LIVE VENTURES Inc
Form 10-Q
February 16, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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(Mark One)

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

For the quarterly period ended December 31, 2015

o 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 þ No o

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 þ No o

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" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The number of shares of the issuer's common stock, par value $.001 per share, outstanding as of February 12, 2016 was 16,911,094.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LIVE VENTURES INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2015 (unaudited)	September 30, 2015
Assets		
Cash and cash equivalents	$3,324,019	$2,727,818
Accounts receivable, net	6,913,431	8,243,992
Inventories, net	13,121,231	13,335,598
Prepaid expenses and other current assets	1,165,276	1,522,027
Total current assets	24,523,957	25,829,435
Property and equipment, net	12,088,439	12,481,901
Deposits and other assets	36,035	36,090
Intangible assets, net	1,458,999	1,516,930
Goodwill	800,000	800,000
Total assets	$38,907,430	$40,664,356
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	$6,169,504	$5,536,796
Accrued liabilities	2,952,840	3,660,949
Income tax payable	323,980	376,000
Note payable	1,947,990	1,443,036
Total current liabilities	11,394,314	11,016,781
Notes payable, net of current portion	14,869,708	14,568,190
Note payable, related party	5,650,259	6,495,825
Contingent consideration from business combination	327,000	316,000
Total Liabilities	32,241,281	32,396,796
Commitment and contingencies	–	–

Stockholders' equity:		
Series E convertible preferred stock, $0.001 par value, 200,000 shares authorized, 127,840 shares issued and outstanding at December 31, 2015 and September 30, 2015, liquidation preference $38,203	10,866	10,866
Common stock, $0.001 par value, 30,000,000 shares authorized, 16,907,789 and 16,903,014 shares issued and outstanding at December 31, 2015 and September 30, 2015, respectively	16,913	16,908
Paid in capital	53,127,705	52,950,945
Accumulated deficit	(46,489,335)	(46,665,003)
Total Live Ventures stockholders' equity	6,666,149	6,313,716
Noncontrolling interest	–	1,953,844
Total equity	6,666,149	8,267,560
Total liabilities and equity	$38,907,430	$40,664,356

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

LIVE VENTURES INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended December 31, 2015	2014
Revenues	$20,104,434	$8,007,052
Cost of revenues	13,694,559	4,770,096
Gross profit	6,409,875	3,236,956
Operating expenses:		
General and administrative expenses	2,365,873	1,917,368
Sales and marketing expenses	2,996,750	2,187,477
Total operating expenses	5,362,623	4,104,845
Operating income (loss)	1,047,252	(867,889)
Other expense:		
Interest expense, net	(345,483)	(4,191,630)
Other income	12,553	28,505
Gain on derivative liability	–	83,580
Total other expense, net	(332,930)	(4,079,545)
Income (loss) before provision for income taxes	714,322	(4,947,434)
Provision for income taxes	413,980	–
Net income (loss)	300,342	(4,947,434)
Net income attributed to noncontrolling interest	124,194	–
Net income (loss) attributed to Live Ventures Incorporated	$176,148	$(4,947,434)
Earnings (loss) per share:		
Basic	$0.01	$(0.33)
Diluted	$0.01	$(0.33)
Weighted average common shares outstanding:		
Basic	16,905,098	15,111,162
Diluted	19,219,449	15,111,162

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

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LIVE VENTURES INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three Months Ended December 31,	
	2015	2014
OPERATING ACTIVITIES:		
Net income (loss)	$300,342	$(4,947,434)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	545,832	164,522
Non-cash interest expense associated with convertible debt and warrants	4,954	2,187,563
Non-cash interest expense associated with loan fees	–	2,004,202
Non-cash change in fair value of derivative liability	–	(83,580)
Stock based compensation expense	91,227	29,390
Non-cash issuance of common stock for services	7,500	82,127
Provision for uncollectible accounts	3,353	1,700
Reserve for obsolete inventory	32,097	–
Changes in assets and liabilities:		
Accounts receivable	1,327,208	(555,591)
Prepaid expenses and other current assets	356,751	75,546
Inventories	182,270	673,857
Deposits and other assets	55	265
Accounts payable	632,708	(1,118,797)
Accrued liabilities	(697,589)	183,453
Income tax payable	(52,020)	–
Net cash provided by (used in) operating activities	2,734,688	(1,302,777)
INVESTING ACTIVITIES:		
Expenditures for intangible assets	–	(20,714)
Purchases of property and equipment	(94,439)	(28,798)
Net cash used in investing activities	(94,439)	(49,512)
FINANCING ACTIVITIES:		
Net borrowings under revolver loans	540,354	–
Payments on notes payable	(238,836)	(346,182)
Payments on notes payable, related party	(845,566)	–
Payment for the purchase of the noncontrolling interest	(1,500,000)	–
Proceeds from issuance of convertible debt	–	100,000
Net cash used in financing activities	(2,044,048)	(246,182)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	596,201	(1,598,471)

CASH AND CASH EQUIVALENTS, beginning of period	2,727,818	8,114,682
CASH AND CASH EQUIVALENTS, end of period	$3,324,019	$6,516,211
Supplemental cash flow disclosures:		
Interest paid	$345,483	$16,612
Income taxes paid	$466,000	$–
Noncash financing and investing activities:		
Recognition of contingent beneficial conversion feature	$–	$100,000
Conversion of notes payable and accrued interest into common stock	$–	$635,756
Accrued and unpaid dividends	$480	$483
Note payable issued for purchase of noncontrolling interest	$500,000	$–

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

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LIVE VENTURES INCORPORATED AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED DECEMBER 31, 2015 AND 2014

(unaudited)

Note 1: Organization and Basis of Presentation

The accompanying consolidated financial statements include the accounts of Live Ventures, Incorporated, a Nevada corporation, and its subsidiaries (collectively the "Company"). The Company is a holding company for diversified businesses. The Company promoted online marketing solutions to small and medium businesses to help them boost customer awareness, gain visibility and manage their online presence. The Company also offered affordable acquisition services to the small business segment though the Instant Agency suite of products and services. The Company continues to actively develop, revise and evaluate its products, services and its marketing strategies in its businesses. Under the Live Ventures brand the Company seeks opportunities to acquire profitable and well-managed companies. The Company believes that with the proper positioning and its investment capital these companies can become very profitable. With its recent acquisition of Marquis Industries, Inc., the Company became engaged in the manufacture and sale of carpet and the sale of vinyl and wood floorcoverings.

Effective October 7, 2015, the Company changed its corporate name from LiveDeal, Inc. to Live Ventures Incorporated.

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 the three months ended December 31, 2015 are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2016. The accompanying note disclosures related to the interim financial information included herein are also unaudited. This financial information should be read in conjunction with the consolidated financial statements and related notes thereto as of September 30, 2015 and for the fiscal year then ended included in the Company's Annual Report on Form 10-K filed with the SEC on January 13, 2016.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant estimates and assumptions have been made by management throughout the preparation of the condensed consolidated financial statements, including in conjunction with establishing allowances for customer refunds, non-paying customers, dilution and fees, analyzing the recoverability of the carrying amount of intangible assets, evaluating the merits of pending litigation, estimating forfeitures of stock-based compensation, valuing beneficial conversion features in convertible debt, and evaluating the recoverability of deferred tax assets. Actual results could differ from these estimates.

All data for common stock, options and warrants have been adjusted to reflect the 3-for-1 forward stock split (which took effect on February 11, 2014) for all periods presented. In addition, all common stock prices, and per share data for all periods presented have been adjusted to reflect the 3-for-1 forward stock split.

Note 2: Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements represent the consolidated financial position and results of operations of the Company and its subsidiaries as follows:

Company	Percentage Owned	Parent
Live Ventures, Inc.	100%	Live Ventures Incorporated
Telco Billing, Inc.	100%	Live Ventures Incorporated
Velocity Marketing Concepts, Inc.	100%	Live Ventures Incorporated
Velocity Local, Inc.	100%	Live Ventures Incorporated
Modern Everyday, Inc.	100%	Live Ventures Incorporated
Modern Everyday, LLC	100%	Modern Everyday, Inc.
Super Nova, LLC	100%	Modern Everyday, Inc.
Live Goods, LLC	100%	Live Ventures Incorporated
Marquis Affiliated Holdings, LLC*	100%	Live Ventures, Inc.
Marquis Industries, Inc.	100%	Marquis Affiliated Holdings, LLC
A-O Industries, LLC	100%	Marquis Industries, Inc.
Astro Carpet Mills, LLC	100%	Marquis Industries, Inc.
Constellation Industries, LLC	100%	Marquis Industries, Inc.
S F Commercial Properties, LLC	100%	Marquis Industries, Inc.

The results of operations for Marquis Industries, Inc. have only been included since the date of acquisition of July 6, 2015. All intercompany transactions and balances have been eliminated in consolidation.

* Effective November 30, 2015, the Company acquired the remaining 20% interest.

Noncontrolling Interest

On July 6, 2015, the Company, through MAH, acquired 80% interest in Marquis Industries, Inc. The transaction was accounted for under the acquisition method of accounting, with the purchase price allocated based on the fair value of the individual assets acquired and liabilities assumed.

The Company follows Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810, “*Consolidation*,” which governs the accounting for and reporting of noncontrolling interests (“NCIs”) in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of this standard indicate, among other things, that NCIs 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 equity transactions rather than as step acquisitions or dilution gains or losses, and that losses of a partially owned consolidated subsidiary be allocated to the NCI even when such allocation might result in a deficit balance. This standard also required changes to certain presentation and disclosure requirements.

The net income 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 even if that attribution results in a deficit NCI balance.

Effective November 30, 2015, the Company purchased the remaining 20% interest in Marquis for $2,000,000 of which $1,500,000 was paid in cash and a note payable of $500,000 due on February 1, 2016 with interest at 2% per annum. In accordance with ASC 810, the excess of the noncontrolling interest at November 30, 2015 over the $2,000,000 purchase price of $78,038 has been recorded directly to additional paid in capital. The $500,000 note payable was paid on January 20, 2016.

Inventories

Inventories are valued at the lower of the inventory’s cost (first in, first out basis) or the current market price of the inventory. Management compares the cost of inventory with its market value and an allowance is made to write down inventory to market value, if lower. At December 31, 2015 and September 30, 2015, the allowance for obsolete inventory was $434,375 and $402,278, respectively.

Revenue Recognition

Directory Services

Revenue is billed and recognized monthly for services subscribed in that specific month. The Company has historically utilized outside billing companies to perform billing services through direct ACH withdrawals.

For billings via ACH withdrawals, revenue is recognized when such billings are accepted. For billings via LECs, the Company recognizes revenue based on net billings accepted by the LECs. Due to the periods of time for which adjustments may be reported by the LECs and the billing companies, the Company estimates and accrues for dilution and fees reported subsequent to year-end for initial billings related to services provided for periods within the fiscal year. Such dilution and fees are reported in cost of services in the accompanying consolidated statements of operations. Customer refunds are recorded as an offset to gross revenue.

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

Deals Revenue

The Company recognizes 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 selling price 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 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 records as revenue 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.

Deferred Revenue

In some instances, the Company receives payments in advance of rendering services, whereupon such revenues are deferred until the related services are rendered. There is no deferred revenue as of December 31, 2105 and September 30, 2015.

Product Revenue

The Company derives product revenue primarily from direct revenue and fulfillment partner revenue from product sales. Product revenue is recognized when the following revenue recognition criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or the service has been provided; (3) the selling price or fee revenue earned is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured.

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 we are not the primary obligor in the transaction and amounts earned are determined using a fixed percentage, revenue is recorded on a net basis. Currently, all direct revenue and fulfillment partner revenue is recorded on a gross basis, as the Company is the primary obligor. The Company presents revenue net of sales taxes.

Manufacturing Revenue

Revenues from the sale of carpet products, including shipping and handling amounts, 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.

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. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance 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. For the period from October 1, 2015 to November 30, 2015, Marquis Industries, Inc. and subsidiaries is required to file a separate income tax return, and therefore, the income generated by these subsidiaries cannot be offset against the Company’s net operating losses.

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 15).

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 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. As of December 31, 2015 and September 30, 2015, the Company had no financial instruments with derivative feature.

Recently Issued Accounting Pronouncements

No accounting standards or interpretations issued recently are expected to a have a material impact on our consolidated financial position, operations or cash flows.

Note 3: Balance Sheet Information

Balance sheet information is as follows:

	December 31, 2015	September 30, 2015
Receivables, current, net:		
Accounts receivable, current	$7,679,919	$9,007,127
Less: Allowance for doubtful accounts	(766,488)	(763,135)
	$6,913,431	$8,243,992
Receivables, long term, net:		
Accounts receivable, long term	$344,572	$344,572