

LIVE VENTURES Inc  
Form 10-Q/A  
February 14, 2018

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q/A**

Amendment No. 1

\_\_\_\_\_

(Mark One)

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

For the quarterly period ended June 30, 2017

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-33937

**Live Ventures Incorporated**

(Exact name of registrant as specified in its charter)

**Nevada**

**85-0206668**

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

**325 E. Warm Springs Road, Suite 102**

**89119**

**Las Vegas, Nevada**

(Zip Code)

(Address of principal executive offices)

**(702) 939-0231**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  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.

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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 June 30, 2017 was 2,010,413.

## EXPLANATORY NOTE

We are filing this Amendment No. 1 on Form 10-Q/A to amend and restate in their entirety the following items of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 as originally filed with the Securities and Exchange Commission on August 10, 2017 (the “Original Form 10-Q”): (i) Item 1 of Part I “Financial Information,” (ii) Item 2 of Part I, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and (iii) Item 6 of Part II, “Exhibits”, and we have also updated the signature page, the certifications of our Chief Executive Officer and Chief Financial Officer in Exhibits 31.1, 31.2, 32.1 and 32.2, and our financial statements formatted in Extensible Business Reporting Language (XBRL) in Exhibits 101. No other sections were affected, but for the convenience of the reader, this report on Form 10-Q/A restates in its entirety, as amended, our Original Form 10-Q. This report on Form 10-Q/A is presented as of the filing date of the Original Form 10-Q and does not reflect events occurring after that date or modify or update disclosures in any way other than as required to reflect the restatement described below.

Our previously issued consolidated financial statements for the quarterly period ended June 30, 2017 has been reclassified and restated. As described in more detail in Note 3 to our consolidated financial statements, we have determined that our previously reported results for the quarter ended June 30, 2017 erroneously (i) classified certain debt of our subsidiaries Marquis Industries, Inc. (“Marquis”) and Vintage Stock, Inc. (“Vintage Stock”) as long-term debt when it should have been classified as short-term debt, (ii) characterized deposits (advance payments) on the purchase of Marquis carpet manufacturing equipment and the related cash flow presentation (operating versus investing), (iii) accounted for the down round provisions contained in certain convertible notes and related warrants we issued in 2012, 2013 and 2014, which warrants were subsequently amended to remove such provisions in December 2014, (iv) classified certain amounts relating to shares of our Series E Preferred Stock, and (v) classified certain prepaid expenses and other current assets as receivables. We have made necessary conforming changes in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” resulting from the correction of these errors.

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**FOR THE QUARTER ENDED JUNE 30, 2017**

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

## LIVE VENTURES INCORPORATED AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2017 (Restated) (Unaudited)	September 30, 2016
<b>Assets</b>		
Cash and cash equivalents	\$4,275,052	\$770,895
Trade receivables, net	10,664,818	7,602,764
Inventories, net	33,746,102	11,053,085
Prepaid expenses and other current assets	4,527,243	5,792,018
Total current assets	53,213,215	25,218,762
Property and equipment, net	21,081,840	14,014,501
Deposits and other assets	77,520	19,765
Deferred taxes	9,504,029	12,524,582
Intangible assets, net	2,779,351	1,689,790
Goodwill	39,066,061	–
Total assets	\$125,722,016	\$53,467,400
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities:</b>		
Accounts payable	\$9,741,460	\$5,402,654
Accrued liabilities	5,093,972	6,396,772
Income taxes payable	318,144	–
Current portion of long-term debt	23,222,636	2,011,880
Total current liabilities	38,376,212	13,811,306
Long-term debt, net of current portion	52,729,003	13,460,282
Note payable, related party	2,000,000	2,000,000
Total liabilities	93,105,215	29,271,588
Commitment 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 June 30, 2017 and no shares issued and outstanding at September 30, 2016	214	–
Series E convertible preferred stock, \$0.001 par value, 200,000 shares authorized, 127,840 shares issued and outstanding at June 30, 2017 and at September 30, 2016, with a liquidation preference \$38,352	128	128
Common stock, \$0.001 par value, 10,000,000 shares authorized, 2,088,186 shares issued and 2,010,413 shares outstanding at June 30, 2017; 2,819,327 shares issued and 2,789,205 shares outstanding at September 30, 2016	2,088	2,819
Paid in capital	63,090,499	59,568,471
Treasury stock (77,773 shares)	(796,393 )	(300,027 )
Accumulated deficit	(29,679,735 )	(35,075,579)
Total stockholders' equity	32,616,801	24,195,812
Total liabilities and stockholders' equity	\$125,722,016	\$53,467,400

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



## LIVE VENTURES, INCORPORATED AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Revenues	\$41,377,493	\$19,994,363	\$112,102,582	\$59,938,720
Cost of revenues	24,383,596	14,894,949	65,988,083	42,823,232
Gross profit	16,993,897	5,099,414	46,114,499	17,115,488
Operating expenses:				
General and administrative expenses	9,335,904	2,172,366	25,544,443	6,696,637
Sales and marketing expenses	2,274,866	1,869,830	6,237,004	7,115,903
Total operating expenses	11,610,770	4,042,196	31,781,447	13,812,540
Operating income	5,383,127	1,057,218	14,333,052	3,302,948
Other (expense) income:				
Interest expense, net	(2,127,790 )	(270,007 )	(5,612,319 )	(950,476 )
Other income	12,652	326,708	197,814	694,277
Total other (expense) income, net	(2,115,138 )	56,701	(5,414,505 )	(256,199 )
Income before provision for income taxes	3,267,989	1,113,919	8,918,547	3,046,749
Provision for income taxes				
Current tax expense:				
Federal	29,685	—	298,390	—
State	(40,998 )	—	202,322	—
Total Current tax expense	(11,313 )	—	500,712	—
Deferred tax expense (benefit):				
Federal	1,114,588	(12,254,278)	2,713,261	(11,840,298)
State	36,671	—	307,292	—
Total Deferred tax expense (benefit)	1,151,259	(12,254,278)	3,020,553	(11,840,298)
Total provision (benefit) for income taxes	1,139,946	(12,254,278)	3,521,265	(11,840,298)
Net income	2,128,043	13,368,197	5,397,282	14,887,047
Net income attributed to noncontrolling interest	—	—	—	124,194
Net income attributed to Live Ventures, Incorporated	\$2,128,043	\$13,368,197	\$5,397,282	\$14,762,853
Earnings per share:				
Basic	\$1.04	\$4.76	\$2.36	\$5.25
Diluted	\$0.55	\$4.05	\$1.31	\$4.48
Weighted average common shares outstanding:				
Basic	2,044,767	2,806,060	2,289,646	2,813,192
Diluted	3,869,248	3,297,012	4,131,912	3,292,507

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

## LIVE VENTURES INCORPORATED AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended June 30,	
	2017	2016
	(Restated)	
<b>OPERATING ACTIVITIES:</b>		
Net income	\$5,397,282	\$14,887,047
Adjustments to reconcile net income to net cash provided by (used in) operating activities, net of acquisition:		
Depreciation and amortization	3,112,786	1,623,013
Amortization of debt issuance cost	157,158	–
Stock based compensation expense	137,011	254,710
Loss on disposal of property and equipment	55,703	71,614
Non-cash interest expense associated with convertible debt and warrants	–	4,749
Non-cash issuance of common stock for services	–	22,500
Change in reserve for uncollectible accounts	(39,865 )	30,073
Change in reserve for obsolete inventory	(771,971 )	703,532
Change in contingent liability	–	(316,000 )
Change in deferred income taxes	3,020,553	(12,254,278)
Changes in assets and liabilities:		
Accounts receivable	(2,908,689 )	(426,744 )
Prepaid expenses and other current assets	308,373	55,849
Inventories	(1,760,954 )	1,868,343
Deposits and other assets	(57,755 )	16,325
Accounts payable	495,296	556,916
Accrued liabilities	(449,799 )	333,874
Income taxes payable	318,144	(376,000 )
Net cash provided by operating activities	7,013,273	7,055,523
<b>INVESTING ACTIVITIES:</b>		
Acquisition of business, net of cash acquired and seller financing provided	(47,310,900)	–
Purchase of intangible assets - Software	(124,230 )	–
Proceeds from the sale of property and equipment	37,920	653,857
Purchases of property and equipment	(5,936,900 )	(3,343,937 )
Net cash used in investing activities	(53,334,110)	(2,690,080 )
<b>FINANCING ACTIVITIES:</b>		
Net borrowings under revolver loans	17,152,852	(2,485,546 )
Payments of debt issuance costs	(1,155,000 )	(415,757 )
Payment for the purchase of the noncontrolling interest	–	(2,000,000 )
Proceeds from issuance of notes payable	36,984,434	10,050,521

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Payment of series E preferred stock dividends	(959 )	(959 )
Purchase of treasury stock	(496,366 )	(202,005 )
Payments on notes payable	(2,659,967 )	(4,400,114 )
Payments on notes payable, related party	–	(4,505,979 )
Net cash provided by (used in) financing activities	49,824,994	(3,959,839 )
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>3,504,157</b>	<b>405,604</b>
CASH AND CASH EQUIVALENTS, beginning of period	770,895	2,727,818
CASH AND CASH EQUIVALENTS, end of period	\$4,275,052	\$3,133,422
Supplemental cash flow disclosures:		
Interest paid	\$4,340,486	\$842,202
Income taxes paid	\$103,704	\$466,000
Noncash financing and investing activities:		
Notes payable issued to sellers of Vintage Stock	\$10,000,000	\$–
Conversion of accrued expense liabilities into common stock	\$584,500	\$–
Conversion of accrued expense liability to Series B preferred stock	\$2,800,000	
Accrued and unpaid dividends	\$479	\$480
Note payable issued for purchase of noncontrolling interest	\$–	\$500,000
Restated equipment deposit as a purchase of equipment in fiscal year 2016	\$(1,816,855 )	\$–

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

**LIVE VENTURES INCORPORATED AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**FOR THE NINE MONTHS ENDED JUNE 30, 2017 AND 2016**

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

The accompanying condensed consolidated financial statements include the accounts of Live Ventures, Incorporated, a Nevada corporation, and its subsidiaries (collectively the “Company”). Commencing in fiscal year 2015, the Company began a strategic shift in its business plan away from providing online marketing solutions for small and medium sized business to acquiring profitable companies in various industries that have demonstrated a strong history of earnings power. The Company continues to actively develop, revise and evaluate its products, services and its marketing strategies in its businesses. The Company has three operating segments Manufacturing, Retail and Online (our new name for the previously named Marketplace Platform segment) and Services. With Marquis Industries, Inc., 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.

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (“GAAP”) for audited financial statements. In the opinion of the Company’s management, this interim information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The results of operations for three months and nine months ended June 30, 2017 are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2017. This financial information should be read in conjunction with the consolidated financial statements and related notes thereto as of September 30, 2016 and for the fiscal year then ended included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2016 filed with the U.S. Securities and Exchange Commission (the “SEC”) on December 29, 2016 (the “2016 10-K”).

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

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

**Principles of Consolidation**

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

### **Non-Controlling Interest**

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

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

## **Use of Estimates**

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

Significant estimates made in connection with the accompanying consolidated financial statements include the estimate of dilution and fees associated with billings, the estimated reserve for doubtful current and long-term trade and other receivables, the estimated reserve for excess and obsolete inventory, estimated 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 notes payable, valuation allowance against deferred tax assets and estimated useful lives for intangible assets and property and equipment.

## **Financial Instruments**

Financial instruments consist primarily of cash equivalents, trade and other receivables, advances to affiliates and obligations under accounts payable, accrued expenses and notes payable. The carrying amounts of cash equivalents, trade receivables and other receivables, accounts payable, accrued expenses and short term notes payable approximate fair value because of the short maturity of these instruments. 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).

## **Cash and Cash Equivalents**

Cash and Cash equivalents consist of highly liquid investments with a maturity of three months or less at the time of purchase. Fair value of cash equivalents approximates carrying value.

## **Trade Receivables**

The Company grants trade credit to customers under credit terms that it believes are customary in the industry it operates and does not require collateral to support customer trade receivables. Some of the Company's trade receivables are factored primarily through two factors. Factored trade receivables are sold without recourse for substantially all of the balance receivable for credit approved accounts. The factor purchases the trade receivable(s) for the gross amount of the respective invoice(s), less factoring commissions, trade and cash discounts which is recorded as general and administrative expense. The factor charges the Company a factoring commission for each trade account, which is between 0.75-1.00% of the gross amount of the invoice(s) factored on the date of the purchase, plus interest calculated at 3.25%-6% per annum. The minimum annual commission due the factor is \$75,000 per contract year. The total amount of trade receivables factored was \$27,373,263 and \$26,835,303 for the nine months ended June 30, 2017 and 2016, respectively.

### **Reserve for Doubtful Accounts**

The Company maintains a reserve for doubtful accounts, which includes reserves for accounts and other receivables, customer refunds, dilution and fees from local exchange carrier billing aggregators and other uncollectible accounts. The reserve for doubtful accounts is based upon historical bad debt experience and periodic evaluations of the aging and collectability of the trade and other receivables. This reserve is maintained at a level which the Company believes is sufficient to cover potential credit losses and trade and other receivables are only written off to bad debt expense as uncollectible after all reasonable collection efforts have been made. The Company has also purchased accounts receivable credit insurance to cover non-factored trade and other receivables which helps reduce potential losses due to doubtful accounts. At June 30, 2017 and September 30, 2016, the allowance for doubtful accounts was \$1,121,569 and \$1,161,434, respectively.

### **Inventories**

#### *Manufacturing Segment*

Inventories are valued at the lower of the inventory's cost (first in, first out basis) or the net realizable 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 June 30, 2017 and September 30, 2016, the reserve for obsolete inventory was \$91,940.



### *Retail and Online Segment*

Merchandise Inventories are valued at the lower of cost or market generally using the average cost method which approximates first in first out or FIFO. Under the average cost method, as new product is received from vendors, its current cost is added to the existing cost of product on-hand and this amount is re-averaged over the cumulative units in inventory available for sale. Pre-owned products traded in by customers are recorded as merchandise inventory for the amount of cash consideration or store credit less any premiums given to the customer. Management reviews the merchandise inventory to make required adjustments to reflect potential obsolescence or over-valuation as a result of cost exceeding market. In valuing merchandise inventory, management considers quantities on hand, recent sales, potential price protections, returns to vendors and other factors. Management's ability to assess these factors is dependent upon forecasting customer demand and to provide a well-balanced merchandise assortment. Merchandise Inventory valuation is adjusted based on anticipated physical inventory losses or shrinkage and actual losses resulting from periodic physical inventory counts. Merchandise inventory reserves as of June 30, 2017 and September 30, 2016 were \$1,634,821 and \$1,013,870, respectively.

### **Property and Equipment**

Property and Equipment are stated at cost less accumulated depreciation. Expenditures for repairs and maintenance are charged to expense as incurred and additions and improvements that significantly extend the lives of assets are capitalized. Upon sale or other retirement of depreciable property, the cost and accumulated depreciation are removed from the related accounts and any gain or loss is reflected in operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to forty years. Depreciation expense was \$976,296 and \$504,063 for the three months ended June 30, 2017 and 2016, respectively. Depreciation expense was \$2,677,039 and \$1,449,221 for the nine months ended June 30, 2017 and 2016, respectively.

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

### **Goodwill and Intangibles**

The Company accounts for purchased goodwill and intangible assets in accordance with ASC 350, *Intangibles—Goodwill and Other*. Under ASC 350, purchased goodwill and intangible assets with indefinite lives

are not amortized; rather, they are tested for impairment on at least an annual basis. Goodwill represents the excess of purchase price over the underlying net assets of business acquired. Intangible assets with finite lives are amortized over their useful lives. Upon acquisition, critical estimates are made in valuing acquired intangible assets, which include but are not limited to: future expected cash flows from customer contracts, customer lists, and estimating cash flows from projects when completed; tradename and market position, as well as assumptions about the period of time that customer relationships will continue; and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from the assumptions used in determining the fair values.

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

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

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

The Company's intangible assets consist of goodwill, customer relationships intangible, licenses for the use of internet domain names, Universal Resource Locators, or URL's, software, and marketing and technology related intangibles. All such assets are capitalized at their original cost and amortized over their estimated useful lives as follows: domain name and marketing – 3 to 20 years; software – 3 to 5 years, customer relationships – 15 years. Goodwill is not amortized, but evaluated for impairment on at least an annual basis. Intangible amortization expense is \$113,245 and \$435,747 for the three months and nine months ended June 30, 2017. Intangible amortization expense is \$57,930 and \$173,796 for the three months and nine months ended June 30, 2016.

## **Revenue Recognition**

### *Manufacturing Segment*

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

### *Retail and Online Segment*

The Retail and Online Segment derives product revenue primarily from in-store, direct online and fulfillment partner sales of new and used products.

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

We provide customers with the opportunity to trade in used merchandise in exchange for cash consideration or merchandise credit. Merchandise inventory is recorded at a cost equal to the cash offered to the customer. If a customer chooses merchandise credit, credit is issued for the amount of the cash offer plus a premium. Premiums

associated with merchandise credit issued as a result of trade in transactions are recorded as expense in the period in which the credits are issued. Customer liabilities and other deferred revenues for our gift cards and customer credits are included in Accrued Liabilities.

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

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

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

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

### *Services Segment*

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

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

### **Shipping and Handling**

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

### **Customer Liabilities**

The Company establishes a liability upon the issuance of merchandise credits and the sale of gift cards. Revenue is subsequently recognized when the credits and gift cards are redeemed. In addition, breakage is recognized quarterly on unused customer liabilities older than two years to the extent that our management believes the likelihood of redemption by the customer is remote, based on historical redemption patterns. To the extent that future redemption patterns differ from those historically experienced, there will be variations in the recorded breakage. Breakage for the three months ended June 30, 2017 was \$25,092. Breakage of \$98,183 for the period of November 3, 2016 through June 30, 2017 is recorded in other income in our consolidated financial statements.

### **Fair Value Measurements**

ASC Topic 820, "Fair Value Measurements and Disclosures," requires disclosure of the fair value of financial instruments held by the Company. ASC topic 825, "Financial Instruments," defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for

fair value measures. The three levels of valuation hierarchy are defined as follows: Level 1 - inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets. Level 2 - to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

## **Income Taxes**

Income taxes are accounted for using the asset and liability method. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. A valuation allowance would be provided for those deferred tax assets for which if it is more-likely-than-not that the related benefit will not be realized. The Company classifies tax-related penalties and interest as a component of income tax expense for financial statement presentation. As of June 30, 2017 there are no uncertain tax positions for federal or state income tax purposes. The Company is not under audit in any jurisdiction. The Company's policy is to record uncertain tax positions as a component of income tax expense.

## **Lease Accounting**

We lease retail stores, warehouse facilities and office space. These assets and properties are generally leased under noncancelable agreements that expire at various dates through 2022 with various renewal options for additional periods. The agreements, which have been classified as operating leases, generally provide for minimum and, in some cases percentage rentals and require us to pay all insurance, taxes and other maintenance costs. Leases with step rent provisions, escalation clauses or other lease concessions are accounted for on a straight-line basis over the lease term, which includes renewal option periods when we are reasonably assured of exercising the renewal options and includes "rent holidays" (periods in which we are not obligated to pay rent). Cash or lease incentives received upon entering into certain store leases ("tenant improvement allowances") are recognized on a straight-line basis as a reduction to rent expense over the lease term, which includes renewal option periods when we are reasonably assured of exercising the renewal options. We record the unamortized portion of tenant improvement allowances as a part of deferred rent. We do not have leases with capital improvement funding. Percentage rentals are based on sales performance in excess of specified minimums at various stores and are accounted for in the period in which the amount of percentage rentals can be accurately estimated.

## **Stock-Based Compensation**

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

## **Earnings Per Share**

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

## **Segment Reporting**

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

## **Derivative Financial Instruments**

The Company evaluates all of its agreements to determine if such instruments have derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statements of operations. For stock-based derivative financial instruments, the Company uses a weighted average Black-Scholes-Merton option pricing model to value stock-based derivative financial instruments, the Company uses a weighted average Black-Scholes-Merton option pricing model to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each

reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date. There were no derivative financial instruments as of June 30, 2017 and September 30, 2016, respectively.

## Reclassifications

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

## Recently Issued Accounting Pronouncements

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



In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-08, *Revenue from Contracts with customers*. The standard addresses the implementation guidance on principal versus agent considerations in the new revenue recognition standard. The ASI clarifies how an entity should identify the unit of accounting (i.e. the specified good or service) for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements. The ASU is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2017, with early adoption permitted.

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

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

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

ASU 2017-04 - ASU 2017-04, *Simplifying the Test for Goodwill Impairment*, eliminates step 2 from the goodwill impairment test. As amended, the goodwill impairment test will consist of one step comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. An entity may still perform the optional qualitative assessment for a reporting unit to determine if it is more likely than not that goodwill is impaired. The ASU is required for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of goodwill.

The ASU has staggered effective dates. A public business entity that is an SEC filer should prospectively adopt the ASU for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

ASU 2016-18, *Restricted Cash*, updates Topic 230, *Statement of Cash Flows*, to require that a statement of cash flows explain the change during the period in restricted cash or restricted cash equivalents, in addition to changes in cash and cash equivalents. That is, restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Consequently, transfers between cash and restricted cash will not be presented as a separate line item in the operating, investing or financing sections of the cash flow statement. The ASU is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The amendments should be applied retrospectively to each period presented. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

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

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

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



**Note 3: Reclassifications and Restatements**

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

Classification of Marquis and Vintage Stock lines of credit with both a subjective acceleration clause and lock box arrangement were not properly classified as current liabilities according to ASC 470. The Company determined that \$17,375,442 of long-term debt should have been classified as a current liability in the condensed consolidated balance sheet.

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

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

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

Other receivables of \$711,668 have been reclassified to prepaid expenses and other current assets.

	Fiscal Quarter and Nine Months Ended June 30, 2017		
	As Previously Reported	Change	(Restated)
Consolidated balance sheet as of June 30, 2017			
Trade receivables, net	\$11,376,486	\$(711,668)	\$10,664,818
Prepaid expenses and other current assets	3,815,575	711,668	4,527,243
Total assets	125,722,016		125,722,016

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Current portion of long- term debt	5,847,194	17,375,442	23,222,636
Long-term debt, net of current portion	70,104,445	(17,375,442)	52,729,003
Total liabilities	93,105,215		93,105,215
Paid in capital	56,841,245	6,249,254	63,090,499
Accumulated deficit	(23,441,219 )	(6,238,516 )	(29,679,735 )
Series E convertible preferred stock	10,866	(10,738 )	128
Total shareholders' equity	32,616,801	–	32,616,801
Consolidated statement of cash flows for the nine months ended June 30, 2017			
Change in accounts receivable	(2,888,320 )	(20,369 )	(2,908,689 )
Change in prepaid expenses and other current liabilities	2,104,859	(1,796,486 )	308,373
Net cash provided by operations	8,830,128	(1,816,855 )	7,013,273
Purchases of property and equipment	(7,753,755 )	1,816,855	(5,936,900 )
Net cash used in investing activities	(55,150,965 )	1,816,855	(53,334,110 )

**Note 4: Balance Sheet Detail Information**

	June 30, 2017 (Restated)	September 30, 2016
Trade receivables, current, net:		
Accounts receivable, current	\$ 11,441,815	\$ 8,419,626
Less: Reserve for doubtful accounts	(776,997 )	(816,862 )
	\$ 10,664,818	\$ 7,602,764
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 and other receivables	\$ 11,786,387	\$ 8,764,198
Less: Reserve for doubtful accounts	(1,121,569 )	(1,161,434 )
	\$ 10,664,818	\$ 7,602,764
Components of reserve for doubtful accounts are as follows:		
Reserve for dilution and fees on amounts due from billing aggregators	\$ 1,063,617	\$ 1,063,617
Reserve for customer refunds	1,042	1,230
Reserve for other trade receivables	56,910	96,587
	\$ 1,121,569	\$ 1,161,434
Inventory		
Raw materials	\$ 7,708,749	\$ 6,664,286
Work in progress	796,707	773,238
Finished goods, includes merchandise	26,967,407	4,721,371
	35,472,863	12,158,895
Less: Inventory reserves	(1,726,761 )	(1,105,810 )
	\$ 33,746,102	\$ 11,053,085
Property and equipment, net:		
Building and improvements	\$ 7,515,236	\$ 6,780,959
Transportation equipment	77,419	77,419
Machinery and equipment	17,317,941	10,211,565
Furnishings and fixtures	1,951,439	192,701
Office, computer equipment and other	214,807	216,793
	27,076,842	17,479,437
Less: Accumulated depreciation	(5,995,002 )	(3,464,936 )
	\$ 21,081,840	\$ 14,014,501
Intangible assets, net:		
Domain name and marketing related intangibles	\$ 18,957	\$ 18,957
Website and software related intangibles	1,525,308	-
Customer Relationships intangible	439,039	439,039
Purchased software	1,500,000	1,500,000
	3,483,304	1,957,996
Less: Accumulated amortization	(703,953 )	(268,206 )

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	\$2,779,351	\$1,689,790
Accrued liabilities:		
Accrued payroll and bonuses	\$1,078,686	\$922,299
Accrued software costs	–	584,500
Accrued fee due Kingston Diversified Holdings LLC	–	2,800,000
Accrued sales and property taxes	597,555	270,183
Deferred rent	440,684	4,092
Accrued gift card liability	289,520	–
Accrued interest payable	467,506	–
Accrued uncashed checks	815,338	–
Customer deposits	303,568	169,965
Accrued expenses - other	1,101,115	1,645,733
	\$5,093,972	\$6,396,772



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

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

Total consideration paid was \$57,653,698. The following table summarizes our preliminary allocation of the consideration paid to the respective fair values of the assets acquired and liabilities assumed in the Vintage Stock acquisition as of the closing date:

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

The preliminary purchase price allocation is subject to change. We will complete this analysis to determine the fair value of inventory, prepaid expenses and other current assets, property and equipment, intangibles, notes payable and accrued expenses on the acquisition date. The provisional goodwill recorded of \$39,066,061 is the amount of the consideration given, less the preliminary purchase price allocation given to assets less liabilities assumed. Goodwill is not deductible for tax purposes. Once this analysis is complete, we will adjust, if necessary, the provisional amounts assigned to inventory, prepaid expenses and other current assets, property and equipment, intangibles, notes payable and accrued expenses in the accounting period in which the analysis is completed.

In connection with the purchase of Vintage, there were no additional one-time expenses incurred during the last six months ended June 30, 2017. However, we incurred bank fees of \$15,000, appraisal fees of \$20,497, legal fees of \$192,339 and consulting fees of \$119,774 – for a total of \$347,610 in one-time expenses; all of which was recorded as

general and administrative expense during the first three months ended December 31, 2016. The Company issued \$10,000,000 in subordinated acquisition notes payable to the sellers of Vintage Stock as more fully described in Note 6.

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

The unaudited pro forma information below present statement of income data for the three and nine months ended June 30, 2016 as if the acquisition of Vintage took place on October 1, 2015.

	(Unaudited)	
	Three	Nine
	Months	Months
	Ended	Ended
	June 30,	June 30,
	2016	2016
Net revenue	\$19,259,031	\$58,632,726
Gross profit	11,080,557	32,739,140
Operating income	3,009,180	8,495,869
Net income	1,472,308	4,403,051
Earnings per basic common share	\$0.52	\$1.57

**Note 6: Goodwill and Other Intangibles**

The Company's intangible assets consist of goodwill, customer relationships intangible, licenses for the use of internet domain names, Universal Resource Locators, or URL's, software, and marketing and technology related intangibles. All such assets are capitalized at their original cost and amortized over their estimated useful lives as follows: domain name and marketing – 3 to 20 years; software – 5 years, customer relationships – 15 years. Goodwill is not amortized, but evaluated for impairment on at least an annual basis.

The following summarizes estimated future amortization expense related to intangible assets that have net balances as of June 30, 2017:

2018	\$751,991
2019	751,991
2020	500,534
2021	243,555
2022	243,555
Thereafter	287,725
	\$2,779,351

**Note 7: Long Term Debt***Bank of America Revolver Loan*

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

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

Borrowing availability under the BofA Revolver is limited to a borrowing base which allows Marquis to borrow up to 85% of eligible accounts receivable, plus the lesser of 1) \$7,500,000; 2) 65% of the value of eligible inventory; or 3) 85% of the appraisal value of the eligible inventory. For purposes of clarity and definition of the advance rate for

inventory – it shall be 55.3% for raw materials, 0% for work-in-process and 70% for finished goods subject to eligibility, special reserves and advance limit. Letters of credit reduce the amount available to borrow under the BofA Revolver by an amount equal to the face value of the letters of credit.

As of February 22, 2017, Marquis's ability to make prepayments against Marquis subordinated debt including the related party loan with Isaac Capital Group and pay cash dividends is generally permitted if 1) excess availability under the BofA Revolver is more than \$4 million, and has been for each of the 90 days preceding the requested distribution and 2) excess availability under the BofA Revolver is more than \$4 million, and the fixed charge coverage ratio, as calculated on a pro-forma basis for the prior 12 months is 2:1 or greater. Restrictions apply to our ability to make additional prepayments against Marquis subordinated debt and pay cash dividends if the fixed charge coverage ratio, as calculated on a pro-forma basis for the prior 12 months is less than 2:1 and excess availability under the BofA Revolver is less than \$4 million at the time of payment or distribution. There is no restriction on dividends that can be taken by the Company so long as Marquis maintains \$4 million of current availability at the time of the dividend or distribution. This translates to having no restriction on Net Income so long as the Company retains sufficient assets to establish \$4 million of current availability and continues to meet the required fixed charge coverage ratio of 2:1 as stated above.

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

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

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

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

The BofA Revolver provides for customary events of default with corresponding grace periods, including failure to pay any principal or interest when due, failure to comply with covenants, change in control of Marquis, a material representation or warranty made by us or the borrowers proving to be false in any material respect, certain bankruptcy, insolvency or receivership events affecting Marquis or its subsidiaries, defaults relating to certain other indebtedness, imposition of certain judgments and mergers or the liquidation of Marquis or certain of its subsidiaries. During the period of October 1, 2016 through June 30, 2017, Marquis cumulatively borrowed \$68,597,210 and repaid \$63,553,469 under the BofA Revolver. Our maximum borrowings outstanding during the same period were \$7,770,651. Our weighted average interest rate on those outstanding borrowings for the period of October 1, 2016 through June 30, 2017 was 3.42%. As of June 30, 2017, total additional availability under the BofA Revolver was \$6,989,630; with \$5,266,331 outstanding, and outstanding standby letters of credit of \$72,715.

#### *Real Estate Transaction*

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

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

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

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

*Equipment Loans*

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

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

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

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

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

*Texas Capital Bank Revolver Loan*

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

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

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

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

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

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



The TCB Revolver provides for customary events of default with corresponding grace periods, including failure to pay any principal or interest when due, failure to comply with covenants, change in control of Vintage Stock, a material representation or warranty made by us or the borrowers proving to be false in any material respect, certain bankruptcy, insolvency or receivership events affecting Vintage Stock, defaults relating to certain other indebtedness, imposition of certain judgments and mergers or the liquidation of Vintage Stock. During the period of November 3, 2016 through June 30, 2017, Vintage Stock cumulatively borrowed \$59,904,850 and repaid \$47,795,739 under the TCB Revolver. Our maximum borrowings outstanding during the period of November 3, 2016 through June 30, 2017 were \$14,460,716. Our weighted average interest rate on those outstanding borrowings for the period of November 3, 2016 through June 30, 2017 was 3.45560%. As of June 30, 2017, total additional availability under the TCB Revolver was \$2,789,415, with \$12,109,111 outstanding; and outstanding standby letters of credit of \$0. In connection with the TCB Revolver, Vintage incurred \$25,000 in transaction cost that is being recognized as debt issuance cost that is being amortized and recorded as interest expense over the term of the TCB Revolver.

#### *Capitala Term Loan*

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

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

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

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

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

The Term Loan Borrowers may prepay the term loans under the term loan agreement from time to time, subject to the payment (with certain exceptions described below) of a prepayment premium of: (i) an amount equal to 2.0% of the principal amount of the term loan prepaid if prepaid during the period of time from and after the Closing Date up to the first anniversary of the Closing Date; (ii) 1.0% of the principal amount of the term loan prepaid if prepaid during the period of time from and after the first anniversary of the Closing Date up to the second anniversary of the Closing Date; and (iii) zero if prepaid from and after the second anniversary of the Closing Date.

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

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

There are also various mandatory prepayment triggers under the term loan agreement, including in respect of excess cash flow, dispositions, equity and debt issuances, extraordinary receipts, equity contributions, change in control, and failure to obtain required landlord consents. Our weighted average interest rate on our Capitala Term Loan outstanding borrowings for the period of November 3, 2016 through June 30, 2017 was 16.31554%. In connection with the Capitala Term Loan, Vintage incurred \$1,088,000 in transaction cost that is being recognized as debt issuance cost that is being amortized and recorded as interest expense over the term of the Capitala Term Loan.

#### *Sellers Subordinated Acquisition Note*

In connection with the purchase of Vintage Stock., 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 matures five years and six months from November 3, 2016.

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

Long-term debt as of June 30, 2017 and September 30, 2016 consisted of the following:

	June 30, 2017 (Restated)	September 30, 2016
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	\$5,266,331	\$222,590
Texas Capital Bank Revolver Loan - variable interest rate based upon the one-month LIBOR rate plus a margin, interest payable monthly, maturity date November 2020, secured by substantially all Vintage Stock assets	12,109,111	-
Note Payable Capitala Term Loan - variable interest rate based upon a base rate plus a margin, 3% per annum interest payable in kind, with the balance of interest payable monthly in cash, principal due quarterly in the amount of \$725,000, maturity date November 2021, note subordinate to Texas Capital Bank Revolver Loan, secured by Vintage Stock Assets	28,415,651	-
Note Payable to the Sellers of Vintage Stock, interest at 8% per annum, with interest payable monthly, maturity date May 2022, note subordinate to both Texas Capital Bank Revolver and Capitala Term Loan, secured by Vintage Stock Assets	10,000,000	-
Note #1 Payable to Banc of America Leasing & Capital LLC - interest at 3.8905% per annum, with interest and principal payable monthly in the amount of \$84,273 for 59	4,309,354	4,931,937

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months, beginning September 23, 2016, with a final payment due in the amount of \$584,273, maturity date September 2021, secured by equipment		
Note #2 Payable to Banc of America Leasing & Capital LLC - interest at 4.63% per annum, with interest and principal payable monthly in the amount of \$34,768 for 59 months, beginning January 30, 2017, with a final payment due in the amount of \$476,729, maturity date January 2022, secured by equipment	2,050,830	–
Note #3 Payable to Banc of America Leasing & Capital LLC - interest at 4.7985% per annum with interest and principal payable monthly in the amount of \$51,658 for 84 months, beginning January 30, 2017, secured by equipment.	3,455,617	–
Note #4 Payable to Banc of America Leasing & Capital LLC - interest at 4.8907% per annum, with interest and principal payable monthly in the amount of \$15,901 for 81 months, beginning April 30, 2017, secured by equipment.	1,060,659	–
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	9,334,312	9,351,796
Note Payable to Cathay Bank, variable interest rate, Prime Rate plus 2.50%, with interest payable monthly, maturity date December 2017, secured by substantially all Modern Everyday assets	180,346	198,569
Note Payable to Cathay Bank, variable interest rate, Prime Rate plus 1.50%, with interest payable monthly, maturity date December 2017, secured by substantially all Modern Everyday assets	249,766	249,766
Note payable to individual, interest at 11% per annum, payable on a 90 day written notice, unsecured	206,529	206,529
Note payable to individual, interest at 10% per annum, payable on a 90 day written notice, unsecured	500,000	500,000
Note payable to individual, interest at 8.25% per annum, payable on a 120 day written demand notice, unsecured	225,000	225,000
Total long-term debt	77,363,506	15,886,187
Less unamortized debt issuance costs	(1,411,867 )	(414,025 )
Net amount	75,951,639	15,472,162
Less current portion	(23,222,636)	(2,011,880 )
Long-term portion	\$52,729,003	\$13,460,282

Future maturities of debt at June 30, 2017 are as follows which does not include related party debt separately stated:

Years ending June 30,	
2018	\$23,456,680
2019	4,801,499
2020	4,887,193
2021	4,976,861
2022	18,889,319
Thereafter	20,351,954
Total	\$77,363,506

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

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

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

**Note 9: Stockholders' Equity**

*Series B Convertible Preferred Stock*

On December 27, 2016 the Company established a new series of preferred stock, Series B Convertible Preferred Stock. The shares, as a series, are entitled to dividends on our Common Stock 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 series B preferred share into five shares of common stock, subject to equitable adjustment in the event of forward stock splits and reverse stock splits.

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

During the nine months ended June 30, 2017, the Company issued:

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

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

#### *Series E Convertible Preferred Stock*

As of June 30, 2017, there were 127,840 shares of series E convertible preferred stock issued and outstanding. The shares accrue dividends at the rate of 5% per annum on the liquidation preference per share, payable quarterly from legally available funds. The shares carry a cash liquidation preference of \$0.30 per share, plus any accrued but unpaid dividends. If such funds are not available, dividends shall continue to accumulate until they can be paid from legally available funds. Holders of the preferred shares are entitled, after two years from issuance, to convert them into shares of our common stock on a one-to-one basis together with payment of \$85.50 per converted share.

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

During the nine months ended June 30, 2017 and June 30, 2016, the Company accrued dividends of \$1,438 and \$1,438, respectively, payable to holders of Series E preferred stock. As of June 30, 2017, and September 30, 2016 unpaid dividends were \$479 and \$959, respectively.



*Common Stock*

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

All share, option and warrant related information presented in these financial statements and accompanying footnotes has been retroactively adjusted to reflect the decreased number of shares resulting in this action.

During the three months ended June 30, 2017, the Company did not issue any common shares.

During the nine months ended June 30, 2017, the Company issued:

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

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

During the nine months ended June 30, 2016, the Company issued:

2,158 shares of common stock for services rendered at \$20,000. The value was based on the market value of the Company's common stock on the date of issuance.

*Treasury Stock*



For the year ended September 30, 2016, the Company purchased 30,122 shares of its common stock in the open market (treasury shares) for \$300,027. For the three month and nine month periods ended June 30, 2017, the Company purchased 47,651 additional shares of its common stock in the open market (treasury shares) for \$496,366. The Company accounted for the purchase of these treasury shares using the cost method.

*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 10: Series B Convertible Preferred Stock Warrants**

The Company issued several notes in prior periods and converted them resulting in the issuance of warrants. The following table summarizes information about the Company’s warrants outstanding at June 30, 2017:

	Number of units - Series B Convertible preferred warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Intrinsic Value
Outstanding at September 30, 2016	118,029	\$ 20.80	1.73	\$4,307,493
Granted	–			
Exercised	–			
Outstanding at June 30, 2017	118,029	\$ 10.34	0.98	\$3,646,530
Exercisable at June 30, 2017	118,029	\$ 10.34	0.98	\$3,646,530

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

On December 27, 2016, ICG and the Company agreed to amend and exchange the common stock warrants for warrants 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. All warrant related information presented in these condensed consolidated financial statements and accompanying footnotes has been retroactively adjusted to reflect the conversion of all common stock warrants outstanding to warrants to purchase shares of Series B Convertible Preferred Stock resulting in this action.

The exercise price for the warrants outstanding and exercisable into shares of Series B Convertible Preferred Stock at June 30, 2017 is as follows:

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

#### **Note 11: Stock-Based Compensation**

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

#### *Stock Options*

The following table summarizes stock option activity for the nine months ended June 30, 2017:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Intrinsic Value
Outstanding at September 30, 2016	175,000	\$ 11.22	3.75	\$ 346,500
Granted	36,668			
Exercised	—			
Forfeited	—			
Outstanding at June 30, 2017	211,668	\$ 13.19	3.73	\$ 248,500
Exercisable at June 30, 2017	175,000	\$ 9.29	2.49	\$ 248,500

The Company recognized compensation expense of \$43,028 and \$163,482 for the three months ended June 30, 2017 and 2016, respectively. The Company recognized compensation expense of \$137,011 and \$254,710 during the nine months ended June 30, 2017 and 2016, respectively, related to stock option awards granted to certain employees and officers based on the grant date fair value of the awards, net of estimated forfeitures.

At June 30, 2017, the Company has \$428,306 of unrecognized compensation expense (net of estimated forfeitures) associated with stock option awards which the company expects to recognize as compensation expense through December of 2021.

The exercise price for stock options outstanding and exercisable outstanding at June 30, 2017 is as follows:

Outstanding		Exercisable	
Number of Options	Exercise Price	Number of Options	Exercise Price
31,250	\$ 5.00	31,250	\$ 5.00
25,000	7.50	25,000	7.50
31,250	10.00	31,250	10.00
4,167	10.86		
4,167	10.86		
4,167	10.86		
4,167	10.86		
6,250	12.50	6,250	12.50
6,250	15.00	6,250	15.00
75,000	15.18	75,000	15.18
4,000	23.41		
4,000	27.60		
4,000	31.74		
4,000	36.50		
4,000	41.98		
211,668		175,000	

The following table summarizes information about the Company's non-vested shares outstanding as of June 30, 2017:

Non-vested Shares	Number of Shares	Weighted Average Grant-Date Fair Value
Non-vested at September 30, 2016	6,250	\$ 14.22
Granted	36,668	\$ 17.70
Vested	(6,250 )	\$ 14.22
Non-vested at June 30, 2017	36,668	\$ 17.70

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

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

**Note 12: Earnings Per Share**

Net earnings per share is calculated using the weighted average number of shares of common stock outstanding during the applicable period. Basic weighted average 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 June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
<b>Basic</b>				
Net income attributed to Live Ventures Incorporated	\$2,128,043	\$13,368,197	\$5,397,282	\$14,762,853
Less: preferred stock dividends	(479 )	(479 )	(1,438 )	(1,438 )
Net income applicable to common stock	\$2,127,564	\$13,367,718	\$5,395,844	\$14,761,415
Weighted average common shares outstanding	2,044,767	2,806,060	2,289,646	2,813,192
Basic earnings per share	\$1.04	\$4.76	\$2.36	\$5.25
<b>Diluted</b>				
Net income (loss) applicable to common stock	\$2,127,564	\$13,367,718	\$5,395,844	\$14,761,415
Add: preferred stock dividends	479	479	1,438	1,438
Net income applicable for diluted earnings per share	\$2,128,043	\$13,368,197	\$5,397,282	\$14,762,853