LIVE VENTURES Inc
Form 10-Q
February 14, 2018

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

____

(Mark One)

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

For the quarterly period ended December 31, 2017

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

For the transition period from _____________ to _______________

Commission File Number 001-33937

Live Ventures Incorporated

(Exact name of registrant as specified in its charter)

Nevada	**85-0206668**

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

(702) 939-0231

(Registrant's telephone number, including area code)

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

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

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

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

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

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

The number of shares of the issuer’s common stock, par value $.001 per share, outstanding as of February 13, 2018 was 1,972,136

INDEX TO FORM 10-Q FILING

FOR THE QUARTER ENDED DECEMBER 31, 2017

TABLE OF CONTENTS

PART I

FINANCIAL INFORMATION

PART II

OTHER INFORMATION

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LIVE VENTURES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

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

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

LIVE VENTURES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

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

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

4

LIVE VENTURES INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

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

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

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

5

LIVE VENTURES INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE MONTHS ENDED DECEMBER 31, 2017 AND 2016

Note 1: Background and Basis of Presentation

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

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

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

Note 2: Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

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

Financial Instruments

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

Cash and Restricted Cash

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

Trade Receivables

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

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts, which includes allowances for accounts and factored trade receivables, customer refunds, dilution and fees from local exchange carrier billing aggregators and other uncollectible accounts. The allowance for doubtful accounts is based upon historical bad debt experience and periodic evaluations of the aging and collectability of the trade receivables. This allowance is maintained at a level which the Company believes is sufficient to cover potential credit losses and trade receivables are only written off to bad debt expense as uncollectible after all reasonable collection efforts have been made. The Company has also purchased accounts receivable credit insurance to cover non-factored trade and other receivables which helps reduce potential losses due to doubtful accounts. At December 31, 2017 and September 30, 2017, the allowance for doubtful accounts was $1,105,920 and $1,091,223, respectively.

Inventories

Manufacturing Segment

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

Retail and Online Segment

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

Property and Equipment

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

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

Goodwill

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

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

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

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