

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

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(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, 2019

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) 997-5968**  
(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 every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 May 10, 2019 was 1,901,900, with a market value of \$13,940,927.

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FOR THE QUARTER ENDED MARCH 31, 2019  
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**PART I - FINANCIAL INFORMATION**  
**LIVE VENTURES INCORPORATED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	<u>March 31,</u> <u>2019</u>	<u>September 30,</u> <u>2018</u>
	<u>(Unaudited)</u>	
<b>Assets</b>		
Cash	\$ 3,292,440	\$ 1,991,622
Trade receivables, net	12,407,550	13,839,422
Inventories, net	43,429,090	46,527,039
Income taxes receivable	305,048	248,702
Prepaid expenses and other current assets	2,936,435	3,308,017
Total current assets	62,370,563	65,914,802
Property and equipment, net	23,897,940	27,991,060
Restricted cash	-	750,447
Deposits and other assets	260,196	283,143
Deferred taxes	2,531,075	3,220,362
Intangible assets, net	5,841,152	6,665,847
Goodwill	36,946,735	36,946,735
Total assets	\$ 131,847,661	\$ 141,772,396
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 11,631,904	\$ 14,588,355
Accrued liabilities	8,860,475	8,570,905
Current portion of long-term debt	12,284,002	13,958,355
Current portion of notes payable related parties	-	391,949
Total current liabilities	32,776,381	37,509,564
Long-term debt, net of current portion	51,312,213	58,805,468
Notes payable related parties, net of current portion	5,721,507	5,429,558
Other non-current obligations	828,901	579,217
Total liabilities	90,639,002	102,323,807
<b>Commitments 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, 2019 and September 30, 2018	214	214
Series E convertible preferred stock, \$0.001 par value, 200,000 shares authorized, 127,840 shares issued and 77,840 shares outstanding at March 31, 2019 and at September 30, 2018, with a liquidation preference of \$0.30 per share outstanding	128	128
Common stock, \$0.001 par value, 10,000,000 shares authorized, 2,088,186 shares issued and 1,901,900 shares outstanding at March 31, 2019; 2,088,186 shares issued and 1,945,247 shares outstanding at September 30, 2018	2,088	2,088
Paid in capital	63,732,536	63,654,335
Treasury stock common 186,286 shares as of March 31, 2019 and 142,939 shares as of September 30, 2018	(1,871,473)	(1,550,011)
Treasury stock Series E preferred 50,000 shares as of March 31, 2019 and 50,000 shares as of September 30, 2018	(4,000)	(4,000)
Accumulated deficit	(20,650,834)	(22,654,165)
Total stockholders' equity	41,208,659	39,448,589
Total liabilities and stockholders' equity	\$ 131,847,661	\$ 141,772,396

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

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

	<u>Three Months Ended March 31,</u>		<u>Six Months Ended March 31,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenues	\$ 46,973,151	\$ 52,179,928	\$ 100,169,091	\$ 92,547,992
Cost of revenues	28,322,002	32,529,227	62,180,864	56,501,401
Gross profit	<u>18,651,149</u>	<u>19,650,701</u>	<u>37,988,227</u>	<u>36,046,591</u>
Operating expenses:				
General and administrative expenses	12,793,674	11,856,575	25,694,346	22,255,705
Sales and marketing expenses	3,811,100	3,720,163	8,157,014	5,796,135
Total operating expenses	<u>16,604,774</u>	<u>15,576,738</u>	<u>33,851,360</u>	<u>28,051,840</u>
Operating income	2,046,375	4,073,963	4,136,867	7,994,751
Other (expense) income:				
Interest expense, net	(1,535,997)	(1,821,720)	(3,188,730)	(4,290,032)
Bargain purchase gain on acquisition	-	-	-	3,773,486
Other income	164,954	106,286	1,825,065	183,370
Total other (expense) income, net	<u>(1,371,043)</u>	<u>(1,715,434)</u>	<u>(1,363,665)</u>	<u>(333,176)</u>
Income before provision for income taxes	675,332	2,358,529	2,773,202	7,661,575
Provision for income taxes	201,926	435,256	769,287	3,860,747
Net income	<u>\$ 473,406</u>	<u>\$ 1,923,273</u>	<u>\$ 2,003,915</u>	<u>\$ 3,800,828</u>
Dividends declared - series B convertible preferred stock	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Dividends declared - series E convertible preferred stock	<u>\$ 292</u>	<u>\$ 292</u>	<u>\$ 584</u>	<u>\$ 584</u>
Dividends declared - common stock	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Earnings per share:				
Basic	<u>\$ 0.25</u>	<u>\$ 0.98</u>	<u>\$ 1.03</u>	<u>\$ 1.93</u>
Diluted	<u>\$ 0.13</u>	<u>\$ 0.50</u>	<u>\$ 0.53</u>	<u>\$ 1.01</u>
Weighted average common shares outstanding:				
Basic	<u>1,925,972</u>	<u>1,970,136</u>	<u>1,935,610</u>	<u>1,972,758</u>
Diluted	<u>3,667,412</u>	<u>3,811,672</u>	<u>3,746,084</u>	<u>3,756,114</u>

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

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

	<b>Six Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 2,003,915	\$ 3,800,828
Adjustments to reconcile net income to net cash provided by operating activities, net of acquisition:		
Depreciation and amortization	2,974,189	2,703,164
Non-cash asset retirements	104,185	-
Gain on bargain purchase of acquisition	-	(3,773,486)
Loss on disposal of property and equipment	(1,507,479)	14,158
Amortization of debt issuance cost	193,288	117,024
Stock based compensation expense	78,201	140,185
Deferred rent	17,343	-
Change in reserve for uncollectible accounts	391,264	9,907
Change in reserve for obsolete inventory	(613,646)	36,353
Change in deferred income taxes	689,287	3,807,451
Change in other	232,341	-
Changes in assets and liabilities:		
Trade receivables	1,040,608	(115,768)
Inventories	3,711,595	(2,641,360)
Income taxes receivable	(56,346)	-
Prepaid expenses and other current assets	371,582	2,418,461
Deposits and other assets	22,947	831
Accounts payable	(2,956,451)	343,499
Accrued liabilities	288,986	193,781
Income taxes payable	-	(13,920)
Net cash provided by operating activities	<u>6,985,809</u>	<u>7,041,108</u>
<b>INVESTING ACTIVITIES:</b>		
Purchase of intangible assets	(66,854)	(397,204)
Proceeds from the sale of property and equipment	4,377,249	10,000
Purchase of property and equipment	(963,475)	(6,526,110)
Net cash provided by (used in) investing activities	<u>3,346,920</u>	<u>(6,913,314)</u>
<b>FINANCING ACTIVITIES:</b>		
Net payments under revolver loans	(2,515,997)	(775,668)
Purchase of series E preferred treasury stock	-	(4,000)
Proceeds from issuance of notes payable	-	3,931,591
Purchase of common treasury stock	(321,462)	(377,447)
Payment of debt issuance costs	(118,457)	-
Payments on related party notes payable	(100,000)	-
Payments on notes payable	(6,726,442)	(3,839,798)
Net cash used in financing activities	<u>(9,782,358)</u>	<u>(1,065,322)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>\$ 550,371</b>	<b>\$ (937,528)</b>
Restricted Cash, beginning of period	\$ 750,447	\$ -
Unrestricted cash and cash equivalents, beginning of period	1,991,622	3,972,539
<b>TOTAL CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>\$ 2,742,069</b>	<b>\$ 3,972,539</b>
Restricted Cash, end of period	\$ -	\$ 535,747
Unrestricted cash and cash equivalents, end of period	3,292,440	2,499,264
<b>TOTAL CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 3,292,440</b>	<b>\$ 3,035,011</b>
<b>Supplemental cash flow disclosures:</b>		
Interest paid	\$ 2,953,160	\$ 3,638,625
Income taxes paid (refunded)	\$ 90,572	\$ -
<b>Noncash financing and investing activities:</b>		
Due to sellers of ApplianceSmart, Inc. less liabilities assumed post acquisition	\$ -	\$ 4,598,205
Accrued and unpaid dividends	584	584

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

**LIVE VENTURES INCORPORATED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**(UNAUDITED)**

	Common Stock		Series B Preferred Stock		Series E Preferred Stock		Paid-In Capital	Series E Preferred Stock	Common Stock	Accumulated Deficit	Total Equity
	Shares	Amount	Shares	Amount	Shares	Amount		Treasury Stock	Treasury Stock		
Balance, September 30, 2018	2,088,186	\$ 2,088	214,244	\$ 214	127,840	\$ 128	\$ 63,654,335	\$ (4,000)	\$ (1,550,011)	\$ (22,654,165)	\$ 39,448,589
Series E preferred stock dividends										(584)	(584)
Stock based compensation							78,201				78,201
Purchase of common treasury stock									(321,462)		(321,462)
Net income										2,003,915	2,003,915
Balance, March 31, 2019	<u>2,088,186</u>	<u>\$ 2,088</u>	<u>214,244</u>	<u>\$ 214</u>	<u>127,840</u>	<u>\$ 128</u>	<u>\$ 63,732,536</u>	<u>\$ (4,000)</u>	<u>\$ (1,871,473)</u>	<u>\$ (20,650,834)</u>	<u>\$ 41,208,659</u>

	Common Stock		Series B Preferred Stock		Series E Preferred Stock		Paid-In Capital	Series E Preferred Stock	Common Stock	Accumulated Deficit	Total Equity
	Shares	Amount	Shares	Amount	Shares	Amount		Treasury Stock	Treasury Stock		
Balance, September 30, 2017	2,088,186	\$ 2,088	214,244	\$ 214	127,840	\$ 128	\$ 63,157,178	\$ -	\$ (999,584)	\$ (28,575,716)	\$ 33,584,308
Series E preferred stock dividends										(1,168)	(1,168)
Stock based compensation							497,157				497,157
Purchase of Series E preferred treasury stock								(4,000)			(4,000)
Purchase of common treasury stock									(550,427)		(550,427)
Net income										5,922,719	5,922,719
Balance, March 31, 2018	<u>2,088,186</u>	<u>\$ 2,088</u>	<u>214,244</u>	<u>\$ 214</u>	<u>127,840</u>	<u>\$ 128</u>	<u>\$ 63,654,335</u>	<u>\$ (4,000)</u>	<u>\$ (1,550,011)</u>	<u>\$ (22,654,165)</u>	<u>\$ 39,448,589</u>

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

**LIVE VENTURES INCORPORATED AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE THREE AND SIX MONTHS ENDED MARCH 31, 2019 AND 2018**

**Note 1: Background and Basis of Presentation**

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

The unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for audited financial statements. In the opinion of the Company's management, this interim information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The results of operations for three and six months ended March 31, 2019 are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2019. This financial information should be read in conjunction with the consolidated financial statements and related notes thereto as of September 30, 2018 and for the fiscal year then ended included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2018, as amended, filed with the U.S. Securities and Exchange Commission (the "SEC") on December 27, 2018 (the "2018 10-K").

**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., a Missouri corporation ("Vintage Stock"), through its newly formed, wholly-owned subsidiary, Vintage Stock Affiliated Holdings LLC ("VSAH"). Effective December 30, 2017, the Company acquired 100% of ApplianceSmart through its newly formed, wholly-owned subsidiary, ApplianceSmart Holdings LLC ("ASH"). All intercompany transactions and balances have been eliminated in consolidation.

**Use of Estimates**

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

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

#### **Financial Instruments**

Financial instruments consist primarily of cash equivalents, trade and other receivables, advances to affiliates and obligations under accounts payable, accrued expenses and notes payable. The carrying amounts of cash equivalents, trade receivables and other receivables, accounts payable, accrued expenses and short-term notes payable approximate fair value because of the short maturity of these instruments. The fair value of the long-term debt is calculated based on interest rates available for debt with terms and maturities similar to the Company's existing debt arrangements, unless quoted market prices were available (Level 2 inputs). The carrying amounts of long-term debt at March 31, 2019 and September 30, 2018 approximate fair 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 receivables for the gross amount of the respective invoice(s), less factoring commissions, trade and cash discounts. The factor charges the Company a factoring commission for each trade account, which is between 0.75-1.00% of the gross amount of the invoice(s) factored on the date of the purchase, plus interest calculated at 3.25%-6% per annum. The minimum annual commission due the factor is \$112,500 per contract year. Total commissions paid to factors were \$70,980 and \$75,398 for three months ended March 31, 2019 and 2018, respectively. Total commissions paid to factors were \$133,029 and \$144,157 for the six months ended March 31, 2019 and 2018, respectively.

#### **Allowance for Doubtful Accounts**

The Company maintains an allowance for doubtful accounts, which includes allowances for accounts and factored trade receivables, customer refunds, dilution and fees from local exchange carrier billing aggregators and other uncollectible accounts. The allowance for doubtful accounts is based upon historical bad debt experience and periodic evaluations of the aging and collectability of the trade receivables. This allowance is maintained at a level which the Company believes is sufficient to cover potential credit losses and trade receivables are only written off to bad debt expense as uncollectible after all reasonable collection efforts have been made. The Company has also purchased accounts receivable credit insurance to cover non-factored trade and other receivables which helps reduce potential losses due to doubtful accounts. At March 31, 2019 and September 30, 2018, the allowance for doubtful accounts was \$1,246,973 and \$855,709, respectively.

#### **Inventories**

##### *Manufacturing Segment*

Inventories are valued at the lower of the inventory's cost (first in, first out basis ("FIFO")) or market of the inventory. Management compares the cost of inventory with its net realizable value and an allowance is made to write down inventory to net realizable value, if lower. Management also reviews inventory to determine if excess or obsolete inventory is present and a reserve is made to reduce the carrying value for inventory for such excess and or obsolete inventory. At March 31, 2019 and September 30, 2018, the reserve for obsolete inventory was \$91,940.

Merchandise inventories are valued at the lower of cost or market using the average cost method which approximates FIFO. Under the average cost method, as new product is received from vendors, its current cost is added to the existing cost of product on-hand and this amount is re-averaged over the cumulative units in inventory available for sale. Pre-owned products traded in by customers are recorded as merchandise inventory for the amount of cash consideration or store credit less any premiums given to the customer. Management reviews the merchandise inventory to make required adjustments to reflect potential obsolescence or the lower of cost or market. In valuing merchandise inventory, management considers quantities on hand, recent sales, potential price protections, returns to vendors and other factors. Management's ability to assess these factors is dependent upon forecasting customer demand and to provide a well-balanced merchandise assortment. Merchandise inventory valuation is adjusted based on anticipated physical inventory losses or shrinkage and actual losses resulting from periodic physical inventory counts. Merchandise inventory reserves as of March 31, 2019 and September 30, 2018 were \$497,083 and \$1,110,729, respectively.

### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Expenditures for repairs and maintenance are charged to expense as incurred and additions and improvements that significantly extend the lives of assets are capitalized. Upon sale or other retirement of depreciable property, the cost and accumulated depreciation are removed from the related accounts and any gain or loss is reflected in operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The useful lives of building and improvements are three to forty years, transportation equipment is five to ten years, machinery and equipment are five to ten years, furnishings and fixtures are three to five years and office and computer equipment are three to five years. Depreciation expense was \$954,768 and \$1,067,607 for the three months ended March 31, 2019 and 2018, respectively. Depreciation expense was \$2,082,640 and \$2,227,194 for the six months ended March 31, 2019 and 2018, respectively.

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

### Goodwill

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

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

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

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

### **Intangible Assets**

The Company's intangible assets consist of customer relationship intangibles, favorable leases, trade names, licenses for the use of internet domain names, Universal Resource Locators, or URL's, software, and marketing and technology related intangibles. Upon acquisition, critical estimates are made in valuing acquired intangible assets, which include but are not limited to future expected cash flows from customer contracts, customer lists, and estimating cash flows from projects when completed; tradename and market position, as well as assumptions about the period of time that customer relationships will continue; and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from the assumptions used in determining the fair values. All intangible assets are capitalized at their original cost and amortized over their estimated useful lives as follows: domain name and marketing – 3 to 20 years; software – 3 to 5 years, customer relationships – 7 to 15 years, favorable leases – over the life of the lease, customer lists – to 20 years, trade names – to 20 years. Intangible amortization expense is \$537,652 and \$236,318 for the three months ended March 31, 2019 and 2018, respectively. Intangible amortization expense is \$891,549 and \$475,970 for the six months ended March 31, 2019 and 2018, respectively.

### **Revenue Recognition**

We provide carpet, hard surface products, synthetic turf products, used movies, music, games and accessories, new movies, music, games and accessories, we rent movies and provide concession products, we provide new and out of the box appliances, appliance and installation services, third-party extended warranties, appliance accessories and directory services.

We adopted Accounting Standards Update, or ASU, No. 2014-09, Revenue from Contracts with Customers (Topic 606) and related ASU No. 2016-08, ASU No. 2016-10, ASU No. 2016-12 and ASU No. 2016-20, which provide supplementary guidance, and clarifications, effective October 1, 2018. We adopted ASC 606 using the modified retrospective method. The results for the reporting periods beginning after October 1, 2018, are presented in accordance with the new standard, although comparative information for the prior year has not been restated and continues to be reported under the accounting standards and policies in effect for those periods.

Adoption of the new standard did not have a significant impact on the current period revenues or on the prior year Consolidated Financial Statements. No transition adjustment was required to our retained earnings as of October 1, 2018. Under the new standard revenue is recognized as follows:

We determine revenue recognition through the following steps:

- a. Identification of the contract, or contracts, with a customer,
- b. Identification of the performance obligations in the contract,
- c. Determination of the transaction price,
- d. Allocation of the transaction price to the performance obligations in the contract, and
- e. Recognition of revenue when, or as, we satisfy a performance obligation.

As part of its assessment of each contract, the Company evaluates certain factors including the customer's ability to pay, or credit risk. For each contract, the Company considers the promise to transfer products or services, each of which is distinct, to be the identified performance obligations. In determining the transaction price, the price stated on the contract is typically fixed and represents the net consideration to which the Company expects to be entitled per order, and therefore there is no variable consideration. As the Company's standard payment terms are less than 90 days, the Company has elected, as a practical expedient, to not assess whether a contract has a significant financing component. The Company allocates the transaction price to each distinct product or service based on its relative standalone selling price. The product or service price as specified on the contract is considered the standalone selling price as it is an observable source that depicts the price as if sold to a similar customer in similar circumstances.

*Carpet, Hard Surface Products, Synthetic Turf Products, New Appliance and Accessories Revenue*

We generate revenue by selling carpet, hard surface products and synthetic turf products to dealers nationwide within the confines of the United States. We also generate revenue by selling new appliances and appliance accessories direct to contractors and property owners and through retail locations. We recognize revenue at the point in time when control over the product is transferred to the customer, when our performance obligations are satisfied, which typically occur upon delivery from our facility to our customer or pickup from our facility by our customer.

*New and Used Movies, Books, Music, Games and Accessories*

We generate revenue by selling at point of sale used movies, books, music, games and accessories. We recognize revenue at the point of sale when control over the product is transferred to the customer, when our performance obligations are satisfied, which typically occur at point of sale within our stores.

*Appliance Service and Installation Revenue*

We generate revenue by selling appliance service and installation revenue. We recognize revenue as service or installation is performed and our obligations are satisfied, which typically occur as the service is provided. Hours and units are used as input methods for measurement of performance.

*Directory Service Revenue*

We generate directory services 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. We recognize revenue when the customer accepts and remits payment for services and all performance obligations are satisfied.

*Loyalty Programs*

We do not have any loyalty programs whereby a customer can accumulate a future accrued benefit. Vintage Stock has a "Cooler than Cash" program whereby the customer is provided with some variable gift card consideration in exchange for selling to the Company used products and receiving payment from the Company on a Vintage gift card instead of receiving cash. The excess gift card consideration over fair value of the used product sold to the Company is expensed as advertising and promotion expense in the period the consideration is provided.

*Gift Card Breakage*

Vintage Stock provides customers the ability to purchase gift cards. The Company has adopted ASU 2016-04 *Liabilities – Extinguishments of Liabilities* (Subtopic 405-20): *Recognition of Breakage for Certain Prepaid Stored-Value Products*. The Company derecognizes gift card amounts in amounts related to expected breakage in proportion to the pattern of rights expected to be exercised by the card holder only to the extent that it is probable that a significant reversal of the recognized breakage amount will not subsequently occur. Gift Card breakage amounts taken back into income are recorded as other income.

### *Right of Return*

To the extent a right of return exists as more fully described below, the Company establishes up front a reserve for anticipated net returns and records this as a deduction from gross revenue recorded each period.

### *Vintage Stock*

Original receipt and customer identification are required for all returns and or exchanges. A thirty-day return policy is solely for defective new music, movies and video games. Defective products shall be exchanged for a duplicate item. If a duplicate item is not in stock, a refund or store credit will be given to the customer. No exchange or full refund will be made on any item due to price change, dislike of content or game play. Credit card refunds are issued only to the card use for purchase. All comic, concession, rental, card, book, toy and new LP sales are final.

### *Marquis*

Returns are only allowed for defective product. Customer is responsible for shipping charges to return product.

### *ApplianceSmart*

Most products include a one year, parts and labor warranty from the product manufacturer. All shipments are 100 percent insured for loss. Product(s) damaged during shipping are eligible for exchange at no charge to the customer. If the product is damaged, the customer has the right to refuse the delivery.

If the customer is not satisfied with their purchase, the customer may return the product within 14 days of receiving it. Products must be returned in brand new condition and packaged in their original box including all packing materials, manuals, blank warranty cards and accessories included. Products returned must also be free of any cosmetic damage. Products returned that do not meet these requirements may not be eligible for return or will incur a 25 percent restocking fee. Any product that has been installed or attempted to be installed cannot be returned. Shipping and handling charges from our warehouse are non-refundable. Customers are responsible for shipping charges incurred when returning a product. Special order merchandise is not eligible for return or exchange unless it is damaged or defective. The Company reserves the right to cancel open unfilled orders at any time.

### *Warranties*

Marquis provides assurance-type warranties and the warranty provided varies according to product. Warranty claims can only be made for defective product. ApplianceSmart generates revenue by providing third-party service type warranties. The performance obligation on behalf of the ApplianceSmart is limited to procuring the third-party maintenance contract, registering the customer and the product with the insurance provider.

### *Vintage Stock*

No warranties are provided other than manufacturer only warranties if applicable.

### *Marquis*

No additional warranties are provided other than the manufacturer's warranty.

### *ApplianceSmart*

Most appliance products include a one year, parts and labor warranty from the product manufacturer. ApplianceSmart sells third-party provided extended warranties for appliances. We recognize revenue at the point in time when control over the extended warranty product is transferred to the customer, when our performance obligations are satisfied, which typically occur upon delivery of the extended warranty policy to our customer at point of sale and registration of the appliance extended warranty with the extended warranty provider.

### *Deferred Revenue*

Receivables are recognized in the period we ship the product or provide the service. Payment terms on invoiced amounts are based on contractual terms with each customer. When we receive consideration, or such consideration is unconditionally due, prior to transferring goods or services to the customer under the terms of a sales contract, we record deferred revenue, which represents a contract liability. We recognize deferred revenue as net sales once control of goods and/or services have been transferred to the customer and all revenue recognition criteria have been met and any constraints have been resolved. We defer the product costs until recognition of the related revenue occurs.

### *Assets Recognized from Costs to Obtain a Contract with a Customer*

We recognize an asset for the incremental costs of obtaining a contract with a customer if it expects the benefit of those costs to be longer than one year. We have concluded that none of the costs we have incurred to obtain and fulfill our FASB Accounting Standards Codification, or ASC 606 contracts, meet the capitalization criteria, and as such, there are no costs deferred and recognized as assets on the consolidated balance sheet at March 30, 2019, December 31, 2018 and September 30, 2018.

Revenue recognized for Company contracts - \$919,202 and \$1,547,305 for the three and six months ended March 30, 2019, respectively, and \$441,318 for the three and six months ended March 31, 2018.

### *Practical Expedients and Exemptions:*

- a. Taxes collected from customers and remitted to government authorities and that are related to sales of our products are excluded from revenues.
- b. Sales commissions are expensed when incurred because the amortization period would have been one year or less. These costs are recorded in Selling, general and administrative expense in the Condensed Consolidated Financial Statements of Income.
- c. We do not disclose the value of unsatisfied performance obligations for (i) contracts with original expected lengths of one year or less or (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for the services performed.
- d. We have elected to treat shipping and handling as a fulfillment activity not as a separate performance obligation when shipment occurs subsequent to a customer taking control of the product.

### **Shipping and Handling**

The Company classifies shipping and handling costs incurred as fulfillment costs and records them as cost of revenues. Any charges to customers for delivery charges are netted against fulfillment costs.

## **Customer Liabilities**

The Company establishes a liability upon the issuance of merchandise credits and the sale of gift cards. Breakage income related to gift cards which are no longer reportable under state escheatment laws for the three months ended March 31, 2019 and 2018, was \$14,844 and \$66,531, respectively. Breakage income for the six months ended March 31, 2019 and 2018, was \$128,844 and \$93,143, respectively. Breakage income is recorded in other income in our consolidated financial statements. The gift card liability at March 31, 2019 and September 30, 2018 is \$1,582,604 and \$1,498,125, respectively, and is recorded in accrued liabilities 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**

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

Significant management judgment is required to determine the amount of benefit to be recognized in relation to an uncertain tax position. The Company uses a two-step process to evaluate tax positions. The first step requires an entity to determine whether it is more likely than not (greater than 50% chance) that the tax position will be sustained. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements of the Company in future periods.

## **Lease Accounting**

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

## Stock-Based Compensation

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

## Earnings Per Share

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

## Segment Reporting

ASC Topic 280, *"Segment Reporting,"* requires use of the "management approach" model for segment reporting. The management approach model is based on the way a Company's management organizes segments within the Company for making operating decisions and assessing performance. The Company determined it has three reportable segments (See Note 17).

## Concentration of Credit Risk

The Company maintains cash balances at several banks in multiple states including, Arkansas, California, Colorado, Georgia, Idaho, Illinois, Kansas, Missouri, Minnesota, Nevada, New Mexico, New York, Ohio, Oklahoma, Texas, and Utah. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution as of March 31, 2019. At times, balances may exceed federally insured limits.

## Recently Issued Accounting Pronouncements

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 should apply the guidance in ASU 2014-09 to annual reporting periods beginning December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 31, 2016, including interim reporting periods within that reporting period.

In March 2016, the 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 ASU clarifies how an entity should identify the unit of accounting (i.e. the specified good or service) for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements.

Subsequently, the FASB has issued the following standards related to ASU 2014-09 and ASU No. 2016-08: ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* (“ASU 2016-10”); ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients* (“ASU 2016-12”); ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers* (“ASU 2016-20”); and, ASU 2017-05—*Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* (“ASU 2017-05”). The Company must adopt ASU 2016-10, ASU 2016-12, ASU 2016-20 and ASU 2017-05 with ASU 2014-09 (collectively, the “new revenue standards”). The Company has evaluated the provisions of the new revenue standards. We transitioned to the new revenue standards using the modified retrospective method effective October 1, 2018 and did not have a significant impact on our consolidated results of operations, financial condition and cash flows.

ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. Under the current implementation guidance in Topic 805, there are three elements of a business—inputs, processes, and outputs. While an integrated set of assets and activities (collectively referred to as a “set”) that is a business usually has outputs, outputs are not required to be present. In addition, all the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs, for example, by integrating the acquired set with their own inputs and processes. The amendments in this Update provide a screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated by public business entities applying the amendments in this Update to annual periods beginning after December 15, 2017, including interim periods within those periods. The Company has adopted this guidance during its 2018 fiscal year, and it did not have a significant impact on its consolidated results of operations, financial condition and cash flows.

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

### **Note 3: Comprehensive Income**

Comprehensive income is the sum of net income and other items that must bypass the income statement because they have not been realized, including items like an unrealized holding gain or loss from available for sale securities and foreign currency translation gains or losses. For our Company, for the three months and six months ended March 31, 2019 and 2018, net income does not differ from comprehensive income.

**Note 4: Balance Sheet Detail Information**

	March 31, 2019	September 30, 2018
Trade receivables, current, net:		
Accounts receivable, current	\$ 13,309,951	\$ 14,350,559
Less: Reserve for doubtful accounts	(902,401)	(511,137)
	<u>\$ 12,407,550</u>	<u>\$ 13,839,422</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 receivables	\$ 13,654,523	\$ 14,695,131
Less: Reserve for doubtful accounts	(1,246,973)	(855,709)
	<u>\$ 12,407,550</u>	<u>\$ 13,839,422</u>
Inventory, net		
Raw materials	\$ 7,581,506	\$ 9,712,839
Work in progress	1,794,705	1,141,486
Finished goods	7,742,672	5,414,072
Merchandise	26,899,230	31,461,311
	44,018,113	47,729,708
Less: Inventory reserves	(589,023)	(1,202,669)
	<u>\$ 43,429,090</u>	<u>\$ 46,527,039</u>
Property and equipment, net:		
Building and improvements	\$ 11,147,976	\$ 10,954,843
Transportation equipment	82,266	82,266
Machinery and equipment	19,832,827	23,295,315
Furnishings and fixtures	2,727,896	2,639,616
Office, computer equipment and other	2,391,928	2,530,410
	36,182,893	39,502,450
Less: Accumulated depreciation	(12,284,953)	(11,511,390)
	<u>\$ 23,897,940</u>	<u>\$ 27,991,060</u>
Intangible assets, net:		
Domain name and marketing related intangibles	\$ 59,313	\$ 59,313
Lease intangibles	2,239,008	2,239,008
Customer relationship intangibles	4,709,241	4,709,241
Purchased software	2,257,791	2,190,937
	9,265,353	9,198,499
Less: Accumulated amortization	(3,424,201)	(2,532,652)
	<u>\$ 5,841,152</u>	<u>\$ 6,665,847</u>
Accrued liabilities:		
Accrued payroll and bonuses	\$ 2,067,433	\$ 2,384,041
Accrued sales and use taxes	1,247,645	1,007,284
Accrued property taxes	138,391	362,388
Accrued rent	478,655	506,989
Deferred revenue	—	354,227
Accrued gift card and escheatment liability	1,678,165	1,593,688
Accrued interest payable	191,939	195,907
Accrued accounts payable and bank overdrafts	1,171,435	942,600
Accrued professional fees	195,638	470,726
Customer deposits	995,581	508,252
Accrued expenses - other	695,593	244,803
	<u>\$ 8,860,475</u>	<u>\$ 8,570,905</u>

**Note 5: Acquisitions***Acquisition of ApplianceSmart Inc.*

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

Total consideration was \$6,500,000, with no liabilities assumed by ASH. On December 30, 2017, ASH agreed to pay the \$6,500,000 no later than March 31, 2018. Effective April 1, 2018, ASH issued an interest-bearing promissory note to the Seller, with interest at 5% per annum, with a three-year term in the original amount of \$3,919,494 for the balance of the purchase price. Interest is payable monthly in arrears. Ten percent of the outstanding principal amount is due to be repaid annually on a quarterly basis, with any remainder due and payable on maturity, April 1, 2021. This promissory note is guaranteed by ApplianceSmart. The remaining \$2,580,506 was paid in cash by ASH to the Seller. ASH may reborrow funds, and pay interest on such re-borrowings, from the Seller up to the Original Principal amount. On December 31, 2017, ASH offset certain liabilities and was provided certain assets from the Seller in the net amount of \$1,607,369, against the amount due to the Seller. ASH and Seller agreed to the offset as if it were payment in cash against the purchase price. On December 26, 2018, ASH and the Seller amended and restated the ApplianceSmart Note to, among other things, grant the Seller a security interest in the assets of ASH and ApplianceSmart in accordance with the terms of separate security agreements entered into between ASH and ApplianceSmart, respectively, and the Seller. In addition, ASH and the Seller modified the terms of when interest and principal would be due. Outstanding principal and accrued and un-paid interest at 5% per annum is now all due and payable on April 1, 2021. At March 31, 2019 and September 30, 2018, the net amount owing to the Seller was \$3,721,507 and \$3,821,507, respectively, and is included in long term debt, related parties. See Note 9.

Net liabilities assumed by ASH on December 31, 2017:

Accounts payable	\$ 1,374,647
Accrued expenses	1,080,255
Capital leases	29,631
Credit card receivables	(255,301)
Cash	(621,863)
Total net liabilities assumed by ASH	<u>\$ 1,607,369</u>

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

Trade receivables	\$ 1,805,545
Inventory	7,444,282
Prepaid expenses	69,347
Refundable deposits	1,003,841
Intangible asset - trade names	2,015,000
Intangible asset - customer list	5,202
Intangible asset - leases	1,205,596
Restricted cash	750,000
Property and equipment	1,094,503
Deferred income tax	(1,599,560)
Bargain gain on acquisition	(7,293,756)
	<u>\$ 6,500,000</u>

The operating results of ApplianceSmart are included in our audited consolidated financial statements beginning on December 31, 2017 and are reported in our Retail and Online Segment.

The estimated fair value of the customer list intangible asset was determined using the cost approach, which estimates the cost to acquire each email address in the list. The Company estimated the fair value of this intangible asset to be \$0.10 per acquired active contact email or approximately \$5,202. The Company is amortizing the customer list intangible asset on a straight-line basis over an estimated life of 20 years.

The estimated fair value of the trade names intangible that ApplianceSmart uses – “ApplianceSmart” was determined using a royalty income approach, which estimates an assumed royalty income stream and then discounts that expected future revenue or cash flow stream to present value. The Company estimated the fair value of this intangible asset using the residual method of 0.5% and a present value discount rate of 18.6%, or \$2,015,000. Trade name relates to the Company’s brand awareness by consumers in the market place. The Company is amortizing the trade name intangible asset on a straight-line basis over an estimated life of 20 years.

The estimated fair value of the lease assets that ApplianceSmart leases was determined comparing the existing leases assumed to current market rates within a three-mile radius of existing stores. These market rates were then compared to existing ApplianceSmart contracted lease rates over the remaining lease terms. If the lease contract began within six months of acquisition date or the square footage price difference was within 10% of the contracted lease rate, or the overall discounted cash flow effect of the difference was less than \$150,000, the lease was excluded for intangible valuation purposes. The remaining leases that were included were then compared to market rates, with the differences discounted using a discount rate of 7.50% to determine the discounted present value of the lease intangibles. The Company is amortizing the lease intangibles on a straight-line basis over the remaining life of each lease ranging between two and ten years.

The unaudited pro forma information below presents statement of income data for the three and six months ended March 31, 2018, as if the acquisition of ApplianceSmart took place on October 1, 2017. Actual unaudited consolidated results of ApplianceSmart are also shown. ApplianceSmart was acquired on December 30, 2017 with only one day of consolidated results for the quarter ended December 31, 2017.

	Proforma Three months Ended March 31, 2018	Actual Three months Ended March 31, 2018	Proforma Six months Ended March 31, 2018	Actual Unaudited Results through March 31, 2018
Net revenue	\$ 11,191,842	\$ 11,191,842	\$ 22,512,817	\$ 11,260,516
Gross profit	3,449,105	3,449,105	4,561,178	3,468,305
Operating income (loss)	272,563	272,563	(1,782,413)	292,218
Net income (loss)	372,690	372,690	(1,717,082)	392,345
Earnings (loss) per basic common share	\$ 0.19	\$ 0.19	\$ (0.87)	\$ 0.20

**Note 6: Intangibles**

The Company’s intangible assets consist of customer relationship intangibles, trade names, licenses for the use of internet domain names, URL’s, software, and marketing and technology related intangibles. All such assets are capitalized at their original cost and amortized over their estimated useful lives as follows: domain name and marketing – 3 to 20 years; software – 3 to 5 years, customer relationships – 7 to 15 years, favorable leases – over the life of the lease, outstanding lists – 20 years, trade names – 20 years. When certain events or changes in operating conditions occur, an impairment assessment is performed and lives of intangible assets with determined lives may be adjusted. Intangible amortization expense is \$537,652 and \$236,318 for the three months ended March 31, 2019 and 2018, respectively. Intangible amortization expense is \$891,549 and \$475,970 for the six months ended March 31, 2019 and 2018, respectively.

The following table summarizes estimated future amortization expense related to intangible assets that have net balances as of March 31, 2019:

2020	\$	1,245,597
2021		1,106,076
2022		952,941
2023		658,838
2024		305,872
Thereafter		1,571,828
	\$	<u>5,841,152</u>

**Note 7: Goodwill**

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

**Note 8: Long Term Debt**

*Bank of America Revolver Loan*

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

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

Borrowing availability under the BofA Revolver is limited to a borrowing base which allows Marquis to borrow up to 85% of eligible accounts receivable, plus the lesser of (i) \$7,500,000; (ii) 65% of the value of eligible inventory; or (iii) 85% of the appraisal value of the eligible inventory. For purposes of clarity, the advance rate for inventory is 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 December 24, 2018, Marquis’s ability to make prepayments against Marquis subordinated debt, including the related party loan with Isaac Capital Group, LLC (“ICG”) and pay cash dividends is generally permitted if (i) excess availability under the BofA Revolver is more than \$4 million, and has been for each of the 60 days preceding the requested distribution and (ii) 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 1.1:1 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 1.1:1 and excess availability under the BofA Revolver is less than \$4 million at the time of payment or distribution. There is no restriction on dividends that can be taken by the Company so long as Marquis maintains \$4 million of current availability at the time of the dividend or distribution. This translates to having no restriction on Net Income so long as the Company retains sufficient assets to establish \$4 million of current availability and continues to meet the required fixed charge coverage ratio of 1.1:1 as stated above.

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

As of December 24, 2018, the BofA Revolver Loan bears interest at a variable rate based on a base rate plus a margin. The current base rate is the greater of (i) Bank of America prime rate, (ii) the current federal funds rate plus 0.50%, or (iii) 30-day LIBOR plus 1.00% plus the margin.

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. On September 30, 2018, total additional availability under the BofA Revolver was \$7,326,680, with \$7,600,605 outstanding, and outstanding standby letters of credit of \$72,715. During the period of October 1, 2018 through March 31, 2019, Marquis cumulatively borrowed \$44,740,439 and repaid \$48,120,216 under the BofA Revolver. Maximum borrowing under the BofA Revolver is \$15,000,000. Our maximum borrowings outstanding during the same period was \$8,070,635. Our weighted average interest rate on those outstanding borrowings for the period of October 1, 2018 through March 31, 2019 was 4.19%. As of March 31, 2019, total additional availability under the BofA Revolver was \$10,660,628; with \$4,220,827 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 BofA 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 five years, there is no pre-payment penalty. In connection with the note payable, Marquis incurred \$457,757 in transaction costs that are being recognized as a debt issuance cost that is being amortized and recorded as interest expense over the term of the note payable.

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

On December 21, 2016, the Company and Kingston Diversified Holdings LLC (“Kingston”) entered into an agreement (the “December 21 Agreement”) modifying its then existing agreement between the parties. The December 21 Agreement, effective September 15, 2016, memorializes an October 2015 interim agreement to extend the maturity date of notes issued by Kingston to the Company (the “Kingston Notes”) by twelve months for 55,888 shares of the Company’s Series B Convertible Preferred Stock with a value on September 15, 2016 of \$2,800,000, as a compromise between the parties in respect of certain of their respective rights and duties under the agreement. The December 21 Agreement also decreases the maximum principal amount of the Kingston Notes from \$10,000,000 in principal amount to \$2,000,000 in principal amount, and eliminates any and all actual, contingent, or other obligations of the Company to issue to Kingston any shares of the Company’s common stock, or to grant any rights, warrants, options, or other derivatives that are exercisable or convertible into shares of the Company’s common stock.

Kingston acknowledges that from the effective date through and including December 31, 2021, it shall not sell, transfer, assign, hypothecate, pledge, margin, hedge, trade, or otherwise obtain or attempt to obtain any economic value from any of the shares of Series B Preferred Stock or any shares into which they may be converted or from which they may be exchanged. As a result of the December 21 Agreement, the Company recorded \$2,800,000 as an outstanding accrued liability as of September 30, 2016. As of March 31, 2019, and September 30, 2018, the Company had no borrowings on the Kingston line of credit. On December 29, 2016, the Company issued 55,888 shares of Series B Convertible Preferred Stock in settlement of the outstanding accrued liability due Kingston of \$2,800,000.

### *Equipment Loans*

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

Note #1 is \$5 million, secured by equipment. The Equipment Loan #1 is due September 23, 2021, payable in 59 monthly payments of \$84,273 beginning September 23, 2016, with a final payment in the sum of \$584,273, bearing 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, bearing interest at 4.63% per annum. This Note #2 was paid in full, with the sale of the Synthetic Turf line within the quarter ended December 31, 2018.

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, bearing 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, bearing interest at 4.8907% per annum.

Note #5 is \$3,931,591, secured by equipment. The Equipment Loan #5 is due December 28, 2024, payable in 84 monthly payments of \$54,944 beginning January 28, 2018, with the final payment due December 28, 2024, bearing interest at 4.66% per annum.

### *Texas Capital Bank Revolver Loan*

On November 3, 2016, Vintage Stock entered into a \$20 million credit agreement (as amended on January 23, 2017 and as further amended on September 20, 2017) with Texas Capital Bank ("TCB Revolver"). The TCB Revolver is a five-year, asset-based facility that is secured by substantially all of Vintage Stock's assets. Availability under the TCB Revolver is subject to a monthly borrowing base calculation. On June 7, 2018, the credit agreement was amended reducing the maximum revolving facility to \$12 million. The TCB Revolver matures November 3, 2020.

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 non-current liability due to the removal of the subjective acceleration clause as part of the credit agreement amendment on June 7, 2018.

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

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

The per annum interest rate under the TCB Revolver is variable and is equal to the one-month LIBOR rate for deposits in United States Dollars that appears on Thomson Reuters British Bankers Association LIBOR Rates Page (or the successor thereto) as of 11:00 a.m., London, England time, on the applicable determination date plus a margin of 2.25%, effective June 7, 2018.

The TCB Revolver provides for customary events of default with corresponding grace periods, including failure to pay any principal or interest when due, failure to comply with covenants, change in control of Vintage Stock, a material representation or warranty made by us or the borrowers proving to be false in any material respect, certain bankruptcy, insolvency or receivership events affecting Vintage Stock, defaults relating to certain other indebtedness, imposition of certain judgments and mergers or the liquidation of Vintage Stock. During the period of October 1, 2018 through March 31, 2019, Vintage Stock cumulatively borrowed \$39,643,737 and repaid \$40,895,006 under the TCB Revolver. Our maximum borrowings outstanding during the period of October 1, 2018 through March 31, 2019 was \$11,931,977. Our weighted average interest rate on those outstanding borrowings for the period of October 1, 2018 through March 31, 2019 was 4.7027%. As of March 31, 2019, total additional availability under the TCB Revolver was \$1,358,674, with \$10,641,326 outstanding; and outstanding standby letters of credit of \$0. In connection with the TCB Revolver, Vintage incurred \$25,000 in transaction cost that is being recognized as debt issuance cost that is being amortized and recorded as interest expense over the term of the TCB Revolver.

#### *Capitala Term Loan*

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

The term loans under the term loan agreement (collectively, the "Capitala Term Loan") bore 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 were equal to the sum of (a) the greater of (i) a rate per annum equal to (A) the offered rate for deposits in United States Dollars for the applicable interest period and for the amount of the applicable loan that is a LIBOR loan that appears on Bloomberg ICE LIBOR Screen (or any successor thereto) that displays an average ICE Benchmark Administration Limited Interest Settlement Rate for deposits in United States Dollars (for delivery on the first day of such interest period) with a term equivalent to such interest period, determined as of approximately 11:00 a.m. (London time) two business days prior to the first day of such interest period, divided by (B) the sum of one minus the daily average during such interest period of the aggregate maximum reserve requirement (expressed as a decimal) then imposed under Regulation D of the Federal Reserve Board for "Eurocurrency Liabilities" (as defined therein), and (ii) 0.50% per annum, *plus* (b) the sum of (i) 12.50% per annum in cash *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 was equal to the sum of (a) the highest of (with a minimum of 1.50%) (i) the federal funds rate plus 0.50%, (ii) the prime rate, and (iii) the LIBO rate plus 1.00%, *plus* (b) the sum of (i) 11.50% per annum payable in cash *plus* (ii) 3.00% per annum payable in kind by compounding such interest to the principal amount of the obligations under the Term Loan Agreement on each interest payment date.

The Term Loans placed certain restrictions and covenants on Vintage Stock, including a limitation on asset sales, additional liens, investment, loans, guarantees, acquisitions and incurrence of additional indebtedness for Vintage Stock. Vintage Stock was required to maintain a fixed charge coverage ratio of 1.3 for year ended September 30, 2017, 1.4 for year ended September 30, 2018 and 1.5 for all years thereafter. For years ended September 30, 2017 and thereafter, Vintage Stock was required to incur no more than \$1.2 million in annual capital expenditures subject to certain cumulative quarter and year to date covenants. Vintage Stock was required to maintain a total leverage ratio of 3.25 for year ended September 30, 2017, 2.5 for year ended September 30, 2018 and 2.0 for all years thereafter. In addition, for quarter ended December 31, 2017, the total leverage ratio could not exceed 3.0 and for quarters ended March 31, 2018 and June 30, 2018, the total leverage ratio could not exceed 2.75.

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

The payment obligations under the Term Loan Agreement included (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 was due on December 31, 2016. The outstanding principal amounts of the term loans and all accrued interest thereon under the Term Loan Agreement were due and payable in November 2021.

The Term Loan Borrowers could 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 were 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 October 1, 2017 through June 7, 2018 was 16.94%. In connection with the Capitala Term Loan, Vintage Stock incurred \$1,088,000 in transaction cost that was being recognized as debt issuance cost that was being amortized and recorded as interest expense over the term of the Capitala Term Loan. On June 7, 2018, the Capitala Term Loan was paid in full, and the Company recorded as additional interest expense \$742,000 of un-amortized debt issuance cost related to the Capitala Term Loan.

### *Sellers Subordinated Acquisition Note*

In connection with the purchase of Vintage Stock, 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. The Sellers Subordinated Acquisition Note bears interest at 8% per annum, with interest payable monthly in arrears. The Sellers Subordinated Acquisition Note originally had a maturity date of five years and six months from November 3, 2016. On June 7, 2018, in connection with the Comvest Term Loan refinance of the Capitala Term Loan, the Sellers Subordinated Acquisition Note was amended and restated to have a maturity date of September 23, 2023.

### *Crossroads Revolver*

On March 15, 2019, ApplianceSmart, Inc. (the “Borrower”), entered into a Loan and Security Agreement (the “Cross Roads Revolver”) with Crossroads Financing, LLC (“Crossroads”), providing for a \$4.0 million revolving credit facility, subject to a borrowing base limitation (the “ABL Facility”). The borrowing base for the ABL Facility at any time equals the lower of (i) up to 75% of inventory cost or (ii) up to 85% of net orderly liquidation value, in each case as further described in the Loan Agreement. The proceeds of the ABL Facility will be used by the Borrower to repay a portion of the outstanding loan owed by ApplianceSmart Holdings LLC, Borrower’s parent (“Parent”), to Appliance Recycling Centers of America, Inc., to pay transaction costs, and for working capital and other general corporate purposes.

Advances under the Crossroads Revolver bear interest at an interest rate equal to the greater of (i) the three-month London Interbank Offered Rate plus 2.19% or (ii) 5.0%. In addition to paying interest on the outstanding principal under the ABL Facility, the Borrower is required to pay Lender a servicing fee equal to 1.0% per month of the amount of the Borrower’s outstanding obligations under the Crossroads Revolver that accrue interest, an annual loan fee of \$80,000, an early termination fee described below, and other fees described in the Crossroads Revolver.

Unless terminated early in accordance with its terms, the Crossroads Revolver terminates on March 15, 2021 (the “Maturity Date”). If the Crossroads Revolver is terminated by the Borrower prior to the Maturity Date, Borrower is required to pay Crossroads (i) a fee in an amount equal to \$120,000 if the Crossroads Revolver is terminated prior to March 15, 2020 and (b) if the Crossroads Revolver is terminated on or after March 15, 2020, a fee in an amount equal to \$80,000.

Advances under the Crossroads Revolver are guaranteed by Parent and ApplianceSmart Contracting, Inc., a wholly-owned subsidiary of Parent. In addition, certain executive officers of the Borrower have agreed to provide validity guarantees. Advances under the Crossroads Revolver are secured by a pledge of substantially all of the assets of the Borrower. The Company is not a guarantor under the Crossroads Revolver.

The Crossroads Revolver contains representations and warranties, events of default, affirmative and negative covenants and indemnities customary for loans of this nature. As of March 31, 2019, the Crossroads Revolver had an balance outstanding of \$2,115,050. In connection with the Crossroads Revolver, ApplianceSmart incurred \$118,457 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 Crossroads Revolver.

### *Comvest Term Loan*

On June 7, 2018, Vintage Stock Affiliated Holdings LLC (“Holdings”) and Vintage Stock, Inc. (the “Borrower”), entered into an Amended and Restated Credit Agreement (the “Credit Agreement”) by and among Borrower, Holdings, the lenders party thereto and Comvest Capital IV, L.P. (“Comvest”), as agent. The Credit Agreement provides for a \$24,000,000 secured term loan (the “Term Loan”). The proceeds of the Term Loan, together with a cash equity contribution of approximately \$4.0 million from the Company to the Borrower, will be used by the Borrower (i) to refinance and terminate the Borrower’s credit facility (the “Prior Credit Facility”) with Capitala Private Credit Fund and certain of its affiliates, as lenders, and Wilmington Trust National Association (the “Term Loan Administrative Agent”), as agent, (ii) to pay transaction costs, and (iii) for the Borrower’s working capital and other general corporate purposes. In connection with the closing of the refinancing transaction with Comvest, all defaults under the Prior Credit Facility were extinguished.

The Term Loan bears interest at the base or LIBOR rates (as described below) plus an applicable margin in each case. The applicable margin ranges from 8.00% to 9.50% per annum (subject to a LIBOR floor of 1.00%) and is determined based on the Borrower's senior leverage ratio pricing grid. The applicable margin during the first six months following the June 7, 2018 closing is 9.50%.

The base rate under the Comvest Credit Agreement is equal to the greatest of (i) the per annum rate of interest which is identified as the "Prime Rate" and normally published in the Money Rates section of The Wall Street Journal (or, if such rate ceases to be so published, as quoted from such other generally available and recognizable source as Agent may select), (ii) the sum of the Federal Funds Rate plus one half percent (0.50%), (iii) the most recently used LIBO Rate and (iv) two percent (2.00%) per annum.

LIBOR rate is defined as the greater of (a) a rate per annum equal to the London interbank offered rate for deposits in Dollars for a period of one month and for the outstanding principal amount of the Term Loan as published in the "Money Rates" section of The Wall Street Journal (or another national publication selected by Agent if such rate is not so published), two Business Days prior to the first day of such one month period and (b) one percent (1.00%) per annum.

The Term Loan matures on May 26, 2023 and is subject to amortization of 12.5% (decreasing to 10% upon the Borrower's senior leverage ratio being less than 1.50 times the Borrower's EBITDA (as defined in the Credit Agreement)) of principal per annum payable in equal quarterly installments due on March 31, June 30, September 30, and December 31 of each year, with the first such payment due on June 30, 2018; plus, to the extent the Borrower generates excess cash flow (as defined in the Credit Agreement), a percent of such excess cash flow (ranging from 50% to 100%), all in accordance with the terms of the Credit Agreement.

Under the Credit Agreement, any and all mandatory prepayments arising from any voluntary act of the Borrower are subject to a prepayment premium, ranging from 5.00% of the principal amount prepaid plus a make-whole amount to 1.00%, depending on when the mandatory prepayment is made. There is no prepayment premium after June 7, 2021.

The Term Loan is secured by a pledge of substantially all of the assets of the Borrower and a pledge of the capital stock of the Borrower. In addition, the Company is guaranteeing (the "Sponsor Guaranty") that portion of the Term Loan that results in the Borrower's senior leverage ratio being greater than 2.30:1.00, and only for so long as such ratio exceeds 2.30:1.00. The Sponsor Guaranty terminates on the date that the Borrower's senior leverage ratio is less than 2.30:1.00 for two consecutive fiscal quarters.

The Term Loans place certain restrictions and covenants on Vintage Stock, including a limitation on asset sales, additional liens, investment, loans, guarantees, acquisitions and incurrence of additional indebtedness for Vintage Stock. Vintage Stock is required to maintain a minimum of \$12,000,000 of EBITDA on a trailing twelve months basis as measured quarterly starting June 30, 2018 through December 31, 2018. Beginning quarter ending March 31, 2019 and thereafter, Vintage Stock is required to maintain a minimum of \$12,500,000 of EBITDA on a trailing twelve months basis. So long as the Senior leverage ratio is greater than 2.0 to 1.0, Vintage Stock is required to spend no more than \$1,000,000 on capital expenditures in fiscal year 2018, \$1,500,000 in fiscal year 2019, \$2,000,000 in fiscal year 2020, \$1,750,000 in fiscal year 2021, and \$1,500,000 in fiscal years 2022 and thereafter. Vintage Stock is required to maintain a declining maximum senior leverage ratio on a trailing twelve month basis beginning June 30, 2018 of 2.85:1.00, September 30, 2018 2.85:1.00, December 31, 2018 2.65:1.00, March 31, 2019 2.60:1.00, June 30, 2019 2.40:1.00, September 30, 2019 2.10:1.00, December 31, 2019 1.90:1.00, March 31, 2020 1.80:1.00, June 30, 2020 1.75:1.00 and September 30, 2020 and each fiscal quarter thereafter 1.50:1.00. Vintage Stock is required to maintain on a trailing twelve-month basis a minimum fixed charge ratio of no less than 1.30:1.00 for quarters ending June 30, 2018, September 30, 2018 and December 31, 2018. For quarter ending March 31, 2019 1.10:1.00. For quarters ending June 30, 2019, September 30, 2019 and December 31, 2019 1.30:1.00. For quarter ending March 31, 2020 and each fiscal quarter thereafter 1.40:1.00. Vintage Stock may only open three new retail locations within a twelve-month period so long as the senior leverage ratio is 2.00:1.00 or more. If the senior leverage ratio is less than 2.00:1.00, Vintage Stock may only open no more than four new retail locations within a twelve-month period. At all times that the senior leverage ratio is greater than or equal to 1.50:1.00, Vintage Stock cannot have the same store sales percentage to be less than or equal to a negative 5.5 percent as of the last day of any fiscal quarter. Vintage Stock may cure both payment and financial covenant defaults through infusion of equity cures as determined by the Credit Agreement. EBITDA, senior leverage ratio, same store sales decline percentage and fixed charge ratio are terms defined within the Credit Agreement.

In connection with the Comvest Term Loan, Vintage Stock incurred \$1,318,069 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 Comvest Term Loan.

*Loan Covenant Compliance*

We are in compliance as of March 31, 2019 and September 30, 2018 with all covenants under our existing revolving and other loan agreements.

Long-term debt as of March 31, 2019 and September 30, 2018 consisted of the following:

	March 31, 2019	September 30, 2018
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	\$ 4,220,827	\$ 7,600,605
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 and common stock	10,641,326	11,892,595
Crossroads Financial Revolver Loan - variable interest rate based upon the three-month LIBOR rate plus a margin, interest payable monthly, maturity date March 2021, secured by substantially all ApplianceSmart assets	2,115,050	-
Note Payable Comvest Term Loan - variable interest rate based upon LIBOR rate plus a margin, interest payable monthly in cash, principal due quarterly March 31, June 30, September 30, December 31, subject to a variable amortization of principal, maturity date May 26, 2023 note subordinate to Texas Capital Bank Revolver Loan, secured by Vintage Stock Assets	18,763,031	22,500,000
Note Payable to the Sellers of Vintage Stock, interest at 8% per annum, with interest payable monthly, amended maturity date of September 6, 2023, note subordinate to both Texas Capital Bank Revolver and Capitala Term Loan, secured by Vintage Stock Assets	10,000,000	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	2,458,846	3,230,555
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	-	1,636,940
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.	2,628,379	2,871,849
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.	807,339	881,937
Note #5 Payable to Banc of America Leasing & Capital LLC - interest at 4.67% per annum, with interest and principal payable monthly in the amount of \$54,943 for 84 months, beginning January 28, 2018, secured by equipment.	3,320,022	3,568,925
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	9,288,493	9,302,346
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 8.5% per annum, payable on a 120 day written demand notice, unsecured	225,000	225,000
Total notes payable	65,174,842	74,417,281
Less unamortized debt issuance costs	(1,578,627)	(1,653,458)
Net amount	63,596,215	72,763,823
Less current portion	(12,284,002)	(13,958,355)
Long-term portion	<u>\$ 51,312,213</u>	<u>\$ 58,805,468</u>

Future maturities of long-term debt at March 31, 2019 are as follows which does not include related party debt separately stated:

Years ending March 31,	
2020	\$ 12,284,002
2021	15,749,991
2022	5,130,673
2023	4,393,814
2024	18,022,902
Thereafter	9,593,460
Total	<u>\$ 65,174,842</u>

**Note 9: Notes Payable, Related Parties**

*Appliance Recycling Centers of America, Inc. Note*

On December 30, 2017, ASH entered into a Stock Purchase Agreement (the “Agreement”) with Appliance Recycling Centers of America, Inc. (the “Seller”) and ApplianceSmart, Inc. (“ApplianceSmart”), a subsidiary of the Seller. Pursuant to the Agreement, ASH purchased (the “Transaction”) from the Seller all of the issued and outstanding shares of capital stock of ApplianceSmart in exchange for \$6,500,000 (the “Purchase Price”). ASH was required to deliver the Purchase Price, and a portion of the Purchase Price was delivered, to the Seller prior to March 31, 2018. Between March 31, 2018 and April 24, 2018, ASH and the Seller negotiated in good faith the method of payment of the remaining outstanding balance of the Purchase Price.

On April 25, 2018, ASH delivered to the Seller that certain Promissory Note (the “ApplianceSmart Note”) in the original principal amount of \$3,919,494 (the “Original Principal Amount”), as such amount may be adjusted per the terms of the ApplianceSmart Note. The ApplianceSmart Note is effective as of April 1, 2018 and matures on April 1, 2021 (the “Maturity Date”). The ApplianceSmart Note bears interest at 5% per annum with interest accruing from April 1, 2018, payable at maturity, April 1, 2021, in arrears. ApplianceSmart has agreed to guaranty repayment of the ApplianceSmart Note. The remaining \$2,580,506 of the Purchase Price was paid in cash by ASH to the Seller. ASH may reborrow funds, and pay interest on such re-borrowings, from the Seller up to the Original Principal Amount. As of March 31, 2019 and September 30, 2018, there was \$3,721,507 and \$3,821,507 outstanding on the ApplianceSmart Note, respectively.

On December 26, 2018, ASH and the Seller amended and restated the ApplianceSmart Note to, among other things, grant the Seller a security interest in the assets of ASH and ApplianceSmart in accordance with the terms of separate security agreements entered into between ASH and ApplianceSmart, respectively, and the Seller. In addition, ASH and the Seller modified the terms of when interest and principal would be due. Outstanding principal and accrued and un-paid interest at 5% per annum is now all due and payable on April 1, 2021.

On March 15, 2019, the ApplianceSmart entered into agreements with the Seller and Cross Roads Financial pursuant to which the Seller agreed to subordinate the payment of indebtedness under the ApplianceSmart Note and the Seller’s security interest in the assets of ApplianceSmart and other related parties in exchange for up to \$1,200,000. ApplianceSmart paid \$1,200,000 to the Seller \$100,000 on March 29, 2019, \$250,000 on April 5, 2019 and \$850,000 on April 15, 2019 as principal payments on the ApplianceSmart Note – see Note 18.

*Isaac Capital Fund Note*

In connection with the acquisition of Marquis by the Company, the Company entered into a mezzanine loan in the amount of up to \$7,000,000 with Isaac Capital Fund (“ICF”), a private lender whose managing member is Jon Isaac, our President and Chief Executive Officer. The ICF mezzanine loan bears interest at 12.5% per annum with payment obligations of interest each month and all principal due in January 2021. As of March 31, 2019, and September 30, 2018, there was \$2,000,000 outstanding on this mezzanine loan.

Notes payable, related parties as of March 31, 2019 and September 30, 2018 consisted of the following:

	March 31, 2019	September 30, 2018
Note Payable and revolving line of credit to the Sellers of ApplianceSmart, Inc., interest rate is 5% per annum, with interest payable monthly, maturity date April 1, 2021, accrued interest and principal all due at maturity. ApplianceSmart may reborrow funds up to the Original Principal amount during the term of the note.	\$ 3,721,507	\$ 3,821,507
Note Payable to Isaac Capital Fund, interest rate is 12.5% per annum, with interest payable monthly, maturity date January 2021.	2,000,000	2,000,000
Total notes payable - related parties	5,721,507	5,821,507
Less unamortized debt issuance costs	—	—
Net amount	5,721,507	5,821,507
Less current portion	—	(391,949)
Long-term portion	<u>\$ 5,721,507</u>	<u>\$ 5,429,558</u>

Future maturities of notes payable, related parties at March 31, 2019 are as follows:

Years ending March 31,	
2020	\$ —
2021	2,000,000
2022	3,721,507
2023	—
2024	—
Thereafter	—
Total	<u>\$ 5,721,507</u>

**Note 10: Stockholders' Equity**

*Series B Convertible Preferred Stock*

On December 27, 2016, the Company established a new series of preferred stock, Series B Convertible Preferred Stock. The shares, as a series, are entitled to dividends as declared by the board of directors in an amount equal to \$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 share of Series B Preferred Stock into five shares of common stock, subject to equitable adjustment in the event of forward stock splits and reverse stock splits.

On March 31, 2019, and September 30, 2018, there were 1,000,000 authorized and 214,244 shares issued and outstanding of Series B Convertible Preferred Stock, with a par value of \$0.001 per share.

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 three and six months ended March 31, 2019 and 2018, respectively, the Company did not issue any shares of Series B Convertible Preferred Stock.

#### *Series E Convertible Preferred Stock*

As of March 31, 2019, and September 30, 2018, there were 200,000 shares authorized, 127,840 shares issued and 77,840 shares outstanding of Series a Preferred Stock, with a par value of \$0.001 per share. 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. On November 18, 2017, the Company repurchased 50,000 shares of Series E Convertible Preferred Stock for an aggregate purchase price of \$4,000.

During the three months ended March 31, 2019 and 2018, the Company accrued dividends of \$292 and \$292, respectively, payable to holders of Series E preferred stock. During the six months ended March 31, 2019 and 2018, the Company accrued dividends of \$584 and \$584, respectively, payable to holders of Series E preferred stock. As of March 31, 2019, and September 30, 2018, unpaid dividends were \$584 and \$1,168, respectively.

#### *Common Stock*

On December 31, 2018, and September 30, 2018, there was 10,000,000 shares authorized, 2,088,186 shares outstanding, and 1,942,428 and 1,945,247 shares issued, respectively, of Common Stock, with a par value of \$0.001 per share.

During the three months ended December 31, 2018 and 2017, respectively, the Company did not issue any shares of common stock.

#### *Treasury Stock*

For the three months ended March 31, 2019 and 2018, the Company purchased 40,528 and 10,000 shares of its common stock on the open market (treasury shares for \$302,384 and \$128,055, respectively). For the six months ended March 31, 2019 and 2018, the Company purchased 43,347 and 29,743 of its common stock on the open market (treasury shares for \$321,462 and \$377,447, respectively).

The Company accounted for the purchase of these treasury shares using the cost method. At March 31, 2019, the Company held 186,286 shares of its common stock as treasury shares at a cost of \$1,871,473. At September 30, 2018, the Company held 142,939 shares of its common stock as treasury shares at a cost of \$1,550,011.

#### *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. The Company’s stockholders approved the 2014 Plan on July 11, 2014.

**Note 11: 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, 2019 and September 30, 2018, respectively:

	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, 2018	118,029	\$ 20.80	1.35	\$ 2,855,734
Exercisable at September 30, 2018	118,029	\$ 20.80	1.35	\$ 2,855,734
Outstanding at March 31, 2019	118,029	\$ 20.80	0.85	\$ 2,147,559
Exercisable at March 31, 2019	118,029	\$ 20.80	0.85	\$ 2,147,559

On December 27, 2016, ICG and the Company agreed to amend and exchange the common stock warrants for warrants to purchase shares of Series B Convertible Preferred Stock, and the number of warrants held adjusted by an exchange ratio of 5:1 shares of common stock for shares of Series B Convertible Preferred Stock. 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 shares of Series B Convertible Preferred Stock should the warrants be exercised prior to December 31, 2021.

As of March 31, 2019, the Company had 118,029 common stock warrants outstanding with a weighted average exercise price, weighted average remaining contractual term and intrinsic value of \$20.80, 0.85 years and \$2,147,559, respectively. As of September 30, 2018, the Company had 118,029 common stock warrants outstanding with weighted average exercise price, weighted average remaining contractual term and intrinsic value of \$20.80, 1.35 years and \$2,855,734, respectively.

Warrants for 10,914, 12,383, 54,396 and 17,857 shares of Series B Convertible Preferred Stock were set to expire on September 10, 2017, December 11, 2017, March 27, 2018 and March 28, 2018, respectively. On January 16, 2018, the Company memorialized an agreement reached prior to any of the warrants expiring, to extend the expiration date for two years, just prior to expiration for all warrants listed. Warrants outstanding and exercisable as of September 30, 2018 and September 30, 2017 reflect the time extended warrants in addition to 22,479 warrants for shares of Series B Convertible Preferred Stock with an original expiration date of December 3, 2019. The Company did not recognize any compensation expense during the six months ended March 31, 2019 and 2018, respectively, related to warrant awards granted to certain employees and officers based on the grant date fair value of the awards, net of estimated forfeitures. No forfeitures are estimated.

The exercise price for the Series B Convertible Preferred Stock warrants outstanding and exercisable at March 31, 2019 and September 30, 2018, are 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	
118,029			118,029		

**Note 12: 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 twelve months ended September 30, 2018 and the six months ended March 31, 2019:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Intrinsic Value
Outstanding at September 30, 2017	211,668	\$ 13.19	3.47	\$ 454,417
Granted	20,000	32.24	9.02	
Exercised	—			
Forfeited	—			
Outstanding at September 30, 2018	<u>231,668</u>	<u>\$ 14.84</u>	<u>3.04</u>	<u>\$ 162,500</u>
Exercisable at September 30, 2018	<u>190,639</u>	<u>\$ 11.89</u>	<u>2.08</u>	<u>\$ 162,500</u>
Outstanding at September 30, 2018	231,668	\$ 14.84	3.04	\$ 162,500
Granted	—			
Exercised	—			
Forfeited	<u>(25,000)</u>			
Outstanding at March 31, 2019	<u>206,668</u>	<u>\$ 16.03</u>	<u>2.87</u>	<u>\$ 25,000</u>
Exercisable at March 31, 2019	<u>176,070</u>	<u>\$ 13.29</u>	<u>1.82</u>	<u>\$ 25,000</u>

The Company recognized compensation expense of \$31,602 and \$68,084 during the three months ended March 31, 2019 and 2018, 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. The Company recognized compensation expense of \$78,201 and \$140,185 during the six months ended March 31, 2019 and 2018, respectively.

At March 31, 2019, the Company has \$208,604 of unrecognized compensation expense (net of estimated forfeitures) associated with stock option awards which the company expects to recognize as compensation expense through October of 2022.

The exercise price for stock options outstanding and exercisable outstanding at March 31, 2019 is as follows:

Outstanding		Exercisable	
Number of Options	Exercise Price	Number of Options	Exercise Price
6,250	\$ 5.00	6,250	\$ 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
4,167	10.86	1,736	10.86
4,167	10.86		
6,250	12.50	6,250	12.50
6,250	15.00	6,250	15.00
75,000	15.18	75,000	15.18
8,000	23.41	8,000	23.41
8,000	27.60	8,000	27.60
8,000	31.74		
8,000	36.50		
8,000	41.98		
<u>206,668</u>		<u>176,070</u>	

The following table summarizes information about the Company's non-vested shares outstanding as of March 31, 2019 and September 30, 2018:

Non-vested Shares	Number of Shares	Average Grant-Date Fair Value
Non-vested at September 30, 2017	36,668	\$ 17.70
Granted	20,000	\$ 10.14
Vested	(15,639)	\$ 15.72
Non-vested at September 30, 2018	<u>41,029</u>	\$ 12.88
Non-vested at September 30, 2018	41,029	\$ 12.88
Granted	–	\$ –
Vested	(10,431)	\$ 14.21
Non-vested at March 31, 2019	<u>30,598</u>	\$ 14.14

Options were granted during fiscal 2018, 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. There have been no options granted in fiscal 2019 through March 31, 2019. The assumptions used in calculating the fair value of stock options granted in fiscal 2018 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 and 10 years
Expected volatility	107%
Expected dividend yield	0%

**Note 13: 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 shares of common stock 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 shares of common stock consist of the additional shares of common stock 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,	
	2019	2018	2019	2018
<i>Basic</i>				
Net income	\$ 473,406	\$ 1,923,273	\$ 2,003,915	\$ 3,800,828
Less: preferred stock dividends	(292)	(292)	(584)	(584)
Net income applicable to common stock	<u>\$ 473,114</u>	<u>\$ 1,922,981</u>	<u>\$ 2,003,331</u>	<u>\$ 3,800,244</u>
Weighted average common shares outstanding	<u>1,925,972</u>	<u>1,970,136</u>	<u>1,935,610</u>	<u>1,972,758</u>
Basic earnings per share	<u>\$ 0.25</u>	<u>\$ 0.98</u>	<u>\$ 1.03</u>	<u>\$ 1.93</u>
<i>Diluted</i>				
Net income applicable to common stock	\$ 473,114	\$ 1,922,981	\$ 2,003,331	\$ 3,800,244
Add: preferred stock dividends	292	292	584	584
Net income applicable for diluted earnings per share	<u>\$ 473,406</u>	<u>\$ 1,923,273</u>	<u>\$ 2,003,915</u>	<u>\$ 3,800,828</u>
Weighted average common shares outstanding	1,925,972	2,027,564	1,999,983	1,972,758
Add: Options	2,255	44,923	6,916	44,171
Add: Series B Preferred Stock	1,071,200	1,071,200	1,071,200	1,071,200
Add: Series B Preferred Stock Warrants	590,145	590,145	590,145	590,145
Add: Series E Preferred Stock	77,840	77,840	77,840	77,840
Assumed weighted average common shares outstanding	<u>3,667,412</u>	<u>3,811,672</u>	<u>3,746,084</u>	<u>3,756,114</u>
Diluted earnings per share	<u>\$ 0.13</u>	<u>\$ 0.50</u>	<u>\$ 0.53</u>	<u>\$ 1.01</u>

There are 175,418 and 121,250 common stock options that are anti-dilutive that are not included in the three months ended March 31, 2019 and 2018, diluted earnings per share computations, respectively.

**Note 14: Related Party Transactions**

In connection with its purchase of Marquis, Marquis entered into a mezzanine loan in the amount of up to \$7,000,000 with ICF. The ICF mezzanine loan bears interest at a rate of 12.5% per annum with payment obligations of interest each month and all principal due in January 2021. As of March 31, 2019, and September 30, 2018, respectively, there was \$2,000,000 outstanding on this mezzanine loan. During the three months ended March 31, 2019 and 2018, the Company recognized total interest expense of \$62,501, associated with the ICF notes. During the six months ended March 31, 2019 and 2018, the Company recognized total interest expense of \$126,389, associated with the ICF notes.

Customer Connexx LLC, a wholly-owned subsidiary of Appliance Recycling Centers of America, Inc. ("ARCA"), rents approximately 9,879 square feet of office space from the Company at its Las Vegas office which totals 11,100 square feet. ARCA paid the Company \$138,872 and \$29,929 in rent and other reimbursed expenses for the three months ended March 31, 2019 and 2018, respectively. ARCA paid the Company \$183,437 and \$75,317 in rent and other reimbursed expenses for the six months ended March 31, 2019 and 2018, respectively. Tony Isaac, a member of the Board of Directors of the Company and Virland Johnson, Chief Financial Officer of the Company, are Chief Executive Officer and Board of Directors member and Chief Financial Officer of ARCA, respectively.

Warrants for 10,914, 12,383, 54,396 and 17,857 shares of Series B Convertible Preferred Stock were set to expire on September 10, 2017, December 11, 2017, March 27, 2018 and March 28, 2018, respectively. On January 16, 2018, the Company memorialized an agreement reached prior to any of the warrants expiring, to extend the expiration date for two years, just prior to expiration for all warrants listed. Warrants outstanding and exercisable as of March 31, 2019 and September 30, 2018 reflect the time extended warrants in addition to 22,479 warrants for shares of Series B Convertible Preferred Stock with an original expiration date of December 3, 2019.

On December 30, 2017, ASH, a wholly owned subsidiary of the Company, entered into a Stock Purchase Agreement (the "Agreement") with ARCA and ApplianceSmart, a subsidiary of ARCA. Pursuant to the Agreement, the Purchaser purchased from ARCA all of the issued and outstanding shares of capital stock (the "Stock") of ApplianceSmart in exchange for \$6,500,000 (the "Purchase Price"). Effective April 1, 2018, ASH issued an interest-bearing promissory note, with interest at 5% per annum, with a three-year term in the original amount of \$3,919,494 for the balance of the purchase price.

Under a transition service agreement between ARCA and ApplianceSmart, ARCA would provide healthcare benefits to ApplianceSmart employees from January 1, 2018 thru December 31, 2018 for a monthly fee of \$22,500. ApplianceSmart paid ARCA transition services fees of \$0 for the three and six months ended March 31, 2019. Transition service fees expensed by ApplianceSmart were \$0 and \$67,500 for the three and six months ended March 31, 2019. The transition service fees liability at March 31, 2019 and September 30, 2018 are \$90,000 and \$135,000, respectively.

On December 26, 2018, ASH and the Seller amended and restated the ApplianceSmart Note to, among other things, grant the Seller a security interest in the assets of ASH and ApplianceSmart in accordance with the terms of separate security agreements entered into between ASH and ApplianceSmart, respectively, and the Seller. At March 31, 2019 and September 30, 2018, respectively, there was \$3,721,507 and \$3,821,507 outstanding on this ApplianceSmart Note, respectively.

In connection with the acquisition of Vintage Stock on November 3, 2016, Rodney Spriggs, President of Vintage Stock, holds a 41.134752% interest in the \$10,000,000 Seller Subordinated Acquisition Note payable by VSAH. The terms of payment are interest only, payable monthly on the 1<sup>st</sup> of each month, until maturity 5 years and 6 months from the date of the note – November 3, 2016. Interest paid to Mr. Spriggs for the three months ended March 31, 2019 and 2018, was \$82,270 and \$82,270, respectively. Interest paid to Mr. Spriggs for the six months ended March 31, 2019 and 2018 was \$165,454 and \$165,454, respectively. Interest unpaid and accrued as of March 31, 2019 and September 30, 2018 is \$27,423 and \$27,423, respectively.

Also see Note 5, 8, 9, 10 and 11.

**Note 15: Commitments and Contingencies**

*Litigation*

The Company is involved in various claims and lawsuits arising in the normal course of 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, 2019, results of operations, cash flows or liquidity of the Company.

**Note 16: Income Taxes**

The income tax rate for the six months ended March 31, 2019 and March 31, 2018 were 27.7% and 50.1%, respectively. The effective income tax rate differs from the U.S. federal statutory rate primarily due to state taxes and certain non-deductible expenses. As of March 31, 2019, and March 31, 2018 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.

During the first quarter, ended December 31, 2017, the Company revised its estimated annual effective rate to reflect a change in the federal statutory rate from 34% to 21%, resulting from legislation that was enacted on December 22, 2017. The rate change is administratively effective as of January 1, 2018, which requires the Company to use a blended rate for the annual period. As a result, the blended federal statutory rate for the year is 24.53%. In addition, we recognized a tax expense in our tax provision for the period related to adjusting our deferred tax balance to reflect the new corporate tax rate. As a result, income tax expense reported for the three months was adjusted to reflect the effects of the change in tax law and resulted in an increase in income tax expense of approximately \$2.3 million for the three-month period ended December 31, 2017.

**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, ApplianceSmart, Modern Everyday and LiveDeal.com, and the Services segment consists of the directory services business.

The following tables summarize segment information for the three and six months ended March 31, 2019 and 2018:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
<b>Revenues</b>				
Retail and Online	\$ 25,747,635	\$ 31,183,512	\$ 56,392,650	\$ 52,476,983
Manufacturing	21,062,147	20,808,622	43,444,432	39,687,157
Services	163,369	187,794	332,009	383,852
	<u>\$ 46,973,151</u>	<u>\$ 52,179,928</u>	<u>\$ 100,169,091</u>	<u>\$ 92,547,992</u>
<b>Gross profit</b>				
Retail and Online	\$ 12,741,758	\$ 14,536,885	\$ 26,318,041	\$ 25,992,687
Manufacturing	5,755,461	4,936,246	11,357,119	9,688,814
Services	153,930	177,570	313,067	365,090
	<u>\$ 18,651,149</u>	<u>\$ 19,650,701</u>	<u>\$ 37,988,227</u>	<u>\$ 36,046,591</u>
<b>Operating income (loss)</b>				
Retail and Online	\$ (129,237)	\$ 2,391,848	\$ (367,889)	\$ 4,623,324
Manufacturing	2,022,072	1,504,823	4,192,549	3,007,077
Services	153,540	177,292	312,207	364,350
	<u>\$ 2,046,375</u>	<u>\$ 4,073,963</u>	<u>\$ 4,136,867</u>	<u>\$ 7,994,751</u>
<b>Depreciation and amortization</b>				
Retail and Online	\$ 882,227	\$ 440,503	\$ 1,670,478	\$ 1,117,964
Manufacturing	610,193	866,756	1,303,711	1,585,200
Services	—	—	—	—
	<u>\$ 1,492,420</u>	<u>\$ 1,307,259</u>	<u>\$ 2,974,189</u>	<u>\$ 2,703,164</u>
<b>Interest expenses</b>				
Retail and Online	\$ 1,120,205	\$ 1,349,291	\$ 2,295,996	\$ 3,371,698
Manufacturing	415,792	472,429	892,734	918,334
Services	—	—	—	—
	<u>\$ 1,535,997</u>	<u>\$ 1,821,720</u>	<u>\$ 3,188,730</u>	<u>\$ 4,290,032</u>
<b>Net income before provision for income taxes</b>				
Retail and Online	\$ (1,332,758)	\$ 1,161,581	\$ (2,605,175)	\$ 5,214,176
Manufacturing	1,854,486	1,019,656	5,066,106	2,083,049
Services	153,604	177,292	312,271	364,350
	<u>\$ 675,332</u>	<u>\$ 2,358,529</u>	<u>\$ 2,773,202</u>	<u>\$ 7,661,575</u>

	As of March 31, 2019	As of September 30, 2018
<b>Total assets</b>		
Retail and Online	\$ 83,439,817	\$ 88,799,584
Manufacturing	48,335,629	52,915,109
Services	72,215	57,703
	<u>\$ 131,847,661</u>	<u>\$ 141,772,396</u>
<b>Goodwill and intangible assets</b>		
Retail and Online	\$ 42,458,607	\$ 43,268,668
Manufacturing	329,280	343,914
Services	-	-
	<u>\$ 42,787,887</u>	<u>\$ 43,612,582</u>

**Note 18: Subsequent Events**

*ApplianceSmart Note*

On March 15, 2019, ApplianceSmart entered into subordination agreements with the Seller and Crossroads pursuant to which it agreed to subordinate the payment of indebtedness under the ApplianceSmart Note and the Seller's security interest in the assets of ApplianceSmart and other related parties in exchange for up to \$1,200,000 payable within 15 days of the agreement. ApplianceSmart paid \$1,200,000 to the Company \$100,000 on March 29, 2019, \$250,000 on April 5, 2019 and \$850,000 on April 15, 2019 as principal payments on the ApplianceSmart Note.

## 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 and six months ended March 31, 2019, 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, 2018 (the "2018 Form 10-K").

### 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 (i) 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 2018 Form 10-K 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 work closely with third parties to help us identify target companies that fit within the criteria we have established for opportunities.

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.liveventures.com](http://www.liveventures.com). Our common stock trades on the NASDAQ Capital Market under the symbol "LIVE".

## **Manufacturing Segment**

### *Marquis Industries*

Our Manufacturing segment is composed 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 commencing operations in 1995, 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. Marquis 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 composed of Vintage Stock Affiliated Holdings LLC and wholly-owned subsidiaries (“Vintage”), Appliancesmart Holdings LLC and its wholly-owned subsidiary (“Appliancesmart”), Modern Everyday, Inc. (“MEI”) and LiveDeal Inc. (“LiveDeal”).

### *Vintage Stock*

On November 3, 2016, Live Ventures through its wholly-owned subsidiary Vintage Stock Affiliated Holdings LLC, acquired 100% of Vintage Stock (collectively “Vintage Stock”). Vintage Stock is an award-winning specialty entertainment retailer with 60 storefronts across the Midwest and Southwest. Vintage Stock enjoys a wide customer base comprised of electronic entertainment enthusiasts, avid collectors, female gamers, children, seniors and more. 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 35 Vintage Stock, 3 V-Stock, 13 Movie Trading company and 9 EntertainMart retail locations strategically positioned across Texas, Idaho, Oklahoma, Kansas, Missouri, Colorado, Illinois, Arkansas, Utah and New Mexico. In addition to offering a wide array of products, Vintage Stock also offers services to customers, such as rentals, special orders, disc and video game hardware repair and more. Vintage Stock’s “Cooler Than Cash” program rewards loyal customers. When Vintage Stock customers bring in items to sell, the customer has two options: (i) sell their pre-owned products for cash or (ii) opt for store credit and receive a fifty percent bonus.

### *ApplianceSmart*

On December 30, 2017, the Company, through its newly formed, wholly-owned subsidiary, ApplianceSmart Holdings LLC, entered into a series of agreements in connection with its purchase of ApplianceSmart. ApplianceSmart is engaged in the sale of new major appliances through a chain of company-owned retail stores. ApplianceSmart is a leading appliance dealer in Minnesota, Ohio, Georgia and Texas with 9 stores. ApplianceSmart sells leading brands such as Whirlpool, General Electric, Frigidaire, LG and Samsung.

### *LiveDeal*

LiveDeal Inc. operates LiveDeal.com, 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 marketing purposes.

## Services Segment

### Telco

Telco Billing Inc. (“Telco”) provides legacy services primarily under our InstantProfile® 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 Three Months Ended March 31, 2019 and 2018

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

	Three Months Ended March 31, 2019		Three Months Ended March 31, 2018	
		% of Total Revenue		% of Total Revenue
Statement of Income Data:				
Revenue	\$ 46,973,151	100.0%	\$ 52,179,928	100.0%
Cost of Revenue	28,322,002	60.3%	32,529,227	62.3%
Gross Profit	18,651,149	39.7%	19,650,701	37.7%
General and Administrative Expense	12,793,674	27.2%	11,856,575	22.7%
Selling and Marketing Expense	3,811,100	8.1%	3,720,163	7.1%
Operating Income	2,046,375	4.4%	4,073,963	7.8%
Interest Expense, net	(1,535,997)	-3.3%	(1,821,720)	-3.5%
Bargain Purchase Gain on Acquisition	–	0.0%	–	0.0%
Other Income	164,954	0.4%	106,286	0.2%
Net Income before Income Taxes	675,332	1.4%	2,358,529	4.5%
Provision for Income Taxes	201,926	0.4%	435,256	0.8%
Net Income	\$ 473,406	1.0%	\$ 1,923,273	3.7%

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, 2019		Three Months Ended March 31, 2018	
	Net Revenue	% of Total Revenue	Net Revenue	% of Total Total Revenue
Revenue				
Used Movies, Music, Games and Other	\$ 10,671,761	22.7%	\$ 11,484,038	22.0%
New Movies, Music, Games and Other	8,562,384	18.2%	8,196,249	15.7%
Rentals, Concessions and Other	254,659	0.5%	311,381	0.6%
Retail Appliance Boxed Sales	4,498,518	9.6%	7,694,343	14.7%
Retail Appliance UnBoxed Sales	1,334,723	2.8%	3,040,023	5.8%
Retail Appliance Service, Warranty and Other	425,590	0.9%	457,478	0.9%
Carpets	14,047,558	29.9%	13,821,590	26.5%
Hard Surface Products	6,701,899	14.3%	5,689,905	10.9%
Synthetic Turf Products	312,690	0.7%	1,297,127	2.5%
Directory Services	163,369	0.3%	187,794	0.4%
Total Revenue	\$ 46,973,151	100.0%	\$ 52,179,928	100.0%

	Three Months Ended March 31, 2019		Three Months Ended March 31, 2018	
	Gross Profit	Gross Profit %	Gross Profit	Gross Profit %
Gross Profit				
Used Movies, Music, Games and Other	\$ 8,715,967	81.7%	\$ 8,910,987	77.6%
New Movies, Music, Games and Other	2,527,102	29.5%	1,979,062	24.1%
Rentals, Concessions and Other	162,300	63.7%	197,725	63.5%
Retail Appliance Boxed Sales	1,030,780	22.9%	1,651,788	21.5%
Retail Appliance UnBoxed Sales	551,299	41.3%	1,195,871	39.3%
Retail Appliance Service, Warranty and Other	(245,690)	-57.7%	601,452	131.5%
Carpets	3,946,226	28.1%	3,844,943	27.8%
Hard Surface Products	1,797,499	26.8%	1,409,933	24.8%
Synthetic Turf Products	11,736	3.8%	(318,630)	-24.6%
Directory Services	153,930	94.2%	177,570	94.6%
Total Gross Profit	\$ 18,651,149	39.7%	\$ 19,650,701	37.7%

#### Revenue

Revenue decreased \$5,206,777, or 10.0% for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018.

The decrease in revenue was primarily attributable to the following:

Retail Boxed Sales decreased \$3,195,825, Retail Appliance UnBoxed Sales decreased \$1,705,300 and Retail Appliance Service, Warranty and Other decreased \$31,888 over the same period last fiscal year. This decline was driven by lower inventory across our retail locations because of financing that did not result in funding until after the end of the second quarter end March 31, 2019.

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

New Movies, Music, Games and Other \$336,135 or 4.5%.

Carpets increased \$225,968 or 1.6%.

Hard Surface Products increased \$1,011,994 or 17.8%.

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

Synthetic Turf Products decreased \$984,437 or 75.9%. We sold this business unit in December 2018.

Used Movies, Music, Games and Other decreased \$812,277 or 7.1%.

Directory Services decreased \$24,425 or 13.0%.

#### **Cost of Revenue**

Cost of revenue decreased \$4,207,225, or 12.9% for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018, primarily because of the change in revenue discussed above as well as the changes in gross profit discussed below.

#### **Gross Profit**

Gross profit decreased \$999,552 or 5.1%, for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018.

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

Gross profits from ApplianceSmart, declined year-over-year: Retail Appliance Boxed Sales declined \$621,008 or 37.6% at a 22.9% gross profit margin. Retail Appliance UnBoxed Sales declined by \$644,572, or 53.9% at a 41.3% gross profit margin. Retail Appliance Service, Warranty and Other declined by \$847,142 or 140.8% at a gross profit loss of \$245,690. This performance was driven by unexpected inventory shortfalls in the quarter and financing that was not funded until after the end of the quarter ended March 31, 2019.

Used Movies, Music, Games and Other decreased \$195,020 or 2.2%. Gross profit margin increased to 81.7% from 77.6% due to mixshift to higher margin products.

Rentals, Concession and Other decreased \$35,425, or 17.9%. Gross profit margin increased to 63.7% from 63.5%.

Directory Services decreased \$23,640 or 13.3%. Directory Services gross profit margin decreased slightly to 94.2% from 94.6%.

The decline in gross profit was partially offset by decreases in the following categories as compared to the prior year period:

New Movies, Music, Games and Other increased \$548,040 or 27.7%. New Movies, Music, Games and Other gross profit margin increased to 29.5% from 24.1% as a result of a favorable product mix compared to the same period in the prior year.

Carpets increased \$101,283 or 2.6%. Gross profit margin increased to 28.1% from 27.8%.

Hard Surface Products increased \$387,566 or 27.5%. Gross profit margin increased to 26.8% from 24.8% driven by favorable customer mix compared to the same period in the prior year.

Synthetic Turf Products increased \$330,366 or 103.7%. We sold this business unit in December 2018.

#### **General and Administrative Expense**

General and Administrative expense increased \$937,099 or 7.9%, for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018.

#### **Selling and Marketing Expense**

Selling and marketing expense increased \$90,937 or 2.4%, for the three months March 31, 2019 as compared to the three months ended March 31, 2018.

#### **Operating Income**

Because of the factors described above, operating income of \$2,046,375 for the three months ended March 31, 2019 represented a decrease of \$2,027,588 over the comparable prior year period of \$4,073,963, or 49.8%.

#### **Interest Expense, net**

Interest expense net decreased \$285,723 or 15.7%, for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018 primarily due to refinancing the Capitala term loan with Comvest in June 2018. During the quarter, the Company continued to pay down of debt for the financing related to the acquisition of Vintage Stock as more fully discussed in Notes 5 and 8 of the unaudited condensed consolidated financial statements reducing interest expense.

#### **Other Income and Expense**

Other income and expense increased \$58,668, or 55.2%, for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018.

#### **Provision for Income Taxes**

Provision for income taxes was \$201,926, for the three months ended March 31, 2019 as compared to a provision for income taxes of \$435,256 for the three months ended March 31, 2018.

## Net Income

The factors described above led to net income of \$473,406 for the three months ended March 31, 2019, or a 75.4% decrease from net income of \$1,923,273 for the three months ended March 31, 2018.

## Results of Operations Six Months Ended March 31, 2019 and 2018

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

	Six Months Ended March 31, 2019		Six Months Ended March 31, 2018	
		% of Total Revenue		% of Total Revenue
Statement of Income Data:				
Revenue	\$ 100,169,091	100.0%	\$ 92,547,992	100.0%
Cost of Revenue	62,180,864	62.1%	56,501,401	61.1%
Gross Profit	37,988,227	37.9%	36,046,591	38.9%
General and Administrative Expense	25,694,346	25.7%	22,255,705	24.0%
Selling and Marketing Expense	8,157,014	8.1%	5,796,135	6.3%
Operating Income	4,136,867	4.1%	7,994,751	8.6%
Interest Expense, net	(3,188,730)	-3.2%	(4,290,032)	-4.6%
Bargain Purchase Gain on Acquisition	—	0.0%	3,773,486	4.1%
Other Income	1,825,065	1.8%	183,370	0.2%
Net Income before Income Taxes	2,773,202	2.8%	7,661,575	8.3%
Provision for Income Taxes	769,287	0.8%	3,860,747	4.2%
Net Income	\$ 2,003,915	2.0%	\$ 3,800,828	4.1%

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:

	Six Months Ended March 31, 2019		Six Months Ended March 31, 2018	
	Net Revenue	% of Total Revenue	Net Revenue	% of Total Total Revenue
Revenue				
Used Movies, Music, Games and Other	\$ 21,931,883	21.9%	\$ 22,855,946	24.7%
New Movies, Music, Games and Other	18,948,183	18.9%	17,760,605	19.2%
Rentals, Concessions and Other	550,472	0.5%	599,915	0.6%
Retail Appliance Boxed Sales	10,239,941	10.2%	7,741,689	8.4%
Retail Appliance UnBoxed Sales	3,380,449	3.4%	3,056,452	3.3%
Retail Appliance Service, Warranty and Other	1,341,722	1.3%	462,376	0.5%
Carpets	28,337,963	28.3%	26,725,275	28.9%
Hard Surface Products	13,636,863	13.6%	10,778,324	11.6%
Synthetic Turf Products	1,469,606	1.5%	2,183,558	2.4%
Directory Services	332,009	0.3%	383,852	0.4%
Total Revenue	\$ 100,169,091	100.0%	\$ 92,547,992	100.0%

	Six Months Ended March 31, 2019		Six Months Ended March 31, 2018	
	Gross Profit	Gross Profit %	Gross Profit	Gross Profit %
<b>Gross Profit</b>				
Used Movies, Music, Games and Other	\$ 17,783,738	81.1%	\$ 17,798,011	77.9%
New Movies, Music, Games and Other	4,928,464	26.0%	4,347,666	24.5%
Rentals, Concessions and Other	359,588	65.3%	378,699	63.1%
Retail Appliance Boxed Sales	2,332,445	22.8%	1,662,341	21.5%
Retail Appliance UnBoxed Sales	1,178,674	34.9%	1,201,360	39.3%
Retail Appliance Service, Warranty and Other	(264,868)	-19.7%	604,610	130.8%
Carpets	7,607,695	26.8%	6,974,293	26.1%
Hard Surface Products	3,544,948	26.0%	2,729,484	25.3%
Synthetic Turf Products	204,476	13.9%	(14,963)	-0.7%
Directory Services	313,067	94.3%	365,090	95.1%
<b>Total Gross Profit</b>	<u>\$ 37,988,227</u>	<u>37.9%</u>	<u>\$ 36,046,591</u>	<u>38.9%</u>

## Revenue

Revenue increased \$7,621,099, or 8.2% for the six months ended March 31, 2019 as compared to the six months ended March 31, 2018.

The increase in revenue was primarily attributable to the following:

ApplianceSmart revenues increased: Retail Appliance Boxed Sales of \$2,498,252, Retail Appliance UnBoxed Sales of \$323,997 and Retail Appliance Delivery, Warranty and Other of \$879,346. ApplianceSmart was acquired on December 30, 2017 and had one full quarter plus one day of operations in the prior six month period.

Revenue increased in the following categories as compared to the prior year period (excluding ApplianceSmart categories mentioned above):

New Movies, Music, Games and Other \$1,187,578 or 6.7%.

Carpets increased \$1,612,688 or 6.0%.

Hard Surface Products increased \$2,858,539 or 26.5%.

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

Synthetic Turf Products decreased \$713,952 or 32.7%. We sold this business unit in December 2018.

Used Movies, Music, Games and Other decreased \$924,063 or 4.0%.

Rentals, Concessions and Other decreased \$49,443 or 8.2%.

Directory Services decreased \$51,843 or 13.5%.

### **Cost of Revenue**

Cost of revenue increased \$5,679,463 or 10.1% for the six months ended March 31, 2019 as compared to the six months ended March 31, 2018, primarily because of the change in revenue discussed above as well as the changes in gross profit discussed below.

### **Gross Profit**

Gross profit increased \$1,941,636 or 5.4% for the six months ended March 31, 2019 as compared to the six months ended March 31, 2018.

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

New Movies, Music, Games and Other increased \$580,798 or 13.4%. New Movies, Music, Games and Other gross profit margin increased to 26.0% from 24.5% as a result of a favorable product mix compared to the same period in the prior year.

Retail Appliance Boxed increased \$670,104 or 40.3%

Carpets increased \$633,402 or 9.1%. Gross profit margin increased to 26.8% from 26.1%.

Hard Surface Products increased \$815,464 or 29.9%. Gross profit margin increased to 26.0% from 25.3% driven by favorable customer mix compared to the same period in the prior year.

Synthetic Turf Products increased \$219,439 or 1466.5%. We sold this business unit in December 2018.

The increase in gross profit was partially offset by decreases in the following categories as compared to the prior year period:

Retail Appliance Service, Warranty and Other decreased by \$869,478 or 143.8% at a gross profit loss of \$264,868.

Retail UnBoxed decreased \$22,686 or 1.9%.

Used Movies, Music, Games and Other decreased \$14,273 or 0.1%. Gross profit margin increased to 81.1% from 77.9% due to mixshift to higher margin products.

Rentals, Concession and Other decreased \$19,111 or 5.0%. Gross profit margin increased to 65.3% from 63.1%.

Directory Services decreased \$52,023 or 14.2%. Directory Services gross profit margin decreased slightly to 94.3% from 95.1%.

### **General and Administrative Expense**

General and Administrative expense increased \$3,438,641 or 15.5%, for the six months ended March 31, 2019 as compared to the six months ended March 31, 2018. This was primarily attributable to our acquisition of ApplianceSmart on December 30, 2017.

### **Selling and Marketing Expense**

Selling and marketing expense increased \$2,360,879 or 40.7%, for the six months March 31, 2019 as compared to the six months ended March 31, 2018. This was primarily attributable to our acquisition of ApplianceSmart on December 30, 2017.

## Operating Income

Because of the factors described above, operating income of \$4,136,867 for the six months ended March 31, 2019 represented a decrease of \$3,857,884 over the comparable prior year period of \$7,994,751, or 48.3%.

## Interest Expense, net

Interest expense net decreased \$1,101,302 or 25.7%, for the six months ended March 31, 2019 as compared to the six months ended March 31, 2018 primarily due to refinancing the Capitala loan with Comvest in June 2018. During the quarter, the Company continued to pay down of debt for the financing related to the acquisition of Vintage Stock as more fully discussed in Notes 5 and 8 of the unaudited condensed consolidated financial statements reducing interest expense.

## Other Income and Expense

Other income and expense increased \$1,641,695, or 895.3%, for the six months ended March 31, 2019 as compared to the six months ended March 31, 2018 due to the sale of our Synthetic Turf Products business unit in December 2018.

## Provision for Income Taxes

Provision for income taxes was \$769,287, for the six months ended March 31, 2019 as compared to a provision for income taxes of \$3,860,747 for the six months ended March 31, 2018. The provision for income taxes in the prior year contain an approximate \$2.3 million adjustment for a change in the income tax rate for US corporations.

## Net Income

The factors described above led to net income of \$2,003,915 for the six months ended March 31, 2019, or a 47.3% decrease from net income of \$3,800,828 for the six months ended March 31, 2018.

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

	Three Months Ended March 31, 2019				Three Months Ended March 31, 2018			
	Segments in \$				Segments in \$			
	Retail & Online	Manufacturing	Services	Total	Retail & Online	Manufacturing	Services	Total
Revenue	\$ 25,747,635	\$ 21,062,147	\$ 163,369	\$ 46,973,151	\$ 31,183,512	\$ 20,808,622	\$ 187,794	\$ 52,179,928
Cost of Revenue	13,005,877	15,306,686	9,439	28,322,002	16,646,627	15,872,376	10,224	32,529,227
Gross Profit	12,741,758	5,755,461	153,930	18,651,149	14,536,885	4,936,246	177,570	19,650,701
General and Administrative Expense	11,260,505	1,532,779	390	12,793,674	10,499,918	1,356,379	278	11,856,575
Selling and Marketing Expense	1,610,490	2,200,610	–	3,811,100	1,645,119	2,075,044	–	3,720,163
Operating Income (Loss)	\$ (129,237)	\$ 2,022,072	\$ 153,540	\$ 2,046,375	\$ 2,391,848	\$ 1,504,823	\$ 177,292	\$ 4,073,963

	Three Months Ended March 31, 2019				Three Months Ended March 31, 2018			
	Segments in % of Revenue				Segments in % of Revenue			
	Retail & Online	Manufacturing	Services	Total	Retail & Online	Manufacturing	Services	Total
Revenue	45.7%	48.5%	49.2%	46.9%	59.4%	52.4%	48.9%	56.4%
Cost of Revenue	23.1%	35.2%	2.8%	28.3%	31.7%	40.0%	2.7%	35.1%
Gross Profit	22.6%	13.2%	46.4%	18.6%	27.7%	12.4%	46.3%	21.2%
General and Administrative Expense	20.0%	3.5%	0.1%	12.8%	20.0%	3.4%	0.1%	12.8%
Selling and Marketing Expense	2.9%	5.1%	0.0%	3.8%	3.1%	5.2%	0.0%	4.0%
Operating Income (Loss)	-0.2%	4.7%	46.2%	2.0%	4.6%	3.8%	46.2%	4.4%

### Retail and Online Segment

Segment results for Retail and Online include Vintage and ApplianceSmart. Revenue and Cost of Revenue for the Retail and Online Segment for the three months ended March 31, 2019 are detailed in the "Revenue" and "Cost of Revenue" sections above.

Operating income for the three months ended March 31, 2019 decreased \$2,521,085 or 105.4%.

### Manufacturing Segment

Segment results for Manufacturing include Marquis, which is our carpet, hard surface and synthetic turf products business. Revenue and Cost of Revenue for the Manufacturing Segment for the three months ended March 31, 2019 are detailed in the "Revenue" and "Cost of Revenue" sections above. Operating income for the three months ended March 31, 2019 increased \$517,249, or 34.4%, as compared to the prior year period, because of an increase in gross profit of \$819,215, partially offset by increases in general and administrative expense of \$176,400 and selling and marketing expense of \$125,566.

### Services Segment

Segment results for Services include Telco results, which is our directory services business. Revenue and Cost of Revenue for the Services Segment for the three months ended March 31, 2019 are detailed in the "Revenue" and "Cost of Revenue" sections above. Operating earnings for the three months ended March 31, 2019 decreased \$23,572, or 13.4% 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, 2019				Six Months Ended March 31, 2018			
	Segments in \$				Segments in \$			
	Retail & Online	Manufacturing	Services	Total	Retail & Online	Manufacturing	Services	Total
Revenue	\$ 56,392,650	\$ 43,444,432	\$ 332,009	\$ 100,169,091	\$ 52,476,983	\$ 39,687,157	\$ 383,852	\$ 92,547,992
Cost of Revenue	30,074,609	32,087,313	18,942	62,180,864	26,484,296	29,998,343	18,762	56,501,401
Gross Profit	26,318,041	11,357,119	313,067	37,988,227	25,992,687	9,688,814	365,090	36,046,591
General and Administrative Expense	22,670,186	3,023,300	860	25,694,346	19,511,521	2,743,445	739	22,255,705
Selling and Marketing Expense	4,015,744	4,141,270	—	8,157,014	1,857,842	3,938,292	1	5,796,135
Operating Income (Loss)	\$ (367,889)	\$ 4,192,549	\$ 312,207	\$ 4,136,867	\$ 4,623,324	\$ 3,007,077	\$ 364,350	\$ 7,994,751

	Six Months Ended March 31, 2019 Segments in % of Revenue				Six Months Ended March 31, 2018 Segments in % of Revenue			
	Retail & Online	Manufacturing	Services	Total	Retail & Online	Manufacturing	Services	Total
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Revenue	53.3%	73.9%	5.7%	62.1%	50.5%	75.6%	4.9%	61.1%
Gross Profit	46.7%	26.1%	94.3%	37.9%	49.5%	24.4%	95.1%	38.9%
General and Administrative Expense	40.2%	7.0%	0.3%	25.7%	37.2%	6.9%	0.2%	24.0%
Selling and Marketing Expense	7.1%	9.5%	0.0%	8.1%	3.5%	9.9%	0.0%	6.3%
Operating Income (Loss)	-0.7%	9.7%	94.0%	4.1%	8.8%	7.6%	94.9%	8.6%

### Retail and Online Segment

Segment results for Retail and Online include Vintage and ApplianceSmart. Revenue and Cost of Revenue for the Retail and Online Segment for the six months ended March 31, 2019 are detailed in the “Revenue” and “Cost of Revenue” sections above.

Operating income for the six months ended March 31, 2019 decreased \$4,991,213 or 108.0% as compared to the prior year period.

### Manufacturing Segment

Segment results for Manufacturing include Marquis, which is our carpet, hard surface and synthetic turf products business. The synthetic turf products business was sold in December 2018. Revenue and Cost of Revenue for the Manufacturing Segment for the six months ended March 31, 2019 are detailed in the “Revenue” and “Cost of Revenue” sections above. Operating income for the six months ended March 31, 2019 increased \$1,185,472, or 39.4%, as compared to the prior year period, because of an increase in gross profit of \$1,688,305, partially offset by increases in general and administrative expense of \$279,855 and selling and marketing expense of \$202,978.

### Services Segment

Segment results for Services include Telco results, which is our directory services business. Revenue and Cost of Revenue for the Services Segment for the six months ended March 31, 2019 are detailed in the “Revenue” and “Cost of Revenue” sections above. Operating earnings for the six months ended March 31, 2019 decreased \$52,143, or 14.3% 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 the BofA Revolver, Crossroads Revolver and the TCB Revolver, together will provide sufficient liquidity to fund our operations, pay our scheduled loan payments, fund our continued investments in store openings and remodeling activities, continue to repurchase shares and pay dividends on our series E preferred shares as declared by the Board of Directors, for at least the next 12 months.

We have three asset-based revolver lines of credit (a) the BofA Revolver utilized by Marquis, (b) the TCB Revolver utilized by Vintage Stock, and (c) the Crossroads Revolver utilized by ApplianceSmart.

As of March 31, 2019, we had total cash on hand of \$3,292,440 and an additional \$10,660,628 of available borrowing under the BofA Revolver, \$1,884,950 of available borrowing under the Crossroads Revolver and an additional \$1,358,674 of available borrowing under the TCB Revolver. As we continue to pursue acquisitions and other strategic transactions to expand and grow our business, 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, 2019, cash provided by operations was \$6,985,809, compared to \$7,041,108 during the six months ended March 31, 2018. The increase in cash provided by operations of \$69,219 as compared to the prior period; was primarily due to a decrease in net income of \$1,796,913, an increase in depreciation and amortization expense of \$271,025, an increase in non-cash asset retirements of \$104,185, a decrease due to the bargain purchase gain of ApplianceSmart of \$3,773,486, a decrease due to gain on sale of equipment of \$1,521,637, a decrease to the change in deferred income taxes of \$3,118,164, a decrease in non-cash expenses of \$4,678, and an increase in cash provided by operations for working capital purposes of \$2,237,397.

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 provided by a decrease in prepaid expenses and other current assets of \$2,046,879.

Cash provided by a decrease in inventory of \$6,352,955 at Vintage Stock, ApplianceSmart and Marquis.

Cash used by an increase in accounts receivable of \$1,156,376 due to increased sales at Marquis and ApplianceSmart on account.

Cash used by a decrease in accounts payable by \$3,299,950 at Marquis, Vintage and ApplianceSmart.

Cash provided by and used in investing activities was \$3,346,920 and \$6,913,314 for the six months ended March 31, 2019 and 2018, respectively. The \$10,260,234 increase in cash provided by investing activities, as compared to the prior period, is primarily attributable to proceeds from the sale of property and equipment of \$4,367,249, a decrease in the purchase of property and equipment of \$5,562,635 and a decrease in the purchase of intangible assets of \$330,350.

Cash used by financing activities was \$9,782,358 and \$1,065,322 for the six months ended March 31, 2019 and 2018, respectively. The \$8,717,036 increase in cash used in investing activities, as compared to the prior period, was attributable to an increase in net payments on our three revolver loans of \$1,740,329; payment of \$118,457 for debt issuance costs related to the Crossroads Revolver, a decrease in the proceeds from the issuance of notes payable of \$3,931,591, an increase in payments of notes payable of \$2,886,644, an increase in the payment of related party notes payable of \$100,000, a decrease in purchase of common treasury stock of \$55,985, and a decrease in the purchase of series E preferred treasury stock of \$4,000.

#### *Marquis – Sale of Two Turf Extrusion Lines*

On December 21, 2018, Marquis entered into a Bill of Sale and Assignment and Assumption Agreement (the “Marquis Bill of Sale”) with Viridian Industries, Inc. (“Viridian”) pursuant to which Marquis sold to Viridian two turf extrusion lines in exchange, including spare parts for cash consideration of \$4,750,000, plus the book value of the raw material operating and packing inventories associated with the turf extrusion lines and closing expenses of \$786,129, for a total purchase price of approximately \$5,536,129, plus \$0.10 per pound of nylon sold by Viridian during the 36 month period immediately following the closing, all on terms and conditions more fully described in the Marquis Bill of Sale. Marquis recorded a gain on the sale of the two turf extrusion lines of \$1,508,512, which is included in Other Income.

### *Sources of Liquidity*

We utilize cash on hand and cash generated from operations and have funds available to us under our three revolving loan facilities (BofA Revolver, Crossroads Revolver and TCB 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.

#### *BofA Revolver*

Marquis may borrow funds for operations under the BofA Revolver subject to availability as described in Note 8 to the unaudited condensed consolidated financial statements. At March 31, 2019 and December 31, 2018, we had \$10,660,628 and \$7,399,395 of additional borrowing availability on the BofA Revolver, respectively. Maximum borrowing under the BofA Revolver is \$15 million. The weighted average interest rate for the period of October 1, 2018 through March 31, 2019 was 4.19%. We borrowed \$44,740,439 and repaid \$48,120,217 on the BofA Revolver during the six months ended March 31, 2019, resulting in an outstanding balance on the BofA Revolver of \$4,220,827 and \$7,600,605 at March 31, 2019 and September 30, 2018, respectively.

#### *TCB Revolver*

Vintage Stock may borrow funds for operations under the TCB Revolver, subject to availability as described in Note 8 to the unaudited condensed consolidated financial statements. On March 31, 2019 and December 31, 2018, we had \$1,358,674 and \$1,083,369, of additional borrowing availability on the TCB Revolver, respectively. Maximum borrowing under the TCB Revolver has been Reduced to \$12,000,000. No letters of credit were outstanding at any time during the period of October 1, 2018 through March 31, 2019. The weighted average interest rate for the period of October 1, 2018 through March 31, 2019 was 4.7027%. We borrowed \$39,643,737 and repaid \$40,895,006 on the TCB Revolver during the period of October 1, 2018 through March 31, 2019, resulting in an outstanding balance on the TCB Revolver of \$10,641,326 and \$11,892,595 at March 31, 2019 and December 31, 2018, respectively.

#### *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, 2019, 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, 2019, 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 effective to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, 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.

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 in place to be deemed adequate and reliable.

Changes in Internal Control over Financial Reporting. There were no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2019, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of March 31, 2019. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013 regarding Internal Control – Integrated Framework. Based on our assessment using those criteria, our management concluded that our internal control over financial reporting was effective as of March 31, 2019.

The Company's management, including the Company's CEO and CFO, do not expect that the Company's disclosure controls and procedures or the Company's internal control over financial reporting will prevent or detect all error and all fraud. A control system, regardless of how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met. These inherent limitations include the following: judgements in decision-making can be faulty, and control and process breakdowns can occur because of simple errors or mistakes, controls can be circumvented by individuals, acting alone or in collusion with each other, or by management override, the design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

## PART II – OTHER INFORMATION

### ITEM 1. Legal Proceedings

Please refer to “Item 3. Legal Proceedings” in our Annual Report on Form 10-K for the year ended September 30, 2018 for information regarding material pending legal proceedings. Except as set forth therein and below, there have been no new material legal proceedings and no material developments in the legal proceedings previously disclosed.

On February 21, 2018, the Company received a subpoena from the Securities and Exchange Commission (“SEC”) and a letter from the SEC stating that it is conducting an investigation. The subpoena requests documents and information concerning, among other things the restatement of the Company’s financial statements for the quarterly periods ended December 31, 2016, March 31, 2017, and June 30, 2017, the acquisition of Marquis Industries, Inc., Vintage Stock, Inc., and ApplianceSmart, Inc., and the change in auditors. The letter from the SEC states that “this inquiry does not mean that the SEC has concluded that the Company or any of its officers and directors has broken the law or that the SEC has a negative opinion of any person, entity, or security.” The Company is cooperating with the SEC in its investigation.

On October 1, 2018, the Company received a letter from the SEC requesting information regarding a potential violation of Section 13(a) of the Securities Exchange Act of 1934, based upon the timing of the Company’s Form 8-K filed on February 14, 2018. The Company provided a response to the SEC on October 26, 2018. The Company is cooperating with the SEC in its inquiry.

### 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 funds

On February 20, 2018, the Company announced a \$10.0 million common stock repurchase program. Below are the purchases during the six months ended March 31, 2019:

<u>Period</u>	<u>Number of Shares</u>	<u>Average Purchase Price Paid</u>	<u>Number of Share Purchases as Part of a Publicly Announced Plan or Program</u>	<u>Maximum Amount that May be Purchased Under the Announced Plan or Program</u>
December 2018	2,819	\$ 6.77	\$ 2,819	\$ 9,679,813
January 2019	8,100	7.39	8,100	9,619,954
February 2019	10,078	7.95	10,078	9,539,834
March 2019	22,350	7.27	22,350	9,377,350
	<u>43,347</u>		<u>\$ 43,347</u>	

### 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 filed with or incorporated by reference into this Quarterly Report.

3.1	<a href="#">Amended and Restated Articles of Incorporation</a>	8-K	000-24217	3.1	08/15/07
3.2	<a href="#">Certificate of Change</a>	8-K	001-333937	3.1	09/07/10
3.3	<a href="#">Certificate of Correction</a>	8-K	001-333937	3.1	03/11/13
3.4	<a href="#">Certificate of Change</a>	10-Q	001-333937	3.1	02/14/14
3.5	<a href="#">Articles of Merger</a>	8-K	001-333937	3.1.4	10/08/15
3.6	<a href="#">Certificate of Change</a>	8-K	001-333937	3.1.5	11/25/16
3.7	<a href="#">Certificate of Designation for Series B Convertible Preferred Stock filed with Secretary of State for the State of Nevada on December 23, 2016, and effective as of December 27, 2016</a>	10-K	001-333937	3.1.6	12/29/16
3.8	<a href="#">Bylaws of Live Ventures Incorporated</a>	10-Q	001-33937	3.8	08/14/18
10.1	<a href="#">Security Agreement dated December 28, 2018 by and between ApplianceSmart Contracting Inc. and Appliance Recycling Centers of America, Inc.</a>	8-K	001-33937	10.1	03/19/19
31.1*	<a href="#">Certification of the President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>				
31.2*	<a href="#">Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>				
32.1*	<a href="#">Certification of the President and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>				
32.2*	<a href="#">Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>				
Ex. 101.INS*	XBRL Instance Document				
Ex. 101.SCH*	XBRL Taxonomy Extension Schema Document				
Ex. 101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document				
Ex. 101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document				
Ex. 101.LAB*	XBRL Taxonomy Extension Label Linkbase Document				
Ex. 101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document				

\*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: May 14, 2019

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

Dated: May 14, 2019

/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 for the quarterly period ended March 31, 2019 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: May 14, 2019

**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 for the quarterly period ended March 31, 2019 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: May 14, 2019

**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 for the period ended March 31, 2019, 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: May 14, 2019

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 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 for the period ended March 31, 2019, 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: May 14, 2019

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.*