months Ended March 31, 2017				Six Months Ended March 31, 2016			
	Segments in \$				Segments - \$			
	Retail & Online	Mfg	Services	Total	Retail & Online	Mfg	Services	Total
Revenue	\$ 34,752,256	\$ 35,531,226	\$ 441,607	\$ 70,725,089	\$ 4,776,752	\$ 34,638,124	\$ 529,481	\$ 39,944,357
Cost of Revenue	15,599,994	25,981,851	22,642	41,604,487	2,926,293	24,978,657	23,333	27,928,283
Gross Profit	19,152,262	9,549,375	418,965	29,120,602	1,850,459	9,659,467	506,148	12,016,074
General and Administrative Expense	14,267,867	1,939,858	814	16,208,539	2,422,710	2,099,732	1,829	4,524,271
Selling and Marketing Expense	605,269	3,356,869	–	3,962,138	1,727,323	3,518,750	–	5,246,073
Operating Income (Loss)	\$ 4,279,126	\$ 4,252,648	\$ 418,151	\$ 8,949,925	\$ (2,299,574)	\$ 4,040,985	\$ 504,319	\$ 2,245,730

	Six Months Ended March 31, 2017				Six Months Ended March 31, 2016			
	Segments in %				Segments - %			
	Retail & Online	Mfg	Services	Total	Retail & Online	Mfg	Services	Total
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Revenue	44.9%	73.1%	5.1%	58.8%	61.3%	72.1%	4.4%	69.9%
Gross Profit	55.1%	26.9%	94.9%	41.2%	38.7%	27.9%	95.6%	30.1%
General and Administrative Expense	41.1%	5.5%	0.2%	22.9%	50.7%	6.1%	0.3%	11.3%
Selling and Marketing Expense	1.7%	9.4%	0.0%	5.6%	36.2%	10.2%	0.0%	13.1%
Operating Income (Loss)	12.3%	12.0%	94.7%	12.7%	-48.1%	11.7%	95.2%	5.6%

## Retail and Online Segment

Segment results for Retail and Online include Vintage, Modern Everyday and LiveDeal. Revenue for the six months ended March 31, 2017 increased \$29,975,504, or 627.5%, as compared to the prior year period, as a result of the acquisition of the Vintage business on November 3, 2016 which provided \$19,093,309 of Used movies, music, games and other revenue; \$15,041,319 of New movies, music, games and other revenue; \$497,651 of Movie Rental, concession and other revenue; partially offset by a decrease in New kitchen and home products revenue of \$4,656,775, or 97.5% from the prior year period. Cost of revenue for the six months ended March 31, 2017 increased \$12,673,701, or 433.1%, as a result of the new Vintage business which had cost of revenue for Used movies, music, games and other of \$4,280,665; New movies, music, games and other of \$11,034,446; Movie Rental, concession and other of \$207,986; partially offset by a decrease in cost of revenue for New Kitchen and home products of \$2,849,396, or 97.4% from the prior year period. Operating income for the six months ended March 31, 2017 increased \$6,578,700, as a result of increased gross profit of \$17,301,803, partially offset by an increase in general and administrative expense of \$11,845,157, which included one-time acquisition related expense related to Vintage Stock of \$347,610, and a decrease in selling and marketing expense of \$1,122,054.

## Manufacturing Segment

Segment results for Manufacturing include Marquis, which is our carpet, hard surface and synthetic turf products business. Revenue for the six months ended March 31, 2017 increased \$893,102, or 2.6%, as compared to the prior year period, as a result of increased sales of hard surface products of \$1,399,915, synthetic turf products of \$297,763, partially offset by a decrease in carpet sales of \$804,576. Cost of revenue for the six months ended March 31, 2017 increased \$1,003,194, or 4.0%, as compared to the prior year period, as a result of increased training expenses related to our new turf line, and increased expenses related to installing new and removing old twist and heat set equipment; partially offset by improved margin for hard surface products by 1.7%. Operating income for the six months ended March 31, 2017 increased \$211,663, or 5.2%, as compared to the prior year period, as a result of a decrease in general and administrative expense of \$159,874 and a decrease in selling and marketing expense of \$161,881; partially offset by a decrease in gross profit of \$110,092.

## Services Segment

Segment results for Services include Telco results, which is our directory services business. Revenues for the six months ended March 31, 2017 decreased \$87,874, or 16.6%, as compared to the prior year period, as a result of decreasing renewals. Operating earnings for the six months ended March 31, 2017 decreased \$86,168, or 17.1%, compared to the prior year period, primarily due to decreased renewal revenues. We expect revenue and operating income from this segment to continue to decrease in the future. We are no longer accepting new customers in our directory services business.

## Liquidity and Capital Resources

### *Overview*

Based on our current operating plans, we believe that available cash balances, cash generated from our operating activities and funds available under our Bank of America Revolver Loan - \$15 million and our Texas Capital Bank Revolver Loan - \$20 million, both asset-based revolving credit facilities together will provide sufficient liquidity to fund our operations, our continued investments in store openings and remodeling activities, share repurchases and the payment of dividends on our series E preferred shares as declared by the Board of Directors, for at least the next 12 months.

As of March 31, 2017, we had total cash on hand of \$752,449 and an additional \$10,027,547 of available borrowing under the Bank of America Revolver Loan and an additional \$2,252,845 of available borrowing under the Texas Capital Revolver Loan. As we continue to pursue acquisitions, and other strategic transactions to expand and grow our business, while also enhancing shareholder value through share repurchases, we regularly monitor capital market conditions and may raise additional funds through borrowings or public or private sales of debt or equity securities. The amount, nature and timing of any borrowings or sales of debt or equity securities will depend on our operating performance and other circumstances; our then-current commitments and obligations; the amount, nature and timing of our capital requirements; any limitations imposed by our current credit arrangements; and overall market conditions.

### *Cash Flows*

During the six months ended March 31, 2017, cash provided by operations was \$3,392,688, compared to \$3,414,694 during the six months ended March 31, 2016. The decrease in cash provided by operations of \$22,006 as compared to the prior period; was primarily due to an increase in net income of \$1,750,389, an increase in non-cash expenses of \$1,511,431, an increase in the change to deferred income taxes of \$1,869,295 and a decrease in cash provided by operations for working capital purposes of \$5,153,121. The increase in net income was primarily attributable to our Vintage Stock acquisition effective November 3, 2017.

The increase in non-cash expenses was primarily due to an increase in depreciation and amortization expense of \$962,227 from new equipment put into service at Marquis and new depreciation as a result of the Vintage acquisition.

Some of the significant changes in cash provided by or used by operations for working capital purposes, as compared to the prior year period include:

Cash used to increase inventory of \$3,543,967 was primarily the result of stocking and opening eight new stores for Vintage and value purchases of raw materials inventory for Marquis.

Cash used to pay down accounts payable of \$2,644,141 was primarily the result of a concerted effort to decrease seasonal accounts payable levels at Vintage.

Cash provided by income taxes payable of \$809,519 was the primary result of new accruals for current income taxes payable as a result of increased taxable income due to federal and state taxing authorities.

Cash used in investing activities was \$52,691,066 and \$123,204 for the six months ended March 31, 2017 and the six months ended March 31, 2016, respectively. The \$52,567,862 increase in cash used in investing activities, as compared to the prior period, is primarily attributable to the acquisition of Vintage Stock for \$47,310,900 of consideration given, net of cash acquired, and seller financing provided, the purchase and placement into service of new equipment of \$5,160,303, primarily for Marquis, and the purchase of intangible assets – software of \$96,659.

Cash provided by financing activities was \$49,279,932 and used by financing activities of \$2,598,185 for the six months ended March 31, 2017 and the six months ended March 31, 2016, respectively. The \$51,878,117 increase in cash provided, as compared to the prior period, was attributable to increased borrowings on our two revolver loans of \$14,349,439, \$11,492,658 of which was used to help acquire Vintage Stock; proceeds from the Capitala Term Loan of \$30,000,000, both of which were used to help acquire Vintage Stock; proceeds from Banc of America Leasing & Capital LLC in the amount of \$6,984,434 for equipment financing at Marquis; partially offset by an increase in debt issuance costs of \$1,155,000, an increase in payments of notes payable of \$1,226,614, reduction in payment of non-controlling interests of \$2,000,000, reduction in payment of related party notes payable of \$845,566, and a reduction in purchases of Treasury Stock of \$80,292.

### *Sources of Liquidity*

We utilize cash on hand and cash generated from operations and have funds available to us under our two revolving loan facilities (Bank of America Revolver and Texas Capital Bank Revolver) to cover normal and seasonal fluctuations in cash flows and to support our various growth initiatives. Our cash and cash equivalents are carried at cost and consist primarily of demand deposits with commercial banks.

#### *Bank of America Revolver*

Marquis may borrow funds for operations under the Bank of America Revolver subject to availability as described in Note 6. On March 31, 2017 and September 30, 2016 – we had \$10,027,547 and \$11,071,138 of additional borrowing availability on the Bank of America Revolver, respectively. Maximum borrowing under the Bank of America Revolver is \$15 million. A total of approximately \$72,715 of letters of credit was outstanding at March 31, 2017. The weighted average interest rate for the period of October 1, 2016 through March 31, 2017 was 3.45%. We borrowed \$45,174,161 and repaid \$42,689,056 on the Bank of America Revolver during the six months ended March 31, 2017; leaving an outstanding balance on the Bank of America Revolver of \$2,707,694 and \$222,590 at March 31, 2017 and September 30, 2016, respectively.

#### *Texas Capital Bank Revolver*

Vintage Stock may borrow funds for operations under the Texas Capital Bank Revolver subject to availability as described in Note 6. On March 31, 2017 and November 3, 2016 – we had \$2,252,845 and \$2,562,782 of additional borrowing availability on the Texas Capital Bank Revolver, respectively. Maximum borrowing under the Texas Capital Bank Revolver is \$20 million. No letters of credit were outstanding at any time during the period of November 3, 2016 through March 31, 2017. The weighted average interest rate for the period of November 3, 2016 through March 31, 2017 was 3.44606%. We borrowed \$43,325,404 and repaid \$30,654,766 on the Texas Capital Bank Revolver during the period of November 3, 2016 through March 31, 2017; leaving an outstanding balance on the Texas Capital Bank Revolver of \$12,670,638 at March 31, 2017.

We are currently in compliance with all covenants under our existing revolving and other loan agreements.

#### *Future Sources of Cash; New Acquisitions, Products and Services*

We may require additional debt financing and or capital to finance new acquisitions, refinance existing indebtedness or other strategic investments in our business. Other sources of financing may include stock issuances and additional loans; or other forms of financing. Any financing obtained may further dilute or otherwise impair the ownership interest of our existing stockholders.

### **Off-Balance Sheet Arrangements**

At March 31, 2017, we had no off-balance sheet arrangements, commitments or guarantees that require additional disclosure or measurement.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As of March 31, 2017, we did not participate in any market risk-sensitive commodity instruments for which fair value disclosure would be required. We believe we are not subject in any material way to other forms of market risk, such as foreign currency exchange risk, foreign customer purchases or commodity price risk.

### **ITEM 4. CONTROLS AND PROCEDURES**

Evaluation of Disclosure control and Procedures. We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of period covered in this report, our disclosure controls and procedures were not effective to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the required time periods and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.



In our most recent annual audit, no material deficiencies were identified by our external auditors with regards to our financial reporting. Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in our periodic reports. Management has concluded that adequate definition and documentation of existing accounting processes, internal controls and the testing thereof are not in place to be deemed adequate and reliable. The Company and its management are working to remediate these deficiencies in our financial reporting.

Changes in Internal Control over Financial Reporting. There was no change in our internal control over our existing financial reporting (with the exception of the Vintage Stock, Inc. acquisition as described below and elsewhere in this 10-Q report) during our most recently completed three month and six month periods ended March 31, 2017, that have materially affected, or is reasonably likely, to materially affect our internal control over financial reporting.

In November 2016, we acquired Vintage Stock, Inc. We are currently in the process of integrating Vintage Stock, Inc. into our assessment of our internal control over financial reporting. Vintage Stock, Inc. represents a significant portion of our operations on a consolidated basis and we expect this integration effort to have a significant effect on our internal control over financial reporting. Vintage Stock, Inc. represented 47.5% of our consolidated assets as of March 31, 2017 and 49.0% of our consolidated net revenues and 48.3% of consolidated pre-tax net income for the fiscal six months ended March 31, 2017.

## **PART II – OTHER INFORMATION**

### **ITEM 1. Legal Proceedings**

The Company is party to certain legal proceedings from time to time incidental to the conduct of its business. These proceedings could result in fines, penalties, compensatory or treble damages or non-monetary relief. The nature of legal proceedings is such that we cannot assume the outcome of any particular matter, and an unfavorable ruling or development could have a materially adverse effect on our consolidated financial position, results of operations and cash flows in the period in which a ruling or settlement occurs. However, based on information available to the Company's management to date and other than as noted below, the Company's management does not expect that the outcome of any matter pending against us is likely to have a materially adverse effect on our consolidated financial position as of March 31, 2017, our annual results of operations, cash flows, or our liquidity.

### **ITEM 1A. Risk Factors**

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

### **ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None

### **ITEM 3. Defaults Upon Senior Securities**

None.

### **ITEM 4. Mine Safety Disclosures**

None.

### **ITEM 5. Other Information**

None.

**ITEM 6. EXHIBITS**

The following exhibits are being filed herewith:

<u>Exhibit Number</u>	<u>Description</u>
10.1	<a href="#">Amendment 5, Bank of America lending agreement</a> [filed as Exhibit No. 10.1 to the Company's Form 10-Q for the quarter ended March 31, 2017 (File No. 0-33937) and incorporated herein by reference]
31.1*	<a href="#">Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2*	<a href="#">Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1*	<a href="#">Section 1350 Certification of the Principal Executive Officer</a>
32.2*	<a href="#">Section 1350 Certification of the Principal Financial Officer</a>
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

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\* Filed herewith

**SIGNATURES**

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

Live Ventures Incorporated

Dated: February 14, 2018

/s/ Jon Isaac  
President and Chief Executive Officer  
(Principal Executive Officer)

Dated: February 14, 2018

/s/ Virland A Johnson  
Chief Financial Officer  
(Principal Financial Officer)

**Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jon Isaac, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q/A for the quarterly period ended March 31, 2017 of Live Ventures Incorporated (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Jon Isaac

**Jon Isaac**  
**President and Chief Executive Officer**  
**(Principal Executive Officer)**

Dated: February 14, 2018

**Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Virland A. Johnson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q/A for the quarterly period ended March 31, 2017 of Live Ventures Incorporated (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Virland A. Johnson  
**Virland A. Johnson**  
**Chief Financial Officer**  
**(Principal Financial Officer)**

Dated: February 14, 2018

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Live Ventures Incorporated (the “Company”) on Form 10-Q/A for the period ended March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jon Isaac, the President and Chief Executive Officer of the Company, to the best of my knowledge and belief, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jon Isaac

**Jon Isaac**  
**President and Chief Executive Officer**  
**(Principal Executive Officer)**

Dated: February 14, 2018

The certification set forth above is being furnished as an exhibit solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as part of the Report as a separate disclosure document of the Company or the certifying officers.

*A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.*

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Live Ventures Incorporated (the "Company") on Form 10-Q/A for the period ended March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Virland A. Johnson, the Chief Financial Officer (Principal Financial Officer) of the Company, to the best of my knowledge and belief, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Virland A. Johnson

**Virland A. Johnson**  
**Chief Financial Officer**  
**(Principal Financial Officer)**

Dated: February 14, 2018

The certification set forth above is being furnished as an exhibit solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as part of the Report as a separate disclosure document of the Company or the certifying officers.

*A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.*