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

(Mark One)

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

For the quarterly period ended December 31, 2018

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

For the transition period from _____________ to _______________

Commission File Number 001-33937

Live Ventures Incorporated

(Exact name of registrant as specified in its charter)

Nevada	**85-0206668**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
325 E. Warm Springs Road, Suite 102 **Las Vegas, Nevada**	**89119**
(Address of principal executive offices)	(Zip Code)

(702) 939-0231
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer (do not check if a smaller reporting company)	☐	Smaller reporting company	☒
Emerging growth company	☐		

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

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

The number of shares of the issuer's common stock, par value $.001 per share, outstanding as of January 22, 2019 was 1,942,428.

INDEX TO FORM 10-Q FILING

FOR THE QUARTER ENDED DECEMBER 31, 2018

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LIVE VENTURES INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2018 (Unaudited)	September 30, 2018
Assets		
Cash	$ 3,452,127	$ 1,991,622
Trade receivables, net	10,935,343	13,839,422
Inventories, net	42,516,250	46,527,039
Income taxes receivable	224,949	248,702
Prepaid expenses and other current assets	3,175,049	3,308,017
Total current assets	60,303,718	65,914,802
Property and equipment, net	24,488,962	27,991,060
Restricted cash	750,825	750,447
Deposits and other assets	267,875	283,143
Deferred taxes	2,693,001	3,220,362
Intangible assets, net	6,358,175	6,665,847
Goodwill	36,946,735	36,946,735
Total assets	$ 131,809,291	$ 141,772,396
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	$ 12,498,768	$ 14,588,355
Accrued liabilities	9,465,610	8,570,905
Current portion of long-term debt	8,356,925	13,958,355
Current portion of notes payable related parties	–	391,949
Total current liabilities	30,321,303	37,509,564
Long-term debt, net of current portion	53,899,752	58,805,468
Notes payable related parties, net of current portion	5,821,507	5,429,558
Other non-current obligations	760,403	579,217
Total liabilities	90,802,965	102,323,807
Commitments and contingencies		
Stockholders' equity:		
Series B convertible preferred stock, $0.001 par value, 1,000,000 shares authorized, 214,244 shares issued and outstanding at December 31, 2018 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 December 31, 2018 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 1,942,428 shares outstanding at December 31, 2018; 2,088,186 shares issued and 1,945,247 shares outstanding at September 30, 2018	2,088	2,088
Paid in capital	63,700,934	63,654,335
Treasury stock common 145,758 shares as of December 31, 2018 and 142,939 shares as of September 30, 2018	(1,569,090)	(1,550,011)
Treasury stock Series E preferred 50,000 shares as of December 31, 2018 and 50,000 shares as of September 30, 2018	(4,000)	(4,000)
Accumulated deficit	(21,123,948)	(22,654,165)
Total stockholders' equity	41,006,326	39,448,589
Total liabilities and stockholders' equity	$ 131,809,291	$ 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)

	Three Months Ended December 31,	
	2018	**2017**
Revenues	$ 53,195,940	$ 40,368,064
Cost of revenues	33,858,862	23,972,174
Gross profit	19,337,078	16,395,890
Operating expenses:		
General and administrative expenses	12,900,672	10,399,130
Sales and marketing expenses	4,345,914	2,075,972
Total operating expenses	17,246,586	12,475,102
Operating income	2,090,492	3,920,788
Other (expense) income:		
Interest expense, net	(1,652,733)	(2,468,312)
Bargain purchase gain on acquisition	–	3,773,486
Other income	1,660,111	77,084
Total other (expense) income, net	7,378	1,382,258
Income before provision for income taxes	2,097,870	5,303,046
Provision for income taxes	567,361	3,425,491
Net income	$ 1,530,509	$ 1,877,555
Earnings per share:		
Basic	$ 0.79	$ 0.95
Diluted	$ 0.41	$ 0.50
Weighted average common shares outstanding:		
Basic	1,945,247	1,975,380
Diluted	3,696,008	3,749,041

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

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

	Three Months Ended December 31, 2018	Three Months Ended December 31, 2017
OPERATING ACTIVITIES:		
Net income	$ 1,530,509	$ 1,877,555
Adjustments to reconcile net income to net cash provided by operating activities, net of acquisition:		
Depreciation and amortization	1,481,769	1,395,905
Gain on bargain purchase of acquisition	–	(3,773,486)
Gain on disposal of property and equipment	(1,507,479)	(5,294)
Charge off and amortization of debt issuance cost	97,298	58,512
Stock based compensation expense	46,599	79,356
Deferred rent	11,985	–
Change in reserve for uncollectible accounts	66,575	14,697
Change in reserve for obsolete inventory	18,177	18,176
Change in deferred income taxes	527,361	3,410,641
Change in other	168,823	–
Changes in assets and liabilities:		
Trade receivables	2,837,504	2,987,973
Inventories	3,992,612	(1,238,904)
Income taxes receivable	23,753	(1,144)
Prepaid expenses and other current assets	132,968	3,262,722
Deposits and other assets	15,268	6,627
Accounts payable	(2,089,587)	(1,616,355)
Accrued liabilities	894,413	(172,832)
Net cash provided by operating activities	8,248,548	6,304,149
INVESTING ACTIVITIES:		
Purchase of intangible assets	(46,225)	(24,675)
Proceeds from the sale of property and equipment	4,377,249	17,998
Purchase of property and equipment	(495,544)	(5,323,308)
Net cash provided by (used in) investing activities	3,835,480	(5,329,985)
FINANCING ACTIVITIES:		
Net borrowings (payments) under revolver loans	(7,346,544)	(5,071,969)
Purchase of series E preferred treasury stock	–	(4,000)
Proceeds from issuance of notes payable	–	3,931,591
Purchase of common treasury stock	(19,079)	(249,392)
Payments on related party notes payable	–	–
Payments on notes payable	(3,257,900)	(1,769,892)
Net cash used in financing activities	(10,623,523)	(3,163,662)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,460,505#	(2,189,498)
CASH AND CASH EQUIVALENTS, beginning of period	1,991,622	3,972,539
CASH AND CASH EQUIVALENTS, end of period	$ 3,452,127	$ 1,783,041
Supplemental cash flow disclosures:		
Interest paid	$ 1,457,547	$ 1,802,658
Income taxes paid (refunded)	$ 328	$ –
Noncash financing and investing activities:		
Due to sellers of ApplianceSmart, Inc. less liabilities assumed post acquisition	$ –	$ 6,500,000
Accrued and unpaid dividends	$ 292	$ 292

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

Note 1: Background and Basis of Presentation

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

The unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for audited financial statements. In the opinion of the Company's management, this interim information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The results of operations for three months ended December 31, 2018 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 December 31, 2018 and September 30, 2018 approximate fair value.

Restricted Cash

Restricted cash represents funds on account at a bank used to secure a letter of credit in favor of Whirlpool Corporation in the face amount of $750,000.

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 $62,049 and $68,759 for three months ended December 31, 2018 and 2017, respectively.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts, which includes allowances for accounts and factored trade receivables, customer refunds, dilution and fees from local exchange carrier billing aggregators and other uncollectible accounts. The allowance for doubtful accounts is based upon historical bad debt experience and periodic evaluations of the aging and collectability of the trade receivables. This allowance is maintained at a level which the Company believes is sufficient to cover potential credit losses and trade receivables are only written off to bad debt expense as uncollectible after all reasonable collection efforts have been made. The Company has also purchased accounts receivable credit insurance to cover non-factored trade and other receivables which helps reduce potential losses due to doubtful accounts. At December 31, 2018 and September 30, 2018, the allowance for doubtful accounts was $922,284 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 December 31, 2018 and September 30, 2018, the reserve for obsolete inventory was $91,940.

Retail and Online Segment

Merchandise inventories are valued at the lower of cost or market using the average cost method which approximates FIFO. Under the average cost method, as new product is received from vendors, its current cost is added to the existing cost of product on-hand and this amount is re-averaged over the cumulative units in inventory available for sale. Pre-owned products traded in by customers are recorded as merchandise inventory for the amount of cash consideration or store credit less any premiums given to the customer. Management reviews the merchandise inventory to make required adjustments to reflect potential obsolescence or the lower of cost or market. In valuing merchandise inventory, management considers quantities on hand, recent sales, potential price protections, returns to vendors and other factors. Management's ability to assess these factors is dependent upon forecasting customer demand and to provide a well-balanced merchandise assortment. Merchandise inventory valuation is adjusted based on anticipated physical inventory losses or shrinkage and actual losses resulting from periodic physical inventory counts. Merchandise inventory reserves as of December 31, 2018 and September 30, 2018 were $1,128,906 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 $1,127,872 and $1,159,587 for the three months ended December 31, 2018 and 2017, 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 $353,897 and $236,318 for the three months ended December 31, 2018 and 2017, respectively.

Revenue Recognition

Manufacturing Segment

The Manufacturing Segment derives revenue primarily from the sale of carpet products, including shipping and handling amounts, which are recognized when the following requirements have been met: (i) there is persuasive evidence of an arrangement, (ii) the sales transaction price is fixed or determinable, (iii) title, ownership and risk of loss have been transferred to the customer, (iv) allocation of sales price to specific performance obligations, and (v) performance obligations are satisfied. At the time revenue is recognized, the Company records a provision for the estimated amount of future returns based primarily on historical experience and any known trends or conditions that exist at the time revenue is recognized. Revenues are recorded net of taxes collected from customers. All direct costs are either paid and or accrued for in the period in which the sale is recorded.

Retail and Online Segment

The Retail and Online Segment derives revenue primarily from direct sales of entertainment and appliance products and services, including shipping and handling amounts, which are recognized when the following requirements have been met: (i) there is persuasive evidence of an arrangement, (ii) the sales transaction price is fixed or determinable, (iii) title or use rights, ownership and risk of loss have been transferred to the customer, (iv) allocation of sales price to specific performance obligations, and (v) performance obligations are satisfied. At the time revenue is recognized, the Company records a provision for the estimated amount of future returns based primarily on historical experience and any known trends or conditions that exist at the time revenue is recognized. Revenues are recorded net of taxes collected from customers. All direct costs are either paid and or accrued for in the period in which the sale is recorded.

Services Segment

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

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

Shipping and Handling

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

Customer Liabilities

The Company establishes a liability upon the issuance of merchandise credits and the sale of gift cards. Breakage income related to gift cards which are no longer reportable under state escheatment laws for the three months ended December 31, 2018 and 2017, was $14,844 and of $13,305, respectively. Breakage income is recorded in other income in our consolidated financial statements. The gift card liability at December 31, 2018 and September 30, 2018 is $1,668,503 and $1,593,688, 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 December 31, 2018. At times, balances may exceed federally insured limits.

Recently Issued Accounting Pronouncements

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 ended December 31, 2018 and 2017, net income does not differ from comprehensive income.

Note 4: Balance Sheet Detail Information

	December 31, 2018	September 30, 2018
Trade receivables, current, net:		
Accounts receivable, current	$ 11,513,055	$ 14,350,559
Less: Reserve for doubtful accounts	(577,712)	(511,137)
	$ 10,935,343	$ 13,839,422
Trade receivables , long term, net:		
Accounts receivable, long term	$ 344,572	$ 344,572
Less: Reserve for doubtful accounts	(344,572)	(344,572)
	$ –	$ –
Total trade receivables, net:		
Gross trade receivables	$ 11,857,627	$ 14,695,131
Less: Reserve for doubtful accounts	(922,284)	(855,709)
	$ 10,935,343	$ 13,839,422
Inventory, net		
Raw materials	$ 8,042,924	$ 9,712,839
Work in progress	1,554,306	1,141,486
Finished goods	5,761,173	5,414,072
Merchandise	28,378,693	31,461,311
	43,737,096	47,729,708
Less: Inventory reserves	(1,220,846)	(1,202,669)
	$ 42,516,250	$ 46,527,039
Property and equipment, net:		
Building and improvements	$ 11,119,160	$ 10,954,843
Transportation equipment	82,266	82,266
Machinery and equipment	19,263,117	23,295,315
Furnishings and fixtures	2,693,025	2,639,616
Office, computer equipment and other	2,559,621	2,530,410
	35,717,189	39,502,450
Less: Accumulated depreciation	(11,228,227)	(11,511,390)
	$ 24,488,962	$ 27,991,060
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	2,237,162	2,190,937
	9,244,724	9,198,499
Less: Accumulated amortization	(2,886,549)	(2,532,652)
	$ 6,358,175	$ 6,665,847
Accrued liabilities:		
Accrued payroll and bonuses	$ 1,994,912	$ 2,384,041
Accrued sales and use taxes	1,443,559	1,007,284
Accrued property taxes	11,955	362,388
Accrued rent	450,563	506,989
Deferred revenue	365,778	354,227
Accrued gift card and escheatment liability	1,668,503	1,593,688
Accrued interest payable	194,391	195,907
Accrued accounts payable and bank overdrafts	1,248,793	942,600
Accrued professional fees	70,000	470,726
Customer deposits	152,883	508,252
Accrued expenses - other	1,864,273	244,803
	$ 9,465,610	$ 8,570,905

Note 5: Acquisitions

Acquisition of Vintage Stock Inc.

On November 3, 2016 (the "Vintage Stock Closing Date"), the Company, through its wholly-owned subsidiary, VSAH, entered into a series of agreements in connection with its purchase of Vintage Stock. Vintage Stock sells, buys and trades new and used movies, books, collectibles, games, comics, music and other retail products.

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

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

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

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

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

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

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

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

Acquisition of ApplianceSmart Inc.

On December 30, 2017 (the "ApplianceSmart Closing Date"), the Company, through its 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 December 31, 2018 and September 30, 2018, the net amount owing to the Seller was $3,821,507 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	$	1,607,369

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)
	$	6,500,000

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 months ended December 31, 2017, 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 December 31, 2017	Actual Unaudited Results - One Day December 31, 2017
Net revenue	$ 11,320,975	$ 68,674
Gross profit	1,112,073	19,200
Operating income	(2,504,976)	19,655
Net income (loss)	(2,089,772)	19,655
Earnings (loss) per basic common share	$ (1.06)	$ 0.01

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 $353,897 and $236,318 for the three months ended December 31, 2018 and 2017, respectively.

The following table summarizes estimated future amortization expense related to intangible assets that have net balances as of December 31, 2018:

2019	$	1,267,294
2020		1,106,076
2021		1,016,466
2022		757,985
2023		454,755
Thereafter		1,755,599
	$	6,358,175

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 December 31, 2018, Marquis cumulatively borrowed $22,723,210 and repaid $28,013,283 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 December 31, 2018 was 4.27%. As of December 31, 2018, total additional availability under the BofA Revolver was $12,616,753; with $2,310,532 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 September 30, 2018, and September 30, 2017, the Company had no borrowings on the Kingston line of credit. On December 29, 2016, the Company issued 55,888 shares of Series B Convertible Preferred Stock in settlement of the outstanding accrued liability due Kingston of $2,800,000.

Equipment Loans

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

Note #1 is $5 million, secured by equipment. The Equipment Loan #1 is due September 23, 2021, payable in 59 monthly payments of $84,273 beginning September 23, 2016, with a final payment in the sum of $584,273, 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, 2017 through December 31, 2018, Vintage Stock cumulatively borrowed $57,546,998 and repaid $59,150,804 under the TCB Revolver. Our maximum borrowings outstanding during the period of October 1, 2017 through December 31, 2018 was $16,077,915. Our weighted average interest rate on those outstanding borrowings for the period of October 1, 2017 through December 31, 2018 was 4.502899%. As of December 31, 2018, total additional availability under the TCB Revolver was $1,083,369, with $9,836,123 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 pay *plus* (ii) 3.00% per annum payable in kind by compounding such interest to the principal amount of the obligations under the Term Loan Agreement on each interest payment date.

The interest rate for base rate loans under the term loan agreement 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.

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 December 31, 2018 and September 30, 2018 with all covenants under our existing revolving and other loan agreements.

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

	December 31, 2018	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	$ 2,310,533	$ 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	9,836,123	11,892,595
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	21,750,000	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	2,648,246	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.	2,750,844	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.	844,866	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.	3,445,197	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	9,295,499	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	63,812,837	74,417,281
Less unamortized debt issuance costs	(1,556,160)	(1,653,458)
Net amount	62,256,677	72,763,823
Less current portion	(8,356,925)	(13,958,355)
Long-term portion	$ 53,899,752	$ 58,805,468

Future maturities of long-term debt at December 31, 2018 are as follows which does not include related party debt separately stated:

2019	$	8,356,925
2020		15,046,786
2021		5,073,987
2022		4,376,961
2023		21,195,650
Thereafter		9,762,528
Total	$	63,812,837

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 December 31, 2018 and September 30, 2018, there was $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.

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 December 31, 2018, and September 30, 2018, there was $2,000,000 outstanding on this mezzanine loan.

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

	December 31, 2018	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.	$ 3,821,507	$ 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	5,821,507	5,821,507
Less unamortized debt issuance costs	–	–
Net amount	5,821,507	5,821,507
Less current portion	–	(391,949)
Long-term portion	$ 5,821,507	$ 5,429,558

Future maturities of notes payable, related parties at December 31, 2018 are as follows:

2019	$ –
2020	–
2021	5,821,507
2022	–
2023	–
Thereafter	–
Total	$ 5,821,507

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 December 31, 2018, 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 months ended December 31, 2018 and 2017, respectively, the Company did not issue any shares of Series B Convertible Preferred Stock.

Series E Convertible Preferred Stock

As of December 31, 2018, 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 December 31, 2018 and December 31, 2017, the Company accrued dividends of $292 and $292, respectively, payable to holders of Series E preferred stock. As of December 31, 2018, and September 30, 2018, unpaid dividends were $292 and $292, 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 December 31, 2018 and 2017, the Company purchased 2,819 and 19,743 shares of its common stock on the open market (treasury shares for $19,079 and $249,392, respectively).

The Company accounted for the purchase of these treasury shares using the cost method. At December 31, 2018, the Company held 145,758 shares of its common stock as treasury shares at a cost of $1,569,090. 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 December 31, 2018 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 December 31, 2018	118,029	$ 20.80	1.10	$ 1,510,201
Exercisable at December 31, 2018	118,029	$ 20.80	1.10	$ 1,510,201

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 December 31, 2018, 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, 1.10 years and $1,510,201, 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 three months ended December 31, 2018 and 2017, 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 December 31, 2018 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 three months ended December 31, 2018:

	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	231,668	$	14.84	3.04	$	162,500
Exercisable at September 30, 2018	190,639	$	11.89	2.08	$	162,500
Outstanding at September 30, 2018	231,668	$	14.84	3.04	$	162,500
Granted	–					
Exercised	–					
Forfeited	–					
Outstanding at December 31, 2018	231,668	$	14.84	2.79	$	53,750
Exercisable at December 31, 2018	195,996	$	12.05	1.99	$	53,750

The Company recognized compensation expense of $46,599 and $79,356 during the three months ended December 31, 2018 and 2017, respectively, related to stock option awards granted to certain employees and officers based on the grant date fair value of the awards, net of estimated forfeitures.

At December 31, 2018, the Company has $240,206 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 December 31, 2018 is as follows:

Outstanding		Exercisable	
Number of Options	Exercise Price	Number of Options	Exercise Price
31,250	$ 5.00	31,250	$ 5.00
25,000	7.50	25,000	7.50
31,250	10.00	31,250	10.00
4,167	10.86	4,167	10.86
4,167	10.86	4,167	10.86
4,167	10.86	662	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	4,000	27.60
8,000	31.74	–	–
8,000	36.50	–	–
8,000	41.98	–	–
231,668		195,996	

The following table summarizes information about the Company's non-vested shares outstanding as of December 31, 2018 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	41,029	$ 12.88
Non-vested at September 30, 2018	41,029	$ 12.88
Granted	–	$ –
Vested	(5,357)	$ 10.08
Non-vested at December 31, 2018	35,672	$ 15.72

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 to date. 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 December 31,	
	2018	2017
Basic		
Net income	$ 1,530,509	$ 1,877,555
Less: preferred stock dividends	(292)	(292)
Net income applicable to common stock	$ 1,530,217	$ 1,877,263
Weighted average common shares outstanding	1,945,247	1,975,380
Basic earnings per share	$ 0.79	$ 0.95
Diluted		
Net income applicable to common stock	$ 1,530,217	$ 1,877,263
Add: preferred stock dividends	292	292
Net income applicable for diluted earnings per share	$ 1,530,509	$ 1,877,555
Weighted average common shares outstanding	1,945,247	1,975,380
Add: Options	11,576	34,476
Add: Series B Preferred Stock	1,071,200	1,071,200
Add: Series B Preferred Stock Warrants	590,145	590,145
Add: Series E Preferred Stock	77,840	77,840
Assumed weighted average common shares outstanding	3,696,008	3,749,041
Diluted earnings per share	$ 0.41	$ 0.50

There are 200,418 and 121,250 common stock options that are anti-dilutive that are not included in the three months ended December 31, 2018 and 2017, 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 December 31, 2018, and September 30, 2018, respectively, there was $2,000,000 outstanding on this mezzanine loan. During the three months ended December 31, 2018 and 2017, the Company recognized total interest expense of $63,888, 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 $44,565 and $45,388 in rent and other reimbursed expenses for the three months ended December 31, 2018 and 2017, 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 December 31, 2018 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 months ended December 31, 2018. Transition service fees expensed by ApplianceSmart were $67,500 for the three months ended December 31, 2018. The transaction service fees liability at December 31, 2018 and September 30, 2018 are $90,000 and $22,500, 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 December 31, 2018 and September 30, 2018, respectively, there was $3,821,507 outstanding on this ApplianceSmart Note.

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 1st 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 December 31, 2018 and 2017, was $83,184 and $83,184, respectively. Interest unpaid and accrued as of December 31, 2018 and September 30, 2018 is $28,337 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 dames 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 December 31, 2018, results of operations, cash flows or liquidity of the Company.

Note 16: Income Taxes

The income tax rate for the three months ended December 31, 2018 and December 31, 2017 were 27.3% and 64.6%, respectively. The effective income tax rate differs from the U.S. federal statuary rate primarily due to state taxes and certain non-deductible expenses. As of December 31, 2018, and December 31, 2017 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 months ended December 31, 2018 and 2017:

	Three Months Ended December 31,	
	2018	2017
Revenues		
Retail and Online	$ 30,645,015	$ 21,293,471
Manufacturing	22,382,285	18,878,535
Services	168,640	196,058
	$ 53,195,940	$ 40,368,064
Gross profit		
Retail and Online	$ 13,576,283	$ 11,455,802
Manufacturing	5,601,658	4,752,568
Services	159,137	187,520
	$ 19,337,078	$ 16,395,890
Operating income		
Retail and Online	$ (238,652)	$ 2,231,476
Manufacturing	2,170,477	1,502,254
Services	158,667	187,058
	$ 2,090,492	$ 3,920,788
Depreciation and amortization		
Retail and Online	$ 788,251	$ 677,461
Manufacturing	693,518	718,444
Services	–	–
	$ 1,481,769	$ 1,395,905
Interest expense, net		
Retail and Online	$ 1,175,791	$ 2,022,407
Manufacturing	476,942	445,905
Services	–	–
	$ 1,652,733	$ 2,468,312
Net income before provision for income taxes		
Retail and Online	$ (1,272,417)	$ 4,052,595
Manufacturing	3,211,620	1,063,393
Services	158,667	187,058
	$ 2,097,870	$ 5,303,046

	As of December 31, 2018	As of September 30, 2018
Total assets		
Retail and Online	$ 85,297,114	$ 88,799,584
Manufacturing	46,424,885	52,915,109
Services	87,292	57,703
	$ 131,809,291	$ 141,772,396
Intangible assets and goodwill		
Retail and Online	$ 42,968,314	$ 43,268,668
Manufacturing	336,596	343,914
Services	–	–
	$ 43,304,910	$ 43,612,582

Note 18: Subsequent Events

None.

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

For a description of our significant accounting policies and an understanding of the significant factors that influenced our performance during the three months ended December 31, 2018, 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 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. 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, 2018, 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 15 stores. ApplianceSmart sells leading brands such as Whirlpool, General Electric, Frigidaire, LG and Samsung.

Modern Everyday

Modern Everyday, Inc. ("MEI") was a specialty retailer offering consumers a selection of products that range from home, kitchen and dining products, apparel and sporting goods to children's toys and beauty products. The Company decided not to invest additional funds in this line of business and is in the process of selling the remaining inventory.

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 December 31, 2018 and 2017

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

	Three Months Ended December 31, 2018		Three Months Ended December 31, 2017	
		% of Total Revenue		% of Total Revenue
Statement of Income Data:				
Revenue	$ 53,195,940	100.0%	$ 40,368,064	100.0%
Cost of Revenue	33,858,862	63.6%	23,972,174	59.4%
Gross Profit	19,337,078	36.4%	16,395,890	40.6%
General and Administrative Expense	12,900,672	24.3%	10,399,130	25.8%
Selling and Marketing Expense	4,345,914	8.2%	2,075,972	5.1%
Operating Income	2,090,492	3.9%	3,920,788	9.7%
Interest Expense, net	(1,652,733)	-3.1%	(2,468,312)	-6.1%
Bargain Purchase Gain on Acquisition	–	0.0%	3,773,486	9.3%
Other Income	1,660,111	3.1%	77,084	0.2%
Net Income before Income Taxes	2,097,870	3.9%	5,303,046	13.1%
Provision for Income Taxes	567,361	1.1%	3,425,491	8.5%
Net Income	$ 1,530,509	2.9%	$ 1,877,555	4.7%

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 December 31, 2018		Three Months Ended December 31, 2017	
	Net Revenue	% of Total Revenue	Net Revenue	% of Total Total Revenue
Revenue				
Used Movies, Music, Games and Other	$ 11,257,759	21.2%	$ 11,363,804	28.2%
New Movies, Music, Games and Other	10,388,162	19.5%	9,572,459	23.7%
Rentals, Concessions and Other	295,813	0.6%	288,534	0.7%
Retail Appliance Boxed Sales	5,756,858	10.8%	47,346	0.1%
Retail Appliance UnBoxed Sales	2,045,726	3.8%	16,429	0.0%
Retail Appliance Delivery, Warranty and Other	900,697	1.7%	4,899	0.0%
Carpets	14,290,405	26.9%	12,903,685	32.0%
Hard Surface Products	6,934,964	13.0%	5,088,419	12.6%
Synthetic Turf Products	1,156,916	2.2%	886,431	2.2%
Directory Services	168,640	0.3%	196,058	0.5%
Total Revenue	$ 53,195,940	100.0%	$ 40,368,064	100.0%

	Year Ended December 31, 2018		Year Ended December 31, 2017	
	Gross Profit	Gross Profit %	Gross Profit	Gross Profit %
Gross Profit				
Used Movies, Music, Games and Other	$ 9,074,154	80.6%	$ 8,877,018	78.1%
New Movies, Music, Games and Other	2,394,980	23.1%	2,378,610	24.8%
Rentals, Concessions and Other	197,287	66.7%	180,974	62.7%
Retail Appliance Boxed Sales	1,317,100	22.9%	10,553	22.3%
Retail Appliance UnBoxed Sales	813,108	39.7%	5,489	33.4%
Retail Appliance Delivery, Warranty and Other	(220,346)	-24.5%	3,158	64.5%
Carpets	3,661,469	25.6%	3,129,350	24.3%
Hard Surface Products	1,747,449	25.2%	1,319,551	25.9%
Synthetic Turf Products	192,740	16.7%	303,667	34.3%
Directory Services	159,137	94.4%	187,520	95.6%
Total Gross Profit	$ 19,337,078	36.4%	$ 16,395,890	40.6%

Revenue

Revenue increased $12,827,876, or 31.8% for the three months ended December 31, 2018 as compared to the three months ended December 31, 2017.

The increase in revenue was primarily attributable to the following:

Revenue from our acquisition of ApplianceSmart – Retail Appliance Boxed Sales $5,756,858, Retail Appliance UnBoxed Sales $2,045,726 and Retail Appliance Delivery, Warranty and Other $900,697.

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

New Movies, Music, Games and Other $815,703 or 8.5%.

Rentals, Concessions and Other $7,279 or 2.5%.

Carpets increased $1,386,720 or 10.7%.

Hard Surface Products increased $1,846,545 or 36.3%.

Synthetic Turf Products increased $270,485 or 30.5%.

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

Used Movies, Music, Games and Other decreased $106,045 or 0.9%.

Directory Services decreased $27,418 or 14.0%.

Cost of Revenue

Cost of revenue increased $9,886,688, or 41.2% for the three months ended December 31, 2018 as compared to the three months ended December 31, 2017, primarily because of the change in revenue discussed above as well as the changes in gross profit discussed below.

Gross Profit

Gross profit increased $2,941,188 or 17.9%, for the three months ended December 31, 2018 as compared to the three months ended December 31, 2017.

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

Gross profits from our acquisition of ApplianceSmart – Retail Appliance Boxed Sales $1,306,547 or 22.9% gross profit margin after purchase price allocation adjustments, Retail appliance UnBoxed Sales $813,108 after purchase price allocation adjustments or 39.7% gross profit margin and Retail Appliance Delivery, Warranty and Other a margin loss of $220,346.

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

Used Movies, Music, Games and Other increased $197,136, or 2.2%. Gross profit margin increased to 80.6% from 78.1%.

New Movies, Music, Games and Other increased $16,370 or 0.7%. New Movies, Music, Games and Other gross profit margin decreased to 23.1% from 24.8% as a result of popular New Movies and Games titles.

Rentals, Concession and Other increased $16,313, or 9.0%. Gross profit margin increased to 66.7% from 62.7%.

Carpets increased $532,119 or 17.0%. Gross profit margin increased to 25.6% from 24.3%.

Hard Surface Products increased $427,898 or 32.4%. Gross profit margin decreased slightly to 25.2% from 25.9% driven by lower margin on high volume buys from key customers.

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

Synthetic Turf Products decreased $110,927 or 36.5%. Synthetic Turf Products gross profit margin decreased to 16.7% from 34.3%.

Directory Services decreased $28,383 or 15.1%. Directory Services gross profit margin decreased slightly to 94.4% from 95.6%.

General and Administrative Expense

General and Administrative expense increased $2,501,542 or 24.1%, for the three months ended December 31, 2018 as compared to the three months ended December 31, 2017. The increase in general and administrative expense was primarily attributable to general and administrative expense from our acquisition ApplianceSmart of $2,432,077.

Selling and Marketing Expense

Selling and marketing expense increased $2,269,942 or 109.3%, for the three months ended December 31, 2018 as compared to the three months ended December 31, 2017. The increase in selling and marketing expense was primarily attributable to selling and marketing expense from our acquisition ApplianceSmart of $2,163,211.

Operating Income

Because of the factors described above, operating income of $2,090,492 for the three months ended December 31, 2018 represented a decrease of $1,830,296 over the comparable prior year period of $3,920,788, or 46.7%.

Interest Expense, net

Interest expense net decreased $815,579 or 33.0%, for the three months ended December 31, 2018 as compared to the three months ended December 31, 2017 primarily due to paydown of the Comvest term loan that replaced the Capitala financing. 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 $1,583,027 for the three months ended December 31, 2018 as compared to the three months ended December 31, 2017. This was driven by $1,518,085 of gain on sale of the Marquis Synthetic Turf Products business on December 21, 2018.

Provision for Income Taxes

Provision for income taxes was $567,361, for the three months ended December 31, 2018 as compared to a provision for income taxes of $3,425,491 for the three months ended December 31, 2017. 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 $1,530,509 for the three months ended December 31, 2018, or a 18.5% decrease from net income of $1,877,555 for the three months ended December 31, 2017.

Segment Performance

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

Operating income 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 December 31, 2018 Segments in $				Three Months Ended December 31, 2017 Segments - $			
	Retail & Online	Mfg	Services	Total	Retail & Online	Mfg	Services	Total
Revenue	$ 30,645,015	$ 22,382,285	$ 168,640	$ 53,195,940	$ 21,293,471	$ 18,878,535	$ 196,058	$ 40,368,064
Cost of Revenue	17,068,732	16,780,627	9,503	33,858,862	9,837,669	14,125,967	8,538	23,972,174
Gross Profit	13,576,283	5,601,658	159,137	19,337,078	11,455,802	4,752,568	187,520	16,395,890
General and Administrative Expense	11,409,681	1,490,521	470	12,900,672	9,011,603	1,387,066	461	10,399,130
Selling and Marketing Expense	2,405,254	1,940,660	–	4,345,914	212,723	1,863,248	1	2,075,972
Operating Income	$ (238,652)	$ 2,170,477	$ 158,667	$ 2,090,492	$ 2,231,476	$ 1,502,254	$ 187,058	$ 3,920,788

	Three Months Ended December 31, 2018 Segments in % of Revenue				Three Months Ended December 31, 2017 Segments - % of Revenue			
	Retail & Online	Mfg	Services	Total	Retail & Online	Mfg	Services	Total
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Revenue	55.7%	75.0%	5.6%	63.6%	46.2%	74.8%	4.4%	59.4%
Gross Profit	44.3%	25.0%	94.4%	36.4%	53.8%	25.2%	95.6%	40.6%
General and Administrative Expense	37.2%	6.7%	0.3%	24.3%	42.3%	7.3%	0.2%	25.8%
Selling and Marketing Expense	7.8%	8.7%	0.0%	8.2%	1.0%	9.9%	0.0%	5.1%
Operating Income	-0.8%	9.7%	94.1%	3.9%	10.5%	8.0%	95.4%	9.7%

Retail and Online Segment

Segment results for Retail and Online include Vintage and, ApplianceSmart. Revenue for the three months ended December 31, 2018 increased $9,351,544, or 43.9%, as compared to the prior year period. This was driven by the acquisition of the ApplianceSmart business on December 30, 2017 which provided increases over the prior year period of $5,709,512 for Retail Appliance Box Sales, $2,029,297 for Retail Appliance UnBoxed Sales and $895,798 for Retail Appliance Delivery, Warranty and Other revenue. Vintage New Movies, Music, Games and Other increased $815,703 or 8.5%, Rentals, Concessions and Other increased $7,279 or 2.5%, while Used Movies, Music, Games and Other decreased $106,045 or 0.9%.

Cost of revenue for the three months ended December 31, 2018 increased $7,231,063, or 73.5%. This was driven primarily by increases in most product categories and partially offset by margin improvement in Used Movies, Music Games, and Other as well as Rentals, Concessions and Other. ApplianceSmart had increases in cost of revenue for Retail Appliances Boxed of $4,402,965, $1,221,678 for Retail Appliances UnBoxed, Retail Appliance Delivery, Warranty and Other of $1,119,302. While New Movies, Music, Games, and Other cost of revenue increased $799,333 or 11.1%, this was partially offset by a decrease in cost of revenue for Used Movies, Music, Games and Other of $303,181 or 12.2% and Rentals, Concessions and Other of $9,034 or 8.4%.

Operating income for the three months ended December 31, 2018 decreased $2,470,128 or 110.7%. This was driven by increases in General and Administrative Expense of $2,398,078 or 26.6% and Selling and Marketing Expense of $2,192,531 or 1030.7% attributable to ApplianceSmart.

Manufacturing Segment

Segment results for Manufacturing include Marquis, which is our carpet, hard surface and synthetic turf products business. Revenue for the three months ended December 31, 2018 increased $3,503,750, or 18.6%, as compared to the prior year period, because of increased sales of Hard Surface Products of $1,846,545, Carpets of $1,386,720 and Synthetic turf products of $270,485. Cost of revenue for the three months ended December 31, 2018 increased $2,654,660, or 18.8%, as compared to the prior year period, because of an increase in cost of revenue for Synthetic Turf Products of $381,412, Hard Surface Products of $1,418,647 and Carpets of $854,601. Operating income for the three months ended December 31, 2018 increased $668,223, or 44.5%, as compared to the prior year period, because of an increase in gross profit of $849,090, partially offset by increases in general and administrative expense of $103,455 and selling and marketing expense of $77,412.

Services Segment

Segment results for Services include Telco results, which is our directory services business. Revenues for the three months ended December 31, 2018 decreased $27,418, or 14.0%, as compared to the prior year period, because of decreasing renewals. Operating earnings for the three months ended December 31, 2018 decreased $28,391, or 15.2% 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 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 two asset-based revolver lines of credit (a) the BofA Revolver utilized by Marquis and (b) the TCB Revolver utilized by Vintage Stock.

As of December 31, 2018, we had total cash on hand of $3,452,127 and an additional $12,616,753 of available borrowing under the BofA Revolver and an additional $1,083,369 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 three months ended December 31, 2018, cash provided by operations was $8,248,548, compared to $6,304,149 during the three months ended December 31, 2017. The increase in cash provided by operations of $1,944,399 as compared to the prior period; was primarily due to a decrease in net income of $347,046, an increase in depreciation and amortization expense of $85,864, a decrease due to the bargain purchase gain of Appliancesmart of $3,773,486, a decrease due to gain on sale of equipment of $1,502,185, a decrease to the change in deferred income taxes of $2,883,280, an increase in non-cash expenses of $238,716, and an increase in cash provided by operations for working capital purposes of $2,578,844.

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 $3,129,754.

Cash provided by a decrease in inventory of $5,231,516 at Vintage Stock, ApplianceSmart and Marquis.

Cash used by an increase in accounts receivable of $150,469 due to increased sales at Marquis and ApplianceSmart on account.

Cash used by a decrease in accounts payable by $473,232 at Marquis, Vintage and Appliancesmart.

Cash provided by an increase in accrued liabilities of $1,067,245.

Cash provided by and used in investing activities was $3,835,480 and $5,329,985 for the three months ended December 31, 2018 and 2017, respectively. The $9,165,465 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 $4,359,251, a decrease in the purchase of property and equipment of $4,827,764 and an increase in the purchase of intangible assets of $21,550.

Cash used by financing activities was $10,623,523 and $3,163,662 for the three months ended December 31, 2018 and 2017, respectively. The $7,459,861 increase in cash used in investing activities, as compared to the prior period, was attributable to an increase in net payments on our two revolver loans of $2,274,575; a decrease in the proceeds from the issuance of notes payable of $3,931,591, an increase in payments of notes payable of $1,488,008, a decrease in purchase of common treasury stock of $230,313, 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 two revolving loan facilities (BofA 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 December 31, 2018 and September 30, 2018, we had $12,616,753 and $7,326,680 of additional borrowing availability on the BofA Revolver, respectively. Maximum borrowing under the BofA Revolver is $15 million. A total of approximately $72,715 of letters of credit was outstanding at December 31, 2018 and September 30, 2018. The weighted average interest rate for the period of October 1, 2018 through December 31, 2018 was 4.27%. We borrowed $22,723,210 and repaid $28,013,282 on the BofA Revolver during the three months ended December 31, 2018, resulting in an outstanding balance on the BofA Revolver of $2,310,533 and $7,600,605 at December 31, 2018 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 December 31, 2018 and September 30, 2018, we had $1,083,369 and $107,405, 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 December 31, 2018. The weighted average interest rate for the period of October 1, 2018 through December 31, 2018 was 4.603801%. We borrowed $19,320,365 and repaid $21,376,837 on the TCB Revolver during the period of October 1, 2018 through December 31, 2018, resulting in an outstanding balance on the TCB Revolver of $9,836,123 and $11,892,595 at December 31, 2018 and September 30, 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 December 31, 2018, 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 December 31, 2018, 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 December 31, 2018, 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 December 31, 2018. 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 December 31, 2018.

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 three months ended December 31, 2018:

Period	Number of Shares	Average Purchase Price Paid	Number of Share Purchases as Part of a Publicly Announced Plan or Program	Maximum Amount that May be Purchased Under the Announced Plan or Program
December 2018	2,819	$ 6.77	$ 2,819	$ 9,679,813.00
	2,819		$ 2,819	

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.

Exhibit Number	Exhibit Description	Form	File Number	Exhibit Number	Filing Date
3.1	Amended and Restated Articles of Incorporation	8-K	000-24217	3.1	08/15/07
3.2	Certificate of Change	8-K	001-333937	3.1	09/07/10
3.3	Certificate of Correction	8-K	001-333937	3.1	03/11/13
3.4	Certificate of Change	10-Q	001-333937	3.1	02/14/14
3.5	Articles of Merger	8-K	001-333937	3.1.4	10/08/15
3.6	Certificate of Change	8-K	001-333937	3.1.5	11/25/16
3.7	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	10-K	001-333937	3.1.6	12/29/16
3.8	Bylaws of Live Ventures Incorporated	10-Q	001-33937	3.8	08/14/18
10.1*	Security Agreement dated December 28, 2018 by and between ApplianceSmart Contracting Inc. and Appliance Recycling Centers of America, Inc.				
10.2*	Agreement and Guaranty dated December 28, 2018 by ApplianceSmart Contracting Inc. in favor of Appliance Recycling Centers of America, Inc.				
31.1*	Certification of the President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 202				
31.2*	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 202				
32.1*	Certification of the President and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
32.2*	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
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: February 13, 2019

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

Dated: February 13, 2019

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

Exhibit 10.1

SECURITY AGREEMENT

THIS SECURITY AGREEMENT is made and entered into as of December 28, 2018, by and between APPLIANCESMART CONTRACTING INC., a Nevada corporation ("Debtor") and APPLIANCE RECYCLING CENTERS OF AMERICA, INC., a Minnesota corporation ("Secured Party") whose addresses are set forth below.

RECITALS

A. APPLIANCESMART HOLDINGS LLC, a Nevada limited liability company ("Holdings"), is indebted to Secured Party pursuant to the terms of that certain Amended and Restated Secured Promissory Note dated as of December 26, 2018 issued by Holdings in favor of Secured Party ("Note"). Debtor guaranteed the repayment of Holdings' obligations under the Note pursuant to that certain Agreement and Guaranty by Debtor in favor of Secured Party dated as of December 28, 2018 (the "Guaranty"). Debtor is a wholly-owned subsidiary of Holdings.

B. Debtor has agreed to grant Secured Party a security interest in certain assets to secure, among other things, Debtor's obligations under the Guaranty.

NOW, THEREFORE, in consideration of the credit extended under the Note and for the purpose of securing Debtor's obligations to Secured Party under the Guaranty, the parties agree as follows:

1. Grant of Security Interest: Collateral. To secure the Secured Obligations described in Section 2, the Debtor hereby grants to the Secured Party a security interest ("Security Interest") in the property described on Exhibit A attached hereto ("Collateral").

2 . Secured Obligations. The following obligations are secured by this Agreement (collectively referred to as the "Secured Obligations"):

(a) All obligations of Holdings under the Note and all obligations of Debtor to Secured Party under the Guaranty;

(b) Any and all sums advanced by the Secured Party in order to preserve the Collateral or to perfect its security interest in the Collateral; and

(c) Upon the occurrence and during the continuation of an Event of Default (as defined below), all reasonable expenses, including attorneys' fees and court costs, incurred by the Secured Party in (i) any proceeding to enforce the collection of the Secured Obligations, (ii) retaking, holding or otherwise disposing of or realizing on the Collateral, or (iii) the exercise of any of its rights under this Agreement or applicable law.

3. Debtor's Representations, Warranties and Covenants. Debtor represents, warrants and covenants that:

(a) Debtor has title to the Collateral, free of all liens and encumbrances, except the Security Interest created hereby, as the same may hereafter be amended from time to time. Debtor has full corporate power and authority to execute this Security Agreement, to perform Debtor's obligations hereunder and to subject the Collateral to the Security Interest created hereby.

(b) Debtor will, at any time or times hereafter, execute such financing statements and other instruments and perform such other acts as the Secured Party may reasonably request in order to establish, maintain, perfect and enforce Secured Party's valid and perfected Security Interest in the Collateral and its rights under this Agreement.

(c) Except in the ordinary course of Debtor's business, Debtor will not sell, transfer, lease, hypothecate, pledge or otherwise dispose of any of its rights or interests in the Collateral without the prior written consent of the Secured Party.

(d) Debtor will keep the Collateral in good condition, ordinary wear and tear excepted, and insured against such risks and in such amounts consistent with Debtor's past practice, with Secured Party to be named loss payee on all insurance on the Collateral. From time to time Debtor shall furnish to Secured Party, upon request, appropriate evidence of the carrying of such insurance.

(e) Debtor will use the Collateral in a lawful manner consistent with this agreement and with the terms and conditions of any policy of insurance thereon.

(f) Following the occurrence of an Event of Default, the Secured Party, in the name of the Debtor, shall have the authority but shall not be obligated to take any action which the Secured Party may deem necessary or desirable in order to realize on the Collateral.

(g) Debtor will forward directly to the Secured Party any and all written material notices, agreements or documents of any kind or nature received by Debtor on account of any of the Collateral.

4. Events of Default. The occurrence of any of the following events shall constitute an "Event of Default" under this Security Agreement:

(a) The occurrence of an event of default under the terms of any of the Secured Obligations, including, without limitation, nonpayment of any of the Secured Obligations when due, whether by acceleration or otherwise;

(b) The nonperformance of any covenant, or material breach of any representation or warranty, made by Debtor in the Note or this Agreement;

(c) Except in the ordinary course of Debtor's business, the sale, lease or other disposition of Debtor's interests or rights in the Collateral;

(d) Without the prior consent of Secured Party, the creation of any encumbrance upon the Collateral or the making of any levy, judicial seizure or attachment thereof or thereon; or

(e) The appointment of a receiver for any part of the property of Debtor, the making by Debtor of an assignment for the benefit of creditors or the initiation by or against Debtor of any proceeding under the Federal Bankruptcy Code or any state insolvency law.

5. Remedies Upon Event of Default. Upon the occurrence of an Event of Default for so long as such Event of Default is continuing, in addition to all the rights and remedies provided under applicable law, the Secured Party may at its option and without demand and upon written notice to Debtor, declare all or any part of the unmatured Secured Obligations immediately due and payable, and the Secured Party may exercise, in addition to the rights and remedies granted hereby, all rights and remedies of a secured party under the Uniform Commercial Code or any other applicable law. The Secured Party may, at its option, dispose of the Collateral by public or private sale if Secured Party has given notice to Debtor of the intended disposition in accordance with the provisions of Section 6 hereof and the Uniform Commercial Code and other applicable law. The Debtor agrees, upon Secured Party's request, to use commercially reasonable efforts to cooperate with the Secured Party and do all things reasonably necessary to enable Secured Party to sell the Collateral in compliance with all applicable laws and regulations. Debtor shall pay to Secured Party any deficiency remaining after such application and any excess proceeds of such sale shall be paid over by Secured Party to Debtor. The bringing of an action or an entry of judgment against the Debtor shall not bar the Secured Party's right to repossess any or all of the Collateral.

6. Miscellaneous. This Agreement can be waived, modified, amended, terminated or discharged, and the Security Interest can be released, only explicitly in a writing signed by Secured Party. A waiver signed by Secured Party shall be effective only in the specific instance and for the specific purpose given. Mere delay or failure to act shall not preclude the exercise or enforcement of any of Secured Party's rights or remedies. All rights and remedies of Secured Party shall be cumulative and may be exercised singularly or concurrently, at Secured Party's option, and the exercise or enforcement of any one such right or remedy shall neither be a condition to nor bar the exercise or enforcement of any other. All notices to be given to Debtor shall be deemed sufficiently given if delivered or mailed by registered or certified mail, postage prepaid, or, except to the extent required by applicable law, sent by facsimile or electronic mail, to Debtor at its address set forth below or at the most recent address shown on Secured Party's records. Notices sent by facsimile shall be deemed to have been given when sent, and notices and other communications sent to an e-mail address shall be deemed received upon the sender’s receipt of an acknowledgement from the intended recipient. All required notices to Debtor pertaining to any intended disposition of Collateral or other actions shall be deemed timely if given 10 days prior to the action described in the notice. Secured Party's duty of care with respect to Collateral in its possession (as imposed by law) shall be deemed fulfilled if Secured Party exercises reasonable care in physically safekeeping such Collateral. Debtor will reimburse Secured Party for all expenses (including reasonable attorneys' fees and legal expenses) incurred by Secured Party in the protection, defense, or enforcement of the Security Interest, including expenses incurred in any litigation or bankruptcy or insolvency proceedings. This Agreement shall be binding upon and inure to the benefit of Debtor and Secured Party and their respective heirs, representatives, successors and assigns and shall take effect when signed by Debtor and delivered to Secured Party. Except to the extent otherwise required by law, this Agreement shall be governed by the internal laws of Minnesota and, unless the context otherwise requires, all terms used herein which are defined in the Uniform Commercial Code, as in effect in Minnesota, shall have the meanings therein stated. If any provision or application of this Agreement is held unlawful or unenforceable in any respect, such illegality or unenforceability shall not affect other provisions or applications which can be given effect, and this Agreement shall be construed as if the unlawful or unenforceable provision or application had never been contained herein or prescribed hereby. All representations and warranties contained in this Agreement shall survive the execution, delivery and performance of this Agreement and the creation and payment of the Secured Obligations.

[Signatures on following page]

ADDRESSES:

325 E. Warm Springs Road
Suite 102
Las Vegas, NV 89119
Attention: Jon Isaac

with a copy to:

Live Ventures Incorporated
325 E. Warm Springs Road, Suite 102
Las Vegas, NV 89119
Attn: Michael J. Stein, Esq.
Email: mstein@liveventures.com

DEBTOR:

APPLIANCESMART CONTRACTING INC., a Nevada corporation

By: /s/ Virland A. Johnson
Name: Virland A. Johnson
Title: CFO

175 Jackson Avenue North
Suite 102
Minneapolis, MN 55343
Attention: Tony Isaac

SECURED PARTY:

APPLIANCE RECYCLING CENTERS OF AMERICA, INC., a Minnesota corporation

By: /s/ Tony Isaac
Name: Tony Isaac
Title: Chief Executive Officer

Exhibit A

Description of Collateral

All of the personal property and Fixtures of the Debtor, including without limitation the following, whether now owned or hereafter arising or acquired:

(a) Accounts, including all other rights and interests (including all liens and security interests) that the Debtor may at any time have by law or agreement against any Account Debtor or other obligor obligated to make any such payment or against any of the property of such Account Debtor or other obligor;

(b) Equipment and Fixtures, including all accessories, parts and other property at any time affixed thereto or used in connection therewith and all substitutions and replacements thereof;

(c) Inventory, including goods that are returned, repossessed, stopped in transit or which otherwise come into the possession of the Debtor;

(d) General Intangibles, including payment intangibles, inventions, designs, patents, patent applications, design patents, design patent applications, trademarks, trademark applications, trade names, trade secrets, goodwill, copyrights, registrations, licenses, franchises, customer lists, tax refund claims, rights to indemnification, rights under warranties, all domain names, together with all contracts, agreements, licenses and registrations relating to such domain names, and Commercial Tort Claims, if any;

(e) Chattel Paper, Instruments and Documents;

(f) Investment Property;

(g) Deposit Accounts;

(h) Letter-of-Credit rights;

(i) Supporting Obligations;

(j) Intellectual Property Collateral;

(k) books, correspondence, credit files, records, invoices, manuals, service records and programs, other papers and documents, computer records, runs, software, systems, procedures, disks, tapes and other storage media relating to any of the Collateral, including any of the foregoing in the possession or control of any service, consultant, or outside vendor; and

(l) Proceeds, including all policies, claims to payment under, and proceeds of any and all insurance policies payable to the Debtor, or on behalf of the Debtor's property, whether or not such policies are issued to or owned by the Debtor and whether or not the Bank is named as loss payee or additional insured, including any credit insurance.

Exhibit 10.2

AGREEMENT AND GUARANTY

For valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in consideration of ApplianceSmart Holdings LLC, a Nevada limited liability company ("***Holdings***"), parent of ApplianceSmart Contracting Inc., a Nevada corporation ("***Guarantor***"), having agreed to the terms of the outstanding amount owed by Holdings to Appliance Recycling Centers of America, Inc., a Nevada corporation ("***ARCA***"), in connection with the sale of Guarantor from ARCA to Holdings, as documented by that certain Amended and Restated Promissory Note, effective as of April 1, 2018 and amended and restated on December 26, 2018, issued by Holdings in the original principal amount at April 1, 2018 of $3,919,494.46 and $3,821,507.10 at December 26, 2018, for the benefit of ARCA (the "***Note***"), Guarantor does hereby unconditionally guarantee to ARCA full and prompt payment and performance of all obligations of Holdings to ARCA under the Note. Guarantor also agrees to pay in addition thereto all costs, expenses and reasonable attorney's fees at any time paid or incurred by ARCA in endeavoring to enforce this Guaranty.

Upon any default by Holdings with respect to any of the obligations herein guaranteed, the liability of the Guarantor hereunder shall be deemed to have become immediately due and payable, without demand, presentment, protest or notice of any kind, all of which are hereby waived, and without any suit or action against Holdings or the Guarantor and without further steps to be taken or further conditions to be performed by ARCA. Failure of ARCA to make any demand or otherwise to proceed against the Guarantor in respect to any default by Holdings or the Guarantor, or any delay by ARCA in doing so, shall not constitute a waiver of ARCA right to proceed in respect to any or all other defaults by the Company or the Guarantor.

Guarantor further acknowledges and agrees that until such time as the Note has been paid in full, it shall not create, incur, assume, or suffer to exist any indebtedness secured by a material amount of Guarantor's assets without the prior written consent of ARCA, which consent shall not be unreasonably withheld, conditioned, or delayed.

This Guaranty and Agreement shall be governed by and construed in accordance with the laws of the State of Nevada (without reference to the conflicts of law provisions thereof). The invalidity or unenforceability of any provision hereof shall not limit the validity or enforceability of any other provision hereof. This Guaranty and Agreement may not be amended except by an instrument in writing signed by the party to be charged.

Executed on this 28th day of December, 2018.

APPLIANCESMART CONTRACTING INC.

By: /s/ Virland A. Johnson
Name: Virland A. Johnson
Title: Chief Financial Officer

Exhibit 31.1

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 December 31, 2018 of Live Ventures Incorporated (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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

Dated: February 13, 2019

Exhibit 31.2

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 December 31, 2018 of Live Ventures Incorporated (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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

Dated: February 13, 2019

Exhibit 32.1

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 December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jon Isaac, the President and Chief Executive Officer of the Company, to the best of my knowledge and belief, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

Dated: February 13, 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.

Exhibit 32.2

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 December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Virland A. Johnson, the Chief Financial Officer (Principal Financial Officer) of the Company, to the best of my knowledge and belief, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

Dated: February 13, 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.