SOTHEBY'S

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

INDEPENDENT AUDITORS' REPORT

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INTRODUCTION

The following audited consolidated financial statements and accompanying notes provided in this report (the "Consolidated Financial Statements") as of and for the years ended December 31, 2019 and 2018 are being delivered pursuant to, and satisfy the annual reporting requirements of:

- section 4.10(a)(1) of the indenture, dated as of October 2, 2019 (as amended, supplemented or otherwise modified from time to time, the “2027 Indenture”), between, among others, Sotheby’s (the “Company”), as issuer (as successor by merger to BidFair MergeRight Inc. (the “Merger Sub”)), BidFair Holdings Inc. (“BidFair”), as parent guarantor, the other guarantors party thereto, and Deutsche Bank Trust Company Americas, as trustee and notes collateral agent, governing our 7.375% senior secured notes due 2027 (the "2027 Notes");

- section 4.11(a)(1) of the indenture, dated as of December 12, 2017 (as amended, supplemented or otherwise modified from time to time, the “2025 Indenture”), between, among others, the Company, as issuer, and U.S. National Bank Association, as trustee, governing our 4.875% senior unsecured notes due 2025 (the "2025 Notes", and together with the 2027 Notes, the “Senior Notes”); and

- section 4.10(a)(1) of Annex I to the credit agreement, dated as of October 2, 2019 (as amended, supplemented or otherwise modified from time to time, the "New Credit Facilities Agreement"), between, among others, the Company, as borrower (as successor by merger to the Merger Sub), the lenders party thereto, BNP Paribas, as administrative agent, and Deutsche Bank Trust Company Americas, as collateral agent.

For further information on the merger of the Company and the Merger Sub (the "Merger") and the above-listed debt instruments, please refer to Note 1 "Organization of Business" and Note 10 "Debt" of Notes to Consolidated Financial Statements provided in this Report.

In this report, unless otherwise indicated or the context otherwise requires, the terms "Sotheby's", "we", "us" and "our" refer to Sotheby's and its consolidated subsidiaries.

DISCLAIMER; PUBLICLY AVAILABLE INFORMATION

The description which follows herein of the Merger Agreement (as defined below) is qualified in its entirety by the full text of the Merger Agreement, which is attached as Exhibit 2.1 to our Current Report on Form 8-K filed with the SEC on June 17, 2019. For additional information regarding the Merger, please also refer to our Definitive Proxy Statement filed with the SEC on August 7, 2019, as well as our Current Report on Form 8-K filed with the SEC on October 3, 2019, announcing the consummation of the Merger.

The description which follows herein of the 2027 Notes is qualified in its entirety by the full text of the 2027 Indenture, which is attached as Exhibit 10.2 to our Form 10-Q for the period ending September 30, 2019 filed with the SEC on November 12, 2019 (the "Third Quarter 2019 Form 10-Q"). The description which follows herein of the New Revolving Credit Facility and the New Term Loan Facility (each as defined below) is qualified in its entirety by the full text of the New Credit Facilities Agreement, which is attached as Exhibit 10.1 to our Third Quarter 2019 Form 10-Q. For additional information, see our Current Report on Form 8-K filed with the SEC on October 3, 2019, announcing the consummation of the Merger.

FORWARD LOOKING STATEMENTS

This Report contains certain forward looking statements, particularly statements anticipating future growth in revenues, operating income, cash provided by operating activities and other financial measures. Words such as “expects”, “anticipates”, “believes”, “estimates”, “may”, “will”, “should”, “could”, “potential”, “continue”, “intends”, “plans” and similar words and terms used in the discussion of future operating results, future financial performance and future events identify forward-looking statements. All of these forward-looking statements are based on management’s current expectations and beliefs about future events. As with any projection or forecast, they are susceptible to uncertainty and changes in circumstances, resulting in the possibility that the actual events or performance will differ materially from such predictions. We operate in a highly competitive and rapidly changing business that is affected by government regulation and economic, strategic, technological, political and social conditions. Various factors could adversely affect our operations, business or financial results in the future and cause our actual results to differ materially from those contained in the forward-looking statements. Important factors that could cause our actual results to differ materially from those in our forward-looking statements include, but are not limited to:

- changes in the global economy, the financial markets, and political conditions of various countries;
- an adverse change to our operations, financial position, and liquidity as a result of the recent COVID-19 outbreak;
- a change in the level of competition in the global art market;
- uncertainty regarding the amount and quality of property available for consignment;
- changes in trends in the art market as to which collecting categories and artists are most sought after and in the collecting preferences of individual collectors;
- the unpredictable demand for art-related financing;
- our ability to maintain strong relationships with art collectors;
- an adverse change in the financial health and/or creditworthiness of our clients;
- our ability to retain key personnel;
- our ability to successfully execute business plans and strategic initiatives;
- our ability to accurately estimate the value of works of art held in inventory or as collateral for Sotheby's Financial Services ("SFS") loans, as well as those offered under an auction guarantee;
- an adverse change in the financial health and/or creditworthiness of the counterparties to our auction guarantee risk sharing arrangements;
- changes in laws and regulations, including those related to income taxes and sales, use, value-added, and other indirect taxes;
- changes in foreign currency exchange rates; and
- the ability of Sotheby's and its third party service providers to adequately protect their information systems and the client, employee, and company data maintained in those systems.

Additional risks, uncertainties and other factors that may cause our actual results, performance or achievements to be different from those expressed or implied in our forward-looking statements may be found in the section titled "Risk Factors" below. Other unknown or unpredictable factors which are not disclosed in this Report could also harm our results. Given these uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements contained in this Report are made only as of the date of this Report and we do not undertake, and specifically decline any obligation to update any forward-looking statements or to publicly announce the results of any revisions to any of such statements to reflect future events or developments.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Sotheby's

We have audited the accompanying Consolidated Financial Statements of Sotheby's Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive (loss) income, changes in stockholders' (deficit) equity, and cash flows for the years then ended, and the related notes to the Consolidated Financial Statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the Consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, effective January 1, 2019, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update ("ASC") Topic 842, *Leases*, using the modified retrospective approach.

Opinion

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the consolidated financial position of Sotheby's Inc. and its subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 2 to the consolidated financial statements, the Company temporarily suspended the operation of its live auctions in March 2020 due to the COVID-19 pandemic and, as a result, may be unable to meet its obligations when they become due and maintain compliance with its financial covenants required by the New Credit Facilities Agreements over the next twelve months. The Company has stated that these negative financial conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters is also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainties. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

April 29, 2020

SOTHEBY'S
CONSOLIDATED STATEMENTS OF OPERATIONS
(Thousands of dollars)

Year Ended December 31,	2019	2018
Revenues:		
Agency commissions and fees	$ 887,377	$ 891,774
Inventory sales	41,589	80,808
Finance	44,818	43,887
Other	17,876	19,271
Total revenues	991,660	1,035,740
Expenses:		
Agency direct costs	199,801	184,491
Cost of inventory sales	35,683	81,103
Cost of finance revenues	—	4,056
Marketing	24,505	23,897
Salaries and related	366,859	342,687
General and administrative	191,284	180,360
Depreciation and amortization	32,969	27,048
Merger-related expenses	132,063	—
Restructuring charges	(88)	10,753
Total expenses	983,076	854,395
Operating income	8,584	181,345
Interest income	1,096	1,467
Interest expense	(62,731)	(39,984)
Extinguishment of debt	(10,274)	(10,855)
Write-off of credit facility fees	(3,498)	(3,982)
Non-operating income	5,408	4,688
(Loss) income before taxes	(61,415)	132,679
Income tax expense	13,046	27,652
Equity in earnings of investees	3,235	3,591
Net (loss) income	(71,226)	108,618
Less: Net loss attributable to noncontrolling interest	(16)	(16)
Net (loss) income attributable to Sotheby's	$ (71,210)	$ 108,634

See accompanying Notes to Consolidated Financial Statements

SOTHEBY'S
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(Thousands of dollars)

Year Ended December 31,	2019	2018
Net (loss) income	$ (71,226)	$ 108,618
Other comprehensive loss:		
Currency translation adjustments	4,241	(9,510)
Cash flow hedges	630	399
Net investment hedges	191	1,768
Defined benefit pension plan	(5,679)	(2,235)
Total other comprehensive loss	(617)	(9,578)
Comprehensive (loss) income	(71,843)	99,040
Less: Comprehensive loss attributable to noncontrolling interests	(17)	(16)
Comprehensive (loss) income attributable to Sotheby's	$ (71,826)	$ 99,056

See accompanying Notes to Consolidated Financial Statements

SOTHEBY'S
CONSOLIDATED BALANCE SHEETS
(Thousands of dollars)

December 31,	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	$ 264,970	$ 178,579
Restricted cash	33,029	4,836
Accounts receivable, net	636,794	978,140
Notes receivable, net	8,499	103,834
Inventory	120,717	43,635
Income tax receivables	8,678	3,353
Prepaid expenses and other current assets	36,770	38,631
Total current assets	1,109,457	1,351,008
Notes receivable, net	147,529	602,389
Fixed assets, net	184,702	386,736
Operating lease right-of-use assets	70,421	—
Related party operating lease right-of-use asset	219,612	—
Goodwill, net	54,194	55,573
Intangible assets, net	9,788	12,993
Income tax receivables	20,554	16,694
Deferred income taxes	36,943	37,035
Other long-term assets	227,887	226,660
Total assets	$ 2,081,087	$ 2,689,088
Liabilities and Stockholders' (Deficit) Equity		
Current liabilities:		
Client payables	$ 867,750	$ 997,168
Accounts payable and accrued liabilities	174,412	101,366
Accrued salaries and related costs	99,829	92,219
Current portion of long-term debt, net	31,261	13,604
Operating lease liabilities	17,001	—
Related party operating lease liabilities	13,858	—
Accrued income taxes	39,646	31,169
Payable owed to entities under common control	148,067	—
Other current liabilities	8,491	13,263
Total current liabilities	1,400,315	1,248,789
Credit facility borrowings	—	280,000
Long-term debt, net	1,059,502	638,786
Operating lease liabilities	55,169	—
Related party operating lease liabilities	233,261	—
Accrued income taxes	20,939	19,933
Deferred income taxes	18,140	14,569
Other long-term liabilities	60,211	45,517
Total liabilities	2,847,537	2,247,594
Commitments and contingencies (see Note 16)		
Stockholders' (deficit) equity:		
Common Stock, $0.01 par value	—	711
Additional paid-in capital	—	463,623
Treasury stock, at cost	—	(839,284)
(Accumulated Deficit) Retained earnings	(693,921)	888,333
Accumulated other comprehensive loss	(72,661)	(72,044)
Total stockholders' (deficit) equity	(766,582)	441,339
Noncontrolling interest	132	155
Total (deficit) equity	(766,450)	441,494
Total liabilities and stockholders' (deficit) equity	$ 2,081,087	$ 2,689,088

See accompanying Notes to Consolidated Financial Statements

SOTHEBY'S
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of dollars)

Year Ended December 31,	**2019**	**2018**
Operating Activities:		
Net (loss) income attributable to Sotheby's	$ (71,210)	$ 108,634
Adjustments to reconcile net (loss) income attributable to Sotheby's to net cash provided (used) by operating activities:		
Extinguishment of debt	6,851	10,855
Write-off of credit facility fees	3,498	3,982
Depreciation and amortization	32,969	27,048
Amortization of operating lease right-of-use asset	20,348	—
Deferred income tax (expense) benefit	(3,302)	(2,361)
Stock-based payments	23,129	29,703
Converted stock-based payments	20,631	—
Net pension benefit	(2,646)	(3,155)
Inventory writedowns and bad debt provisions	8,183	10,305
Amortization of debt issuance costs	2,719	1,736
Equity in earnings of investees	(3,234)	(3,591)
Other	3,678	1,246
Changes in assets and liabilities:		
Accounts receivable	290,007	(278,225)
Client payables	(134,023)	17,337
Inventory	(82,630)	19,335
Changes in other operating assets and liabilities (see Note 13)	(41,152)	(20,661)
Net cash provided (used) by operating activities	73,816	(77,812)
Investing Activities:		
Funding of notes receivable	(293,384)	(389,064)
Collections of notes receivable	244,099	363,494
Capital expenditures	(74,580)	(56,824)
Acquisitions, net of cash acquired	—	(6,094)
Funding of investments	(843)	(257)
Distributions from investees	4,396	3,204
Settlement of net investment hedges	3,152	(1,747)
Net cash used by investing activities	(117,160)	(87,288)
Financing Activities:		
Proceeds from revolving credit facility borrowings	1,215,000	743,000
Repayments of revolving credit facility borrowings	(1,495,000)	(659,500)
Repayments of York Property Mortgage	(260,843)	(14,258)
Proceeds from Asset Bridge Facility	450,000	—
Proceeds from Term Loan Facility, net of debt discount	457,449	—
Proceeds from the issuance of 2027 Senior Notes	600,000	—
Repayment of 2025 Senior Notes	(345,736)	—
Settlement of 2022 Senior Notes, including call premium	—	(307,875)
Debt issuance and other borrowing costs	(39,817)	(4,482)
Distributions to parent	(382,272)	—
Distributions to affiliates	(43,226)	—
Repurchases of common stock	(10,500)	(284,733)
Purchase of forward contract indexed to Sotheby's common stock	10,500	(10,500)
Funding of employee tax obligations upon the vesting of stock-based payments	(11,687)	(10,222)
Net cash provided (used) by financing activities	143,868	(548,570)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	2,538	(10,022)
Increase (decrease) in cash, cash equivalents and restricted cash	103,062	(723,692)
Cash, cash equivalents, and restricted cash at beginning of period	200,234	923,926
Cash, cash equivalents, and restricted cash at end of period	$ 303,296	$ 200,234

Supplemental information on non-cash investing and financing activities:

See Note 1 for information regarding the SFS Business Transfer and the Real Estate Portfolio Transfer.

See Note 5 for information regarding non-cash transfers between the Company and Sotheby's Financial Services.

See Note 11 for information regarding derivative financial instruments designated as net investment hedges.

See accompanying Notes to Consolidated Financial Statements

SOTHEBY'S
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' (DEFICIT) EQUITY
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Thousands of dollars)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total
Balance at January 1, 2018	709	453,364	(554,551)	779,699	(62,466)	616,755
Net income attributable to Sotheby's				108,634		108,634
Other comprehensive loss					(9,578)	(9,578)
Common stock withheld to satisfy employee tax obligations		(10,222)				(10,222)
Restricted stock vested, net	2	(2)				—
Amortization of stock-based payment expense		29,703				29,703
Stock and deferred stock units issued to directors		1,280				1,280
Repurchases of common stock			(284,733)			(284,733)
Forward contract indexed to Sotheby's common stock		(10,500)				(10,500)
Balance at December 31, 2018	711	463,623	(839,284)	888,333	(72,044)	441,339
Net loss attributable to Sotheby's				(71,210)		(71,210)
Other comprehensive loss					(617)	(617)
Common stock withheld to satisfy employee tax obligations		(11,757)				(11,757)
Restricted stock vested, net	5	(5)				—
Amortization of stock-based payment expense		23,129				23,129
Conversion of unvested stock and directors' deferred stock into cash-settled units		(55,923)				(55,923)
Stock and deferred stock issued to directors		1,094				1,094
Forward contract indexed to Sotheby's common stock		10,500	(10,500)			—
Common and Treasury Stock Cancellations	(716)		849,784	(849,068)		—
Sotheby's Financial Services Business Transfer		(38,999)		(254,204)		(293,203)
Real Estate Portfolio Transfer		(69,555)		44,605		(24,950)
Capital distributions		(322,107)		(452,483)		(774,590)
Other				106		106
Balance at December 31, 2019	$ —	$ —	$ —	$ (693,921)	$ (72,661)	$ (766,582)

See accompanying Notes to Consolidated Financial Statements

Note 1—Organization of Business

Since 1744, Sotheby's has been uniting collectors with world-class works of art, which in these Consolidated Financial Statements is meant to include authenticated fine art, decorative art, jewelry, wine, and collectibles, and may also be referred to as "art," "artwork," or "property." Today, Sotheby's offers art work from more than 70 collecting categories to clients from approximately 130 countries and presents auctions in ten different salesrooms, including New York, London, Hong Kong, and Paris, and Sotheby's BidNow program allows clients to view all auctions live online and place bids from anywhere in the world. Sotheby's also offers collectors a variety of innovative art-related services, including the brokerage of private art sales, private jewelry sales through Sotheby's Diamonds, exclusive private selling exhibitions, art-related financing, and art advisory services, as well as retail wine locations in New York and Hong Kong.

Merger

On June 16, 2019, Sotheby's (the "Company") entered into an Agreement and Plan of Merger (the "Merger Agreement") with BidFair USA Inc. (the "Parent") and the Merger Sub, a Delaware corporation and a wholly-owned indirect subsidiary of the Parent. On October 3, 2019 (the "Effective Time"), the Company completed the transactions contemplated by the Merger Agreement, and Merger Sub merged with and into the Company, with the Company continuing as the surviving corporation and as a wholly-owned indirect subsidiary of Parent (the "Merger"). Accordingly, the Company ceased being a publicly traded company at the Effective Time. The Parent and the Company are entities controlled by Mr. Patrick Drahi.

At the Effective Time, each share of common stock, $0.01 par value, of the Company (the "Company Common Stock") issued and outstanding immediately prior to the Effective Time (other than shares of the Company Common Stock owned by the Company, Parent, Merger Sub, or any of their respective direct or indirect wholly-owned subsidiaries or any other affiliate of the Parent), was converted into the right to receive $57 in cash, without interest (the "Merger Consideration"). The aggregate cash consideration paid to Company stockholders upon the closing of the Merger was approximately $2.6 billion. As of December 31, 2019, 484,029 shares of Company Common Stock that were subject to a now withdrawn demand for appraisal rights under Delaware law remained outstanding and was recorded on Sotheby's Consolidated Balance Sheets within accounts payable and accrued liabilities. In January 2020, substantially all of these shares were paid in respect of the Merger Consideration which payment amounted to approximately $27 million.

At the Effective Time, each outstanding deferred stock unit of the Company (a "Company DSU") under the Company's Stock Compensation Plan for Non-Employee Directors was canceled and converted into the right to receive an amount in cash (without interest and subject to any applicable withholding tax) equal to the number of shares of Company Common Stock underlying such Company DSU multiplied by the Merger Consideration. The amount owed by the Company in relation to Company DSUs totaled $11.9 million and was paid to the respective holders on October 11, 2019.

At the Effective Time, each outstanding performance share unit (a "Company PSU") that was subject to performance conditions based on the price of a share of Company Common Stock (a "Company Share Price PSU") under the Company's incentive plans was canceled and converted into the right to receive an amount in cash (without interest and subject to any applicable withholding tax) equal to the number of shares of Company Common Stock earned in accordance with the terms and conditions set forth in the award agreement as reasonably determined by the Compensation Committee multiplied by the Merger Consideration. The amount owed in relation to Company Share Price PSUs totaled $2.9 million and was paid to the holder on October 15, 2019.

At the Effective Time, each outstanding performance cash unit (a "Company PCU") under the Company's incentive plans was canceled, extinguished and converted into an award (each, a "Converted PCU") representing the right to receive an amount in cash (without interest and subject to any applicable withholding tax) equal in value to the number of shares of Company Common Stock represented by Company PCUs deemed earned as of immediately prior to the Effective Time (125% of target for Company PCUs with a performance period ending on December 31, 2019, 100% of target for Company PCUs with a performance period ending on December 31, 2020 and 100% of target for Company PCUs with a performance period ending on December 31, 2021) multiplied by the Merger Consideration. As of December 31, 2019, the amount owed by the Company in relation to Converted PCUs is approximately $1 million.

At the Effective Time, each outstanding Company PSU (other than a Company Share Price PSU) under the Company's incentive plans was canceled, extinguished and converted into an award (each, a "Converted PSU") representing the right to receive an amount in cash (without interest and subject to any applicable withholding tax) equal in value to the number of Company PSUs deemed earned as of immediately prior to the Effective Time (125% of target for Company PSUs with a performance period ending on December 31, 2019, 100% of target for Company PSUs with a performance period ending on

December 31, 2020 and 100% of target for Company PSUs with a performance period ending on December 31, 2021) multiplied by the Merger Consideration. Through December 31, 2019, the amount paid by the Company to settle Converted PSUs was approximately $8 million. As of December 31, 2019, the amount owed by the Company in relation to Converted PSUs is approximately $43 million.

At the Effective Time, each outstanding restricted cash unit subject only to service-based vesting conditions (a "Company RCU") under the Company's incentive plans was canceled, extinguished and converted into an award (each, a "Converted RCU") representing the right to receive an amount in cash (without interest and subject to any applicable withholding tax) equal to the number of shares of Company Common Stock represented by such Company RCU as of immediately prior to the Effective Time multiplied by the Merger Consideration. As of December 31, 2019, the amount owed by the Company in relation to Converted RCUs is approximately $3 million.

At the Effective Time, each outstanding restricted stock unit subject only to service-based vesting conditions (a "Company RSU") under the Company's incentive plans was canceled, extinguished and converted into an award (each, a "Converted RSU") representing the right to receive an amount in cash (without interest and subject to any applicable withholding tax) equal to the number of shares of Company Common Stock underlying such Company RSU as of immediately prior to the Effective Time multiplied by the Merger Consideration. Through December 31, 2019, the amount paid by the Company to settle Converted RSUs was approximately $5 million. As of December 31, 2019, the amount owed by the Company in relation to Converted RSUs is approximately $41 million.

Each Converted PCU, Converted PSU (other than each Company Share PSU), Converted RCU and Converted RSU will (A) vest and settle on terms (including acceleration events but excluding any performance-based vesting conditions, if applicable) as were applicable to the corresponding Company equity award immediately prior to the Effective Time and (B) vest in full to the extent the holder of a converted award is subject to a qualifying termination of employment during the twenty-four (24) month period following the closing of the Merger, with such converted award settled in cash as soon as practicable, but in no event later than ten (10) business days following such qualifying termination, or such later time as required to comply with Section 409A of the Internal Revenue Code of 1986. The Company Share PSUs have already vested and were paid out as set forth above. For a summary of the terms and conditions of the Company's stock-based payment arrangements, see Note 19 of Notes to Consolidated Financial Statements.

In connection with the Merger, the Merger Sub (i) issued the 2027 Notes in a private placement conducted pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended, and (ii) entered into the "New Credit Facilities Agreement".

The 2027 Notes were issued pursuant to the 2027 Indenture. The $600 million of proceeds from the issuance of the 2027 Notes were used to fund a portion of the Merger Consideration ($345 million) and to repay a portion of the outstanding revolving credit facility borrowings under the JPMorgan Chase Credit Agreement (as defined below) ($255 million) (see Note 10) of Notes to Consolidated Financial Statements). The New Credit Facility Agreement provides (i) U.S. dollar-denominated term loans in an aggregate principal amount of $500 million available in up to two drawings (the "New Term Loan Facility"); and (ii) U.S. dollar-denominated revolving loan commitments in an aggregate principal amount of $400 million (the "New Revolving Credit Facility", and together with the New Term Loan Facility, the "New Credit Facilities"). The New Term Loan Facility was been drawn on October 2, 2019 and on October 15, 2019 for an aggregate principal amount of $467 million. The proceeds of the drawings under the New Term Loan Facility have been used to fund a portion of the Merger Consideration and to consummate an offer to purchase the 2025 Notes pursuant to a change-of-control tender offer.

As of the Effective Time, the 2027 Notes and the New Credit Facilities became obligations of the Company. On the Effective Date, the Company entered into a supplemental indenture to the 2027 Indenture pursuant to which it assumed all the rights and obligations of the Merger Sub under the 2027 Notes and the 2027 Notes Indenture. On October 7, 2019, each existing material wholly-owned direct or indirect subsidiary of the Company that is organized in the U.S. (the "Initial U.S. Guarantors") and, on December 18, 2019, each existing material wholly-owned direct or indirect subsidiary of the Company that is organized in England and Wales, Luxembourg or Hong Kong (the "Initial Non-U.S. Guarantors") acceded to the 2027 Indenture and to the New Credit Facilities Agreement as a guarantor.

Sotheby's Financial Services Business Transfer

At the Effective Time, the Company transferred Sotheby's Financial Services, Inc. ("SFS") and certain of its wholly-owned subsidiaries to its Parent, BidFair USA Inc. (the "SFS Business Transfer"). Following the SFS Business Transfer, the receivables and related rights to the SFS loan portfolio were transferred to a bankruptcy remote subsidiary, SFS York Avenue LLC (the "SFS Subsidiary"), formed by SFS (the "SFS Portfolio Transfer"). The transfer of these receivables did not qualify as a sale for accounting purposes, therefore, receivables held by certain indirect wholly-owned subsidiaries of the Company remained under the Company's control for accounting purposes. In connection with the SFS Portfolio Transfer, the SFS Subsidiary has certain rights to these receivables held by the Company. The underlying loans continue to be held by the issuing legal entities and SFS was engaged to continue to service the portfolio of underlying loans held by the issuing legal entities.

The SFS Portfolio Transfer was financed by the SFS Subsidiary with a loan of up to $1 billion (the "SFS Loan") extended to the SFS Subsidiary pursuant to a loan agreement, dated October 2, 2029, between, among others, the SFS Subsidiary, as borrower, and BNP Paribas, as administrative agent for the lenders party to such loan agreement (the "SFS Loan Agreement"). Approximately $834 million of the SFS Loan was drawn on October 2, 2019 by the SFS Subsidiary and was used to fund a portion of the Merger Consideration. The SFS Loan Agreement permits additional draws on the SFS Loan through April 30, 2020 to provide financing for the purchase of additional loan receivables by the SFS Subsidiary, and we expect to receive commitments for additional funding for loans made subsequent to April 30, 2020. The SFS Loan has a maturity date of the later of December 31, 2020 or the final maturity date of the last loan included in the SFS Portfolio Transfer. The obligations of the SFS Subsidiary under the SFS Loan are secured by the receivables and associated rights acquired in conjunction with the SFS Portfolio Transfer. The Company has provided a guarantee of the SFS Subsidiary's obligations under the SFS Loan of up to $150 million that is supported by standby letters of credit issued under the New Credit Facilities Agreement (see Note 21 for information related to this guarantee.)

Real Estate Portfolio Transfer

At the Effective Time, the Company transferred 1334 York, LLC (the "LLC"), the owner of our headquarters building at 1334 York Avenue in New York (the "York Property"), to BidFair Property Holdings Inc., a Delaware corporation and a subsidiary of BidFair USA Inc. (the "York Property Transfer"). As of September 30, 2019, the York Property was subject to a seven-year, $325 million mortgage loan (the "York Property Mortgage") that was scheduled to mature on July 1, 2020. The York Property Mortgage was repaid on October 3, 2019 in connection with the Merger but prior to the transfer. The York Property, the York Property Mortgage, and the related interest rate protection agreements are/were held by the LLC, a separate legal entity of Sotheby's whose results were ultimately consolidated into our financial statements up until the Effective Time. As of the Effective Time, the LLC is no longer a subsidiary of the Company and as such is no longer consolidated into our financial statements.

In conjunction with the York Property Transfer, the LLC and BidFair Property Holdings Inc. entered into a $450 million asset bridge loan (the "Asset Sale Bridge Facility"), the proceeds of which were used to repay the York Property Mortgage ($249 million) and to repay a portion of the outstanding revolving credit facility borrowings under the JPMorgan Chase Credit Agreement ($201 million). The York Property Mortgage and the borrowings under the JPMorgan Chase Credit Agreement were obligations of the Company at the time of repayment. The Asset Sale Bridge Facility will terminate one year following the Effective Time, subject to the right of the borrowers to extend the maturity date by six months solely conditioned upon payment of an extension fee without any further consent of the lender. The Asset Sale Bridge Facility is expected to be refinanced or extended at its maturity. In addition, in 2020, the Company also intends to transfer the real estate holdings that collectively house its London main salesrooms, exhibition spaces, and administrative offices (the "London Properties") to a separate legal entity (the "London Properties Transfer"). Upon the completion of the York Property Transfer and the London Properties Transfer (collectively, the "Real Estate Portfolio Transfer"), the Company's subsidiaries will enter into new long-term, arms-length lease agreements with the LLC in respect of the York Property and a new LLC in respect of the London Properties. (See Note 10 for information related to the York Property Mortgage and the JPMorgan Chase Credit Agreement.)

Note 2—Summary of Significant Accounting Policies

Liquidity and Management's Response Plan to COVID-19—Our capital requirements include the liquidity necessary to support our recurring business needs and capital required for the pursuit of technology and other initiatives, as well as growth opportunities. As of December 31, 2019, we held cash and cash equivalents of $265 million and had total borrowing capacity under the revolving credit facility available to us through our New Credit Facilities Agreements of $250 million to support our liquidity and capital requirements. Our available borrowing capacity takes into account our guarantee of the SFS Loan of up to $150 million, which is supported by standby letters of credit under the New Credit Facilities Agreements. In addition, the New Credit Facilities Agreements contain certain restrictive financial and non-financial covenants and our Senior Notes contain cross default provisions in the event of our non-compliance with the covenants required by the New Credit Facilities Agreements. As of December 31, 2019, and March 31, 2020, we were in compliance with the financial covenants required by the New Credit Facilities Agreements.

We generally rely on the cash generated from our operating operations, which includes amounts collected on behalf of and owed to consignors, and draws on our revolving credit facility, as needed, to meet our liquidity and capital requirements. The timing and extent of our reliance on our revolving credit facility is dependent upon a number of factors including, but not limited to, the amount of available cash on hand, the seasonality of the art auction market, the timing of auction and private sale settlements, the potential funding of auction guarantees, the demand for art-related financing, which can be significantly influenced by overall economic conditions and by the often unpredictable financial requirements of owners of major art collections, the timing of the funding of new client loans, the timing of the settlement of existing client loans, the pursuit of business opportunities and growth initiatives, the timing and amount of common stock repurchases, the timing of the repatriation of foreign earnings, and the cyclical nature of the global art market. The assessment of our liquidity and capital requirements also takes into consideration the risks associated with our use of auction guarantees and their potential impact on our financial position and operations.

On March 11, 2020, the World Health Organization announced that COVID-19 is a global pandemic (the "COVID-19 pandemic") and recommended containment and mitigation measures, which resulted in governments worldwide mandating shelter-in-place orders and the temporary closure of non-essential businesses. As a result, we temporarily suspended the operation of our live auctions in March 2020 with a plan to resume once government restrictions are lifted, which is currently expected to begin as early as June 2020 in most jurisdictions where we conduct live auctions. Due to the temporary suspension of our live auctions, we experienced a material decline in our sales volume and corresponding operating cash flows beginning in March 2020 and anticipate this decline to continue for the foreseeable until we can safely resume our live auctions. In addition, the timing of the resumption of our live auctions is dependent on several factors, most of which are outside the Company's control, and our ability to resume may be further hindered by mitigation measures that may be introduced by governments worldwide to contain further COVID-19 outbreaks in the future.

Due the significant uncertainty associated with the material adverse impact the COVID-19 pandemic has had on our operations and liquidity, we are unable to predict or quantify with certainty the effect on our liquidity, our ability to meet our obligations when they become due, or our ability to maintain compliance with our financial covenants under the New Credit Facilities Agreements over the next twelve months. In response to this uncertainty, we have implemented several measures which we believe will help mitigate the immediate disruption to our business for the foreseeable future. These measures include: (i) the postponement of all our previously scheduled major spring sales to early summer; (ii) the conversion of a number of our live auctions to online auction formats which have subsequently seen early success; (iii) a reduction in employee salaries and unpaid staff furloughs; (iv) the deferral of discretionary and sale-related spending; (v) the deferral of employee incentive compensation, (vi) reductions in capital spending, and; (vii) and a drawdown of $195 million on our revolving credit facility in April 2020.

While we believe the measures we have implemented to date (and plan to continue to implement until we are able to resume our live auctions) may allow us to meet our obligations when they become due and maintain compliance with our financial covenants, we can provide no assurance that the COVID-19 pandemic will not continue to further negatively impact our operations and liquidity or that our implementation efforts will be successful such that we may not be able to meet our obligations as they become due and maintain compliance with our financial covenants over the next twelve months. The uncertainties associated with our ability to meet our obligations as they become due and maintain compliance with our financial covenants over the next twelve months raises substantial doubt about the Company's ability to continue as a going concern as of December 31, 2019 that is not alleviated by our plans because such plans are not probable of occurrence. The accompanying consolidated financial statements as of and for the year ended December 31, 2019 do include any adjustments that may result from the outcome of these uncertainties.

Principles of Consolidation and Basis of Presentation—The SFS Business Transfer and the York Property Transfer were executed at the Effective Time of the Merger (October 3, 2019). Accordingly, the business activities of the legal entities composing the SFS Business Transfer and the York Property Transfer for periods prior to the Effective Time (e.g, the nine months ended September 30, 2019 and year ended December 31, 2018) are included in the Company's Consolidated Financial Statements presented in this Report. Management deems the use of a September 30, 2019 cutoff date for the reporting of the activities of the legal entities composing the SFS Business Transfer and the Real Estate Portfolio Transfer in the Consolidated Financial Statements to be reasonable because of the cost-benefit of producing Consolidated Financial Statements for the period between September 30, 2019 and the Merger. Such Consolidated Financial Statements would not be materially different than Consolidated Financial Statements for the year-to-date period ending September 30, 2019. No allocation of the purchase price paid by the Parent to effect the Merger was performed in preparation of this Report.

The Consolidated Financial Statements also include the accounts of our wholly-owned subsidiaries and Sotheby's (Beijing) Auction Co., Ltd. ("Sotheby's Beijing"), a joint venture in which we have a controlling 80% ownership interest. The net loss attributable to the minority owner of Sotheby's Beijing is reported as "Net Loss Attributable to Noncontrolling Interest" in our Consolidated Statements of Operations and the non-controlling 20% ownership interest is reported as "Noncontrolling Interest" within the Equity section of our Consolidated Balance Sheets. Intercompany transactions and balances among our subsidiaries are eliminated in consolidation.

Equity investments through which we may significantly influence, but not control, the investee, are accounted for using the equity method. Under the equity method, our share of investee earnings or losses is recorded in our Consolidated Statements of Operations within Equity in Earnings of Investees. Our interest in the net assets of these investees is recorded on our Consolidated Balance Sheets within Other Long-Term Assets. (See Note 6 for information related to our equity method investments.)

In October 2018, the FASB issued ASU 2018-17, *Targeted Improvements to Related Party Guidance for VIE's*, which, among other things, allows private companies an accounting alternative in applying variable interest entity (VIE) guidance to entities under common control. As of December 31, 2019, the Company was no longer a public business entity for accounting purposes and elected to early adopt the accounting alternative provided under ASU 2018-17. Our assessment concluded that the Company need not to evaluate the legal entities subject to the SFS Business Transfer and the Real Estate Portfolio Transfer (the "other legal entities" in this paragraph) for consolidation under VIE guidance due to: (i) the Company and the other legal entities being under common control, (ii) the Company and the other legal entities are not under common control of a public business entity, (iii) the other legal entities under common control are not public business entities, and (iv) the Company does not have a direct or indirect controlling financial interest in the legal entities. As a result, the results of operations which comprise the SFS Business Transfer and Real Estate Portfolio Transfer were not consolidated into the Company's results in the Consolidated Financial Statements beginning with the Effective Time of the Merger. For further information regarding the relationship between the Company and the legal entities subject to the SFS Business Transfer and the Real Estate Portfolio Transfer, see Note 21.

Accounting Principles—The Consolidated Financial Statements included herein have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Estimates and Assumptions—The preparation of Consolidated Financial Statements in conformity with U.S. 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, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Currency Translation—Assets and liabilities recorded in foreign currencies are translated at the exchange rate on the balance sheet date. Revenues, expenses, gains, and losses recorded in foreign currencies are translated using the monthly average exchange rates prevailing during the period in which they are recognized. Translation adjustments resulting from this process are recorded to Other Comprehensive (Loss) Income and reported on our Consolidated Balance Sheets within Accumulated Other Comprehensive Loss until the subsidiary is sold or liquidated, at which point the adjustments are recognized in Net (Loss) Income.

Valuation of Inventory and Loan Collateral—The art market is not a highly liquid trading market. As a result, the valuation of art is inherently subjective and the realizable value of art often fluctuates over time. In estimating the realizable value of art held in inventory and art pledged as collateral for loans, we consider the following complex array of factors: (i) whether the property is expected to be offered at auction or sold privately, and the timing of any such sale; (ii) the supply and demand for the property, taking into account current art market conditions, as well as changing trends as to which collecting categories and artists are most sought after; (iii) recent sale prices achieved for comparable items within a particular collecting category and/or by a particular artist; (iv) the state of the global economy and financial markets; and (v) our intent and ability to hold the property in order to maximize its realizable value. Due to the inherent subjectivity involved in estimating the realizable value of art held in inventory and art pledged as collateral for loans, our estimates of realizable value may prove, with the benefit of hindsight, to be different than the amount ultimately realized upon sale. (See Note 1 for information related to the SFS Business Transfer and Note 5 for our ongoing obligations related to loan collateral valuation.)

Inventory—Inventory consists of artworks that we own and includes the following general categories: (i) artworks that have been obtained as a result of the failure of guaranteed property to sell at auction; (ii) artworks that have been purchased opportunistically, including property acquired for sale at auction; and (iii) other objects obtained incidental to the auction process (e.g., as a result of buyer default). (See Note 17 for information related to auction guarantees.)

Inventory is valued on a specific identification basis at the lower of cost or our estimate of realizable value (i.e., the expected sale price upon disposition). If there is evidence that the estimated realizable value of a specific item held in Inventory is less than its carrying value, a writedown is recorded to reflect our revised estimate of realizable value. For the years ended December 31, 2019 and 2018, inventory writedowns totaled $3.5 million and $9.5 million, respectively, and are recorded within Cost of Inventory Sales in our Consolidated Statements of Operations.

Although all of the items held in Inventory are available for immediate sale, the timing of eventual sale is difficult to predict due to the high value and unique nature of each item, as well as the cyclical nature of the global art market. We expect that the items held in Inventory will be sold in the ordinary course of our business during the normal operating cycle for such items.

Fixed Assets—Fixed Assets are stated at cost less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful life of the asset. Buildings are depreciated over a useful life of up to 50 years. Building improvements are depreciated over a useful life of up to 20 years. Furniture and fixtures are depreciated over a useful life of up to seven years. Leasehold improvements are amortized using the straight-line method over the lesser of the term of the related lease or the estimated useful life of the improvement. Computer software purchased or developed for internal use consists of the cost of purchased software, as well as direct external and internal software development costs. These costs are amortized on a straight-line basis over the estimated useful life of the software, which is typically between seven to ten years for enterprise systems and three years for other types of software. (See Note 7 for information related to Fixed Assets.)

Leases—In February 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases*, which requires long-term lease arrangements to be recognized as assets and liabilities on the consolidated balance sheet of the lessee. Under ASU 2016-02, a right-of-use asset and lease liability are recorded for all long-term leases, whether classified as an operating lease or a finance lease. On July 30, 2018, the FASB issued ASU 2018-11, which made targeted improvements to ASU 2016-02 (together, the "New Lease Standard").

We adopted the New Lease Standard on January 1, 2019 using the modified retrospective method and elected not to recast comparative prior year periods. We have also elected the package of practical expedients available under the transition provisions of the New Lease Standard, including (i) not reassessing whether expired or existing contracts contain leases, (ii) not reassessing previous lease classification, and (iii) not revaluing initial direct costs for existing leases. In addition, for all leases, we have elected the practical expedient that allows the aggregation of non-lease components, such as maintenance, utilities, and management services, with the related lease components when evaluating accounting treatment.

As a result of our adoption of the New Lease Standard, we recorded a right-of-use asset of $78.4 million and a corresponding operating lease liability of $79.4 million on the January 1, 2019 effective date in connection with our third-party lease arrangements. The adoption of the New Lease Standards on our related-party lease arrangement resulted in a right-of-use asset of $233.1 million and a corresponding operating lease liability of $259.6 million but was eliminated in consolidation on the January 1, 2019 effective date. The operating lease liability recorded upon adoption was measured using our approximate incremental borrowing rate as of that date. The New Lease Standard did not impact our results of operations, cash flows, or our compliance with existing debt covenants. (See Note 18 for additional information on our leases.)

Goodwill —Goodwill represents the excess of the purchase price paid over the fair value of net assets acquired in a business combination. In January 2014, the FASB issued ASU 2014-02*: Intangibles-Goodwill and Other (Topic 350): Accounting for Goodwill (A Consensus of the Private Company Council),* which allows us to amortize existing goodwill on a straight-line basis over 10 years and test goodwill for impairment only when a triggering event occurs that indicates the fair value of the entity (or reporting unit) may be below its carrying amount. As of December 31, 2019, we were no longer a public business entity for accounting purposes and elected to adopt the accounting alternative provided under ASU 2014-02 commencing from the fourth quarter of 2019. For the year ended December 31, 2019, we recognized $1.4 million in amortization which was charged to Depreciation and Amortization expense and recorded within our Consolidated Statements of Operations. As of December 31, 2019, goodwill totaled $54.2 million and relates solely to our agency business. (See Note 8 for information related to Goodwill.)

Intangible Assets —Intangible assets are amortized over their estimated useful lives unless the useful life of a particular intangible asset is deemed to be indefinite. If indicators of potential impairment exist, intangible assets with defined useful lives are tested for impairment based on our estimates of undiscounted cash flows and, if impaired, written down to fair value based on either discounted cash flows or appraised values. (See Note 8 for information related to Intangible Assets.)

Impairment of Long-Lived Assets—Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. In such situations, long-lived assets are considered impaired when estimated future cash flows (undiscounted and without interest charges) resulting from the use of the asset and its eventual disposition are less than the asset's carrying amount. In such situations, the asset is written down to the present value of the estimated future cash flows. Factors that are considered when evaluating long-lived assets for impairment include a current expectation that it is more likely than not that the long-lived asset will be sold significantly before the end of its useful life, a significant decrease in the market price of the long-lived asset, and a significant change in the extent or manner in which the long-lived asset is being used.

Revenue Recognition (Agency Commissions and Fees)—Acting as an agent, we accept works of art on consignment and match sellers (also known as consignors) to buyers through the auction or private sale process. In both auction and private sale transactions, we act as exclusive agent for the seller. Prior to offering a work of art for sale, we perform due diligence activities to authenticate and determine the ownership history and condition of the consigned artwork. The revenue recognition policy for each of the principal components of Agency Commissions and Fees is described below. (See Note 4 for a table that summarizes our revenue by nature of our services for the years ended December 31, 2019 and 2018.)

(1) *Auction Commissions*—In our role as auctioneer, we accept works of art on consignment and match sellers to buyers through the auction process. In an auction transaction, we act as exclusive agent for the seller. The terms of our arrangement with the seller are stipulated in a consignment agreement, which, among other things, entitles us to collect and retain an auction commission as compensation for our service. Our auction commission includes a premium charged to the buyer and, to a lesser extent, a commission charged to the seller, both of which are calculated as a percentage of the hammer price of the property sold at auction. In certain situations, in order to secure a high-value consignment, we may not charge a seller's commission and/or may share a portion of our buyer's premium with the seller. In situations when we share a portion of our buyer's premium with the seller, our auction commission revenue is recorded net of the amount paid to the seller.

Prior to the date of the auction, we perform a number of activities in connection with our obligations under an auction consignment agreement, which may include: (i) transporting the consigned artwork to the location of the auction sale; (ii) performing due diligence to authenticate and determine the ownership history and condition of the consigned artwork; (iii) preparing the consigned artwork for auction (e.g., framing and cleaning); (iv) preparing catalogue content related to the consigned artwork (e.g., photography and description of the artwork); (v) marketing the artwork through exhibitions and advertising campaigns; (vi) establishing presale estimates for the consigned artwork in response to an assessment of buyer demand and overall market conditions; and (vii) conducting pre-auction bidder registration and qualification. The services associated with these activities are necessary components of our auction service, which culminates in the creation of a public marketplace for the sale and purchase of art that, if successful, results in the matching of the seller to a buyer upon the fall of the auctioneer's hammer.

Upon the fall of the auctioneer's hammer, the highest bidder becomes legally obligated to pay the aggregate purchase price (i.e., the hammer price plus buyer's premium) and the consignor is legally obligated to relinquish the property in exchange for the net sale proceeds (i.e., the hammer price less any seller's commission and expense recoveries). However, if the bidding for an individual artwork does not reach its reserve price (i.e., the confidential minimum hammer price at which the consignor has agreed to sell), the sale is not completed, and we are not entitled to collect a commission. Accordingly, the consignor receives the benefit of our auction service only when the sale is completed, upon the fall of the auctioneer's hammer, at which point in time we recognize our auction commission revenue.

Under the standard terms and conditions of our auction sales, we are not obligated to pay the consignor for property that has not been paid for by the buyer. If a buyer defaults on payment, the sale is cancelled, and the property is returned to the consignor. We continually evaluate the collectability of amounts due from individual buyers and only recognize auction commission revenue when the collection of the amount due from the buyer is probable. If we determine that payment from the buyer is not probable, a cancelled sale is recorded in the period in which that determination is made and the associated Accounts Receivable balance, including our auction commission, is reversed. Our judgments regarding the collectability of Accounts Receivable are based on an assessment of the buyer's payment history, discussions with the buyer, and the value of any property held as security against the buyer's payment obligation. Our judgments with respect to the collectability of amounts due from buyers for auction purchases may prove, with the benefit of hindsight, to be incorrect. Historically, cancelled sales have not been material in relation to the aggregate hammer price of property sold at auction.

For artworks purchased at auction, the buyer is provided a five-year guarantee of authenticity. Subject to certain limitations, this guarantee generally attests to the authorship of the artwork. In the event a valid claim is made by the buyer under the authenticity guarantee, the sale is rescinded and we are obligated to refund the aggregate purchase price to the buyer. In these circumstances, the consignor is obligated to return any net sale proceeds paid to them. Outside of a valid authenticity claim, the buyer has no right to rescind an auction sale. The authenticity guarantee provided to the auction buyer is a product warranty that is associated with the provision of our auction service; it may not be purchased separately and does not provide an additional service to the buyer.

(2) *Auction Guarantees*—From time-to-time, in the ordinary course of business, we will provide a guarantee to the consignor that their consigned artwork will achieve a specified minimum sale price at auction. This type of arrangement is known as an auction guarantee. If the property offered under an auction guarantee sells above the minimum guaranteed price,

we are generally entitled to a share of the overage. In the event that the property sells for less than the minimum guaranteed price, we must perform under the auction guarantee by funding the shortfall between the sale price at auction and the amount of the auction guarantee. If the property offered under the auction guarantee does not sell, we must pay the amount of the auction guarantee to the consignor and then take ownership of the unsold property and may recover the amount paid through its future sale. In certain limited situations, if the guaranteed property fails to sell at auction or if the purchaser defaults, the consignor has the right to cancel the auction guarantee and retain the property.

In situations when an item of guaranteed property does not sell and we take ownership of the property, it is taken into Inventory and recorded on our Consolidated Balance Sheets at the lower of its cost (i.e., the amount paid under the auction guarantee) or our estimate of the property's net realizable value (i.e., the expected sale price upon its eventual disposition). The market for fine art, decorative art, and jewelry is not a highly liquid trading market. As a result, the valuation of property acquired as a result of failed auction guarantees is inherently subjective and its realizable value often fluctuates over time. Accordingly, the proceeds ultimately realized on the sale of previously guaranteed property may equal, exceed, or be less than the estimated net realizable value recorded as Inventory on our Consolidated Balance Sheets.

We may reduce our financial exposure under auction guarantees through contractual risk sharing arrangements. Such auction guarantee risk sharing arrangements include irrevocable bid arrangements and, from time-to-time, partner sharing arrangements.

An irrevocable bid is an arrangement under which a counterparty irrevocably commits to bid a predetermined price on the guaranteed property. If the irrevocable bid is not the winning bid, the counterparty is generally entitled to receive, as their fee, a share of the buyer's premium earned on the sale and/or a share of any auction guarantee overage. Such fees paid to irrevocable bid counterparties are recorded within Agency Direct Costs in the period of the sale. If the irrevocable bid is the winning bid, the counterparty may sometimes receive a fee as compensation for providing the irrevocable bid. This fee is netted against the counterparty's obligation to pay the aggregate purchase price (i.e., the hammer price plus buyer's premium) and is recorded as a reduction to our auction commission revenue in the period of the sale.

In a partner sharing arrangement, a counterparty commits to fund: (i) a share of the difference between the sale price at auction and the amount of the auction guarantee, if the property sells for less than the minimum guaranteed price, or (ii) a share of the minimum guaranteed price if the property does not sell, while taking ownership of a proportionate share of the unsold property. In exchange for accepting a share of the financial exposure under the auction guarantee, if the property sells, the counterparty in a partner sharing arrangement is generally entitled to receive, as their fee, a share of the buyer's premium earned on the sale and/or a share of any auction guarantee overage. Such fees paid to the counterparties in auction guarantee partner sharing arrangements are recorded within Agency Direct Costs in the period of the sale.

Similar to a standard auction transaction, for property sold under an auction guarantee, the consignor receives the benefit of our auction service only when the sale is completed, upon the fall of the auctioneer's hammer, at which point in time we recognize our auction commission revenue and any auction guarantee overage or shortfall. In the event that the property offered under an auction guarantee sells for a hammer price that is less than the minimum guaranteed price, the amount of the shortfall is recorded net of any buyer's premium commission earned on the sale. An auction guarantee shortfall may also be recognized prior to the date of the auction if we determine that it is probable that the expected selling price of the property, including buyer's premium, will not exceed the amount of the auction guarantee. The amount of any auction guarantee overage or shortfall is reported on a net basis within Agency Commissions and Fees.

(3) *Consignor Expense Recoveries*—We incur various direct costs in the fulfillment of our auction service. These costs principally relate to the transport of consigned artworks to the location of the auction sale, various sale marketing activities including catalogue production and distribution, and the exhibition of consigned artworks. Auction consignment agreements sometimes permit us to recover all or a portion of these costs from the consignor through a deduction from their net sale proceeds if the item is sold at auction. Such recoveries are recognized as revenue in the period of the auction sale.

(4) *Buyer Shipping Fees*—Auction buyers may be charged a fee for shipping services associated with their purchased property. Such fees are recognized as revenue in the period when the shipping service is provided.

(5) *Private Sale Commissions*—Private sale commission revenues are earned through the direct brokering of purchases and sales of art. Private sales are generally initiated by a client wishing to sell their artwork with Sotheby's acting as their exclusive agent in the transaction. Such arrangements are evidenced by a legally binding consignment agreement between us and the seller, which outlines the terms of the arrangement, including the desired sale price and the amount or rate of commission that we may earn if a sale is completed, as well as, in certain instances, the period of time over which the artwork may be offered for private sale. The terms of the private sale consignment agreement create our sole performance obligation, which is to broker a legally binding sale of the consigned artwork to a qualified buyer as exclusive agent for the seller.

In connection with our efforts to fulfill our performance obligation under a private sale consignment agreement, we perform a number of activities, which may include: (i) transporting the consigned artwork to the location of the sale; (ii) performing due diligence to authenticate and determine the ownership history and condition of the consigned artwork; (iii) preparing the consigned artwork for sale (e.g., framing and cleaning); (iv) providing advice as to an appropriate asking price for the consigned artwork in response to an assessment of buyer demand and overall market conditions; (v) marketing the artwork to a select group of potential buyers or through theme-based private sale exhibitions; and (vi) completing all relevant administrative tasks related to completion of the sale.

In certain situations, when completing a private sale, we may execute a legally binding agreement with the buyer stipulating the terms pursuant to which the buyer will purchase the consigned artwork. In situations when a legally binding buyer agreement is not executed, only an invoice is issued to provide the buyer with the information necessary for finalizing the transaction (e.g., the amount owed and any associated taxes and royalties, the payment due date, payment instructions, etc.).

The consignor receives the benefit of our private sale service only upon the completion of a legally binding sale. For private sales where we execute a buyer agreement, the consignor receives the benefit of our private sale service and revenue is recognized at the point in time when the agreement is signed by the buyer. At this point in time, the buyer becomes legally obligated to pay the purchase price and the consignor is legally obligated to relinquish the property in exchange for the net sale proceeds (i.e., the purchase price less our commission). In the absence of an executed buyer agreement, the consignor receives the benefit of our private sale service and revenue is recognized at the point in time when the full purchase price is paid by the buyer. At this point in time, we have performed all of our service obligations in the transaction and the consignor is legally obligated to relinquish the property in exchange for the net sale proceeds. If we are not successful in completing a sale according to the terms of the private sale consignment agreement, we are not entitled to collect a commission.

For artworks purchased in a private sale transaction, the buyer is provided a guarantee of authenticity for a period of up to five years. Subject to certain limitations, this guarantee generally attests to the authorship of the artwork. In the event a valid claim is made by the buyer under the authenticity guarantee, the sale is rescinded and we are obligated to refund the purchase price to the buyer. In these circumstances, the consignor is obligated to return any net sale proceeds paid to them. Outside of a valid authenticity claim, the buyer has no right to rescind a completed private sale. The authenticity guarantee provided to the buyer is a product warranty that is associated with the provision of our private sale service; it may not be purchased separately and does not provide an additional service to the buyer.

(6) *Other Agency Commissions and Fees*—From time-to-time, we earn commissions and fees connected with sales of art brokered by third parties. These commissions and fees are recognized at a point in time in the period when we receive confirmation from the third parties that the sale has been completed.

Revenue Recognition (Inventory Sales)—Sales of items held in inventory may be consummated through either a private sale transaction or through an auction sale. For artworks that are sold privately, an executed agreement with the buyer is used to document the terms and conditions of the transaction. For artworks that are sold at auction, the sale is completed pursuant to the conditions of sale published in the corresponding auction catalogue. Regardless of the method of sale, title and control of the artwork are transferred to the buyer only upon payment of the full purchase price. Accordingly, sales of inventory are recognized at a point in time in the period when title and control of the artwork is transferred to the buyer.

Revenue Recognition (Finance Revenues)—Finance revenues consist principally of interest income earned on Notes Receivable originated by the Company. Such interest income is recognized when earned, based on the amount of the outstanding loan, the applicable interest rate on the loan, and the length of time the loan is outstanding during the period. (See Note 5 for information related to Notes Receivable.)

Revenue Recognition (Advisory Revenues)—Advisory revenues consist of fees earned from providing art-related advice to certain clients. These arrangements may be evidenced by a legally binding written retainer agreement with the client, which outlines the nature of the services to be provided and the amount of fees to be earned. Advisory retainer agreements are typically one year in duration. Advisory services are also sometimes provided on the basis of a verbal agreement with the client. For advisory arrangements with written retainer agreements, revenues are recognized ratably over time, based on the contractual period and as services are provided to the client. In the absence of a written retainer agreement, revenue recognition is deferred until we have performed our substantive service obligations and the client has made payment for those services, thereby evidencing the terms of the arrangement.

Revenue Recognition (License Fee Revenues)—Prior to 2004, we were engaged in the marketing and brokerage of luxury residential real estate sales through Sotheby's International Realty ("SIR"). In 2004, we sold SIR to a subsidiary of Realogy Corporation ("Realogy"), formerly Cendant Corporation. In conjunction with the sale, we entered into an agreement with Realogy to license the SIR trademark and certain related trademarks for an initial 50-year term with a 50-year renewal option (the "Realogy License Agreement"). The Realogy License Agreement is applicable worldwide.The Realogy License

Agreement provides for an ongoing license fee during its term based on the volume of commerce transacted under the licensed trademarks. We also license the Sotheby's name for use in connection with art education services in the U.S. and the U.K., and with an art auction business in Australia. The licensing arrangement in Australia expired in 2019. The license fees earned from these arrangements are sales-based and are recognized in the periods in which the underlying sales occur.

Sales, Use and Value-Added Taxes—Sales, use and value-added taxes assessed by governmental authorities that are both imposed on and concurrent with revenue-producing transactions between us and our clients are reported on a net basis within revenues.

Resale Royalties—In certain foreign jurisdictions, various resale royalties and other fees are imposed on auctioneers upon the completion of an auction sale. These royalties and fees are reported on a gross basis within Agency Direct Costs.

Contract Balances—Following the completion of an auction or private sale, we invoice the buyer for the aggregate purchase price of the property, which includes our buyer's premium or private sale commission, as well as any applicable taxes and royalties. The amount owed by the buyer is recorded within Accounts Receivable, and the amount of net sale proceeds due to the seller is recorded within Client Payables. Upon collection from the buyer, we are obligated to remit the net proceeds to the seller after deducting our commissions and related fees, as well as any applicable taxes and royalties, which are ultimately paid to the appropriate taxing authority or royalty association.

Under our standard auction payment terms in place during 2018 and 2019, the purchase price was due from the buyer no more than 30 days after the sale date, with the net proceeds due to the consignor 35 days after the sale date. In the spring of 2020, we changed our payment terms with consignors whereby the net proceeds are to be paid to consignors 45 days after the sale date. For private sales, payment from the buyer is typically due on the sale date, with the net sale proceeds due to the consignor shortly thereafter. We also sometimes provide extended payment terms to an auction or private sale buyer. For auctions, the extent to which extended payment terms are provided can vary considerably from selling season to selling season. Extended payment terms typically extend the payment due date to a date that is no longer than one year from the sale date. In limited circumstances, the payment due date may be extended to a date that is beyond one year from the sale date. When providing extended payment terms, we attempt to match the timing of cash receipt from the buyer with the timing of our payment to the consignor, but are not always successful in doing so. All extended payment term arrangements are approved by management under our internal corporate governance policy.

In the limited circumstances when the buyer's payment due date is extended to a date that is beyond one year from the sale date, if the seller does not provide matched payment terms (i.e., we pay the seller before receiving payment from the buyer), the receivable balance is reclassified from Accounts Receivable to Notes Receivable on our Consolidated Balance Sheets. (See Note 5 for information related to Notes Receivable.)

When the buyer's due date is extended to a date that is one year or less from the sale date, as a practical expedient, we do not record a discount to our commission to account for the effects of the financing component. However, in the limited circumstances when the buyer's due date is extended to a date that is beyond one year from the sale date, we record a discount to our commission revenue to reflect the financing component, if material.

We maintain an Allowance for Doubtful Accounts against our Accounts Receivable balances, which principally includes estimated losses associated with situations when we have paid the net sale proceeds to the seller and it is probable that payment will not be collected from the buyer. The Allowance for Doubtful Accounts also includes an estimate of probable losses inherent in the remainder of the Accounts Receivable balance. The amount of the required allowance is based on the facts available to management, including the value of any property held as collateral, and is reevaluated and adjusted as additional facts become known. Based on all available information, we believe that the Allowance for Doubtful Accounts is adequate as of December 31, 2019; however, actual losses may ultimately exceed the recorded allowance. As of December 31, 2019 and 2018, the Allowance for Doubtful Accounts was $12.3 million and $9.1 million, respectively.

Agency Direct Costs—A large portion of Agency Direct Costs relate to sale marketing expenses such as catalogue production and distribution, advertising and promotion costs, and traveling exhibition costs. Such costs are deferred and recorded on our Consolidated Balance Sheets within Prepaid Expenses and Other Current Assets until the date of the sale when they are recognized in our Consolidated Statements of Operations.

Salaries and Related Costs—Salaries and related costs are not allocated to our cost of revenue, marketing expense, and general and administrative expense line items, as many of our employees perform duties that could be categorized across more than one of these line items.

Stock-Based Payments—Prior to 2020, we granted stock-based payment awards as compensation to certain employees. The amount of compensation expense recognized for stock-based payments is based, in part, on our estimate of the number of units or shares ultimately expected to vest as a result of employee service. For stock-based payment awards that vest annually over a multi-year period of service, compensation expense is amortized over the requisite service period according to a graded vesting schedule. For stock-based payment awards that have a single vesting opportunity at the end of a service period, compensation expense is amortized on a straight-line basis over the requisite service period. (See Note 19 for additional information related to stock-based payments.)

Prior to the Effective Time, Company PSU's vested only if we achieved established profitability (for awards granted prior to 2016) or certain return on invested capital (or "ROIC") targets (for awards granted beginning in 2016). The amount of compensation expense recognized for such performance-based awards was dependent upon our quarterly assessment of the likelihood of achieving these future profitability or ROIC targets. If, as a result of our assessment, we projected that a greater number of performance share units would have vested than previously anticipated, a life-to-date adjustment to increase compensation expense was recorded in the period such determination is made. Conversely, if as a result of our assessment, we projected that a lower number of performance share units would have vested than previously anticipated, a life-to-date adjustment to decrease compensation expense was recorded in the period such determination is made. Accordingly, if our projections of future performance against these targets prove, with the benefit of hindsight, to be inaccurate, the amount of life-to-date and future compensation expense related to stock-based payments could have significantly increased or decreased.

At the Effective Time, each outstanding Company PSU (other than a Company Share Price PSU) under the Company's incentive plans was canceled, extinguished and converted into an award (each, a "Converted PSU") representing the right to receive an amount in cash (subject to continuing service period requirements and without interest and subject to any applicable withholding tax) equal in value to the number of Company PSUs deemed earned as of immediately prior to the Effective Time (125% of target for Company PSUs with a performance period ending on December 31, 2019, 100% of target for Company PSUs with a performance period ending on December 31, 2020 and 100% of target for Company PSUs with a performance period ending on December 31, 2021) multiplied by the Merger Consideration ($57 per share).

At the Effective Time, each outstanding restricted stock unit subject only to service-based vesting conditions (a "Company RSU") under the Company's incentive plans was canceled, extinguished and converted into an award (each, a "Converted RSU") representing the right to receive an amount in cash (subject to continuing service period requirements and without interest and subject to any applicable withholding tax) equal to the number of shares of Company Common Stock underlying such Company RSU as of immediately prior to the Effective Time multiplied by the Merger Consideration.

Accordingly, upon the Effective Time, the Company PSU's and RSU's were converted from equity-settled awards to cash-settled awards, which required the Company PSU's and RSU's to be recorded at fair value. The difference in the grant date fair value and the Merger Consideration of $57 per share for unvested Company PSU's and RSU's for which compensation expense was recognized prior to the Effective Time was $12.6 million. This difference is considered to be part of the consideration transferred in exchange for Sotheby's that is attributable to pre-combination service and is therefore deemed to be consideration from the Parent. Beginning at the Effective Time, the remaining unamortized compensation expense related to Company PSU's and RSU's is recognized at their fair value of $57 per unit over the remaining service period.

In 2015, we granted Company Share Price PSU's to Thomas S. Smith, Jr., our former President and CEO, with a single vesting opportunity after a five-year service period contingent upon the achievement of pre-determined levels of appreciation related to our common stock. The compensation expense recognized for this stock-based payment was based on our estimate of the grant date fair value of the award. In developing this estimate, we considered then-current market conditions, historical data, and any other relevant data. At the Effective Time, these Company Share Price PSU's were canceled and converted into the right to receive an amount in cash (without interest and subject to any applicable withholding tax) equal to the number of shares of Company Common Stock earned in accordance with the terms and conditions set forth in the award agreement as reasonably determined by the Compensation Committee multiplied by the Merger Consideration. The amount owed in relation to these Company Share Price PSUs totaled $2.9 million and was paid to the holder on October 15, 2019.

Income Taxes—We have calculated our income tax provision for the current year using the parent-company-down approach. Under this method, we are allocating income tax expense, or income tax benefit, on a jurisdictional basis based upon the percentage of our net income before taxes plus permanent differences over the Parent's consolidated group's net income before taxes plus permanent differences. Our U.S. business activities are included in the consolidated U.S. federal, and in certain state and local, income tax filings of the Parent. Our non-U.S. business activities are primarily reported on income tax returns on a stand-alone basis in the jurisdiction in which the non-U.S. legal entity conducts business. Our non-U.S. activities constitute all the non-U.S. activities of the Parent.

Note 3—Accounting Standards Not Yet Adopted

Credit Losses—In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, which amends previously issued guidance regarding the impairment of financial instruments by creating an impairment model that is based on expected losses rather than incurred losses. For non-public entities, ASU 2016-13 is effective for fiscal years beginning after December 15, 2021. We are currently assessing the adoption of ASU 2016-13 and its potential impact on our Consolidated Financial Statements.

Income Taxes—In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes"* which simplifies the accounting for income taxes. For non-public entities, ASU 2019-12 is effective for fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022. We are currently assessing the adoption of ASU 2019-12 and its potential impact on our Consolidated Financial Statements.

Note 4—Revenues

Our predominant source of revenues are commissions and fees earned by acting as agent for clients wishing to sell their artworks through the auction or private sale process. To a much lesser extent, we also earn revenues from the sale of artworks that are owned by Sotheby's. In addition, we earn revenues from art advisory services, retail wine sales, and brand licensing activities. Prior to the Effective Time of the Merger and the SFS Business Transfer, we earned revenues from the art-related financing activities of SFS. (See Note 2 for information regarding our revenue recognition policies.)

The following tables summarize our revenues by nature of our services for the years ended December 31, 2019 and 2018 (in thousands of dollars):

Year ended December 31,	2019	2018
Revenue from contracts with customers:		
Agency commissions and fees:		
Auction commissions	$ 739,511	$ 767,881
Auction related fees, net (a)	54,559	29,088
Private sale commissions	82,297	83,263
Other Agency commissions and fees	11,010	11,542
Total Agency commissions and fees	887,377	891,774
Inventory sales	41,589	80,808
Advisory revenues	4,946	6,147
License fee and other revenues	12,930	13,124
Total revenue from contracts with customers	946,842	991,853
Finance revenue:		
Interest and related fees	44,818	43,887
Total revenues	$ 991,660	$ 1,035,740

(a) Auction related fees, net includes the net overage or shortfall attributable to auction guarantees, consignor expense recoveries, and shipping fees charged to buyers.

The table below presents the Accounts Receivable balances related to our contracts with customers and associated Client Payables as of December 31, 2019 and 2018 (in thousands of dollars):

December 31,	2019	2018
Accounts Receivable	$ 636,304	$ 967,817
Client Payables	$ 867,750	$ 997,168
Net Receivable (Payable)	$ (231,446)	$ (29,351)

The net receivable (payable) balance reported at each balance sheet date is dependent on the timing of auction and private sale settlements, as well as the extent of extended payment terms granted to buyers, particularly if not matched by the consignor. The balances of Accounts Receivable presented in the table above relate almost entirely to amounts due from auction and private sale buyers. To a much lesser extent, they also include amounts owed to us in relation to our advisory services and brand licensing activities. Receivables related to Finance Revenues are excluded from this table because they are not considered to be contract balances under ASC 606, Revenue from Contracts with Customers.

The increase in Net Payables during the year ended December 31, 2019 is influenced by the timing of auction sale settlements, which resulted in us holding significant balances of net sales proceeds at the end of 2019 that were disbursed to consignors in early 2020.

In certain instances, and subject to management approval under our internal corporate governance policy, we may pay the net sale proceeds to the consignor before payment is collected from the buyer and/or we may allow the buyer to take possession of the property before making payment. In situations when the buyer takes possession of the property before making payment, we are liable to the seller for the net sales proceeds whether or not the buyer makes payment.

We incur various direct costs in the fulfillment of our auction services. These costs principally relate to the transport of consigned artworks to the location of the auction sale, various sale marketing activities including catalogue production and distribution, and the exhibition of consigned artworks. A large portion of these costs are funded prior to the auction and are recorded on our Consolidated Balance Sheets within Prepaid Expenses and Other Current Assets until the date of the auction sale when they are expensed to Direct Costs of Services in the Consolidated Statements of Operations. As of December 31, 2019 and 2018, the contract cost balances recorded within Prepaid Expenses and Other Current Assets were $12.3 million and $10.8 million, respectively.

Note 5—Notes Receivable

As a result of the SFS Business Transfer described in Note 1, certain receivables related to the SFS loan portfolio were transferred to the SFS Subsidiary. Receivables held by certain indirect wholly-owned subsidiaries of the Company remained under the Company's control for accounting purposes and included on the consolidated balance sheet in Current and Non-Current Notes Receivable (net). In connection with the SFS Portfolio Transfers, the SFS Subsidiary has the related rights to these notes receivable held by the Company, which was reflected in Payable Owed to Entities Under Common Control in the Consolidated Balance Sheet.

SFS makes term loans secured by artworks that are not presently intended for sale, allowing us to establish or enhance mutually beneficial relationships with art collectors. Term loans may also generate future auction or private sale consignments through the sale of the collateral at the conclusion of the loan and/or through future purchases of new property by the borrower. Term loans normally have an initial maturity of one year with an option to renew for an additional year, and typically carry a variable market rate of interest. To a much lesser extent, we also make consignor advances secured by artworks that are contractually committed, in the near term, to be offered for sale via auction or private sale. Consignor advances allow sellers to receive funds upon consignment for an auction or private sale that will occur up to one year in the future and normally have short-term maturities. The classification of a loan as current or non-current in the Consolidated Balance Sheets considers the contractual maturity date of the loan, as well as the likelihood of renewing the loan on or before its contractual maturity date.

The repayment of secured loans can be adversely impacted by a decline in the art market in general or in the value of the collateral, which is concentrated within certain collecting categories. In addition, in situations when there are competing claims on the collateral and/or when a borrower becomes subject to bankruptcy or insolvency laws, our ability to realize on our collateral may be limited or delayed.

We aim to mitigate the risk associated with a potential devaluation in our collateral by targeting a 50% loan-to-value ("LTV") ratio (i.e., the principal loan amount divided by the low auction estimate of the collateral). However, loans may also be made with LTV ratios between 51% and 60%, and in rare circumstances, loans may be made at an initial LTV ratio higher than 60%.

The LTV ratio of certain loans may increase above our 50% target due to a decrease in the low auction estimate of the collateral. The revaluation of term loan collateral is performed by our specialists on an annual basis or more frequently if there is a material change in the circumstances related to the loan, the value of the collateral, the disposal plans for the collateral, or if an event of default occurs. We believe that the LTV ratio is the critical credit quality indicator for the secured loans made by SFS.

The table below provides the aggregate LTV ratio for the Notes Receivable as of December 31, 2019 and 2018 (in thousands of dollars):

December 31,	2019	2018
Secured loans	$ 149,274	$ 693,977
Low auction estimate of collateral	$ 322,373	$ 1,629,270
Aggregate LTV ratio	46%	43%

The table below provides other credit quality information regarding the Notes Receivable as of December 31, 2019 and 2018 (in thousands of dollars):

December 31,	2019	2018
Total secured loans	$ 149,274	$ 693,977
Loans past due	$ 58,136	$ 14,405
Loans more than 90 days past due	$ 31,304	$ 8,911
Non-accrual loans	$ —	$ 3,854
Impaired loans	$ —	$ —
Allowance for credit losses:		
Allowance for credit losses for impaired loans	$ —	$ —
Allowance for credit losses based on historical data	—	1,075
Total allowance for credit losses - secured loans	$ —	$ 1,075

We consider a loan to be past due when principal payments are not paid by the contractual maturity date. Typically, a loan becomes past due only for a short period of time during which either the loan is renewed or collateral is sold to satisfy the borrower's obligation. As of December 31, 2019, $58.1 million of the net Notes Receivable balance was past due, of which $31.3 million was more than 90 days past due. In consideration of expected loan renewals, collateral sales to date for which the proceeds have not yet been collected from the buyer, as well as the value of the remaining collateral, we believe that the amounts owed for these past due loans will be collected.

A non-accrual loan is a loan for which future Finance Revenue is not recorded due to our determination that it is probable that future interest on the loan will not collectible. Any cash receipts subsequently received on non-accrual loans are first applied to reduce the recorded principal balance of the loan, with any proceeds in excess of the principal balance then applied to interest owed by the borrower. The recognition of Finance Revenue may resume on a non-accrual loan if sufficient additional collateral is provided by the borrower or if we become aware of other circumstances that indicate that it is probable that the borrower will make future interest payments on the loan.

A loan is considered to be impaired when we determine that it is probable that a portion of the principal and interest owed by the borrower will not be recovered after taking into account the estimated realizable value of the collateral securing the loan, as well as the ability of the borrower to repay any shortfall between the value of the collateral and the amount of the loan. The determination of whether a specific loan is impaired and the amount of any required allowance is based on the facts available to management and is reevaluated and adjusted as additional facts become known. If a loan is considered to be impaired, Finance Revenue is no longer recognized and bad debt expense is recorded for any principal or accrued interest that is deemed uncollectible. As of December 31, 2019 and 2018, there were no impaired loans outstanding.

As discussed in Note 2, in the limited circumstances when the payment due date for an auction or private sale receivable is extended to a date that is beyond one year from the sale date, if the consignor does not provide matched payment terms, the receivable balance is reclassified from Accounts Receivable (net) to Notes Receivable (net) on our Consolidated Balance Sheets. These Notes Receivable are accounted for as non-cash transfers between Accounts Receivable (net) and Notes Receivable (net) and are, therefore, not reflected as the funding of Notes Receivable within Investing Activities in our Consolidated Statements of Cash Flows. Upon repayment, the cash received in settlement of such Notes Receivable is classified within Operating Activities in our Consolidated Statements of Cash Flows.

Under certain circumstances, we provide loans to certain art dealers to finance the purchase of works of art. In these situations, we acquire a partial ownership interest or a security interest in the purchased property in addition to providing the loan. Upon the eventual sale of the property acquired, the loan is repaid. In the third quarter of 2019, one such loan became uncollectible and, as a result, we recorded a $2.1 million loss associated with the write-off of this loan. As of December 31, 2018, loans of this type totaled $3.1 million.

In certain limited situations, we provide advances to consignors that are secured by property scheduled to be offered under an auction guarantee at auction in the near term. Such consignor advances are recorded on our Consolidated Balance

Sheets within Notes Receivable (net) and totaled $3.2 million as of December 31, 2018. There were no consignor advances outstanding as of December 31, 2019.

Allowance for Credit Losses—For the years ended December 31, 2019 and 2018, activity related to the Allowance for Credit Losses was as follows (in thousands of dollars):

	Total
Balance as of January 1, 2018	$ 2,778
Change in loan loss provision based on historical data	(178)
Change in loan loss provision for impaired loans	—
Balance as of December 31, 2018	2,600
Loss provision subject to the SFS Business Transfer	(1,075)
Change in loan loss provision based on historical data	—
Balance as of December 31, 2019	$ 1,525

Note 6—Equity Method Investments

Acquavella Modern Art—On May 23, 1990, we purchased the common stock of the Pierre Matisse Gallery Corporation ("Matisse") for approximately $153 million. The assets of Matisse consisted of a collection of fine art (the "Matisse Inventory"). Upon consummation of the purchase, we entered into an agreement with Acquavella Contemporary Art, Inc. ("ACA") to form AMA, a partnership through which the Matisse Inventory would be sold. We contributed the Matisse Inventory to AMA in exchange for a 50% interest in the partnership.

The original term of the AMA partnership agreement was due to expire in 2000, and it was renewed on an annual basis through 2016. On April 27, 2017, the AMA partnership agreement was amended to extend the term of the partnership to May 1, 2022. Upon dissolution of AMA, if we and ACA elect not to liquidate the property and assets of AMA, any assets remaining after the payment of expenses and any other liabilities of AMA will be distributed to us and AMA as tenants-in-common or in some other reasonable manner.

The net assets of AMA consist almost entirely of the Matisse Inventory. As of December 31, 2019 and 2018, the carrying value of the Matisse Inventory was $28.5 million and $30 million, respectively. As of December 31, 2019 and 2018, the carrying value of our investment in AMA was $2.3 million and $2.7 million, respectively. For the years ended December 31, 2019 and 2018, our results include $2 million and $1.2 million, respectively, of equity earnings related to AMA. From time-to-time, we transact with the principal shareholder of ACA in the normal course of our business.

RM Sotheby's—In 2015, we acquired a 25% ownership interest in RM Auctions, an auction house for investment-quality automobiles, for $30.7 million. Following our investment, RM Auctions is now known as RM Sotheby's. In addition to the initial 25% ownership interest, we have governance participation through a comprehensive partnership agreement. As of December 31, 2019 and 2018, the carrying value of our investment in RM Sotheby's was $40.6 million and $39.1 million, respectively. For the years ended December 31, 2019 and 2018, our results include $1.5 million and $2.7 million, respectively, of equity earnings related to RM Sotheby's.

Other—In 2017, we formed a partnership through which artworks are being purchased and sold. As of December 31, 2019 and 2018, our investment in this partnership was $5.6 million and $5.7 million, respectively, representing our 50% ownership interest.

Note 7—Fixed Assets, net

As of December 31, 2019 and 2018, Fixed Assets consisted of the following (in thousands of dollars):

December 31,	2019	2018
Land	$ 4,765	$ 92,338
Buildings and building improvements	147,316	235,469
Leasehold improvements	27,282	82,350
Computer hardware and software	119,329	94,632
Furniture, fixtures and equipment	85,637	81,628
Construction in progress	15,697	34,233
Other	216	3,297
Sub-total	400,242	623,947
Less: Accumulated depreciation and amortization	(215,540)	(237,211)
Total Fixed Assets, net	$ 184,702	$ 386,736

As a result of the York Property Transfer, the land and building of the LLC were transfered to BidFair Property Holdings Inc., and are not included in the consolidated balance sheet or the table above as of December 31, 2019. At the time of the York Property Transfer, the historical cost of the net land and buildings of the Company's York Property totaled approximately $245 million. See Note 1 for more information related to the York Property Transfer.

For the years ended December 31, 2019 and 2018, Depreciation and Amortization related to Fixed Assets of the Company was $28.3 million and $24 million, respectively.

Note 8—Goodwill and Intangible Assets

Goodwill—For the years ended December 31, 2019 and 2018, changes in the carrying value of Goodwill were as follows (in thousands of dollars):

	2019	2018
Balance as of January 1,	$ 55,573	$ 50,547
Goodwill acquired	—	5,259
Foreign currency exchange rate changes	10	(233)
Total goodwill subject to amortization	55,583	55,573
Accumulated amortization	(1,389)	—
Balance as of December 31,	$ 54,194	$ 55,573

In January 2014, the FASB issued ASU 2014-02*: Intangibles-Goodwill and Other (Topic 350): Accounting for Goodwill (A Consensus of the Private Company Council),* which allows a us to amortize existing goodwill on a straight-line basis over 10 years and test goodwill for impairment only when a triggering event occurs that indicates the fair value of the entity (or reporting unit) may be below its carrying amount. As of December 31, 2019, we were no longer a public business entity for accounting purposes and elected to adopt the accounting alternative provided under ASU 2014-02 commencing from the fourth quarter of 2019. For the year ended December 31, 2019, the we recognized $1.4 million in amortization which was charged to Depreciation and Amortization expense and recorded within our Consolidated Statements of Operations.

Intangible Assets—As of December 31, 2019 and 2018, intangible assets consisted of the following (in thousands of dollars):

	Amortization Period	December 31, 2019	December 31, 2018
Indefinite lived intangible assets:			
License	N/A	$ 324	$ 324
Intangible assets subject to amortization:			
Customer relationships	8 years	10,800	10,800
Non-compete agreements	5-6 years	3,060	3,060
Artworks database	10 years	1,350	1,275
Technology	4 years	4,461	4,461
Total intangible assets subject to amortization		19,671	19,596
Accumulated amortization		(10,207)	(6,927)
Total amortizable intangible assets (net)		9,464	12,669
Total intangible assets (net)		$ 9,788	$ 12,993

For the years ended December 31, 2019 and 2018, amortization expense related to intangible assets was approximately $3.3 million and $3 million, respectively.

The estimated aggregate amortization expense for the remaining useful lives of intangible assets subject to amortization during the five-year period succeeding the December 31, 2019 balance sheet date are as follows (in thousands of dollars):

Period	Amount
2020	$ 3,197
2021	$ 2,948
2022	$ 1,584
2023	$ 1,491
2024	$ 141

Note 9—Pension Arrangements

Retirement Savings Plan—We sponsor a qualified defined contribution plan for our eligible employees in the U.S. (the "Retirement Savings Plan"). Participants in the Retirement Savings Plan who are not at least a Senior Vice President may elect to contribute between 2% and 50% of their eligible compensation to the plan, on a pre-tax or after-tax Roth basis. Participants in the Retirement Savings Plan that are at least a Senior Vice President may elect to contribute between 2% and 25% of their eligible compensation, on a pre-tax or after-tax Roth basis. Through December 31, 2019, we made employer match contributions to participant savings with contributions of up to 3% of eligible employee compensation. Effective January 1, 2020, employer match contributions were increased up to 4.2% of eligible employee compensation. Prior to 2019, we also contributed an annual discretionary amount to the Retirement Savings Plan, which varied as a percentage of each participant's eligible compensation depending on our profitability. For the year ended December 31, 2018, we accrued a discretionary contribution of $1.6 million related to the Retirement Savings Plan, which was equal to 2%, of eligible compensation paid in February 2019. The annual discretionary contribution to the Retirement Savings Plan was discontinued starting with the 2019 plan year. For the years ended December 31, 2019 and 2018, total pension expense related to matching and discretionary (in years applicable) contributions to the Retirement Savings Plan, net of forfeitures, was $1.6 million and $3.3 million, respectively. Both participant and Company contributions to the Retirement Savings Plan are subject to limitations under IRS regulations.

Deferred Compensation Plan—We sponsor a non-qualified Deferred Compensation Plan (the "DCP"), which is available to certain U.S. officers for whom contributions to the Retirement Savings Plan are limited by IRS regulations. The DCP provides participants with a menu of investment crediting options that track a portfolio of various deemed investment funds. We credit participant accounts on the same basis as matching and discretionary contributions to the Retirement Savings Plan, as discussed above. For the year ended December 31, 2018, we accrued discretionary contributions of $0.5 million, related to the DCP, which was equal to 2%, of eligible compensation paid in that year. The annual discretionary contribution to the DCP was discontinued in 2019. For the years ended December 31, 2019 and 2018, total pension expense related to matching and discretionary (in years applicable) contributions to the DCP was $0.2 million and $0.9 million, respectively.

Employee deferrals and our accrued contributions to the DCP are informally funded into a rabbi trust which provides benefit security by sheltering assets in the event of a change-in-control of Sotheby's and certain other situations. DCP liabilities are financed through the trust almost entirely by using company-owned variable life insurance ("COLI"), and, to a lesser extent, investments in money market mutual funds. As of December 31, 2019 and 2018, the DCP liability, which is recorded on our Consolidated Balance Sheets within Other Long-Term Liabilities (see Note 12), was $34.3 million and $28.3 million, respectively, and the assets held in the rabbi trust consisted of the following (in thousands of dollars):

December 31,	**2019**	**2018**
Company-owned variable life insurance	$ 28,125	$ 23,887
Money market mutual fund investments	6,987	4,630
Total Deferred Compensation Plan Assets	$ 35,112	$ 28,517

The COLI and money market mutual fund investments are aggregated and recorded on our Consolidated Balance Sheets within Other Long-Term Assets (see Note 12). The COLI is reflected at its cash surrender value. The money market mutual fund investments are classified as trading securities and reflected at their fair value.

Changes in the fair value of the DCP liability, which result from gains and losses in deemed participant investments, are recognized in our Consolidated Statements of Operations within Salaries and Related Costs in the period in which they occur. Gains in deemed participant investments increase the DCP liability, as well as Salaries and Related Costs. Losses in deemed participant investments decrease the DCP liability, as well as Salaries and Related Costs. For the years ended December 31, 2019 and 2018, net gains (losses) in deemed participant investments totaled $4.5 million and ($1.1) million, respectively.

Gains and losses resulting from changes in the cash surrender value of the COLI and the fair value of the money market mutual fund investments, as well as COLI-related expenses, are recognized in our Consolidated Statements of Operations within Non-Operating (Expense) Income in the period in which they occur. For the years ended December 31, 2019 and 2018, net gains (losses) related to the COLI and the money market mutual fund investments were $4.2 million and ($1.6) million, respectively.

U.K. Defined Contribution Plan—Beginning on April 1, 2004, a defined contribution plan was made available to employees in the U.K. (the "U.K. Defined Contribution Plan"). Participants in the U.K. Defined Contribution Plan must contribute 3% of their eligible compensation to the plan with no cap on maximum contributions. We may match participant savings with a contribution of up to 9% of eligible employee compensation. We may also contribute an annual discretionary amount to the U.K. Defined Contribution Plan, which varies as a percentage of each participant's eligible compensation depending on our profitability. For the years ended December 31, 2019 and 2018, we accrued discretionary contributions of $1 million and $1.1 million related to the U.K. Defined Contribution Plan, respectively, both of which are equal to 2% of eligible compensation paid during those each of those years. For the years ended December 31, 2019 and 2018, pension expense related to the U.K. Defined Contribution Plan was $3.8 million and $4 million, respectively.

U.K. Defined Benefit Pension Plan—We sponsor a defined benefit pension plan in the U.K. (the "U.K. Pension Plan"). Effective April 1, 2004, participation in the U.K. Pension Plan was closed to new employees. On April 30, 2016, after the completion of a statutory consultation process, the U.K. Pension Plan was closed to accrual of future service costs for active participants, who became participants in the U.K. Defined Contribution Plan.

Benefit Obligation, Plan Assets, and Funded Status

The table below details the changes in the projected benefit obligation, plan assets, and funded status of the U.K. Pension Plan, as well as the net pension asset recognized on our Consolidated Balance Sheets, within Other Long-Term Assets (see Note 12) as of and for the years ended December 31, 2019 and 2018 (in thousands of dollars):

December 31,	2019	2018
Reconciliation of benefit obligation		
Projected benefit obligation at beginning of year	$ 309,717	$ 345,876
Interest cost	7,902	7,597
Actuarial loss (gain)	36,077	(17,745)
Prior service cost	—	967
Benefits paid	(11,573)	(9,913)
Foreign currency exchange rate changes	9,386	(17,065)
Projected benefit obligation at end of year	351,509	309,717
Reconciliation of plan assets		
Fair value of plan assets at beginning of year	413,256	454,702
Actual return on plan assets	39,840	(8,832)
Benefits paid	(11,573)	(9,913)
Foreign currency exchange rate changes	12,095	(22,701)
Fair value of plan assets at end of year	453,618	413,256
Funded Status		
Net pension asset	$ 102,109	$ 103,539

For the year ended December 31, 2019, the projected benefit obligation increased $41.8 million (13%) largely due to a decrease in the discount rate assumption used to value the obligation (see table below), higher assumed inflation and foreign currency exchange rate changes, partially offset by membership experience relating to the actuarial valuation, which together resulted in a pre-tax actuarial loss of $36.1 million.

For the year ended December 31, 2018, the projected benefit obligation decreased $36.2 million (10%) largely due to an increase in the discount rate assumption used to value the obligation (see table below), foreign currency exchange rate changes, and, to a lesser extent, a change in mortality assumptions, partially offset by higher actual and assumed inflation, which together resulted in a pre-tax actuarial gain of $17.7 million. The net decrease in the projected benefit obligation during the current year was also influenced by the estimated pre-tax prior service cost (approximately $1 million) related to the U.K. High Court ruling on October 26, 2018 which requires that certain guaranteed minimum pension benefits be equalized between men and women.

We did not make any contributions to the U.K. Pension Plan in 2019 and 2018, and we do not expect to make any regular contributions in 2020.

As of December 31, 2019 and 2018, the accumulated benefit obligation for the U.K. Pension Plan was $351.5 million and $309.7 million, respectively, and is almost identical to the projected benefit obligation on those dates because the plan is closed to accrual of future service costs.

Components of Net Pension Benefit

For the years ended December 31, 2019 and 2018, the components of the net pension benefit related to the U.K. Pension Plan are as follows (in thousands of dollars):

Year Ended December 31,	2019	2018
Interest cost	$ 7,902	$ 7,597
Expected return on plan assets	(10,485)	(11,131)
Amortization of actuarial loss	—	481
Amortization of prior service cost	(63)	(102)
Net pension benefit	$ (2,646)	$ (3,155)

Amounts Recognized in Other Comprehensive Loss

Net Actuarial Loss—The net actuarial loss related to the U.K. Pension Plan, which is recognized net of tax in Other Comprehensive Loss, is generally the result of: (i) actual results differing from previous actuarial assumptions (for example, the expected return on plan assets) and (ii) changes in actuarial assumptions between balance sheet dates (for example, the discount rate). For the years ended December 31, 2019 and 2018, the net loss related to the U.K. Pension Plan was ($5.6) million and ($1.8) million, respectively.

Prior Service Cost—For the year ended December 31, 2018, we recognized estimated after-tax prior service cost of ($0.8) million in Other Comprehensive Loss related to a U.K. High Court ruling on October 26, 2018 which requires that certain guaranteed minimum pension benefits be equalized between men and women.

Amounts Included in Accumulated Other Comprehensive Loss

Net Actuarial Loss—As of December 31, 2019 and 2018, the net actuarial gain (loss) related to the U.K. Pension Plan recorded in Accumulated Other Comprehensive Loss was ($8) million and ($2.4) million, respectively.

If the amount recorded in Accumulated Other Comprehensive Loss exceeds 10% of the greater of (i) the market-related value of plan assets or (ii) the benefit obligation, that excess amount is amortized as a component of future net pension cost or benefit over the average expected future life of plan participants, which is approximately 28.4 years. The market-related value of plan assets adjusts the market value of plan assets by recognizing changes in fair value over a period of five years.

Prior Service Cost—As of December 31, 2019 and 2018, the prior service cost related to the U.K. Pension Plan recorded in Accumulated Other Comprehensive Loss was $0.7 million and $0.8 million, respectively.

Assumptions

As of and for the years ended December 31, 2019 and 2018, the following assumptions were used in determining the benefit obligation and net pension benefit related to the U.K. Pension Plan:

Benefit Obligation	**2019**	**2018**
Weighted average discount rate	2.1%	2.9%

Net Pension Benefit	**2019**	**2018**
Weighted average discount rate - service cost	N/A	N/A
Weighted average discount rate - interest cost	2.6%	2.3%
Weighted average rate of compensation increase	N/A	N/A
Weighted average expected long-term rate of return on plan assets	2.7%	2.8%

The discount rate represents the approximate weighted average rate set in accordance with U.S. GAAP requirements based on a yield curve for a selection of high-quality corporate bonds with maturity dates approximating the length of time remaining until individual benefit payment dates. We use a separate discount rate for the service and interest cost components of the net pension benefit. The discount rate used for each component contemplates a full yield curve in respect to the expected timing of the cash flows related to these components. Starting in 2017, the measurement of the net pension benefit does not include an assumption of a discount rate to measure service cost due to the closure of the U.K. Pension Plan to the accrual of future service costs, as discussed above. Similarly, as of December 31, 2019 and 2018, the measurement of the benefit obligation does not include an assumption for future annual compensation increases.

The expected long-term rate of return is weighted according to the composition of invested assets and is based on expected future appreciation, as well as dividend and interest yields currently available in the equity and bond markets. In particular, the expected rate of return for growth assets represents our estimate of median annualized returns by asset class. The expected rate of return on debt securities is based on interest yields currently available on long-dated U.K. government bonds and highly-rated corporate bonds. No allowance is made in the expected rate of return for potential market out-performance by fund managers.

Plan Assets

The investment policy for the U.K. Pension Plan is established by its Trustees in consultation with our management. The Trustees' investment objective is to maximize the return on assets while controlling the level of risk so as to ensure that sufficient assets are available to pay participants' benefits as and when they arise. The Trustees have agreed that a portfolio of assets with some growth content is appropriate, but so as to avoid an undue concentration of risk, a diverse spread of assets is held within the portfolio. The diversification is both within and across asset categories. Professional investment managers are provided target allocation percentages for different categories within each asset class; actual allocation percentages are permitted to fall within a reasonable range of these targets. In setting specific asset allocation targets, the Trustees take advice as required from professional investment advisors and require that the majority of the assets be realizable at short notice.

As a result of the closure of the U.K. Pension Plan to the accrual of future service costs in April 2016 and a $24.2 million contribution made in December 2016, there has been an improvement in the funded status of the plan in recent years. Accordingly, in recent years, we have made changes to our allocation of plan assets to reduce investment risk.

In 2018, we made two changes to the composition of plan assets to continue to reduce investment risk. First, in July 2018, we sold $133 million of debt securities in order to purchase a buy-in annuity contract from an insurer. The intent of the buy-in annuity contract is to generate returns designed to match the funding of pensioners currently receiving payments from the plan. In particular, the buy-in annuity contract offers the ability to lock-in the cash value of a portion of the pension benefit obligation and significantly reduce future volatility in plan assets. Then, in December 2018, another change in asset allocation was made, resulting in an approximate allocation of 17% to growth assets and 83% to debt and debt-like securities (including the buy-in annuity contract) and cash and cash equivalents. These allocation percentages remained in place during 2019.

The investment managers for the U.K. Pension Plan have some discretion in making investment decisions, subject to the investment mandate set forth by the Trustees. The performance of the investment managers is benchmarked against suitable indices.

The table below presents the fair value of U.K. Pension Plan assets, by investment category, as of December 31, 2019 and 2018 (in thousands of dollars):

December 31,	2019	% of Total	2018	% of Total
Growth assets	$ 78,851	17.4%	$ 69,617	16.8%
Debt securities:				
Corporate	45,150	10.0%	37,332	9.0%
Index-linked	196,290	43.3%	147,891	35.8%
Total debt securities	241,440	53.2%	185,223	44.8%
Buy-in annuity contract	131,661	29.0%	131,416	31.8%
Real estate mutual funds	34	—%	33	0.1%
Cash and cash equivalents	1,632	0.3%	26,967	6.5%
Total fair value of plan assets	$ 453,618		$ 413,256	

The assets of the U.K. Pension Plan, which are measured at fair value, are classified and disclosed according to one of the following categories:

- Level 1—Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Level 1 inputs generally provide the most reliable evidence of fair value.
- Level 2—Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value may be determined through the use of models or other valuation methodologies.
- Level 3—Pricing inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

The table below provides fair value measurement information for the U.K. Pension Plan assets as of December 31, 2019 (in thousands of dollars):

	Total Fair Value	Fair Value Measurements Using: Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Growth assets	$ 78,851	$ 78,851	$ —	$ —
Debt securities:				
Corporate	45,150	45,150	—	—
Index-linked	196,290	194,823	1,467	—
Total debt securities	241,440	239,973	1,467	—
Buy-in annuity contract	131,661	—	—	131,661
Real estate mutual funds	34	—	34	—
Cash and cash equivalents	1,632	1,632	—	—
Total fair value of plan assets	$ 453,618	$ 320,456	$ 1,501	$ 131,661

As of December 31, 2019, the following U.K. Pension Plan assets are classified as Level 1 fair value measurements:

Growth Assets—Includes investments in a publicly-traded mutual fund, the fair value of which is based on exchange quoted prices in active markets.

Debt Securities—Includes investments in publicly-traded bond mutual funds, the fair values of which are based on exchange quoted prices in active markets.

Cash and Cash Equivalents—Includes investments in cash and money market instruments that are highly liquid and for which book value approximates fair value.

As of December 31, 2019, the following U.K. Pension Plan assets are classified as Level 2 fair value measurements:

Debt Securities—Includes investments in pooled funds which do not have directly observable quoted market prices, but for which the underlying value is determined by publicly-traded bonds that have directly observable exchange quoted prices in active markets.

Real Estate Mutual Funds—Includes investments in real estate mutual funds, the fair value of which are based on directly and indirectly observable real estate prices, including comparable prices.

As of December 31, 2019, the following U.K. Pension Plan assets are classified as Level 3 fair value measurements:

Buy-in Annuity Contract—The value of the buy-in annuity contract as of December 31, 2019 is based on the premium paid in July 2018 to purchase the contract of approximately $133 million, updated for actual benefit payments made since the purchase of the contract and interest and market condition adjustments commensurate with an investment of this type.

Estimated Future Benefit Payments

Estimated future benefit payments related to the U.K. Pension Plan are as follows (in thousands of dollars):

Year	Benefit Payments
2020	$ 9,299
2021	$ 10,163
2022	$ 10,988
2023	$ 11,296
2024	$ 11,301
2025 to 2029	$ 62,429

Note 10—Debt

Revolving Credit Facilities—The following tables summarize information related to our revolving credit facilities as of and for the years ended December 31, 2019 and 2018 (in thousands of dollars):

As of and for the years ended	December 31, 2019	December 31, 2018
Maximum borrowing capacity	$ 400,000	$ 1,100,000
Borrowings outstanding	$ —	$ 280,000
Average borrowings outstanding[(a)]	$ 300,584	$ 106,181

(a) Average borrowings outstanding under the New Revolving Credit Facility (defined below) from the Effective Time through December 31, 2019, totaled $114.4 million. The full text of the New Credit Facilities Agreement (defined below) can be found attached as Exhibit 10.1 to our Third Quarter 2019 Form 10-Q filed with the SEC on November 12, 2019.

Previous Credit Agreements—Prior to June 26, 2018, we were party to credit agreements with an international syndicate of lenders that, among other things, provided for dedicated asset-based revolving credit facilities for the Agency segment (the "Agency Credit Facility") and SFS (the "SFS Credit Facility") (collectively, the "Previous Credit Agreements"). On June 26, 2018, we refinanced the Previous Credit Agreements and entered into a credit agreement with an international syndicate of lenders led by JPMorgan Chase Bank, N.A. (the "JPMorgan Chase Credit Agreement"). As a result of this refinancing, $4 million of unamortized fees related to the Previous Credit Agreements were written off in the second quarter of 2018.

The JPMorgan Chase Credit Agreement combined the Agency Credit Facility and SFS Credit Facility into one asset-based revolving credit facility with an aggregate borrowing capacity of $1.1 billion, subject to a borrowing base. Borrowings under the JPMorgan Chase Credit Agreement were available to fund our working capital needs and for other general corporate purposes. Our obligations under the JPMorgan Chase Credit Agreement were secured by liens on all or substantially all of the personal property of the entities that were borrowers and guarantors under the JPMorgan Chase Credit Agreement. As of December 31, 2018, borrowings under the Previous Credit Agreements totaled $280 million.

The JPMorgan Chase Credit Agreement was scheduled to mature on June 26, 2023, but it was terminated on October 3, 2019 in connection with the Merger and all $470 million of borrowings outstanding at the time were repaid. As a result of the termination of the JPMorgan Chase Credit Agreement, $3.5 million of related unamortized debt issuance costs were written-off in the fourth quarter of 2019.

New Credit Agreements—In connection with the Merger, Merger Sub entered into a credit agreement dated as of October 2, 2019, between Merger Sub, *inter alios*, certain lenders party thereto and BNP Paribas, as administrative agent, and Deutsche Bank Trust Company Americas, as the collateral agent (the "Agent"), (the "New Credit Facilities Agreement"). The New Credit Facilities became obligations of the Company as of the Effective Time.

The New Credit Facilities Agreement provides (i) U.S. dollar-denominated term loans in an aggregate principal amount of up to $500 million available in up to two drawings (the "New Term Loan Facility"); and (ii) U.S. dollar-denominated revolving loan commitments in an aggregate principal amount of $400 million, which includes a $150 million letter of credit sub-facility (the "New Revolving Credit Facility," and together with the New Term Loan Facility, the "New Credit Facilities"). The New Term Loan Facility will mature in January 2027, and the New Revolving Credit Facility will mature in October 2024. Capitalized terms used under this heading and not otherwise defined herein shall have the meanings given to them in the New Credit Facilities Agreement. The Company has provided a guarantee of the SFS Subsidiary's obligations under the SFS Loan of up to $150 million that is supported by standby letters of credit under the aforementioned letters of credit sub-facility (see Note 21).

The New Credit Facilities Agreement also permits the Company to request revolving loans, swing line loans or letters of credit from the revolving lenders thereunder, from time to time from and after the initial funding date under the New Credit Facilities (the "New Term Loan Facility Funding Date") and prior to the date that is five years from the Effective Time.

Loans comprising each Eurodollar Borrowing or ABR Borrowing, as applicable, shall bear interest at a rate per annum equal to the Adjusted LIBO Rate or the Alternate Base Rate ("ABR"), as applicable, plus an Applicable Margin, where the Applicable Margin means (i) in respect of term loans (x) with respect to any ABR Loan, 4.5% per annum and (y) with respect to any Eurodollar Loan, 5.5% per annum, and (ii) in respect of revolving credit loans (x) with respect to any ABR Loan, 2.75% per annum and (y) with respect to any Eurodollar Loan, 3.75% per annum.

The New Credit Facilities Agreement requires the Company to prepay outstanding term loans under the New Term

Loan Facility, subject to certain exceptions and deductions, with (i) 100% of the net cash proceeds of certain asset sales, subject to reinvestment rights and certain other exceptions; and (ii) commencing with the fiscal year ending 2020, a pari ratable share (based on the outstanding principal amount of the term loans under the New Credit Facilities divided by the outstanding principal amount of all pari passu indebtedness (including the term loans under the New Credit Facilities)) of 50% of the Company's annual excess cash flow, which will be reduced to (x) 25% if the Consolidated Net Leverage Ratio is less than or equal to 4.50 to 1.00 and greater than 3.75 to 1.00, and (y) 0% if the Consolidated Net Leverage Ratio is less than or equal to 3.75 to 1.00 and subject to other customary deductions.

Voluntary prepayments of the loans under the New Term Loan Facility are permitted; however, any prepayments on or prior to the 12-month anniversary of the New Term Loan Facility Funding Date which are either (x) in connection with a Repricing Transaction or (y) effect any amendment of the New Credit Facility resulting in a Repricing Transaction, are subject to a call premium payable to the administrative agent on behalf of the lenders of, in the case of (x) 1.00% of the principal amount of the New Term Loan Facility so repaid and in the case of (y) a payment equal to 1.00% of the aggregate amount of the New Term Loan Facility subject to such Repricing Transaction.

Beginning on January 15, 2020, the Company is required to make scheduled quarterly payments each equal to 0.25% of the original principal amount of the term loans borrowed under the New Term Loan Facility, with the balance expected to be due on the January 2027 maturity date. As of December 31, 2019, the aggregate principal amount outstanding under the New Term Loan facility was $467 million, consisting of (i) $96 million drawn to repay a portion of the outstanding revolving credit facility borrowings under the JPMorgan Chase Credit Agreement ($14 million) and to fund a portion of the transaction costs associated with the Merger, including debt issuance costs associated with the 2027 Notes, and (ii) $370 million drawn to fund the Change of Control Tender Offer and a portion of the transaction costs associated with the Merger. As of December 31, 2019, there were no outstanding borrowings under the New Revolving Credit Facility and the available borrowing capacity was $250 million.

The obligations of the Company under the New Credit Facilities are guaranteed, on a senior basis, by the Initial U.S. and initial non-U.S. Guarantors. In addition, the New Credit Facilities will be guaranteed by each future material wholly-owned restricted subsidiary of the Company that is organized in the U.S., England and Wales, Luxembourg and Hong Kong, subject to certain limitations set forth in the New Credit Facilities documentation.

The obligations of the Company under the New Credit Facilities are secured by (a) first-priority security interests in substantially all of the collateral of the Subsidiary Guarantors (defined below) (other than any Subsidiary Guarantor incorporated in Luxembourg ("Luxembourg Guarantor")) and the Company (other than any real estate, SFS-related notes receivable, and subject to certain other exceptions) which secured the Company's obligations under the JPMorgan Chase Credit Agreement (see Note 1), (b) without limiting clause (a) above, all of the equity interests (i) of the Company held by BidFair and (ii) of any Subsidiary Guarantor incorporated in the U.S., England and Wales, Luxembourg and Hong Kong held by any Luxembourg Guarantor and (c) without limiting clause (a) above, any intercompany loans (i) from BidFair to the Company and (ii) from any Luxembourg Guarantor to any other Restricted Subsidiary (together, the "Senior Credit Facilities Collateral").

The New Credit Facilities Agreement includes negative covenants that substantially reflect the covenants contained in the Indenture governing the 2027 Notes and, subject to certain significant exceptions and qualifications, will limit the Company's ability and the ability of its restricted subsidiaries to: (i) incur or guarantee additional Indebtedness, (ii) make investments or other restricted payments, (iii) create liens, (iv) sell assets and subsidiary stock, (v) pay dividends or make other distributions or repurchase or redeem the Company's capital stock or subordinated debt, (vi) engage in certain transactions with affiliates, (vii) enter into agreements that restrict the payment of dividends by subsidiaries or the repayment of intercompany loans and advances; and (viii) engage in mergers or consolidations. The New Revolving Credit Facility will include a financial maintenance covenant solely for the benefit of the lenders under the New Revolving Credit Facility consisting of a maximum consolidated net senior secured leverage ratio of the Company and its restricted subsidiaries of 6.50 to 1.0. The financial covenant will be tested on the last day of any fiscal quarter (commencing on March 31, 2020) but solely for the purpose of the New Revolving Credit Facility only if on such day the outstanding borrowings under the New Revolving Credit Facility (other than cash collateralized or undrawn letters of credit) exceed 40% of the total commitments under the New Revolving Credit Facility.

The New Credit Facilities Agreement also contains certain customary representations and warranties, affirmative covenants and events of default (including, among others, an event of default upon a change of control). If an event of default occurs, the lenders under the New Credit Facilities will be entitled to take various actions, including the acceleration of amounts due under the New Credit Facilities and all actions permitted to be taken by a secured creditor, subject to the Intercreditor Agreement.

As of December 31, 2019 and 2018, our Long-Term Debt consisted of the following (in thousands of dollars):

December 31,	2019	2018
Term Loan Facility, net of unamortized debt issuance costs and debt discount of $18,755 and $0	$ 448,029	$ —
2027 Senior Notes, net of unamortized debt issuance costs of $14,347 and $0	585,653	—
2025 Senior Notes, net of unamortized debt issuance costs of $606 and $4,894	57,081	395,106
York Property Mortgage, net of unamortized debt issuance costs of $0 and $3,559	—	257,284
Less current portion:		
Term Loan Facility, net of unamortized debt issuance costs and debt discount of $0 and $0	$ (4,500)	$ —
2025 Senior Notes, net of unamortized debt issuance costs of $79 and $0	(26,761)	—
York Property Mortgage, net of unamortized debt issuance costs of $0 and $1,010	—	(13,604)
Total Long-Term Debt, net	$ 1,059,502	$ 638,786

See the captioned sections above and below for information related to our credit facility and term loan borrowings; our senior secured 2027 Notes; our senior unsecured 2025 Notes; and, debt subject to the York Property Transfer. The full text of the 2027 Indenture can be found attached as Exhibit 10.2 to our Third Quarter 2019 Form 10-Q filed with the SEC on November 12, 2019.

2027 Notes—In connection with the Merger, Merger Sub issued $600 million principal amount of senior secured notes due 2027 in a private placement conducted pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended. As of the Effective Time, the 2027 Notes became obligations of the Company. The 2027 Notes bear interest at a rate of 7.375% per annum and mature on October 15, 2027. Interest on the 2027 Notes will be payable semi-annually in arrears on June 1 and December 1 of each year, starting in June 2020.

The 2027 Notes rank equally in right of payment with any existing or future indebtedness of the Company that is not subordinated in right of payment to the 2027 Notes, including the Company's obligations under the New Credit Facilities. The Notes rank senior in right of payment to all of the Company's existing and future indebtedness that is expressly subordinated in right of payment to the 2027 Notes. The 2027 Notes are effectively subordinated to any of the Company's existing and future indebtedness that is secured by property or assets that do not secure the 2027 Notes, to the extent of the value of such property and assets securing such indebtedness. In addition, the 2027 Notes are structurally subordinated to the existing and future liabilities of the Company's subsidiaries that do not guarantee the 2027 Notes. The 2027 Notes are guaranteed on a senior secured basis (the "Guarantees") jointly and severally by BidFair Holdings Inc., a Delaware corporation and wholly owned subsidiary of Parent ("BidFair"), and each of Company's existing and future material wholly-owned restricted subsidiaries organized in the U.S., England and Wales, Luxembourg, and Hong Kong that guarantee the New Credit Facilities or that guarantee certain of its other indebtedness or certain indebtedness of a guarantor (subject to certain exceptions) (collectively, the "Subsidiary Guarantors", and together with BidFair, the "Guarantors"). The Guarantees rank equally in right of payment to the existing and future senior indebtedness of the Guarantors, including the 2025 Notes and the New Credit Facilities, and rank senior in right of payment to any existing and future subordinated obligations of the Guarantors.

The Company may redeem some or all of the 2027 Notes at any time on or after October 15, 2022, at the redemption prices set forth in the Indenture, plus accrued and unpaid interest, if any, to, but excluding, the applicable redemption date. The Company may also redeem up to 40% of the 2027 Notes using the proceeds of certain equity offerings before October 15, 2022, at a redemption price equal to 107.375%, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. In addition, at any time prior to October 15, 2022, the Company may redeem some or all of the 2027 Notes, at a price equal to 100% of the principal amount thereof, plus a "make whole" premium specified in the Indenture plus accrued and unpaid interest, if any, to, but excluding, the applicable redemption date.

The Indenture contains certain covenants and agreements, including limitations on the ability of the Company and its restricted subsidiaries to (i) incur or guarantee additional indebtedness, (ii) make investments or other restricted payments, (iii) create liens, (iv) sell assets and subsidiary stock, (v) pay dividends or make other distributions or repurchase or redeem its capital stock or subordinated debt, (vi) engage in certain transactions with affiliates, (vii) enter into agreements that restrict the payment of dividends by subsidiaries or the repayment of intercompany loans and advances, and (viii) engage in mergers or consolidations, in each case subject to certain exceptions. The Indenture also contains certain customary events of default. If an event of default occurs, the obligations under the 2027 Notes and the Indenture may be accelerated.

2025 Notes—On December 12, 2017, we issued $400 million aggregate principal amount of 4.875% Senior Notes due December 15, 2025 (the “2025 Notes”). The net proceeds from the sale of the 2025 Notes were approximately $395.5 million, after deducting fees paid to the initial purchasers, of which $312.3 million was irrevocably deposited with a trustee for the benefit of the holders of our previous $300 million senior unsecured borrowings due October 1, 2022 (the "2022 Notes"), which were redeemed using these funds on January 11, 2018. As a result of the redemption of the 2022 Notes, we wrote-off $3 million of related unamortized debt issuance costs, which, when combined with the $7.9 million call premium, resulted in a total loss on the extinguishment of $10.9 million recognized in the first quarter of 2018.

Interest on the 2025 Notes was payable in cash semi-annually in arrears on June 15 and December 15 of each year, beginning June 15, 2018. The 2025 Notes were offered only to qualified institutional buyers in accordance with Rule 144A and to non-U.S. Persons under Regulation S under the Securities Act of 1933, as amended (the "Securities Act"). Holders of the 2025 Notes did not have registration rights, and the 2025 Notes were not registered under the Securities Act. The 2025 Notes were guaranteed, jointly and severally, on a senior unsecured basis by certain of our domestic subsidiaries to the extent and on the same basis that such subsidiaries guarantee borrowings under the JPMorgan Chase Credit Agreement.

The 2025 Notes were redeemable, in whole or in part, on or after December 15, 2020, at specified redemption prices set forth in the underlying indenture, plus accrued and unpaid interest to, but excluding, the redemption date. Prior to December 15, 2020, the 2025 Notes were redeemable, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2025 Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date, plus a make-whole premium (as defined in the underlying indenture). The underlying indenture for the 2025 Notes also contained customary covenants that limit, among other things, our ability to grant liens on our assets; enter into sale and leaseback transactions; and merge, consolidate or transfer or dispose of substantially all of our assets. The above covenants were subject to a number of exceptions and qualifications set forth in the underlying indenture.

On September 10, 2019, BidFair MergeRight Inc. made an offer to purchase (the “Change of Control Tender Offer”) any and all of the outstanding 2025 Notes in connection with and conditioned on the consummation of our merger with BidFair MergeRight Inc. The Change of Control Tender Offer offered to repurchase the $400 million 2025 Notes outstanding at 101% of the aggregate principal amount, plus accrued and unpaid interest. On October 15, 2019, as a result of the Change of Control Tender Offer, the Company repurchased $342.3 million of the 2025 Notes at a redemption price of $351.3 million, which included $5.6 million of accrued interest and a call premium of $3.4 million. As a result of the partial redemption of the 2025 Notes, $3.7 million of unamortized debt issuance costs were written-off, which, when combined with the $3.4 million call premium, resulted in a total loss on extinguishment of $10.3 million recognized in the fourth quarter of 2019. As of December 31, 2019, $57.7 million of the 2025 Notes were outstanding with $26.8 million recorded within Current portion of long-term debt and $30.9 million recorded within Long-term debt on the Company's Consolidated Balance Sheets.

On February 24, 2020, the Company issued a Consent Solicitation Statement (the "Solicitation") seeking consents from holders of the remaining 2025 Notes for the purpose of amending the reporting covenants included in the indenture. The amendment required the consent of holders holding greater than 50% of the aggregate outstanding principle amount of the 2025 Notes in order to be adopted. The Solicitation expired on February 28, 2020 and, at that time, 57% of holders had consented. The adoption of the amendment resulted in the redemption of principal of $26.9 million of the outstanding 2025 Notes, $1.2 million in consent fees which were recorded in the first quarter of 2020 and a $0.8 million loss on extinguishment.

York Property Mortgage—The York Property was subject to a seven-year, $325 million mortgage loan (the "York Property Mortgage") that was scheduled to mature on July 1, 2022. The York Property Mortgage was repaid on October 3, 2019, in connection with the completion of the Merger and the York Property Transfer. At the time of the Merger, the York Property Mortgage had an outstanding principal balance of approximately $249 million. As a result of the repayment of the York Property Mortgage, $3.1 million of unamortized debt issuance costs was written-off in the fourth quarter of 2019 and recognized in the Company's Consolidated Statement of Operations. The LLC presently leases the York Property to a subsidiary of Sotheby's. The assets of the LLC are not available to satisfy the obligations of any other entity. (See Note 1 and Note 21 for information regarding the Merger, the York Property Transfer, and our related party transactions.)

Future Payments Due Under Outstanding Debt—The aggregate future principal and interest payments due under our Term Loan Facility, 2027 Notes, and 2025 Notes during the five year period after December 31, 2019 are as follows (in thousands of dollars):

Year	Amount
2020	$ 119,306
2021	$ 84,620
2022	$ 84,290
2023	$ 83,960
2024	$ 83,842
Thereafter	$ 1,272,775

The table above includes the impact of the Solicitation redemption of $26.9 million in connection with our 2025 Notes which occurred in the first quarter of 2020.

Interest Paid—In 2019 and 2018, interest paid totaled $51.4 million and $43.6 million, respectively, and consists of cash payments related to the York Property Mortgage (through September 2019), our long-term debt, and revolving credit facility borrowings (including fees). In addition to the payment of interest, in 2019 and 2018 we paid debt issuance costs of $39.8 million and $4.5 million, respectively, which are amortized to Interest Expense in our Consolidated Statements of Operations. In connection with the Merger, we also paid $35 million in debt issuance costs associated with the debt issuances of the Parent.

Note 11—Derivative Financial Instruments

As of December 31, 2019 and 2018, our derivative financial instruments consisted of the following (in thousands of dollars):

			Asset (Liability) Fair Value	
December 31,	**Type**	**Balance Sheet Classification**	**2019**	**2018**
Not Designated				
Interest rate swap	Cash Flow	Accounts Payable and Accrued Liabilities	$ (2,678)	$ —
Forward exchange contracts	Foreign Currency	Prepaid Expenses and Other Current Assets	502	351
Forward exchange contracts	Foreign Currency	Accounts Payable and Accrued Liabilities	(225)	(125)
Total			(2,401)	226
Designated Net Investment Hedges				
Forward exchange contracts	Net Investment	Other Current Liabilities	(2,465)	—
Forward exchange contracts	Net Investment	Prepaid Expenses and Other Current Assets	—	462
Total			(2,465)	462
Designated Cash Flow Hedges				
Interest rate collar	Cash Flow	Other Current Liabilities	—	(40)
Interest rate collar	Cash Flow	Other Long-Term Liabilities	—	(1,185)
Total			—	(1,225)

In 2019, we settled derivative financial instruments designated as net investment hedges with an aggregate notional value of $94.8 million and realized an aggregate gain of $3.2 million. In 2018, we settled derivative financial instruments designated as net investment hedges with an aggregate notional value of $202 million and realized a net loss of ($1.9 million). Realized gains and losses related to the settlement of derivative financial instruments designated as net investment hedges are reflected on our Consolidated Balance Sheets within Accumulated Other Comprehensive Loss.

The following table summarizes the effect of the derivative financial instruments designated as hedging instruments on our Consolidated Statements of Operations and Consolidated Statements of Comprehensive (Loss) Income for the years ended December 31, 2019 and 2018 (in thousands of dollars):

		Gain (Loss) Recognized in Other Comprehensive (Loss) Income - Effective Portion		Classification of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Net Income	Amount Reclassified from Accumulated Other Comprehensive Loss into Net Income - Effective Portion		Amount Reclassified from Accumulated Other Comprehensive Loss into Net Income - Ineffective Portion	
Year Ended December 31,	**Type**	**2019**	**2018**		**2019**	**2018**	**2019**	**2018**
Designated Net Investment Hedges								
Foreign exchange contracts	Net Investment	$ (366)	$ 1,826	Non-operating income	$ —	$ —	$ —	$ (58)
Total Net Investment Hedges		(366)	1,826		—	—	—	(58)
Designated Cash Flow Hedges								
Interest rate swap	Cash Flow	$ —	$ 95	Interest Expense	$ —	$ (145)	$ —	$ —
Interest rate collar	Cash Flow	(1,861)	440	Interest Expense	—	169	—	—
Interest rate swap	Cash Flow	—	—	Non-operating income	—	—	(3,699)	(160)
Total Cash Flow Hedges		(1,861)	535		—	24	(3,699)	(160)
Total Hedges		$ (2,227)	$ 2,361		$ —	$ 24	$ (3,699)	$ (218)

See the captioned sections below for information related to our derivative financial instruments.

DERIVATIVE FINANCIAL INSTRUMENTS NOT DESIGNATED AS HEDGING INSTRUMENTS

Interest Rate Swap—Following the Merger, on October 16, 2019, we entered into a seven-year interest rate swap agreement (the "Swap") with BNP Paribas (the "Calculation Agent") to reduce the variability in expected cash outflows associated with borrowing under the New Term Loan Facility (see Note 10). Under the Swap, Sotheby's will pay a fixed rate of 1.4863% (the "Fixed Rate") and receive a variable rate based upon the applicable three-month US LIBOR rate at the time of calculation (the "Floating Rate"). The Fixed Rate and Floating Rate have the same quarterly payment dates. As of December 31, 2019, the accrued interest receivable due to Sotheby's under the Swap totaled $0.3 million.

The Swap was entered into in connection with the Merger and in coordination with the novation of the Mortgage Collar (described in detail below) which transferred the interest rate collar liability from the LLC to Sotheby's. On October 16, 2019, the Collar was subsequently terminated and replaced with the Interest Rate Swap described above. The aggregate termination value of the Collar was $3.6 million and was included in the valuation of the replacement transaction. As of December 31, 2019, the Swap liability totaled $2.7 million. As of December 31, 2019, the aggregate notional value of the Swap was $467 million.

The Swap does not qualify as a cash flow hedge for accounting purposes and, as such, any unrealized gains and losses related to changes in the fair value of the instrument are recorded in Net Loss. From its inception through December 31, 2019, the Swap provided an effective interest rate on Term Loan Facility borrowings of 6.8% (see Note 10).

Forward Exchange Contracts—We utilize forward contracts to hedge cash flow exposures related to foreign currency exchange rate movements arising from short-term foreign currency denominated intercompany balances and, to a much lesser extent, foreign currency denominated client payable balances, as well as foreign currency denominated auction guarantee obligations. Such forward exchange contracts are typically short-term with settlement dates less than six months from their inception. These instruments are not designated as hedging instruments for accounting purposes. Accordingly, changes in the fair value of these instruments are recognized in our Consolidated Statements of Operations in Non-Operating Income.

As of December 31, 2019, the notional value of outstanding forward exchange contracts not designated as hedging instruments was $376.7 million. Notional values do not quantify risk or represent assets or liabilities, but are used to calculate cash settlements under outstanding forward exchange contracts. We were exposed to credit-related risks in the event of nonperformance by the counterparties to our outstanding forward exchange contracts that were not designated as hedging instruments. We do not expect any of these counterparties to fail to meet their obligations, given their investment grade short-term credit ratings.

DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGING INSTRUMENTS

Net Investment Hedges—We were exposed to variability in the U.S. Dollar equivalent of the net investments in our foreign subsidiaries and, by extension, the U.S. Dollar equivalent of any foreign earnings repatriated to the U.S. due to potential changes in foreign currency exchange rates. As a result, we regularly enter into foreign currency forward exchange contracts to hedge the net investments in our foreign subsidiaries from which we expect to repatriate earnings to the U.S. As of December 31, 2019, the aggregate notional value of our outstanding net investment hedge contracts was $35.6 million.

In the fourth quarter of 2018, the net investment in the foreign subsidiary underlying one of our net investment hedges decreased below the notional value of the corresponding foreign currency forward exchange contract resulting in the reclassification of a ($0.1) million gain (net of tax) from Accumulated Other Comprehensive Loss into Net Income.

We use the forward rate method to assess the effectiveness of our net investment hedges. Under the forward rate method, if both the notional value of the derivative designated as a hedge of a net investment in a foreign subsidiary equals the portion of the net investment designated as being hedged and the derivative relates solely to the foreign exchange rate between the functional currency of the hedged net investment and the investor's functional currency, then all changes in fair value of the derivative were reported in the cumulative translation adjustment accounts within Accumulated Other Comprehensive Loss on our Consolidated Balance Sheets.

The foreign currency forward exchange contracts designated as net investment hedges were considered Level 2 fair value measurements within the fair value hierarchy provided by ASC 820. Level 2 fair value measurements had pricing inputs other than quoted prices in active markets, which were either directly or indirectly observable as of the reporting date, and fair value may be determined through the use of models or other valuation methodologies. The fair value of these foreign currency forward exchange contracts were based on the estimated amount to settle the contracts using applicable market exchange rates as of the balance sheet date.

Mortgage Swap and Collar—Upon entry into the York Property Mortgage (see Note 10), we entered into interest rate protection agreements secured by the York Property, consisting of a 2-year interest rate swap (the "Mortgage Swap"), effective as of July 1, 2015, and a 5-year interest rate collar (the "Mortgage Collar"), effective as of July 1, 2017. The York Property Mortgage was repaid on October 3, 2019 in connection with the completion of the Merger (see Note 1). As a result, as of that date, the previously forecasted interest payments associated with the York Property Mortgage were no longer probable of occurring. Accordingly, in the fourth quarter of 2019, $3.7 million was reclassified from Accumulated Other Comprehensive Loss on Sotheby's Consolidated Balance Sheets and into Net Loss.

The Mortgage Swap fixed the LIBOR rate on the York Property Mortgage at an annual rate equal to 0.877% through its July 1, 2017 expiration date. The Mortgage Collar effectively fixed the LIBOR rate on the York Property Mortgage at an annual rate of no less than 1.917%, but no more than 3.75%, up until the Effective Time of the Merger. After taking into account the interest rate protection agreements, the annual interest rate for the first two years of the York Property Mortgage was approximately 3.127% and then was between a floor of 4.167% and a cap of 6%. Beginning on the effective date of the Mortgage Collar and up to the Effective Time of the Merger, the average interest rate for the York Property Mortgage was 4.4%.

Prior to the Merger, the Mortgage Collar was assumed to have a notional value that was no greater than the applicable forecasted principal balance of the York Property Mortgage. Upon the closing of the Merger on October 3, 2019, 1334 York LLC repaid all of its outstanding indebtedness under the York Property Mortgage.

The York Property, the York Property Mortgage, and the related interest rate protection agreement(s) were held by 1334 York, LLC, a separate legal entity of Sotheby's that maintains its own books and records and whose results up until October 3, 2019, were ultimately consolidated into our financial statements.

On November 21, 2016, we entered into a two-year interest rate swap agreement to eliminate the variability in expected cash outflows associated with the one-month LIBOR indexed interest payments owed on $63 million of revolving credit facility borrowings (the "Revolving Credit Facility Swap"). In the third quarter of 2018, these revolving credit facility borrowings were repaid, and the Revolving Credit Facility Swap was terminated, resulting in the reclassification of a $0.2 million gain (net of tax) from Accumulated Other Comprehensive Loss into Net Income.

At their inception, the Mortgage Collar and the Revolving Credit Facility Swap (collectively, the "Cash Flow Hedges") were each individually designated as cash flow hedges of the risk associated with the variability in expected cash outflows related to the one-month LIBOR-indexed interest payments owed on their respective debt instruments. Accordingly, to the extent that each of the Cash Flow Hedges remained outstanding and was effective, any unrealized gains and losses related to changes in their fair value were recorded to Accumulated Other Comprehensive Loss on our Consolidated Balance Sheets and then to the extent that there are any hedge settlements, the amount of any such settlement is reclassified to Interest Expense in our Consolidated Statements of Operations in the same period that interest expense related to the underlying debt instruments was recorded. Any hedge ineffectiveness was immediately recognized in Net Income. In addition, if any of the forecasted transactions associated with the Cash Flow Hedges were no longer probable of occurring, any related amounts previously recorded in Accumulated Other Comprehensive Loss on our Consolidated Balance Sheets were reclassified into Net (Loss) Income.

The assets and liabilities associated with the Cash Flow Hedges were designated as Level 2 fair value measurements within the fair value hierarchy provided by ASC 820. Level 2 fair value measurements have pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date. Level 2 fair value measurements may be determined through the use of models or other valuation methodologies. The fair value of the Mortgage Collar was based on an option pricing model using observable LIBOR-curve rates for each forecasted monthly settlement, with the projected cash flows discounted using the contractual terms of the instrument. The fair value of the Revolving Credit Facility Swap was based on a discounted cash flow methodology using the contractual terms of the instrument and observable LIBOR-curve rates that were consistent with the timing of the interest payments related to our revolving credit facility.

Note 12—Supplemental Consolidated Balance Sheet Information

As of December 31, 2019 and 2018, Prepaid Expenses and Other Current Assets consisted of the following (in thousands of dollars):

December 31,	2019	2018
Prepaid expenses	$ 24,637	$ 25,672
Derivative financial instruments	—	462
Insurance recoveries	6,384	4,353
Other	5,749	8,144
Total Prepaid and Other Current Assets	$ 36,770	$ 38,631

As of December 31, 2019 and 2018, Other Long-Term Assets consisted of the following (in thousands of dollars):

December 31,	2019	2018
Defined benefit pension plan asset	$ 102,109	$ 103,539
Equity method investments	48,502	47,507
Trust assets related to deferred compensation liability	35,112	28,517
Restricted cash	5,297	16,819
Insurance recoveries	6,674	13,882
Other	30,193	16,396
Total Other Long-Term Assets	$ 227,887	$ 226,660

As of December 31, 2019 and 2018, Other Long-Term Liabilities consisted of the following (in thousands of dollars):

December 31,	2019	2018
Deferred compensation liability	$ 34,280	$ 28,255
Acquisition earn-out consideration	—	8,750
Interest rate collar liability	—	1,185
Other	25,931	7,327
Total Other Long-Term Liabilities	$ 60,211	$ 45,517

Note 13—Supplemental Consolidated Cash Flow Information

Cash, Cash Equivalents, and Restricted Cash—As of December 31, 2019 and 2018, cash, cash equivalents, and restricted cash consisted of the following (in thousands of dollars):

December 31,	2019	2018
Cash and cash equivalents	264,970	$ 178,579
Restricted cash (a), recorded within current assets:		
Consignor funds held in legally segregated accounts	33,029	3,938
Cash Management Account related to the York Property Mortgage	—	716
Other	—	182
Restricted cash, recorded within current assets (a)	33,029	4,836
Restricted cash, recorded within other long-term assets (a)	5,297	16,819
Total restricted cash	38,326	21,655
Cash, cash equivalents, and restricted cash of the Company	303,296	200,234

(a) Restricted cash generally includes legally restricted deposits or amounts and cash balances restricted as a result of contracts entered into with third parties.

Changes in Other Operating Assets and Liabilities—For the years ended December 31, 2019 and 2018, changes in other operating assets and liabilities as reported in the Consolidated Statements of Cash Flows included the following (in thousands of dollars):

Year Ended December 31,	2019	2018
(Increase) decrease in:		
Prepaid expenses and other current assets	$ 1,172	$ (6,244)
Other long-term assets	(9,276)	(3,537)
Income tax receivables and deferred income tax assets	(27,046)	(15,003)
Increase (decrease) in:		
Accrued income taxes and deferred income tax liabilities	22,350	7,826
Accounts payable and accrued liabilities and other liabilities	(28,352)	(3,703)
Total changes in other operating assets and liabilities	$ (41,152)	$ (20,661)

Note 14—Accumulated Other Comprehensive Loss

The following is a summary of the changes in Accumulated Other Comprehensive Loss, and the details regarding any reclassification adjustments made during the period January 1, 2018 to December 31, 2019 (in thousands of dollars):

Year Ended December 31,	2019	2018
Currency Translation Adjustments		
Balance at January 1	$ (84,051)	$ (74,505)
Other comprehensive income (loss) before reclassifications, net of tax of $19 and ($498)	4,450	(9,546)
Other comprehensive income (loss)	4,450	(9,546)
Balance at December 31	(79,601)	(84,051)
Cash Flow Hedges		
Balance at January 1	(630)	(1,029)
Other comprehensive (loss) income before reclassifications, net of tax of ($614) and $177	(1,861)	535
Reclassifications from accumulated other comprehensive loss, net of tax of $1,208 and ($106)	2,491	(136)
Other comprehensive income	630	399
Balance at December 31	—	(630)
Net Investment Hedges		
Balance at January 1	15,327	13,559
Other comprehensive (loss) income before reclassifications, net of tax of $56 and $635	191	1,826
Reclassifications from accumulated other comprehensive loss, net of tax of $0 and ($20)	—	(58)
Other comprehensive (loss) income	191	1,768
Balance at December 31	15,518	15,327
Defined Benefit Pension Plan		
Balance at January 1	(2,690)	(491)
Currency translation adjustments	(209)	36
Net actuarial loss, net of tax of ($1,153) and ($364)	(5,628)	(1,775)
Prior service cost, net of tax of $0 and ($157)	—	(774)
Other comprehensive loss before reclassifications, net of tax	(5,837)	(2,513)
Prior service cost amortization, net of tax of ($10) and ($17)	(51)	(85)
Actuarial loss amortization, net of tax of $0 and $82	—	399
Reclassifications from accumulated other comprehensive loss, net of tax	(51)	314
Other comprehensive loss	(5,888)	(2,199)
Balance at December 31	(8,578)	(2,690)
Total other comprehensive loss attributable to Sotheby's	(617)	(9,578)
Accumulated other comprehensive loss at December 31	$ (72,661)	$ (72,044)

Year Ended December 31,	2019	2018
Cash Flow Hedges		
Settlements of cash flow hedges	$ 3,699	$ (242)
Tax effect	(1,208)	106
Reclassification adjustments, net of tax	2,491	(136)
Net Investment Hedges		
Dedesignation of net investment hedge	—	(78)
Tax effect	—	20
Reclassification adjustments, net of tax	—	(58)
Defined Benefit Pension Plan		
Prior service cost amortization	(61)	(102)
Settlement loss	—	—
Actuarial loss amortization	—	481
Pre-tax total	(61)	379
Tax effect	10	(65)
Reclassification adjustments, net of tax	(51)	314
Total reclassification adjustments, net of tax	$ 2,440	$ 120

Note 15—Income Taxes

We have calculated our income tax provision for the current year using the parent-company-down approach. Under this method, we are allocated income tax expense, or income tax benefit, on a jurisdictional basis based upon the percentage of our net income before taxes plus permanent differences over the Parent's consolidated group's net income before taxes plus permanent differences. Our U.S. business activities are included in the consolidated U.S. federal, and in certain state and local, income tax filings of the Parent. Our non-U.S. business activities are primarily reported on income tax returns on a stand-alone basis in the jurisdiction in which the non-U.S. legal entity conducts business. Our non-U.S. activities constitute all the non-U.S. activities of the Parent.

We are allocated approximately 84% of the U.S. income tax benefit of the Parent. As our non-U.S. activities constitute all the non-U.S. activities of the Parent, we are allocated 100% of the foreign income tax provision.

For the year ended December 31, 2019, the significant components of our provision for income taxes consisted of the following (in thousands of dollars):

	Domestic	Foreign	Total
(Loss) income before taxes	$ (183,334)	$ 121,919	$ (61,415)
Allocated Income Tax (Benefit)/Expense	(13,015)	26,061	13,046
Allocated Income Tax (Benefit)/Expense as a % of Parent's Income Tax (Benefit)/Expense	84%	100%	N/A

Our Consolidated Balance Sheet as of December 31, 2019 includes a current income tax receivable of $8.7 million representing the Parent's U.S. Consolidated group's entire tax receivable balance and a current income tax payable of $39.6 million representing the balance of all taxes due of the non-U.S. entities. Our Consolidated Balance Sheet as of December 31, 2019 includes a long-term income tax receivable of approximately $20.6 million, primarily for refunds of U.S. income tax related to the future filing of amended U.S. income tax returns, and a long-term income tax payable of approximately $20.9 million, of which approximately $12.8 million relates to the remaining installments of the 2017 U.S. transition tax liability. The long-term income tax payable also includes a net liability of approximately $8.1 million for uncertain tax positions, primarily the accrual of tax reserves related to transfer pricing and other U.S. federal, state and non-U.S. matters. These amounts recorded in long-term assets and long-term liabilities are not allocated but, instead, reflect 100% of the Parent's long-term income tax receivable and long-term income tax payable balance as, historically, most of the receivable and liability related to the business activities of the entities included in this report.

Our Consolidated Balance Sheet as of December 31, 2019 includes a deferred tax asset of approximately $36.9 million, primarily attributable to the difference between book and tax basis of employee and former employee compensation arrangements, and a deferred tax liability of approximately $18.1, primarily attributable to the difference between the book and tax basis of our pension liability. The gross deferred tax asset and deferred tax liability balances are calculated on a separate company basis. Our deferred tax assets are reduced by a valuation allowance of approximately $4.3 million related to certain state deferred taxes and foreign operating losses that we determined are not more likely than not to be realized.

We have decreased equity by approximately $3.5 million for the difference between the tax expense allocated to us under the parent-company-down approach and our share of the Parent's consolidated income tax liabilities.

Repatriation of Foreign Earnings—As of December 31, 2019, while we have paid US income tax on approximately $165 million of undistributed earnings of certain foreign subsidiaries, we have not provided for foreign withholding taxes on these earnings because they are intended to be indefinitely reinvested outside of the U.S. If these earnings were not indefinitely reinvested outside of the U.S., and assuming no foreign tax credits in the U.S., a deferred tax liability of approximately $8.2 million would be recognized for these foreign withholding taxes.

Note 16—Commitments and Contingencies

Indirect Tax Contingencies—We are subject to laws and regulations in many countries involving sales, use, value-added and other indirect taxes which are assessed by various governmental authorities and imposed on certain revenue-producing transactions between us and our clients. The application of these laws and regulations to our unique business and global client base, and the estimation of any related liabilities, is complex and requires a significant amount of judgment. We are generally not responsible for these indirect tax liabilities unless we fail to collect the correct amount of sales, value-added, or other indirect taxes. Failure to collect the correct amount of indirect tax on a transaction may expose us to claims from tax authorities and could require us to record a liability and corresponding charge to our statement of operations.

Legal Contingencies—We become involved in various claims and lawsuits incidental to the ordinary course of our business. We are required to assess the likelihood of any adverse judgments or outcomes related to these legal contingencies, as well as potential ranges of probable or reasonably possible losses. The determination of the amount of any losses to be recorded or disclosed as a result of these contingencies is based on a careful analysis of each individual exposure with, in some cases, the assistance of outside legal counsel. The amount of losses recorded or disclosed for such contingencies may change in the future due to new developments in each matter or a change in settlement strategy. While the impact of any one or more legal claims or proceedings could be material to our operating results in any period, we do not believe that the outcome of any of these pending claims or proceedings (including the matter discussed below), individually or in the aggregate, will have a material adverse effect on our consolidated financial condition.

Rybolovlev Litigation—On November 17, 2017, Sotheby's, together with its London, Geneva and Vienna subsidiaries, and one of its employees (collectively, "the Sotheby's Parties"), initiated a declaratory judgment action (requête en conciliation) in Switzerland (the "Swiss Action"), at the Tribunal de Première Instance de la République et Canton de Genève, against Dmitry Rybolovlev and various persons and entities affiliated with him. The Sotheby's Parties' action seeks a declaration that the Sotheby's Parties owe no liability or debt to Mr. Rybolovlev and his affiliates in connection with sales of art and related services to entities affiliated with Mr. Yves Bouvier, as discussed in more detail below. Sotheby's filed its detailed Statement of Claim on July 11, 2017.

The Sotheby's Parties filed the Swiss Action in response to the stated intent of Mr. Rybolovlev's counsel to initiate litigation in the U.K. against several of the Sotheby's Parties. Specifically, on October 27, 2017, counsel for entities affiliated with Mr. Rybolovlev filed papers with the U.S. District Court for the Southern District of New York requesting authority to use documents previously obtained from Sotheby's pursuant to 28 U.S.C. § 1782. This statute allows parties to conduct discovery in the U.S. for use in foreign legal proceedings. Mr. Rybolovlev sought discovery to support a contemplated U.K. proceeding alleging that Sotheby's and its agents aided and abetted an alleged fraud that Mr. Bouvier allegedly perpetrated against Mr. Rybolovlev and affiliated entities. On December 22, 2017, the District Court in New York approved Mr. Rybolovlev's request to use Sotheby's previously disclosed documents both in the contemplated U.K. proceedings, and in the Sotheby's Parties' Swiss declaratory judgment proceeding against Mr. Rybolovlev and his affiliates. To date, we are not aware of Mr. Rybolovlev actually filing the threatened U.K. litigation against Sotheby's, and believe that Geneva is the correct venue for the dispute, that the Lugano Convention effectively precludes Mr. Rybolovlev from sustaining an action in the U.K., and that the Sotheby's Parties will prevail in the Swiss Action.

On October 2, 2018, two entities controlled by Mr. Rybolovlev commenced proceedings against Sotheby's and Sotheby's, Inc. in the U.S. District Court for the Southern District of New York. In their complaint, these entities allege that Sotheby's and Sotheby's Inc. and their agents, aided and abetted an alleged fraud that Mr. Bouvier allegedly perpetrated against Mr. Rybolovlev and affiliated entities and are claiming a minimum of $380 million in damages. The plaintiffs also allege that the Sotheby's Parties, in commencing the Swiss Action, violated a tolling agreement that the parties had entered into and seek an injunction prohibiting the Sotheby's Parties from prosecuting the Swiss Action. On January 18, 2019, the Sotheby's and Sotheby's Inc. filed a motion to dismiss this complaint, which they believe to be meritless, on numerous grounds.

On June 25, 2019, the District Court in New York granted in part and denied in part Sotheby's and Sotheby's Inc.'s motion to dismiss this case on forum non conveniens and international comity grounds and to dismiss the plaintiffs' breach of contract claim for failure to state a claim, pursuant to Rule 12(b) of the Federal Rules of Civil Procedure. The District Court in New York granted Sotheby's and Sotheby's Inc.'s motion insofar as it sought to dismiss the plaintiffs' claim for an injunction prohibiting the Sotheby's Parties from prosecuting the Swiss Action. The District Court in New York otherwise denied the Sotheby's and Sotheby's Inc.'s motion to dismiss. In the same June 25 ruling, the District Court in New York granted in part and denied in part Sotheby's and Sotheby's Inc.'s motion to seal certain publicly filed documents in the case.

On July 23, 2019, Sotheby's and Sotheby's Inc. filed their answer with the District Court in New York. The case will now proceed to discovery. In addition, on September 20, 2019, the plaintiffs filed a motion for partial summary judgment with respect to their claim that Sotheby's violated the tolling agreement. On October 20, 2019, Sotheby's filed its opposition to that motion, to which plaintiffs responded on October 25, 2019.

Note 17—Auction Guarantees

As of December 31, 2019, we had outstanding auction guarantees totaling $221.7 million. Each of the outstanding auction guarantees has a minimum guaranteed price that is within or below the range of the pre-sale auction estimates for the underlying property. The property related to these auction guarantees is being offered at auctions throughout the first-half of 2020. Our financial exposure under these auction guarantees is reduced by $63 million as a result of our use of contractual risk-sharing arrangements with third parties, as discussed above. After taking into account these risk-sharing arrangements, as of December 31, 2019, our net financial exposure related to the auction guarantees was $158.7 million.

The contractual risk-sharing arrangements used to reduce our exposure to auction guarantees include irrevocable bid arrangements and, from time-to-time, partner sharing arrangements. The counterparties to these auction guarantee risk-sharing arrangements are typically major international art dealers or major art collectors. We could be exposed to losses in the event any of these counterparties do not perform according to the terms of these contractual arrangements. Additionally, although risk-sharing arrangements may be used to reduce the risk associated with auction guarantees, we may also enter into auction guarantees without securing such arrangements. In these circumstances, we could be exposed to deterioration in auction commission margins and/or auction guarantee losses if one or more of the guaranteed items fails to sell at its minimum guaranteed price. Furthermore, in such situations, our liquidity could be reduced. (See Note 2 for additional information related to our use of auction guarantees and related risk-sharing arrangements.)

As of December 31, 2019 and 2018, the estimated fair value of our obligation to perform under our outstanding auction guarantees totaled $6.3 million and $2.9 million, respectively, and is recorded within Accounts Payable and Accrued Liabilities on our Consolidated Balance Sheets. This estimated fair value is based on an analysis of historical loss experience related to auction guarantees and does not include the impact of risk-sharing arrangements that may have mitigated all or a portion of any historical losses.

As of April 29, 2020, our total outstanding auction guarantees increased $43.3 million to $$265 million when compared to total outstanding guarantees as of December 31, 2019.

Note 18—Leases

We conduct business in leased premises, which are primarily used for auction salesrooms, gallery and exhibition space, administrative offices, and warehouse facilities. Our leased premises are operated through both third-party and related-party lease arrangements. A substantial portion of our third-party leased premises are located in London, England; Hong Kong, China; Paris, France; Geneva, Switzerland; and Zurich, Switzerland. We have one significant related-party lease arrangement connected with the York Property (the "York Property Lease") described under "Related-party Lease Arrangements" below and in Note 1 under "Real Estate Portfolio Transfer."

Our determination of whether a contract is or contains a lease and whether that lease should be classified as a finance or operating lease is performed at lease inception, which is the date on which we sign the lease agreement. Lease components, which represent our right to use specified assets, and non-lease components such as maintenance, utilities, and management services contained within a lease are accounted for as a single lease component.

Lease right-of-use assets and lease liabilities are measured and recognized on our Condensed Consolidated Balance Sheets on the lease commencement date, which is the date on which the lessor makes the underlying asset available to use. The measurement of lease right-of-use assets and lease liabilities is based on the present value of lease payments not yet made, discounted using our incremental borrowing rate ("IBR") as of the commencement date of the lease. In determining our IBR, a number of factors are considered, including the term of the lease, the effects of collateral, the economic environment of the lessee, and the creditworthiness of the lessee. Short-term operating leases, which have an initial term of twelve months or less, are not recognized on our Condensed Consolidated Balance Sheets.

Operating lease cost is calculated so that the aggregate amount of fixed minimum lease payments for each lease is recognized in our Consolidated Statements of Operations on a straight-line basis over the term of the lease. Variable lease payments are not included in the lease liability recorded on our Consolidated Balance Sheets, but are recognized in our Consolidated Statements of Operations during the period in which the obligation for those payments is incurred. Our variable lease payments principally relate to lease obligations which are periodically adjusted for changes in an index or rate, including fair market rental rate adjustments that typically occur according to a scheduled rent review period. For leases with such provisions, the operating right-of-use asset and lease liability are measured using the index or fair market rental rate in effect at the lease commencement date. Under the terms of most leases, we are required to pay various service fees, real estate taxes, and insurance costs which are variable in nature and, therefore not included in the measurement of our lease liabilities.

Certain of our leases provide us the option to extend or terminate the lease term. Such options are factored into the measurement of our lease right-of-use assets and lease liabilities when we determine it is reasonably certain that the option will be exercised.

The following table summarizes the components of the operating lease cost reflected in our Consolidated Statements of Operations within General and Administrative Expenses for the year ended December 31, 2019 (in thousands):

Year ended December 31, 2019	Third-party Lease Arrangements	Related-party Lease Arrangement (a)	Total
Operating lease cost	$ 19,951	$ 7,682	$ 27,633
Variable lease cost	2,992	—	2,992
Sublease income	(1,775)	—	(1,775)
Total lease cost of the Company	$ 21,168	$ 7,682	$ 28,850

(a) Operating lease cost of the related-party lease arrangement represents three months of rent expense in connection with the York Property Lease. Prior to the Merger, the York Property Lease was accounting for as an intercompany transaction and eliminated in consolidation.

The related-party lease arrangement included in the table above relates solely to the York Property which is owned by the LLC and leased to the Company under an operating lease which terminates July 1, 2030. Prior to the Merger, the York Property Lease was accounted for as an intercompany transaction and eliminated in consolidation. Subsequent to the Merger and in connection with the York Property Transfer, the York Property Lease is no longer eliminated in consolidation of the Company's financial statements. The York Property Lease provides for the payment of a fixed base rental payable monthly in advance. Expenses for repairs and maintenance are the responsibility of the Company. In addition, the Company is responsible for the York Property insurance coverage as well as property tax obligations which are variable in nature and are not included in the measurement of the related lease liabilities. The LLC and the Company are wholly-owned indirect subsidiaries of the Parent. We expect to amend this lease in the second quarter of 2020 in conjunction with the refinancing of the Asset Bridge Facility described in Note 1.

The following table summarizes information about the amount and timing of our future operating lease commitments as of December 31, 2019 (in thousands):

	Third-party Lease Arrangements	Related-party Lease Arrangements	Total
2020	$ 18,734	$ 30,311	$ 49,045
2021	14,683	30,917	45,600
2022	12,145	31,535	43,680
2023	8,989	32,166	41,155
2024	5,980	32,809	38,789
Thereafter	26,531	192,446	218,977
Total undiscounted operating lease payments	$ 87,062	$ 350,184	$ 437,246
Less: Imputed interest	(14,892)	(103,065)	(117,957)
Present value of operating lease liabilities	$ 72,170	$ 247,119	$ 319,289

As of December 31, 2019, the weighted-average remaining lease term for our operating leases is 9.81 years. Excluding related-party lease arrangements, the weighted-average remaining lease term associated with our third-party lease arrangements is 7.43 years. As of December 31, 2019, the weighted average discount rate used to measure our operating lease liabilities is 6.46%. Excluding related-party lease arrangements, the weighted average discount rate associated with our third-party lease arrangements is 4.79%

For the year ended ended December 31, 2019, operating lease liabilities arising from obtaining right-of-use assets totaled $8.7 million. For the year ended 31, 2019, cash payments made in respect of our lease liabilities totaled $48.9 million and are classified within operating activities in our Consolidated Statements of Cash Flows.

The following table summarizes the future minimum lease payments due under non-cancellable operating leases in effect at December 31, 2018 (in thousands):

January 2019 to December 2019	January 2020 to December 2020	January 2021 to December 2021	January 2022 to December 2022	January 2023 to December 2023	Thereafter	Total (a)
$ 20,039	$ 17,771	$ 14,033	$ 11,750	$ 9,449	$ 32,318	$ 105,360

(a) These amounts represent our undiscounted non-cancellable future minimum operating lease commitments, including any contractual market-based or indexed rent adjustments that are currently in effect. The lease commitments reflected in the table also include any future fixed minimum payments for common area maintenance, insurance, or tax payments for which we are also obligated under the terms of certain leases.

Note 19—Stock-based Payments

Pre-Merger—Prior to the Effective Time of the Merger, stock-based payments made to employees included performance-based stock unit awards, market-based stock unit awards, restricted stock units, and restricted shares. Stock-based payments were also made to members of our previous Board of Directors through the issuance of common stock and deferred stock units. A description of each of these stock-based payments is provided below. (See Note 1 for information related to the Merger.)

2018 Equity Incentive Plan—The Sotheby's 2018 Equity Incentive Plan (the "Equity Plan") was adopted on February 28, 2018 and approved by our stockholders on May 3, 2018. The Equity Plan replaced the Sotheby's Restricted Stock Unit Plan (as amended and restated, the "Restricted Stock Unit Plan") and the Sotheby's 1997 Stock Option Plan (collectively, the "Prior Plans"), which are discussed in more detail below. The Equity Plan permitted the issuance of restricted stock, restricted stock units, performance shares, performance share units, stock options, stock appreciation rights (or, "SAR's"), and other equity-related awards. No further awards were granted under the Prior Plans after May 3, 2018. However, the terms and conditions of the Prior Plans and related award agreements continued to apply to all awards granted prior to May 3, 2018 under the Prior Plans.

The Equity Plan was a fungible share plan. Each option or SAR granted under the Equity Plan counted as one share from the available share pool. Each full-value award granted under the Equity Plan, including restricted stock units and performance share units, counted as 2.14 shares from the available pool.

Restricted Stock Unit Plan—Prior to May 3, 2018, the Restricted Stock Unit Plan provided for the issuance of restricted Company RSU's and restricted shares to employees. Awards made under the Restricted Stock Unit Plan were subject to the approval of the Compensation Committee of our Board of Directors.

Company RSU's and restricted shares issued under the Restricted Stock Unit Plan generally vest evenly over a three-year service period. Prior to vesting, holders of Company RSU's and restricted shares issued under the Restricted Stock Unit Plan were entitled to receive non-forfeitable dividend equivalents and dividends, respectively, at the same rate as dividends were paid on our common stock (if and when such dividends were paid). Prior to vesting, holders of Company RSU's issued under the Restricted Stock Unit Plan did not have voting rights, while holders of restricted shares had voting rights. Company RSU's and restricted shares were not able to be sold, assigned, transferred, pledged or otherwise encumbered until they vested.

For Company RSU's and restricted shares issued after May 3, 2018 under the new Equity Plan, dividend equivalents would have been generally be credited to holders of Company RSU's at the same rate as dividends are paid on our common stock (if and when such dividends are paid), but would have only been paid for Company RSU's and restricted shares that vested.

Company PSU's are restricted stock units that generally vest over three-year service periods, subject to the achievement of certain Return-on-Invested Capital targets. Prior to vesting, holders of PSU's did not have voting rights and were not entitled to receive dividends or dividend equivalents. Dividend equivalents were generally credited to holders of PSU's at the same rate as dividends are paid on our common stock (if and when such dividends are paid), but were only paid for PSU's that vest and become shares of our common stock. PSU's were not able to be sold, assigned, transferred, pledged or otherwise encumbered until they vested.

In 2019 and prior to the Effective Time of the Merger, stock-based payment awards with a total grant date fair value of $31.4 million, were granted as follows:

- 325,027 PSU's with a grant date fair value of $13.1 million and a single vesting opportunity after a three-year service period. As per the terms of the Merger Agreement, 100% of this award will vest at the end of the three-year service period contingent on service being provided by the grantee.
- 454,519 RSU's with a grant date fair value of $18.3 million and annual vesting opportunities over a three-year service period.

Post-Merger—At the Effective Time of the Merger, each outstanding Company Share Price PSU was canceled and converted into the right to receive an amount in cash (without interest and subject to any applicable withholding tax) equal to the number of shares of Company Common Stock earned in accordance with the terms and conditions set forth in the award agreement as reasonably determined by the Compensation Committee multiplied by the Merger Consideration ($57 per share). The amount owed in relation to Company Share Price PSUs totaled $2.9 million and was paid to the holder on October 15, 2019.

At the Effective Time of the Merger, each outstanding Company PSU was canceled, extinguished and converted into an award representing the right to receive an amount in cash (without interest and subject to any applicable withholding tax) equal in value to the number of Company PSUs deemed earned as of immediately prior to the Effective Time (125% of target for Company PSUs with a performance period ending on December 31, 2019, 100% of target for Company PSUs with a performance period ending on December 31, 2020 and 100% of target for Company PSUs with a performance period ending on December 31, 2021) multiplied by the Merger Consideration ($57 per share). Through December 31, 2019, the amount paid by the Company to settle Converted PSUs was approximately $8 million. As of December 31, 2019, the amount that could owed by the Company in relation to Converted PSUs provided the requisite service period is worked by the holders is approximately $43 million.

At the Effective Time, each outstanding Company RSU under the Company’s incentive plans was canceled, extinguished and converted into an award representing the right to receive an amount in cash (without interest and subject to any applicable withholding tax) equal to the number of shares of Company Common Stock underlying such Company RSU as of immediately prior to the Effective Time multiplied by the Merger Consideration ($57 per share). Through December 31, 2019, the amount paid by the Company to settle Converted RSUs was approximately $5 million. The amount that could be owed by the Company in relation to Converted RSUs provided the requisite service period is worked by the holders is approximately $41 million.

Each Converted PSU (other than each Company Share Price PSU) and Converted RSU will (A) vest and settle on terms (including acceleration events but excluding any performance-based vesting conditions, if applicable) as were applicable to the corresponding Company equity award immediately prior to the Effective Time and (B) vest in full to the extent the holder of a converted award is subject to a qualifying termination of employment during the twenty-four (24) month period following the closing, with such converted award settled in cash as soon as practicable, but in no event later than ten (10) business days, following such qualifying termination, or such later time as required to comply with Section 409A of the Internal Revenue Code of 1986. The Company Share Price PSUs have already vested and were paid out as set forth above.

Prior to the Effective Time of the Merger, common stock was issued quarterly under the Sotheby's Stock Compensation Plan for Non-Employee Directors (as amended and restated, the "Directors Stock Plan"). Directors were able to elect to receive this compensation in the form of deferred stock units, which was credited in an amount that is equal to the number of shares of common stock the director otherwise would have received. The number of shares of common stock awarded was calculated using the closing price of the common stock on the New York Stock Exchange on the business day immediately prior to the quarterly grant date. Deferred stock units were held until a director's termination of service, at which time the units were settled on a one-for-one basis in shares of our common stock on the first day of the calendar month following the date of termination. In 2019 and 2018, we recognized $1.1 million and $1.3 million, respectively, within General and Administrative Expenses in our Consolidated Statements of Operations related to common stock shares awarded under the Directors Stock Plan.

At the Effective Time of the Merger, each Company DSU was canceled and converted into the right to receive (without interest and subject to any applicable withholding tax), an amount in cash equal to the number of shares of Company Common Stock underlying such Company DSU multiplied by the Merger Consideration ($57 per share). The amount owed in relation to Company DSUs totaled $11.9 million and was paid to the respective holders on October 11, 2019.

Consolidated Statements of Operations—For the years ended December 31, 2019 and 2018, compensation expense related to stock-based payments was reflected in the following accounts in our Consolidated Statements of Operations (in thousands of dollars):

Year Ended December 31,	**2019**	**2018**
Salaries and related costs (a)	$ 43,930	$ 29,703
Merger related expenses (b)	16,282	—
Total stock-based payment expense (pre-tax)	$ 60,212	$ 29,703
Total stock-based payment expense (after-tax)	$ 46,913	$ 22,846

(a) Includes $8.2 million for post-Merger service provided in the fourth quarter of 2019

(b) Relates to accelerated stock-based payment expense associated with senior executives who were qualifying terminations in the fourth quarter of 2019 after the Effective Time of the Merger and therefore no longer required to provide service in order the to vest in their Converted PSU's and Converted RSU's ($12.1 million) as well as canceled and converted DSU awards noted above ($4.2 million).

In 2019 and 2018, we recognized $1.6 million and $1.2 million, respectively, in excess tax benefits related to stock-based payments in our Consolidated Statements of Operations. These tax benefits represent the amount by which the tax deduction resulting from the vesting of stock-based payments exceeded the tax benefit initially recognized in our Consolidated Financial Statements.

Unamortized Compensation—As of December 31, 2019, unrecognized compensation expense related to the unvested portion of stock-based payments to employees was $21.5 million. This compensation expense is expected to be amortized over a weighted-average period of approximately 1.9 years. We do not capitalize compensation expense related to stock-based payments to employees.

Consolidated Balance Sheets—The conversion of Company PSU's, Company Share PSU's, Company RSU's, and Company DSU's from equity-settled units to cash-settled units to be paid at $57 per share resulted in a $55.9 million reclassification from Additional Paid-In Capital to Accounts Payable and Accrued Liabilities in the fourth quarter of 2019. As of December 31, 2019, the liability to related to outstanding Converted PSU's and Converted RSU's was $62.2 million, of which $40.5 million was recorded in Accrued Salaries and Related Costs and $22.7 million was recorded in Other Long-Term Liabilities in Consolidated Balance Sheets.

In the second quarter of 2019, we entered into a contractual severance agreement with a named executive officer (the "NEO") pursuant to which, among other things, the NEO is no longer be required to provide service in order for his stock-based payment awards to vest. In addition, in conjunction with this contractual severance agreement and in conjunction with the Merger, the NEO's stock units were immediately canceled and converted into a right to receive an amount in cash equal in value to the product of: (i) the number of shares of Sotheby's common stock underlying such awards and (ii) $57.00. In conjunction with the modification of the NEO's stock-based payment awards, in the second quarter of 2019, $2 million was reclassified from Additional Paid-in Capital to Accrued Salaries and Related Costs in our Consolidated Balance Sheets to reflect the required cash settlement of those awards.

Cash Payments to Settle Stock-based Payments—For the year ended December 31, 2019, approximately $27.8 million was paid in the settlement of the converted stock-based payment awards discussed above.

Aggregate Fair Value of Awards Vested—The aggregate fair value of Company RSU's, Company PSU's, Converted Share Price PSU's, Converted PSU's and Converted RSU's that vested during 2019 and 2018 was $45.8 million and $27.6 million, respectively, based on the closing stock price on the dates the shares vested or the value at which the units were settled in cash.

Note 20—Merger Related Expenses

In connection with the Merger described in Note 1, we incurred $132.1 million in merger-related expenses in 2019, which are reflected in the Consolidated Statements of Operations within Merger-Related Expenses and include severance and compensation related charges of $56.2 million (including $12.1 million for accelerated stock-based payments charges associated with the departure of senior executive level employees subsequent to the Merger), a success-based financial advisory fee of $37.8 million, and advisory, legal, and consulting fees of $38.1 million.

Note 21—Related Party Transactions

On the Effective Time, we completed the transactions contemplated by the Merger Agreement described in Note 1. At that time, we ceased being a publicly traded company and became a wholly-owned subsidiary of our Parent, BidFair USA Inc. As a result of the Merger, the SFS Business Transfer, and the Real Estate Portfolio Transfer, we became part of a group of companies which are under common control by the Parent. We conduct various intercompany transactions between entities under common control which we include in our results of operations and financial position as related party transactions. These intercompany transactions primarily include, but are not limited to the following:

Sotheby's Financial Services—Principally includes fees charged to Sotheby's to compensate SFS for generating auction and private sale consignments through the sale of term loan collateral and amounts charged by SFS for loans issued with favorable terms as an accommodation to Sotheby's in order to secure a consignment or enhance a client relationship. For the period beginning on the Effective Time and ending on December 31, 2019, we have recognized $5.3 million in such fees which are recorded in agency direct costs on the Consolidated Statements of Operations.

In connection with the SFS Business Transfer, at the Effective Time, Sotheby's provided a guarantee of the SFS Subsidiary's obligations under the SFS Loan with the maximum potential obligation of up to $150 million that is supported by standby letters of credit issued under the New Credit Facilities. We are required to perform on our guaranty obligation in the event of any non-payment by the SFS Subsidiary of amounts owed under the SFS Loan. The guarantee is enforceable for the life of the SFS Loan.

Subsequent to the SFS Business Transfer, art-related financing remains an important service offered to our clients which has not fundamentally changed. Through our subsidiaries, Sotheby's Financial Services, Inc. continues to service the portfolio of loans that were pledged to the SFS Subsidiary. We have historically incurred minimal losses on the SFS loan portfolio and we continue to maintain stringent loan underwriting standards. However, the demand for art-related financing can be significantly influenced by overall economic conditions and by the often unpredictable financial requirements of owners of major art collections. Accordingly, our previous loan loss experience may not be indicative of the future performance of the loan portfolio. Secured loans totaling $156 million with an LTV of 37% related to the SFS loan portfolio are recorded on our Consolidated Balance Sheet as of December 31, 2019. (See Note 5 for additional information on our Notes Receivable.)

BidFair Property Holdings, Inc.—We have one significant related-party lease arrangement connected with the York Property Lease. As of December 31, 2019, we have recognized a right-of-use asset of $219.6 million and a corresponding operating lease liability of $247.1 million. For the period beginning on the Effective Time and ending on December 31, 2019, we have recognized $7.7 million in operating lease costs associated with the York Property Lease which is recorded in general and administrative expenses on the Consolidated Statements of Operations. (See Note 18 for additional information on our leases.)

Related Party Agency Commissions—From time-to-time, in the ordinary course of business, related parties, such as members of our Board of Directors and management, buy and sell property at our auctions or through private sales. For the years ended December 31, 2019 and 2018, our Consolidated Statements of Operations include Agency Commissions and Fees of $2.1 million and $5.1 million, respectively, attributable to transactions with related parties. In 2018, our Consolidated

Income Statements include Inventory Sales (and related cost of sales) of $5.3 million attributable to transactions with related parties.

As of December 31, 2019, Accounts Receivable included amounts due from related party purchasers totaling $7.3 million. As of December 31, 2018, Client Payables included amounts owed to related party consignors totaling $4.3 million, respectively.

Note 22—Subsequent Events

We have evaluated subsequent events through April 29, 2020, the date these consolidated financial statements were available to be issued. Refer to Note 2, *Liquidity and Management's Response Plan to COVID-19*, for information regarding management's response to COVID-19. There are no other subsequent events or transactions which would require recognition or disclosure in the consolidated financial statements.

DESCRIPTION OF BUSINESS, MANAGEMENT, AND STOCKHOLDERS

Company Overview

Sotheby's has been uniting collectors with world-class works of art since 1744. Today, Sotheby's offers property from more than 70 collecting categories to clients from 130 countries and presents auctions in ten different salesrooms, including New York, London, Hong Kong and Paris, and Sotheby's BidNow program allows clients to view all auctions live online and place bids from anywhere in the world. We also offer collectors a variety of innovative art-related services, including the brokerage of private art sales, private jewelry sales through Sotheby's Diamonds, exclusive private selling exhibitions, art-related financing, and art advisory services, as well as retail wine locations in New York and Hong Kong. (In this report, the term "works of art" is meant to include authenticated fine art, decorative art, jewelry, wine, and collectibles, and may also be referred to as "art," "artwork," or "property.")

Business Organization

Our predominant source of revenues are commissions and fees earned by acting as agent for clients wishing to sell their artworks through the auction or private sale process. To a much lesser extent, we also earn revenues from the sale of artworks that are owned by Sotheby's. In addition, we earn revenues from art advisory services, retail wine sales, and brand licensing activities. Prior to the Effective Time of the Merger and the SFS Business Transfer, we earned revenues from the art-related financing activities of SFS. Art Agency, Partners ("AAP"), which was acquired on January 11, 2016 and through which we offer art advisory services, provides art collectors with strategic guidance on collection identity and development, acquisitions, and short and long-term planning, and provides advice to artists and artists' estates. In addition, from time-to-time, AAP brokers private art sales for its advisory clients.

Agency Services

We accept works of art on consignment and match sellers (also known as consignors) to buyers through the auction or private sale process. In both auction and private sale transactions, we act as exclusive agent for the seller. Prior to offering a work of art for sale, we perform due diligence activities to authenticate and determine the ownership history and condition of the consigned artwork. (See "Converting Consignment Opportunities" below for further information regarding the consignment process.)

As compensation for our auction services, we earn a commission from both the buyer ("buyer's premium") and, to a lesser extent, the seller ("seller's commission") (collectively, "auction commission revenue"), both of which are calculated as a percentage of the hammer price of the property sold at auction. In certain situations, in order to secure a high-value consignment, we may not charge a seller's commission and/or may share a portion of our buyer's premium with the seller. In 2019 and 2018, auction commission revenues accounted for approximately 83% and 80%, respectively, of our consolidated revenues. Private sale commission revenues are earned through the direct brokering of purchases and sales of art. Private sales are generally initiated by a client wishing to sell their artwork (i.e., the consignor) with Sotheby's acting as its exclusive agent in the transaction. In 2019 and 2018, private sale commission revenues accounted for approximately 9% and 8%, respectively, of our consolidated revenues.

Under our standard auction payment terms in place during 2018 and 2019, the purchase price was due from the buyer no more than 30 days after the sale date, with the net proceeds due to the consignor 35 days after the sale date. In the spring of 2020, we changed our payment terms with consignors whereby the net proceeds are to be paid to consignors 45 days after the sale date. For private sales, payment from the buyer is typically due on the sale date, with the net sale proceeds due to the consignor shortly thereafter. We also sometimes provide extended payment terms to an auction or private sale buyer. For auctions, the extent to which extended payment terms are provided can vary considerably from selling season to selling season. Extended payment terms typically extend the payment due date to a date that is no longer than one year from the sale date. In limited circumstances, the payment due date may be extended to a date that is beyond one year from the sale date. When providing extended payment terms, we attempt to match the timing of cash receipt from the buyer with the timing of our payment to the consignor, but are not always successful in doing so. All extended payment term arrangements are approved by management under our internal corporate governance policy.

From time-to-time in the ordinary course of business, we will provide a guarantee to the consignor that their consigned artwork will achieve a specified minimum sale price at auction. This type of arrangement is known as an auction guarantee. If the property offered under an auction guarantee sells above the minimum guaranteed price, we are generally entitled to a share of the overage. In the event that the property sells for less than the minimum guaranteed price, we must perform under the auction guarantee by funding the shortfall between the sale price at auction and the amount of the auction guarantee. If the property offered under the auction guarantee does not sell, we must pay the amount of the auction guarantee to the consignor and then take ownership of the unsold property and may recover the amount paid through its future sale. In certain limited situations, if the guaranteed property fails to sell at auction or if the purchaser defaults, the consignor has the right to cancel the auction guarantee and retain the property.

We may reduce our financial exposure under auction guarantees through contractual risk sharing arrangements. Such auction guarantee risk sharing arrangements include irrevocable bid arrangements and, from time-to-time, partner sharing arrangements. In exchange for accepting a share of the financial exposure under the auction guarantee, our counterparties to these arrangements may receive a fee for providing the irrevocable bid, and are generally entitled to receive a share of our auction commission if the property sells and/or a share of the overage, if any.

Auction guarantees are an important financial incentive which may significantly influence an art collector's decision on whether and how to sell their property. As such, auction guarantees provide us the opportunity to secure highly sought-after consignments, often well in advance of a specific selling season. When we evaluate the performance of our portfolio of auction guarantees, we take into consideration the overall net revenues earned on the transaction, which includes our auction commission revenue, as well as any overage or shortfall. Depending on the mix of items subject to an auction guarantee, in advance of peak selling seasons, a small number of guaranteed items may represent a substantial portion of the aggregate amount of outstanding auction guarantees.

(See below for further discussion of our overall financial performance for the years ended December 31, 2019 and 2018. See Note 17 of Notes to Consolidated Financial Statements for additional information about auction guarantees.)

The Art Market

The global art market, like other asset classes, is influenced over time by the overall strength and stability of the global economy, the financial markets of various countries, geopolitical conditions, and world events. However, the global art market often moves independently and sometimes, counter to, general macroeconomic cycles. Ultimately, we believe that the level of activity and buoyancy of the global art market is most prominently impacted by the collective sentiment of art market participants, as well as the individual circumstances of potential sellers of art. For example, many major artworks are offered for sale only as a result of the death or financial or personal situations of the owner (see "Converting Consignment Opportunities" below). In addition, in the wake of economic uncertainty, potential sellers may not be willing to offer their artworks for sale, and potential buyers may be less willing to purchase works of art. Also, in periods of market expansion, potential sellers may choose to not offer their artworks for sale in order to benefit from potential future price appreciation. Taken together, these factors cause the supply and demand for works of art to be unpredictable and may lead to significant variability in our revenues and earnings from period to period.

Seasonality

The global art auction market has two principal selling seasons, which generally occur in the second and fourth quarters of the year. In the aggregate, second and fourth quarter Net Auction Sales represented 79% and 76% of our total annual Net Auction Sales in 2019 and 2018, respectively. Accordingly, our financial results are seasonal, with peak revenues and operating income generally occurring in the second and fourth quarters. Consequently, first and third quarter results have historically reflected lower revenues when compared to the second and fourth quarters and, typically, a net loss due to the fixed nature of many of our operating expenses.

In quarterly reporting periods, the comparison of our results between reporting periods can be significantly influenced by a number of factors, such as changes in the timing of when certain auctions occur, the level of non-recurring single-owner auction sale events, the level and timing of individually negotiated private sale transactions, and changes in certain accounting estimates that rely upon forecasted results such as variable incentive compensation expense and our estimated annual effective income tax rate. Accordingly, when evaluating our performance, we believe that investors should also consider results for rolling six and twelve month periods, which better reflect the business cycle of the global art auction market.

Competition

Artworks are sold primarily through the major auction houses, numerous art dealers and smaller auction houses as well as directly between private collectors. In recent years, a growing number of art dealers and private collectors also now buy and sell artworks at art fairs such as The European Fine Art Fair ("TEFAF"), Art Basel, and the Frieze art fairs.

Competition in the global art market is intense. A fundamental challenge facing any auctioneer or art dealer is the sourcing of high quality and valuable property for sale either as agent or as principal. Our primary competitor in the global art market is Christie's. To a lesser extent, we also face competition from a variety of art dealers across all collecting categories, as well as smaller auction houses such as Bonhams, Phillips, and certain regional auction houses. In the Chinese art market, the largest auction houses are Beijing Poly International Auction Co. Ltd., China Guardian Auctions Co. Ltd. and Beijing Council International Auction Company Ltd.

Converting Consignment Opportunities

Our ability to source high quality and valuable property for consignment is highly dependent on the meaningful institutional and personal relationships we have with our clients, which sometimes span generations. As these relationships develop over time, we provide our clients with strategic guidance on collection identity, development and acquisition, and then help them navigate the financial, logistical and personal considerations involved with deciding to sell their valued artworks. A client's decision to sell their art may be part of their long-term financial planning process or could occur suddenly as a result of an unexpected change in circumstances. The timing of when consignment opportunities may arise is often unpredictable and not within our control. As a result, it is difficult to predict with any certainty the supply of high quality and valuable property available for consignment in advance of peak selling seasons.

The more valuable the property, the more likely it is that a seller of art will solicit proposals from more than one potential purchaser or agent. The primary options available to a seller of art are: (i) sale or consignment to an art dealer; (ii) sale or consignment to an auction house; (iii) private sale to a collector or museum; or (iv) consignment to an internet-based service.

A complex array of factors may influence a seller's decision to favor one of these options over the others, and may include any or all of the following considerations:

Factors Influencing a Seller's Decision	
- The level and breadth of expertise of the art dealer or auction house with respect to the property.	- The desirability of a public auction in order to achieve the maximum possible price.
- The extent of the prior relationship, if any, between the art dealer or auction house and its staff and the seller, and ease of transacting with such parties.	- The amount of cash offered by an art dealer, auction house or other purchaser to purchase the property outright, which is greatly influenced by the amount and cost of capital resources available to such parties.
- The reputation and historic level of achievement by the art dealer or auction house in attaining high sale prices in the property's specialized category.	- The availability and terms of financial incentives offered by auction houses, including auction guarantees, short-term financing, and auction commission sharing arrangements.
- Recommendations by third parties consulted by the seller.	- The commission charged by art dealers or auction houses to sell a work on consignment.
- The client's desire for privacy.	- The cost, style, and extent of pre-sale marketing and promotion to be undertaken by an art dealer or auction house.
- The level of pre-sale estimates.	- The availability and extent of related services, such as tax or insurance appraisals.

Regulation of the Art Market

Regulation of the art market varies from jurisdiction to jurisdiction. In many jurisdictions, we are subject to laws and regulations, including, but not limited to, import and export regulations, cultural property regulations, data protection and privacy laws, anti-money laundering laws, antitrust laws, copyright and resale royalty laws, laws and regulations involving sales, use, value-added and other indirect taxes, and regulations related to the use of real estate. In addition, we are subject to local auction regulations, such as New York City Auction Regulations Subchapter M of Title 6 §§ 2-121-2-125, et. seq. Such regulations currently do not impose a material impediment to our business, but do affect the art market generally. A material adverse change in such regulations, such as the American Royalties Too Act of 2014 introduced in the U.S. Congress, which would impose a 5% resale royalty (with a cap of $35,000) on sales of art through large auction houses, could affect our business. Additionally, export and import laws and cultural property ownership laws could affect the availability of certain kinds of property for sale at our principal auction locations, increase the cost of moving property to such locations, or expose us to legal claims or government inquiries. We have a Compliance Department which, amongst other activities, develops and updates compliance policies, and audits, monitors, and provides training to our employees on compliance with many of these laws and regulations.

Properties

We are headquartered at 1334 York Avenue in New York (the "York Property"). The York Property includes land and approximately 406,000 square feet of building area. The York Property is home to our sole North American auction salesroom and principal North American exhibition space. The York Property is also home to the U.S. operations of SFS, as well as our corporate offices. (See Note 1 and Note 18 of Notes to Consolidated Financial Statements for information regarding the York Property Transfer, the York Property, and the York Property Lease.)

Our U.K. operations are based at 34-35 New Bond Street, London, where the main salesrooms, exhibition spaces, and administrative offices are located. Our New Bond Street premises consist of a series of properties that are held under various long-term lease, freehold, or virtual freehold arrangements. (See Note 1 of Notes to Consolidated Financial Statements for information related to the Real Estate Portfolio Transfer and the London Properties.)

We also lease space primarily for Agency segment operations in various locations throughout North America, South America, Continental Europe and Asia, including sales centers in Geneva and Zurich, Switzerland; Milan, Italy; Paris, France; Hong Kong, China.

Management

In connection with the consummation of the Merger, all of the members of the Board of Directors of the Company immediately prior to the Effective Time ceased to be directors of the Company at the Effective Time and Jean-Luc Berrebi became the sole director of the Company.

In addition, as of the Effective Time and in connection with the Merger, Jean-Luc Berrebi was appointed as Chief Financial Officer of the Company. Previously, he has served as the chief financial officer of HOT, an Israeli telecom business part of the Altice Europe group and as a partner at Deloitte.

On October 28, 2019, Charles F. Stewart was appointed as Chief Executive Officer of the Company. Mr. Stewart, 49, served as Co-President and Chief Financial Officer of Altice USA, Inc. (“Altice USA”) since 2015 and has served as a director of Altice USA since 2018.

Stockholder

The Company is a direct and wholly-owned subsidiary of BidFair Holdings Inc. The Company and Parent are ultimately controlled by Mr. Patrick Drahi.

Recent Developments

In December 2019, an outbreak of coronavirus (“COVID-19”) emerged in Wuhan, Hubei Province, China. In March 2020, the World Health Organization declared the COVID-19 outbreak as a global pandemic. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of financial markets. The impact of COVID-19 on the broader art market has resulted in the postponement of live auction sales across the major auction houses, the restriction on travel to secure consignments, the cancellation of art fairs, and the closure of museums and gallery exhibitions. As such, we expect our results of operations and liquidity for the first half of 2020 to be significantly impacted by COVID-19. However, we continue to reschedule our live auction sales to the second half of 2020 and have avoided the outright cancellation of any of our major auction events. In addition, we have implemented a number of measures which we believe will help mitigate the immediate disruption to our business. These measures include: (i) a reduction in employee salaries and unpaid staff furloughs; (ii) the deferral of discretionary and sale related spending; (iii) the deferral of employee incentive compensation, and; (iv) reductions in capital spending. We anticipate significant cost savings in excess of $100 million when compared to the prior year as a result of cost reduction measures in respect of agency direct expenses, compensation expenses, as well as general and administrative expenses. We expect to incur restructuring charges in the range of $13 million to $14 million in the first quarter of 2020 attributable to severance-related costs. We expect to complete this plan and fully pay all related severance costs within 2020 (see Statement on Forward Looking Statements).

(See Note 2 and Note 22 to Notes to Consolidated Financial Statements for a description of recent actions announced by us as part of our mitigation efforts due to the COVID-19 pandemic. In addition, please refer to our Risk Factors provided below.)

Consolidated Results of Operations

Overview—In 2019, we reported a net loss of ($71.2) million, representing a ($179.8) million decrease when compared to previously reported results of prior year. After excluding certain non-recurring items and after adjusting for the pro forma impacts of the Merger, Pro Forma Adjusted EBITDA decreased ($15.5) million (8%). The decrease is primarily attributable to lower consignment levels in our Impressionist, Modern and Contemporary Art sales in London, caused, in part, by Brexit-related uncertainties, as well as a decrease in sales of jewelry.

As discussed below in the section titled "Non-GAAP and Pro Forma Financial Measures", Pro Forma Adjusted EBITDA is presented to exclude certain non-recurring items as well as to give effect to the pro forma impact of the Merger as if the SFS Business Transfer and the Real Estate Portfolio Transfer occurred at the beginning of each period presented.

SFS Business Transfer—As a result of the SFS Business Transfer, certain receivables related to the SFS loan portfolio were transferred to the SFS Subsidiary. Receivables held by certain indirect wholly-owned subsidiaries of the Company remained under the Company's control for accounting purposes and included on the consolidated balance sheet in Current and Non-Current Notes Receivable (net). In connection with the SFS Portfolio Transfers, the SFS Subsidiary has the related rights to these notes receivable held by the Company, which was reflected in Payable Owed to Entities Under Common Control in the Consolidated Balance Sheet. As of December 31, 2019, underlying loans held by legal entities not transferred as part of the SFS Portfolio Transfer totaled $156 million and are recorded within Notes Receivable on the Consolidated Balance Sheets of the Company. As of December 31, 2019, the SFS Subsidiary's rights to these receivables totaled $148.1 million and is recorded within Payable Owed to Entities Under Common Control on the Company's Consolidated Balance Sheets. SFS was engaged to continue to service the portfolio of underlying loans held by the issuing legal entities. (See Note 1 of Notes to Consolidated Financial Statements for information regarding the SFS Business Transfer.)

York Property Transfer—As a result of the York Property Transfer, we transferred 1334 York, LLC (the "LLC"), the owner of our headquarters building at 1334 York Avenue in New York, to BidFair Property Holdings Inc., a Delaware corporation and a subsidiary of the Parent. The LLC was/is a separate legal entity of Sotheby's whose results were ultimately consolidated into our financial statements up until the time of the York Property Transfer, upon which time the LLC was no longer consolidated into our financial statements. (See Note 1 of Notes to Consolidated Financial Statements for information regarding the York Property Transfer.)

We expect to finalize the SFS Business Transfer and the Real Estate Portfolio Transfer later in 2020.

(See the captioned sections below for a further discussion related to our results of operations, cash flows, liquidity and capital resources. In addition, see "Non-GAAP and Pro Forma Financial Measures" below for a description of Pro Forma Adjusted EBITDA.)

Consolidated Financial Data Table—The table below presents a summary of our consolidated results of operations, related statistical metrics, non-gaap financial measures, and pro-forma financial measures for the years ended December 31, 2019 and 2018, as well as a comparison between the two years (in thousands of dollars):

			Variance	
Year Ended December 31,	**2019**	**2018**	**$ / %**	**%**
Revenues:				
Agency commissions and fees	$ 887,377	$ 891,774	$ (4,397)	—%
Inventory sales	41,589	80,808	(39,219)	(49%)
Finance	44,818	43,887	931	2%
Other	17,876	19,271	(1,395)	(7%)
Total revenues	991,660	1,035,740	(44,080)	(4%)
Expenses:				
Agency direct costs	199,801	184,491	15,310	8%
Cost of inventory sales	35,683	81,103	(45,420)	(56%)
Cost of finance revenues	—	4,056	(4,056)	(100%)
Marketing	24,505	23,897	608	3%
Salaries and related	366,859	342,687	24,172	7%
General and administrative	191,284	180,360	10,924	6%
Depreciation and amortization	32,969	27,048	5,921	22%
Merger related expenses	132,063	—	132,063	*
Restructuring charges	(88)	10,753	(10,841)	N/A
Total expenses	983,076	854,395	128,681	15%
Operating income	8,584	181,345	(172,761)	95%
Net interest expense (a)	(61,635)	(38,517)	(23,118)	(60%)
Extinguishment of debt	(10,274)	(10,855)	581	5%
Write-off of credit facility fees	(3,498)	(3,982)	484	12%
Non-operating income	5,408	4,688	720	15%
(Loss) income before taxes	(61,415)	132,679	(194,094)	N/A
Income tax expense	13,046	27,652	(14,606)	N/A
Equity in earnings of investees	3,235	3,591	(356)	(10%)
Net (loss) income	(71,226)	108,618	(179,844)	N/A
Less: Net loss attributable to noncontrolling interest	(16)	(16)	—	—%
Net (loss) income attributable to Sotheby's	$ (71,210)	$ 108,634	$ (179,844)	N/A
Statistical Metrics:				
Aggregate Auction Sales (b)	$ 4,732,377	$ 5,250,503	$ (518,126)	(10%)
Net Auction Sales (c)	$ 3,923,106	$ 4,395,593	$ (472,487)	(11%)
Private Sales (d)	$ 952,955	$ 1,018,844	$ (65,889)	(6%)
Consolidated Sales (e)	$ 5,726,921	$ 6,350,155	$ (623,234)	(10%)
Effective income tax rate (f)	(21.2)%	20.8%	(42.0%)	N/A
Non-GAAP Financial Measures:				
EBITDA (g)	$ 36,440	$ 201,851	$ (165,411)	N/A
Adjusted EBITDA (g)	$ 239,827	$ 259,478	$ (19,651)	(8%)
Auction Commission Margin	17.3 %	16.1%	1.2 %	N/A
Pro Forma Financial Measures:				
Pro Forma Adjusted EBITDA (h)	$ 169,225	$ 184,749	$ (15,524)	(8%)

Legend:

*	Represents a variance in excess of 100%.
(a)	Represents interest expense principally attributable to long-term debt and revolving credit facility borrowings, less non-operating interest income.
(b)	Represents the total hammer (sale) price of property sold at auction plus buyer's premium, excluding amounts related to the sale of our inventory at auction, which are reported within inventory sales.
(c)	Represents the total hammer (sale) price of property sold at auction, excluding amounts related to the sale of our inventory at auction, which are reported within inventory sales.
(d)	Represents the total purchase price of property sold in private sales that we have brokered, including our commissions.
(e)	Represents the sum of Aggregate Auction Sales, Private Sales, and inventory sales.
(f)	Represents our effective income tax rate, excluding the tax effects of discrete items such as items that are unusual or infrequent in nature, or the tax effects of items recorded in the current year that do not relate to current year income.
(g)	See "Non-GAAP Financial Measures" below for a description of this non-GAAP financial measure and a reconciliation to the most comparable GAAP amount.
(h)	See "Proforma Financial Measures" below for a description of this proforma financial measure.

Agency Results

Auction Results—In our role as auctioneer, we accept works of art on consignment and match sellers (also known as consignors) to buyers through the auction process. In an auction transaction, we act as exclusive agent for the seller. The terms of our arrangement with the seller are stipulated in a consignment agreement, which, among other things, entitles us to collect and retain an auction commission as compensation for our service. Our auction commission includes a premium charged to the buyer and, to a lesser extent, a commission charged to the seller, both of which are calculated as a percentage of the hammer price of the property sold at auction. In certain situations, in order to secure a high-value consignment, we may not charge a seller's commission and/or may share a portion of our buyer's premium with the seller. In situations when we share a portion of our buyer's premium with the seller, our auction commission revenue is recorded net of the amount paid to the seller.

Our buyer's premium is based on a tiered rate structure, which generally charges buyers a lower percentage for higher valued property, while lower valued property is charged a higher rate of commission. Accordingly, our aggregate Auction Commission Margin (which represents total auction commissions, net of fees owed to the counterparties in auction guarantee risk sharing arrangements and fees owed to third parties who introduce us to auction consignors, as a percentage of Net Auction Sales) may be impacted by the mix of property sold in a period. Auction Commission Margin may also be adversely impacted by arrangements whereby we share our buyer's premium with a consignor in order to secure a competitive high-value consignment, as well as by our use of auction guarantees. For example, in situations when guaranteed property sells for less than the guaranteed price, our buyer's premium from that sale is used to reduce the loss on the transaction. (See Note 17 of Notes to Consolidated Financial Statements for information related to our use of auction guarantees.)

For the year ended December 31 2019, our net auction results (which include auction commissions and fees, including any net overage or shortfall related to auction guarantees, less auction related direct costs) decreased ($23.1) million (3.7%) primarily due to a ($472) million (10.7%) decrease in Net Auction Sales, due in part to lower consignment levels in our Impressionist, Modern and Contemporary Art sales in London, caused, in part, by Brexit-related uncertainties, as well as a decrease in sales of jewelry. The decrease in net auction results for 2019 is partially mitigated by a significant improvement in Auction Commission Margin, from 16.1% to 17.3%. This improvement is principally due to the sale of two high value paintings in the second quarter of 2018, one of which involved the use of buyer's premium to mitigate a loss on an auction guarantee and the other which involved an item that earned a minimal auction commission at the final hammer price. These two transactions collectively reduced our Auction Commission Margin by 0.6% in 2018. The remainder of the increase in Auction Commission Margin when compared to the prior year periods is due to a change in sales mix because, in the second quarter of 2018, the art market was driven by competitive high-value, low-margin consignments from fiduciary sources such as estates, foundations and charities. The comparison of our net auction results to the prior year periods is also favorably influenced by improved deal-making and auction guarantee performance and the comparison to the prior period includes a significant auction guarantee loss on a single painting (discussed above) that was not repeated in the current year.

Private Sale Results—Private sale commission revenues are earned through the direct brokering of purchases and sales of art. Private sales are generally initiated by a client wishing to sell their artwork (i.e., the consignor) with Sotheby's acting as its exclusive agent in the transaction. Because private sales are individually negotiated, non-recurring transactions, the volume and value of transactions completed can vary from period to period, with associated variability in revenues.

In 2019, private sale commissions totaled $82.3 million, marking an approximate (1%) decrease when compared to the prior year. This was largely due to a lower level of transaction volume, particularly with respect to higher valued property.

Inventory Activities—Agency segment inventory activities include amounts earned from the sale of: (i) artworks that have been obtained as a result of the failure of guaranteed property to sell at auction; (ii) artworks that have been purchased opportunistically, including property acquired for sale at auction; and (iii) other objects obtained incidental to the auction process (e.g., as a result of buyer default).

In 2019, the net results of our inventory activities improved by $6.2 million, primarily due to a lower level of inventory writedowns.

Marketing Expenses

Marketing expenses are costs related to the promotion of the Sotheby's brand and include digital and print advertising, client relationship development, Sotheby's lifestyle magazines, and certain sponsorship agreements. In 2019, marketing expenses increased $0.6 million (3%).

Salaries and Related Costs

Salaries and related costs include full-time salaries, incentive compensation, employee benefits and payroll taxes, as well as stock-based payment expense and charges connected with contractual severance arrangements. In 2019, salaries and related costs increased $24.2 million (7%) when compared to the prior year. This increase is largely a result of the following factors: (i) charges related to contractual severance agreements entered into with certain former employees ($6.4 million); (ii) higher employee benefits and payroll taxes due to the improved performance of deemed participant investments in the DCP, which resulted in a higher level of recorded expense ($4.6 million), and; (iii) headcount increases and pay raises ($3.6 million).

General and Administrative Expenses

General and administrative expenses include professional fees, facilities-related expenses, and travel and entertainment costs, as well as other indirect expenses. In 2019, general and administrative expenses increased $11 million (6%) when compared to the prior year. This increase is primarily due to a charge associated with an uncollectible loan in the second quarter of 2019, higher spending on digital initiatives and an increase in facilities-related costs primarily a result from off-site storage and other costs related to the York Property enhancement project. The comparison to the prior year is also significantly influenced by professional fee recoveries realized in the second quarter of 2018 following the resolution of certain legal matters for which there were no comparable events in the current year.

Depreciation and Amortization Expense

In 2019, depreciation and amortization expense increased $5.9 million (22%), when compared to the prior year due to a combination of technology assets placed into service throughout 2019, York Property enhancements that were placed into service in the second quarter of 2019, and the amortization of goodwill starting in the fourth quarter of 2019.

Merger-Related Expenses

In connection with the Merger, we incurred $132.1 million in merger-related expenses in 2019, which are reflected in the Consolidated Statements of Operations within Merger-Related Expenses and include severance and compensation related charges of $56.2 million (including $12.1 million for accelerated stock-based payments charges associated with the departure of senior executive level employees subsequent to the Merger), a success-based financial advisory fee of $37.8 million, and advisory, legal, and consulting fees of $38.1 million.

Restructuring Charges

Beginning in the second quarter of 2018, we implemented a restructuring plan with the principal goal of reducing headcount through the elimination of certain Agency business and corporate level positions (the "2018 Restructuring Plan"). The 2018 Restructuring Plan was completed in the fourth quarter of 2018 and resulted in $10.8 million of related charges, almost entirely attributable to severance-related costs. As of December 31, 2018, the remaining restructuring liability was $5.9 million and is recorded on our Consolidated Balance Sheets within Accounts Payable and Accrued Liabilities. This liability was substantially settled in the fourth quarter of 2019.

Net Interest Expense

In 2019, net interest expense increased $23.1 million (60%) when compared to the prior year and is significantly influenced by the consummation of the Merger on October 3, 2019. For the nine month period prior to the Merger ending September 30, 2019, net interest expense increased by $11.5 million. After combining cost of finance revenues of approximately $4 million in the prior year, net interest expense increased by $7.1 million, largely due to a higher level of revolving credit facility borrowings to fund SFS growth. For the three month period following the Merger ending December 31, 2019, net interest expense totaled $23.2 million, representing an increase of $11.6 million. The increase is largely attributable to the borrowings associated with our Term Loan Facility ($7.8 million) and the incremental interest expense associated with our 2027 Notes (as defined below) ($6.2 million). The increase in interest expense is partially offset by the extinguishment of the York Property Mortgage in connection with the Merger.

See Note 10 of Notes to Consolidated Financial Statements for information related to our revolving credit facilities and debt instruments.

Write-off of Credit Facility Fees

In the fourth quarter of 2019, $3.5 million in costs for the unamortized debt issuance under the JPMorgan Chase Credit Agreement were written-off. The JPMorgan Chase Credit Agreements was scheduled to mature on June 26, 2023, but was terminated on October 3, 2019 in connection with the Merger. All $470 million of borrowings outstanding at the time were repaid.

In the second quarter of 2018, $4 million of unamortized fees related to the Previous Credit Agreements were written-off as a result of a refinancing of the Previous Credit Agreements.

See Note 10 of Notes to Consolidated Financial Statements for information related to our revolving credit facilities.

Extinguishment of Debt

In connection with the Merger, we incurred a loss on the extinguishment of debt totaling $10.3 million in 2019. The loss consisted of the write-off of unamortized debt issuance costs ($3.7 million) and call premium ($3.4 million) associated with the change of control tender offer of our 2025 Notes (as defined below), as well as the write-off of unamortized debt issuance costs associated with the repayment of the York Property Mortgage ($3.1 million).

In 2018, we incurred a loss on the extinguishment of debt totaling $10.9 million. The loss consisted of the write-off of unamortized debt issuance costs ($3 million) and call premium ($7.9 million) associated with the redemption of our 2022 Notes.

See Note 10 of Notes to Consolidated Financial Statements for information related to our debt instruments.

Income Tax Expense

Our accrual for income taxes in the current year reflects an allocation of our share of the Parent's total income tax. Under this method, we are allocated income tax expense, or income tax benefit, on a jurisdictional basis, based upon the percentage of our net income before taxes plus permanent differences over the Parent's consolidated group's net income before taxes plus permanent differences. Our effective income tax rate for the year ended December 31, 2019 was (21.2%) as compared to 20.8% in the prior year. The negative effective income tax rate in the current year is due primarily to the effect of the jurisdictional mix of earnings as well as nondeductible merger-related expenses and other permanent items that result in the tax expense in jurisdictions with positive earnings exceeding the tax benefit in jurisdictions with losses.

Equity in Earnings of Investees

In 2019, our share of earnings from equity method investees decreased $0.4 million primarily due to lower results by RM Sotheby's, partially offset by improved performance from Acquavella Modern Art. (See Note 6 of Notes to Consolidated Financial Statements for additional information regarding our equity method investments.)

Impact of Changes in Foreign Currency Exchange Rates

For the year ended December 31, 2019, changes in foreign currency exchange rates had a net unfavorable impact of approximately $1 million on our operating income, with revenues unfavorably impacted by $12.5 million and expenses favorably impacted by $11.5 million.

<u>CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018</u>

For the years ended December 31, 2019 and 2018, total cash, cash equivalents, and restricted cash increased (decreased) $103.1 million and $(723.7) million, respectively. The captioned sections below explain the significant factors contributing to the increase (decrease) in cash, cash equivalents, and restricted cash during each of these years. This discussion should be read in conjunction with our Consolidated Statements of Cash Flows for the years ended December 31, 2019, and 2018.

Net Cash Provided (used) by Operating Activities—We are predominantly an agency business that collects and remits cash on behalf of our clients. Accordingly, the net amount of cash provided or used in a period by our operating activities is significantly influenced by the timing of auction and private sale settlements. As discussed in Note 1 of Notes to Consolidated Financial Statements, under our standard auction payment terms, the purchase price is due from the buyer no more than 30 days after the sale date, with the net proceeds due to the consignor 45 days after the sale date. Accordingly, it is not unusual for us to hold significant balances of consignor net sale proceeds at the end of a quarterly reporting period that are disbursed soon thereafter. Additionally, we sometimes provide extended payment terms to an auction or private sale buyer. For auctions, the extent to which extended payment terms are provided can vary considerably from selling season to selling season. In certain instances, and subject to management approval under our internal corporate governance policy, we may pay the net sale proceeds to the consignor before payment is collected from the buyer, with the collection from the buyer sometimes occurring after the current balance sheet date. The amount of net cash provided or used by our operating activities in a reporting period is also a function of our net income or loss, the timing of payments made to vendors, the timing of compensation-related payments, the timing and extent of cash flows related to inventory activities, and the timing of the collection and/or payment of tax-related receivables and payables.

For the year ended December 31, 2019, net cash provided by operating activities of approximately $73.8 million is principally due to net cash inflows of $155 million associated with the timing of the settlement of auction and private sale transactions during the period and is partially offset with an increase in our inventory balance.

For the year ended December 31, 2018, net cash used by operating activities of approximately $77.8 million is principally due to net cash outflows of $260.9 million associated with the settlement of auction and private sale transactions during the period.

Net Cash Used by Investing Activities—For the year ended December 31, 2019, the net cash used by investing activities of $(117.2) million is the result of capital expenditures of ($75) million, which were primarily attributable to the York Property enhancement project and various digital initiatives, as well as ($49) million due to the net funding of client loans.

For the year ended December 31, 2018, the net cash used by investing activities of $87.3 million is largely due to the funding of capital expenditures of $56.8 million, including $24 million attributable to the York Property enhancement project.

our merger with BidFair USA Inc. and includes payments to the Parent to consummate the Merger $(347.1) million

Net Cash Provided (Used) by Financing Activities—For the year ended December 31, 2019, net cash provided by financing activities of $143.9 million is primarily due to the issuance of debt entered into in connection with the Merger, including the issuance of $600 million in aggregate principal amount of 7.375% senior secured notes due 2027 (the "2027 Notes") and $457 million of proceeds related to Term Loan Facility borrowings. In addition, $450 million in proceeds were provided in connection with the issuance of the Asset Sale Bridge Facility as part of the Real Estate Portfolio Transfer. This cash inflow is partially offset by the repayments of the 2025 Notes ($345 million), repayments of the York Property Mortgage ($260 million), net repayments of revolving credit facility borrowings ($280 million) and payments to the Parent to consummate the Merger ($347.1 million).

For the year ended December 31, 2018, net cash used by financing activities of $548.6 million is primarily due to the extinguishment of our $300 million 2022 Senior Notes, including the payment of a $7.9 million call premium, and common stock repurchases ($295.2 million, including $10.5 million attributable to a forward contract indexed to Sotheby's stock as part of an accelerated share repurchase agreement). These net cash outflows were partially offset by net borrowings under our revolving credit facilities ($83.5 million).

(See Note 10 of Notes to Consolidated Financial Statements for information regarding our debt obligations.)

LIQUIDITY AND CAPITAL RESOURCES

Overview—Our capital requirements include the liquidity necessary to support our recurring business needs and capital required for the pursuit of technology initiatives and growth opportunities. As of December 31, 2019, we held cash and cash equivalents of $265 million and had total borrowing capacity under the revolving credit facility available to us through our New Credit Facilities Agreements of $250 million to support our liquidity and capital requirements. Our available borrowing capacity takes into account our guarantee of the SFS Loan of up to $150 million, which is supported by standby letters of credit under the New Credit Facilities Agreements. In addition, the New Credit Facilities Agreements contain certain restrictive financial and non-financial covenants and our Senior Notes contain cross default provisions in the event of our non-compliance with the covenants required by the New Credit Facilities Agreements. As of December 31, 2019, and March 31, 2020, we were in compliance with the financial covenants required by the New Credit Facilities Agreements.

We generally rely on the cash generated from our operating operations, which includes amounts collected on behalf of and owed to consignors, and draws on our revolving credit facility, as needed, to meet our liquidity and capital requirements. The timing and extent of our reliance on our revolving credit facility is dependent upon a number of factors including, but not limited to, the amount of available cash on hand, the seasonality of the art auction market, the timing of auction and private sale settlements, the potential funding of auction guarantees, the demand for art-related financing, which can be significantly influenced by overall economic conditions and by the often unpredictable financial requirements of owners of major art collections, the timing of the funding of new client loans, the timing of the settlement of existing client loans, the pursuit of business opportunities and growth initiatives, the timing and amount of common stock repurchases, the timing of the repatriation of foreign earnings, and the cyclical nature of the global art market. The assessment of our liquidity and capital requirements also takes into consideration the risks associated with our use of auction guarantees and their potential impact on our financial position and operations.

On March 11, 2020, the World Health Organization announced that COVID-19 is a global pandemic (the "COVID-19 pandemic") and recommended containment and mitigation measures, which resulted in governments worldwide mandating shelter-in-place orders and the temporary closure of non-essential businesses. As a result, we temporarily suspended the operation of our live auctions in March 2020 with a plan to resume once government restrictions are lifted, which is currently expected to begin as early as June 2020 in most jurisdictions where we conduct live auctions. Due to the temporary suspension of our live auctions, we experienced a material decline in our sales volume and corresponding operating cash flows beginning in March 2020 and anticipate this decline to continue for the foreseeable until we can safely resume our live auctions. In addition, the timing of the resumption of our live auctions is dependent on several factors, most of which are outside the Company's control, and our ability to resume may be further hindered by mitigation measures that may be introduced by governments worldwide to contain further COVID-19 outbreaks in the future.

Due the significant uncertainty associated with the material adverse impact the COVID-19 pandemic has had on our operations and liquidity, we are unable to predict or quantify with certainty the effect on our liquidity, our ability to meet our obligations when they become due, or our ability to maintain compliance with our financial covenants under the New Credit Facilities Agreements over the next twelve months. In response to this uncertainty, we have implemented several measures which we believe will help mitigate the immediate disruption to our business for the foreseeable future. These measures include: (i) the postponement of all our previously scheduled major spring sales to early summer; (ii) the conversion of a number of our live auctions to online auction formats which have subsequently seen early success; (iii) a reduction in employee salaries and unpaid staff furloughs; (iv) the deferral of discretionary and sale-related spending; (v) the deferral of employee incentive compensation, (vi) reductions in capital spending, and; (vii) and a drawdown of $195 million on our revolving credit facility in April 2020.

While we believe the measures we have implemented to date (and plan to continue to implement until we are able to resume our live auctions) may allow us to meet our obligations when they become due and maintain compliance with our financial covenants, we can provide no assurance that the COVID-19 pandemic will not continue to further negatively impact our operations and liquidity or that our implementation efforts will be successful such that we may not be able to meet our obligations as they become due and maintain compliance with our financial covenants over the next twelve months. The uncertainties associated with our ability to meet our obligations as they become due and maintain compliance with our financial covenants over the next twelve months raises substantial doubt about the Company's ability to continue as a going concern as of December 31, 2019 that is not alleviated by our plans because such plans are not probable of occurrence. The accompanying consolidated financial statements as of and for the year ended December 31, 2019 do include any adjustments that may result from the outcome of these uncertainties.

Merger—As discussed above, at the Effective Time, we completed the transactions contemplated by the Merger Agreement, and the Merger Sub merged with and into the Company, with the Company continuing as the surviving corporation and as a wholly-owned indirect subsidiary of the Parent. Accordingly, the Company ceased being a publicly traded company at that time. The Parent and the Company are controlled by Mr. Patrick Drahi.

At the Effective Time, each share of common stock, $0.01 par value, of Company Common Stock issued and outstanding immediately prior to the Effective Time (other than shares of the Company Common Stock owned by the Company, the Parent, the Merger Sub, or any of their respective direct or indirect wholly-owned subsidiaries or any other affiliate of the Parent), was converted into the right to receive $57 in cash, without interest. The aggregate cash consideration paid to Company stockholders upon the closing of the Merger was approximately $2.6 billion. As of December 31, 2019, 484,029 shares of Company Common Stock that were subject to a now withdrawn demand for appraisal rights under Delaware law remained outstanding and was recorded on Sotheby's Consolidated Balance Sheets within accounts payable and accrued liabilities. In January 2020, substantially all of these shares were paid totaling approximately $27 million.

In connection with the Merger, certain outstanding employee share-based compensation awards (the "Employee Equity Awards") were canceled, extinguished and converted into awards representing the right to receive an amount in cash (without interest and subject to any applicable withholding tax) equal to the number of shares of Company Common Stock represented the Employee Equity Awards as of immediately prior to the Effective Time multiplied by the Merger Consideration. Each converted Employee Equity Award will (A) vest and settle on terms (including acceleration events but excluding any performance-based vesting conditions, if applicable) as were applicable to the corresponding Company equity award immediately prior to the Effective Time and (B) vest in full to the extent the holder of a converted award is subject to a qualifying termination of employment during the twenty-four (24) month period following the closing, with such converted award settled in cash as soon as practicable, but in no event later than ten (10) business days, following such qualifying termination, or such later time as required to comply with Section 409A of the Internal Revenue Code of 1986. As of December 31, 2019, the aggregate amount owed by the Company in respect of the converted Employee Equity Awards is $63.2 million. (See Note 1 and Note 19 of Notes to Consolidated Financial Statements for a summary of the terms and conditions of the Company's share-based payment arrangements.)

Also in connection with the Merger, Merger Sub (i) issued $600 million 7.375% 2027 Notes in a private placement conducted pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended, and (ii) entered into the New Credit Facilities Agreement dated as of October 2, 2019, between Merger Sub, inter alios, certain lenders party thereto and BNP Paribas, as administrative agent, and Deutsche Bank Trust Company Americas, as the collateral agent. The 2027 Notes were issued pursuant to an the Indenture dated as of October 2, 2019, between Merger Sub and Deutsche Bank Trust Company Americas, as trustee, paying agent, transfer agent, registrar, and collateral agent (the "2027 indenture"). The proceeds from the issuance of the 2027 Notes were used to fund a portion of the Merger Consideration ($345 million) and to repay a portion of the outstanding revolving credit facility borrowings under the JPMorgan Chase Credit Agreement ($255 million) (see Note 10 of Notes Consolidated Financial Statements). The New Credit Facility Agreement provides (i) U.S. dollar-denominated term loans in an aggregate principal amount of $500 million available in up to two drawings (the "New Term Loan Facility"); and (ii) U.S. dollar-denominated revolving loan commitments in an aggregate principal amount of $400 million (the "New Revolving Credit Facility", and together with the New Term Loan Facility, the "New Credit Facilities"). The New Term Loan Facility has been drawn on October 2, 2019 in the amount of $96 million and on October 15, 2019 in the amount of $365.7 million. The proceeds of the drawings under the New Term Loan Facility have been used to fund a portion of the Merger Consideration and to consummate an offer to purchase the 205 Notes pursuant to a change-of-control tender offer.

As of the Effective Time, the 2027 Notes and the New Credit Facilities became obligations of the Company, and the Company entered into a supplemental indenture to the 2027 Indenture (the "Target Supplemental Indenture") pursuant to which it assumed all the rights and obligations of the Merger Sub under the 2027 Notes and the 2027 Notes Indenture. On October 7, 2019, each existing material wholly-owned direct or indirect subsidiary of the Company that is organized in the U.S. (the "Initial U.S. Guarantors") and on December 18, 2019, each existing material wholly-owned direct or indirect subsidiary of the Company that is organized in England and Wales, Luxembourg or Hong Kong (the "Initial Non-U.S. Guarantors") acceded to the 2027 Indenture and the New Credit Facilities Agreement as a guarantor.

Also in connection with the Merger, we entered into transactions to transfer Sotheby's Financial Services, Inc. and its wholly-owned subsidiaries to the Parent in the SFS Business Transfer. Following the SFS Business Transfer, the receivables related to the SFS loan portfolio (including those held by certain indirect wholly-owned subsidiaries of the Company) were transferred to the SFS Subsidiary in the SFS Portfolio Transfer. The SFS Portfolio Transfer was financed with the SFS Loan of up to $1 billion extended to the SFS Subsidiary pursuant to the SFS Loan Agreement. Approximately $834 million of the SFS loan was drawn on October 2, 2019 and was used to fund a portion of the Merger Consideration. The SFS Loan Agreement permits additional draws on the SFS Loan through April 30, 2020 to provide financing for the purchase of additional loan receivables by the SFS Subsidiary, and we expect to receive commitments for additional funding for loans made subsequent to April 30, 2020. The SFS Loan has a maturity date of the later of December 31, 2020 or the final maturity date of the last loan included in the SFS Portfolio Transfer. The obligations of the SFS Subsidiary under the SFS Loan are secured by the receivables and associated rights acquired in conjunction with the SFS Portfolio Transfer. We have provided a guarantee of the SFS Subsidiary's obligations under the SFS Loan of up to $150 million that is supported by standby letters of credit under the New Credit Facilities. (See Note 1, Note 5, and Note 21 of Notes Consolidated Financial Statements for information related to the SFS Business Transfer, receivables related to SFS, and SFS Subsidiary's guarantee, respectively.)

Further in connection with the Merger, we entered into a transaction to transfer the York Property (the "York Property Transfer"). As of September 30, 2019, the York Property was subject to a seven-year, $325 million mortgage loan (the "York

Property Mortgage") that was scheduled to mature on July 1, 2020. The York Property Mortgage was repaid on October 3, 2019 in connection with the Merger. In conjunction with the York Property Transfer, 1334 York, LLC and BidFair Property Holdings Inc. entered into the $450 million Asset Sale Bridge Facility, the proceeds of which were used to repay the outstanding York Property Mortgage ($249 million) and a portion of the outstanding revolving credit facility borrowings under the JPMorgan Chase Credit Agreement ($201 million). The Asset Sale Bridge Facility will terminate one year following the Effective Time, subject to the right of the borrowers to extend the maturity date by six months solely conditioned upon payment of an extension fee without any further consent of the lender. The Asset Sale Bridge Facility is expected to be refinanced or extended at its maturity. In addition, in 2020, the Company also intends to transfer the London Properties to a separate legal entity in the London Properties Transfer. Upon the completion of the Real Estate Portfolio Transfer, we will enter into new long-term, arms-length lease agreements with BidFair Property Holdings Inc. in respect of the York Property. (See Note 1, Note 10, Note 18, and Note 21 of Notes to Consolidated Financial Statements for information related to the Real Estate Portfolio Transfer, York Property Mortgage, and related-party lease arrangements) (See statement on Forward Looking Statements.)

NON-GAAP AND PRO FORMA FINANCIAL MEASURES

Non-GAAP Financial Measures—GAAP refers to generally accepted accounting principles in the United States of America. Included in this Report are financial measures presented in accordance with GAAP and also on a non-GAAP basis. Non-GAAP financial measures are important supplemental measures used in our financial and operational decision making processes, for internal reporting, and as part of our forecasting and budgeting processes, as they provide helpful measures of our core operations. These measures allow us to view operating trends, perform analytical comparisons, and benchmark performance between periods. We also believe that these measures may be used by securities analysts, investors, financial institutions, and other interested parties in their evaluation of our performance. The non-GAAP financial measures presented in this Report are: (i) EBITDA, and (ii) Adjusted EBITDA.

To the extent applicable, these non-GAAP financial measures exclude the effect of the following non-recurring items, as detailed in the accompanying reconciliation tables below:

(i) Stock-based compensation expense including the cost of equity compensation awards and the charges associated converted stock unit expense as a result of the Merger;

(ii) Charges related to contractual severance agreements entered into with certain former employees;

(iii) Non-recurring bad debt expense related to a non-SFS note receivable;

(iv) Merger related expenses;

(v) Restructuring charges;

(vi) The loss incurred in connection with the extinguishment of our Senior Notes and York Property Mortgage, and;

(vii) The write-off of unamortized credit facility fees related to our previous credit agreement.

Pro forma Financial Statements and Measure—This Report includes financial statements and measures presented on a pro forma basis. Pro forma measures are derived from the GAAP and non-GAAP financial measures included in this report but represent the operating activity and financial position of the Sotheby's as if the SFS Business Transfer and the York Property Transfer occurred at the beginning of each applicable period presented. These pro forma financial measures are not audited and are based upon currently available information, estimates, and pro forma assumptions that we believe are reasonable. The pro forma financial measures presented in this Report are: (i) Pro Forma Adjusted EBITDA.

To the extent applicable, these pro forma financial statements and measures exclude the effect of the following pro forma items, as detailed in the accompanying reconciliation table below:

(i) Results of operations attributable to the SFS Business Transfer and the Real Estate Portfolio Transfer which have been included in our results of operations up until the Effective Time;

(ii) Pro forma effect attributable to the SFS Business Transfer includes revenues earned on loans held by legal entities not transferred, certain SFS fees charged to the Company, and other operating expenses attributable to legal entities not transferred;

(iii) Pro forma effect attributable to the Real Estate Portfolio Transfer primarily includes the pro forma effect for rent expense charged to the Company under the York Property Lease which was eliminated in consolidation up until the Effective Time.

The following is a reconciliation of net (loss) income attributable to Sotheby's to Pro Forma Adjusted EBITDA for the years ended December 31, 2019 and 2018 (in thousands of dollars):

Year Ended December 31,	2019	2018
Net (loss) income attributable to Sotheby's	$ (71,210)	$ 108,634
Add: Interest expense	62,731	39,984
Subtract: Interest income	1,096	1,467
Add: Income tax (benefit) expense	13,046	27,652
Add: Depreciation and amortization	32,969	27,048
EBITDA	36,440	201,851
Add: Stock-based compensation expense	42,762	29,412
Add: Contractual severance charges	9,041	2,625
Add: Non-recurring bad debt expense related to non-SFS note receivable	2,138	—
Add: Merger related expenses	132,063	—
Add: Restructuring charges, net	(88)	10,753
Add: Extinguishment of debt	10,274	10,855
Add: Write-off of credit facility fees	3,498	3,982
Add: Reclassification of Mortgage Collar into Net Loss	3,699	—
Adjusted EBITDA	$ 239,827	$ 259,478
Subtract: Results of operations attributable to the SFS Business and York Property Transfers	32,577	28,879
Subtract: Pro Forma effect attributable to the SFS Business Transfer	15,027	15,169
Subtract: Pro Forma effect attributable to the York Property Transfer	22,998	30,681
Pro Forma Adjusted EBITDA	$ 169,225	$ 184,749

We expect to finalize the SFS Business Transfer and the Real Estate Portfolio Transfer later in 2020. An addition, we anticipate significant cost savings in excess of $100 million when compared to the prior year as a result of cost reduction measures in respect of agency direct expenses, compensation expenses, as well as general and administrative expenses.

DESCRIPTION OF MATERIAL AFFILIATE TRANSACTIONS

On the Effective Time, we completed the transactions contemplated by the Merger Agreement described in Note 1. At that time, we ceased being a publicly traded company and became a wholly-owned subsidiary of our Parent, BidFair USA Inc. As a result of the Merger, the SFS Business Transfer, and the Real Estate Portfolio Transfer, we became part of a group of companies which are under common control by the Parent. We conduct various intercompany transactions between entities under common control which we include in our results of operations and financial position as related party transactions. These intercompany transactions primarily include, but are not limited to the following:

Sotheby's Financial Services—Principally includes fees charged to Sotheby's to compensate SFS for generating auction and private sale consignments through the sale of term loan collateral and amounts charged by SFS for loans issued with favorable terms as an accommodation to Sotheby's in order to secure a consignment or enhance a client relationship. For the period beginning on the Effective Time and ending on December 31, 2019, we have recognized $5.3 million in such fees which are recorded in agency direct costs on the Consolidated Statements of Operations.

In connection with the SFS Business Transfer, at the Effective Time, Sotheby's provided a guarantee of the SFS Subsidiary's obligations under the SFS Loan with the maximum potential obligation of up to $150 million that is supported by standby letters of credit issued under the New Credit Facilities. We are required to perform on our guaranty obligation in the event of any non-payment by the SFS Subsidiary of amounts owed under the SFS Loan. The guarantee is enforceable for the life of the SFS Loan.

Subsequent to the SFS Business Transfer, art-related financing remains an important service offered to our clients which has not fundamentally changed. Through our subsidiaries, Sotheby’s Financial Services, Inc. continues to service the portfolio of loans that were pledged to the SFS Subsidiary. We have historically incurred minimal losses on the SFS loan portfolio and we continue to maintain stringent loan underwriting standards. However, the demand for art-related financing can be significantly influenced by overall economic conditions and by the often unpredictable financial requirements of owners of major art collections. Accordingly, our previous loan loss experience may not be indicative of the future performance of the loan portfolio. Secured loans totaling $156 million with an LTV of 37% related to the SFS loan portfolio are recorded on our Consolidated Balance Sheet as of December 31, 2019. (See Note 5 for additional information on our Notes Receivable.)

BidFair Property Holdings, Inc.—We have one significant related-party lease arrangement connected with the York Property Lease. As of December 31, 2019, we have recognized a right-of-use asset of $219.6 million and a corresponding operating lease liability of $247.1 million. For the period beginning on the Effective Time and ending on December 31, 2019, we have recognized $7.7 million in operating lease costs associated with the York Property Lease which is recorded in general and administrative expenses on the Consolidated Statements of Operations. (See Note 18 for additional information on our leases.)

Related Party Agency Commissions—From time-to-time, in the ordinary course of business, related parties, such as members of our Board of Directors and management, buy and sell property at our auctions or through private sales. For the years ended December 31, 2019 and 2018, our Consolidated Statements of Operations include Agency Commissions and Fees of $2.1 million and $5.1 million, respectively, attributable to transactions with related parties. In 2018, our Consolidated Income Statements include Inventory Sales (and related cost of sales) of $5.3 million attributable to transactions with related parties.

As of December 31, 2019, Accounts Receivable included amounts due from related party purchasers totaling $7.3 million. As of December 31, 2018, Client Payables included amounts owed to related party consignors totaling $4.3 million, respectively.

DESCRIPTION OF MATERIAL CONTRACTUAL ARRANGEMENTS

For information related to our material contractual arrangements, please refer to the references below:

- See Note 5 of Notes to Consolidated Financial Statements for information related to our notes receivable;
- See Note 9 of Notes to Consolidated Financial Statements for information related to our pension arrangements;
- See Note 10 of Notes to Consolidated Financial Statements for information related to our debt obligations;
- See Note 11 of Notes to Consolidated Financial Statements for information related to our derivative instruments;
- See Note 17 of Notes to Consolidated Financial Statements for information related to auction guarantees, and:
- See Note 18 of Notes to Consolidated Financial Statements for information related to our third-party and related-party leasing arrangements.

RISK FACTORS

The following risk factors, which are not ranked in any particular order, should be read in conjunction with the balance of this Report, including the Consolidated Financial Statements and related notes.

The global economy, the financial markets and political conditions of various countries may negatively affect our business and clients, as well as the supply of and demand for works of art.

The global art market is influenced over time by the overall strength and stability of the global economy and the financial markets of various countries, although this correlation may not be immediately evident. In addition, global political conditions and world events may affect our business through their effect on the economies of various countries, as well as on the willingness of potential buyers and sellers to purchase and sell art in the wake of economic uncertainty. Our business can be particularly influenced by the economies, financial markets and political conditions of the U.S., the U.K., China, and the other major countries or territories of Europe and Asia (including the Middle East). Accordingly, weakness in those economies and financial markets can adversely affect the supply of and demand for works of art and our business. Furthermore, global political conditions may also influence the enactment of legislation that could adversely impact our business.

Competition in the global art market is intense and may adversely impact our business, results of operations, and financial condition.

We compete with other auctioneers and art dealers to obtain valuable consignments to offer for sale either at auction or through private sale. The level of competition is intense and can adversely impact our ability to obtain valuable consignments for sale, as well as the commission margins achieved on such consignments.

We cannot be assured of the amount and quality of property consigned for sale, which may cause significant variability in our results of operations.

The amount and quality of property consigned for sale is influenced by a number of factors not within our control. Many major consignments, and specifically single-owner sale consignments, become available only as a result of the death or financial or marital difficulties of the owner, all of which are unpredictable and may cause significant variability in our results of operations from period to period.

The demand for art is unpredictable, which may cause significant variability in our results of operations.

The demand for art is influenced not only by overall economic conditions, but also by changing trends in the art market as to which collecting categories and artists are most sought after and by the collecting preferences of individual collectors. These conditions and trends are difficult to predict and may adversely impact our ability to obtain and sell consigned property, potentially causing significant variability in our results of operations from period to period.

The U.K.'s decision to leave the European Union, known as Brexit, may adversely impact our business, results of operations, and financial condition.

The U.K.'s decision to leave the European Union, known as Brexit, has introduced additional volatility and uncertainty in global stock and financial markets, economic conditions, and Pound Sterling exchange rates. Uncertainties caused by Brexit could adversely impact the future amount and quality of property consigned for sale and the future demand for such art, particularly in our London salesroom. In addition, uncertainties caused by Brexit could adversely impact our ability to move property between the U.K. and the European Union, and our employees.

We rely on a select group of clients who make a significant contribution to our revenues, profitability, and operating cash flows.

Sotheby's is a global art business that caters to a select group of the world's most discerning art collectors. Accordingly, our revenues, profitability, and operating cash flows are highly dependent upon our ability to develop and maintain relationships with these clients, as well as their financial strength.

Tax matters may cause significant variability in our results of operations.

We operate in many tax jurisdictions throughout the world, and the provision for income taxes involves a significant amount of judgment regarding the interpretation of relevant facts and laws in these jurisdictions. Our effective income tax rate and recorded tax balances can change significantly between periods due to a number of complex factors including, but not limited to: (i) our projected levels of taxable income; (ii) changes in the jurisdictional mix of our forecasted and/or actual pre-tax income; (iii) increases or decreases to valuation allowances recorded against deferred tax assets; (iv) tax audits conducted by various tax authorities; (v) adjustments to income taxes upon the finalization of income tax returns; (vi) the ability to claim foreign tax credits; and (vii) tax planning strategies.

Additionally, our effective income tax rate could be impacted by future changes in applicable tax laws, as well as by the European Commission's investigations on illegal state aid, the Organisation for Economic Co-operation and Development project on Base Erosion and Profit Shifting, and future guidance that will be issued with respect to the U.S. Tax Cuts and Jobs Act that may change our interpretation of the new law and its application. Given the unpredictability of these possible changes, it is difficult to assess whether the overall effect of such potential tax changes on our earnings and cash flow would be cumulatively positive or negative, but such changes could ultimately have an adverse impact on our financial results.

Our clients reside in various tax jurisdictions throughout the world and the application of tax laws or tax reporting obligations in these jurisdictions, particularly as they relate to sales, use, value-added and other indirect taxes, is complex and requires a significant amount of judgment, exposing us to claims from tax authorities.

Our clients reside in various tax jurisdictions throughout the world. To the extent that there are changes to tax laws or tax reporting obligations in any of these jurisdictions, such changes could adversely impact the ability and/or willingness of our clients to purchase or sell works of art. Additionally, we are subject to laws and regulations in many countries involving sales, use, value-added and other indirect taxes which are assessed by various governmental authorities and imposed on certain revenue-producing transactions between us and our clients. The application of these laws and regulations to our unique business and global client base, and the estimation of any related liabilities is complex and requires a significant amount of judgment. In addition, changes to the laws and regulations involving sales, use, value-added and other indirect taxes could increase the complexity of our compliance efforts and impact our ability to accurately estimate any related liabilities. We are generally not responsible for these indirect tax liabilities unless we fail to collect the correct amount of sales, use, value-added, or other indirect taxes. Failure to collect the correct amount of indirect tax on a transaction may expose us to claims from tax authorities.

As a result of the U.S. Supreme Court decision in South Dakota v. Wayfair on June 21, 2018, a physical presence is no longer required for U.S. states to impose a sales tax collection obligation on out-of-state sellers. This ruling has significantly increased the number of states that have enacted economic nexus laws and, accordingly, has significantly increased the number of states in which we now collect sales tax, thereby increasing the administrative burden and cost of this added compliance. We will continue to monitor states' new laws and register to collect sales tax in additional jurisdictions as required.

The loss of key personnel could adversely impact our ability to compete.

We are largely a service business in which the ability of our employees to develop and maintain relationships with potential sellers and buyers of works of art is essential to our success. Moreover, our business is unique, making it important to retain key specialists and members of management. Accordingly, our business is highly dependent upon our success in attracting and retaining qualified personnel.

Our investments in new businesses and technologies involve significant risks and uncertainties and may not succeed.

We have invested in new businesses and technologies to implement our strategic priorities. These investments involve significant risks and uncertainties, and may adversely impact our short-term operating results and liquidity, and if they are unsuccessful, may expose us to the loss of clients and the impairment of assets. Our future operating results are dependent, in part, on our ability to successfully integrate and utilize these new businesses and technologies.

Government laws and regulations may restrict or limit our business or impact the value of our real estate assets.

Many of our activities are subject to laws and regulations including, but not limited to, import and export regulations, cultural property regulations, data protection and privacy laws, anti-money laundering laws, antitrust laws, copyright and resale royalty laws, laws and regulations involving sales, use, value-added and other indirect taxes, and regulations related to the use of real estate. In addition, we are subject to local auction regulations, such as New York City Auction Regulations Subchapter M of Title 6 § 2-121-2-125, et. seq. Such regulations currently do not impose a material impediment to our business, but do affect the art market generally. A material adverse change in such regulations, such as the American Royalties Too Act of 2014 introduced in the U.S. Congress, which would impose a 5% resale royalty (with a cap of $35,000) on sales of art through large auction houses, could affect our business. Additionally, export and import laws and cultural property ownership laws could affect the availability of certain kinds of property for sale at our principal auction locations, increase the cost of moving property to such locations, or expose us to legal claims or government inquiries.

Our ability to collect auction receivables may be adversely impacted by buyers from emerging markets, as well as by the banking and foreign currency laws and regulations and judicial systems of the countries in which we operate and in which our clients reside.

We operate in 40 countries and have a worldwide client base that has grown in recent years due in part to an increase in the activity of buyers from emerging markets, in particular, China. The collection of auction receivables related to buyers from emerging markets may be adversely impacted by the buyer's lack of familiarity with the auction process and the buyer's financial condition. Our ability to collect auction receivables may also be adversely impacted by the banking and foreign currency laws and regulations regarding the movement of funds out of certain countries, as well as by our ability to enforce our rights as a creditor in jurisdictions where the applicable laws and regulations may be less defined, particularly in emerging markets.

Foreign currency exchange rate movements can significantly impact our results of operations and financial condition.

We have operations throughout the world. Approximately 58% of our total revenues were earned outside of the U.S. in 2019, including 22% of our total revenues earned in the U.K. Additionally, we have significant assets and liabilities denominated in the Pound Sterling, the Euro, and the Swiss Franc. Revenues, expenses, gains, and losses recorded in foreign currencies are translated using the monthly average exchange rates prevailing during the period in which they are recognized. Assets and liabilities recorded in foreign currencies are translated at the exchange rate on the balance sheet date. Accordingly, fluctuations in foreign currency exchange rates, particularly for the Pound Sterling, the Euro, and the Swiss Franc, can significantly impact our results of operations and financial condition.

Subject to management approval under our internal corporate governance policy, we may pay the net sale proceeds to the consignor before payment is collected from the buyer and/or we may allow the buyer to take possession of purchased property before making payment. In these situations, we are exposed to losses in the event the buyer does not make payment.

Under the standard terms and conditions of our auction and private sales, we are not obligated to pay the consignor for property that has not been paid for by the buyer. However, in certain instances and subject to management approval under our internal corporate governance policy, we may pay the net sale proceeds to the consignor before payment is collected from the buyer while we retain possession of the property. In these situations, if the buyer does not make payment, we take title to the property, but could be exposed to losses if the value of the property subsequently declines. In certain other situations and subject to management approval under our internal corporate governance policy, we may allow the buyer to take possession of the purchased property before making payment. In these situations, we are liable to the seller for the net sale proceeds whether or not the buyer makes payment and would incur a loss in the event of buyer default. (See Note 5 of Notes to Consolidated Financial Statements for information about auction and private sale receivables.)

We could be exposed to losses in the event of title or authenticity claims.

The assessment of property offered for auction or private sale can involve potential claims regarding title and authenticity. The items we sell may be subject to statutory warranties as to title and to a limited guarantee as to authenticity under the Conditions of Sale and Terms of Guarantee that are published in our auction sale catalogues and the terms stated in, and the laws applicable to, agreements governing private sale transactions. Our authentication of the items we offer is based on scholarship and research, but necessarily requires a degree of judgment from our specialists. In the event of a title or authenticity claim against us, we may have recourse against the seller of the property and may have the benefit of insurance, but a claim could nevertheless expose us to losses and to reputational risk.

Auction guarantees create the risk of loss resulting from the potential inaccurate valuation of art.

The market for fine art, decorative art, and jewelry is not a highly liquid trading market and, as a result, the valuation of these items is inherently subjective. Accordingly, we are at risk with respect to our ability to estimate the likely selling prices of property offered with auction guarantees. If our judgments about the likely selling prices of property offered with auction guarantees prove to be inaccurate, there could be a significant adverse impact on our results, financial condition, and liquidity. (See Note 17 of Notes to Consolidated Financial Statements for information related to auction guarantees.)

We could be exposed to losses in the event of nonperformance by our counterparties in auction guarantee risk and reward sharing arrangements.

In certain situations, we reduce our financial exposure under auction guarantees through risk sharing arrangements. Our counterparties to these risk sharing arrangements are typically major international art dealers or major art collectors. We could be exposed to losses in the event any of these counterparties do not perform according to the terms of these contractual arrangements. (See Note 17 of Notes to Consolidated Financial Statements for information related to auction guarantees.)

Demand for art-related financing is unpredictable, which may cause variability in the operating results of SFS.

Our business is, in part, dependent on the demand for art-related financing, which can be significantly influenced by overall economic conditions and by the often unpredictable financial requirements of owners of major art collections. Accordingly, the operating results of SFS are subject to variability from period to period.

Our ability to realize proceeds from the sale of collateral for SFS loans may be delayed or limited.

In situations when there are competing claims on the collateral for SFS loans and/or when a borrower becomes subject to bankruptcy or insolvency laws, our ability to realize proceeds from the sale of its collateral may be limited or delayed.

The value of art held in inventory and art pledged as collateral for SFS loans is subjective and often fluctuates, exposing us to losses and significant variability in our results of operations.

The art market is not a highly liquid trading market. As a result, the valuation of art is inherently subjective and its realizable value often fluctuates over time. Accordingly, we are at risk both as to the realizable value of the property held in inventory and as to the realizable value of the property pledged as collateral for SFS loans. If there is evidence that the estimated realizable value of a specific item held in inventory is less than its carrying value, a loss is recorded to reflect our revised estimate of realizable value. In addition, if the estimated realizable value of the property pledged as collateral for an SFS loan is less than the corresponding loan balance, we assess whether it is necessary to record a loss to reduce the carrying value of the loan, after taking into account the ability of the borrower to repay any shortfall between the value of the collateral and the amount of the loan. In estimating the realizable value of art held in inventory and art pledged as collateral for SFS loans, we consider the following complex array of factors: (i) whether the property is expected to be offered at auction or sold privately, and the timing of any such sale; (ii) the supply and demand for the property, taking into account current art market conditions, as well as changing trends as to which collecting categories and artists are most sought after; (iii) recent sale prices achieved for comparable items within a particular collecting category and/or by a particular artist, (iv) the state of the global economy and financial markets; and (v) our intent and ability to hold the property in order to maximize its realizable value. Due to the inherent subjectivity involved in estimating the realizable value of art held in inventory and art pledged as collateral for SFS loans, our estimates of realizable value may prove, with the benefit of hindsight, to be different than the amount ultimately realized upon sale. Accordingly, changes in the valuation of art held in inventory and art pledged as collateral for SFS loans expose us to variability in our results of operations from period to period.

The low rate of historic losses on the SFS loan portfolio may not be indicative of future loan loss experience.

We have historically incurred minimal losses on the SFS loan portfolio. However, despite our stringent loan underwriting standards, our previous loan loss experience may not be indicative of the future performance of the loan portfolio.

The collateral supporting the SFS loan portfolio is concentrated within certain collecting categories. A material decline in these markets could impair our ability to collect the principal and interest owed on certain loans and could require repayments of borrowings on such affected loans under our revolving credit facility.

The collateral supporting the SFS loan portfolio is concentrated within certain collecting categories. Although we believe the SFS loan portfolio is sufficiently collateralized due to its current aggregate loan-to-value ratio of 43%, a material decline in these markets could impair our ability to collect the principal and interest owed on certain loans.

We could be exposed to losses and/or reputational harm as a result of various claims and lawsuits incidental to the ordinary course of our business.

We become involved in various legal proceedings, lawsuits, and other claims incidental to the ordinary course of our business. We are required to assess the likelihood of any adverse judgments or outcomes in these matters, as well as potential ranges of probable or reasonably possible losses. A determination of the amount of losses, if any, to be recorded or disclosed as a result of these contingencies is based on a careful analysis of each individual exposure with, in some cases, the assistance of outside legal counsel. The amount of losses recorded or disclosed for such contingencies may change in the future due to new developments in each matter or a change in settlement strategy.

We could be exposed to reputational harm as a result of wrongful actions by certain third parties.

We are involved in various business arrangements and ventures with unaffiliated third parties. Wrongful actions by such parties could harm our brand and reputation.

A breach of the security measures protecting our global network of information systems and those of certain third-party service providers utilized by Sotheby's could adversely impact our operations, reputation and brand.

The protection of client, employee and company data is extremely important to us. The regulatory environment surrounding information security and privacy is becoming increasingly demanding and frequently changing in the jurisdictions in which we do business. Clients and employees have expectations that we will protect their information from cyber-attacks and other security breaches. We have implemented systems and processes that are designed to protect personal and company information and to prevent data losses, however, these measures cannot provide absolute security, and our systems may be vulnerable to cyber-security breaches such as viruses, hacking, and similar disruptions from unauthorized intrusions. In addition, we are dependent on a global network of information systems to conduct our business and are committed to maintaining a strong infrastructure to secure these systems.

As part of our information systems infrastructure, we rely increasingly upon third-party service providers to perform services related to our live auction bidding platform, retail wine and other e-commerce, video broadcasting, website content distribution, marketing, and to store, process and transmit information including client, employee and company information. Any failure on our part or by these third-party service providers to maintain the security of our confidential data and our client and employee personal information could result in business disruption, damage to reputation, financial obligations, lawsuits, sizable fines and costs, and loss of employee and client confidence in Sotheby's, and thus could have a material adverse impact on our business and financial condition, and adversely affect our results of operations.

A significant security breach could require future expenditures to implement additional security measures to protect against new privacy threats or to comply with state, federal and international laws aimed at addressing those threats. To our knowledge, to date, we have not experienced any material impacts related to cyber-attacks or other information security breaches.

Due to the nature of our business, valuable works of art are exhibited and stored at our facilities around the world. Such works of art could be subject to damage or theft, which could have a material adverse effect on our operations, reputation and brand.

Valuable works of art are exhibited and stored at our facilities around the world. Although we maintain state of the art security measures at our premises, valuable artworks may be subject to damage or theft. The damage or theft of valuable property despite these security measures could have a material adverse impact on our business and reputation.

Insurance coverage for artwork may become more difficult to obtain or the terms of such coverage may become less favorable, exposing us to losses resulting from the damage or loss of artwork in our possession.

We maintain insurance coverage for the works of art we own, works of art consigned by clients, and all other property that may be in our custody, which are exhibited and stored at our facilities around the world. An inability to adequately insure such works of art due to limited capacity of the global art insurance market, or the inability to secure coverage on acceptable terms, could, in the future, have a material adverse impact on our business, results of operations, and financial condition.

Our business continuity plans may not be effective in addressing the impact of unexpected events that could impact our business.

Our inability to successfully implement our business continuity plans in the wake of an unexpected event, such as an act of God, pandemic, or a terrorist attack occurring in or near one of our major selling and/or sourcing offices and/or any other unexpected event, could disrupt our ability to operate and adversely impact our operations.

Future costs and obligations related to our U.K. Pension Plan are dependent on unpredictable factors, which may cause variability in our employee benefit costs.

Future costs and obligations related to our defined benefit pension plan in the U.K. are heavily influenced by changes in interest rates, investment performance in the debt and equity markets, changes in statutory requirements in the U.K., and actuarial assumptions, each of which is unpredictable and may cause variability in our employee benefit costs. (See Note 10 of Notes to Consolidated Financial Statements for information related to our defined benefit pension plan in the U.K.)

Our substantial leverage could adversely affect our business, financial condition and results of operations and prevent us from fulfilling our debt obligations or the ability to raise additional capital to fund our operations.

After the Merger, we have significant outstanding debt and debt service requirements and may incur additional debt in the future. Our significant level of debt could have important consequences, including, but not limited to, the following:

- making it more difficult for us to satisfy our obligations under our various debt arrangements, and if we fail to comply with these requirements, an event of default under our various debt arrangements could result;
- requiring that a substantial portion of our cash flows from operations be dedicated to servicing debt, thereby reducing the funds available to us to finance our operations, capital expenditures, and other business activities;
- impeding our ability to obtain additional debt or equity financing, including financing for capital expenditures, and increasing the cost of any such funding, particularly due to the financial and other restrictive covenants contained in the agreements governing our debt;
- impeding our ability to compete in the regions in which we operate;
- restricting us from exploiting business opportunities or making acquisitions or investments;
- increasing our vulnerability to, and reducing our flexibility to respond to, adverse general economic or industry conditions, including the risk of increased interest rates;
- placing us at a disadvantage compared to other, less leveraged competitors;
- increasing our cost of borrowing;
- limiting our flexibility in planning for, or reacting to, changes in our business and the competitive and economic environment in which we operate;
- adversely affecting public perception of us and our brands; and
- increased cash tax expense due to limitation of interest deductions in the U.S. and the UK.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our debt obligations.

The terms of the agreements and instruments governing our debt, restrict, but do not prohibit, us from incurring additional debt. We may refinance our debt or increase our consolidated debt for various business reasons which might include, among other things, financing acquisitions, funding the prepayment premiums, if any, on debt we refinance, funding distributions to our stockholders or general corporate purposes. If we issue new debt in addition to our existing debt obligations, the related risks that we now face will intensify. In addition, the agreements and instruments governing our existing debt contain, restrictive covenants that could limit our ability to engage in activities that may be in our long-term best interest. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all our debt.

We may not generate sufficient cash flow to fund our capital expenditures, ongoing operations and debt obligations, and may be subject to certain tax liabilities.

Our ability to service our debt and to fund our ongoing operations will depend on our ability to generate cash. We cannot assure you that our businesses will generate sufficient cash flow from operations or that future debt or equity financing will be available to us in an amount sufficient to enable us to pay our debt obligations when due. Our ability to generate cash flow and to fund our capital expenditures, ongoing operations and debt obligations are dependent on many factors, including:

- our future operating performance;
- the demand and price levels for our current products and planned services;
- our ability to successfully introduce new products and services;
- general economic conditions and other conditions affecting customer spending;
- competition;

- sales seasonality;
- sufficient distributable reserves, as required under applicable law;
- the outcome of certain litigation in which we are involved; and
- legal, tax and regulatory developments affecting our business.

Some of these factors are beyond our control. If we are unable to generate sufficient cash flow, we may not be able to repay our debt obligations, grow our business, respond to competitive challenges or fund our other liquidity and capital needs, including capital expenditures. If we are unable to meet our debt service obligations, we may have to delay planned capital expenditures or investments or sell material assets, attempt to restructure or refinance our existing indebtedness or seek additional funding in the form of debt or equity capital. We may not be able to do so on commercially reasonable terms, if at all. In addition, the terms of the agreements and instruments governing our existing debt and any future debt may limit our ability to pursue any of the foregoing measures. If we cannot make scheduled payments on our debt, we will be in default and holders of our Senior Notes could declare all outstanding principal and interest to be due and payable, the lenders under the New Credit Facilities could terminate their commitments to loan money, the lenders could foreclose against the assets securing their borrowings, and we could be forced into bankruptcy or liquidation.

The agreements and instruments governing our debt contain restrictions and limitations that may limit our ability to finance our future operations and capital needs and to pursue business opportunities and activities that could adversely affect our ability to operate our business.

The terms of the agreements and instruments governing our debt contain a number of significant covenants or other provisions that could adversely affect our ability to operate our business. These covenants restrict our ability to, among other things:

- incur additional indebtedness and guarantee indebtedness;
- pay dividends or make other distributions or repurchase or redeem our capital stock;
- prepay, redeem or repurchase subordinated debt or equity;
- issue certain preferred stock;
- make loans and investments;
- sell assets;
- incur liens;
- enter into transactions with affiliates;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to and on the transfer of assets to the Issuer or its restricted subsidiaries; and
- consolidate, merge or sell all or substantially all of our assets.

All of these limitations are subject to certain exceptions and qualifications, including the ability to pay dividends, make investments or to make significant prepayments of stockholder debt. However, these covenants could limit our ability to finance our future operations and capital needs and our ability to pursue business opportunities and activities that may be in our interest. For example, the Company has provided a guarantee of the obligations under the SFS Loan of up to $150 million which is supported by standby letters of credit under the New Credit Facilities Agreement. If drawn, such standby letters of credit would become a liability for us, which would limit our ability to pursue new business opportunities. In addition, our ability to comply with these restrictions may be affected by events beyond our control. Moreover, we are also subject to the affirmative covenants contained in our debt agreements, which require us to maintain a specified financial ratio upon the outstanding utilizations exceeding certain thresholds. Our ability to meet these financial ratios may be affected by events beyond our control and, as a result, we cannot assure that we will be able to meet these ratios. In addition to limiting our flexibility in operating our business, the breach of any covenants or obligations under the agreements and instruments governing our debt will result in a default under the applicable debt agreement or instrument and could trigger acceleration of the related debt, which in turn could trigger defaults under other agreements governing our debt. A default under any of the agreements governing our other debt could materially adversely affect our growth, financial condition and results of operations. As a result, we may be:

- limited in how we conduct our business;
- unable to raise additional debt or equity financing to operate during general economic or business downturns; or
- unable to compete effectively or to take advantage of new business opportunities.

These restrictions may affect our ability to grow in accordance with our strategy. In addition, our financial results, substantial indebtedness and credit ratings could materially adversely affect the availability and terms of our financing.

We may not be able to repay our indebtedness or refinance our indebtedness at maturity on commercially reasonable terms, or at all.

Our ability to refinance our indebtedness, on commercially reasonable terms, or at all, will depend in part on our financial condition at the time of any contemplated refinancing. Any refinancing of our indebtedness could be at higher interest rates than our current debt and we may be required to comply with more onerous financial and other covenants, which could further restrict our business operations and may have a material adverse effect on our business, financial condition, results of operations and prospects. We may not be able to refinance our indebtedness as it comes due on commercially reasonable terms or at all and, in connection with the refinancing of our debt or otherwise, we may seek additional refinancing, dispose of certain assets, reduce or delay capital investments, or seek to raise additional capital.

The borrowings under the New Revolving Credit Facility bear interest at floating rates that could rise significantly, increasing our costs and reducing our cash flow.

Borrowings under the New Revolving Credit Facility are at variable rates of interest and expose us to interest rate risk. If interest rates were to increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease. Any amounts we borrow under the New Revolving Credit Facility also bear interest at a floating rate. To the extent that interest rates were to increase significantly, our interest expense would correspondingly increase, thereby reducing our cash flow.

Changes or uncertainty in respect of LIBOR may affect our sources of funding.

Drawings under our New Credit Facilities and future indebtedness that we may incur could bear interest at floating rates of interest per annum linked to LIBOR. Various interest rate benchmarks (including LIBOR) are the subject of recent regulatory guidance and proposals for reform. Some reforms are already effective while others are still to be implemented, including the EU Benchmark Regulation (Regulation (EU) 2016/1011). In addition, the sustainability of LIBOR has been questioned by the United Kingdom's Financial Conduct Authority ("FCA") as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of regulatory reforms) for market participants to continue contributing to such benchmarks. On November 29, 2017, the Bank of England and the FCA announced that the market Working Group on Sterling Risk-Free Rates would have an extended mandate to catalyze a broad transition to the Sterling Over Night Index Average rate ("SONIA") across sterling bond, loan and derivatives markets so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021. The Bank of England and FCA have stated that a key near-term priority for the Working Group will be to make recommendations relating to the potential development of term SONIA reference rates. These reforms and other pressures may cause such benchmarks to disappear entirely, to perform differently than in the past (as a result of a change in methodology or otherwise), create disincentives for market participants to continue to administer or participate in certain benchmarks or have other consequences which cannot be predicted. Based on the foregoing, investors should in particular be aware that any of the reforms or pressures described above or any other changes to a relevant interest rate benchmark (including LIBOR) could affect the level of the published rate, including to cause it to be lower and/or more volatile than it would otherwise be.

More generally, any of the above matters or any other significant change to the setting or existence of LIBOR could adversely affect our ability to meet our obligations under our sources of funding and/or could have a material adverse effect on the liquidity of, and the amount payable under, our sources of funding. Changes in the manner of administration of LIBOR could result in adjustments to the conditions applicable to our sources of funding or other consequences relevant to our sources of funding. No assurance can be provided that changes will not be made to LIBOR or any other relevant benchmark rate and/or that such benchmarks will continue to exist.

Credit ratings may not reflect all risks, are not recommendations to buy or hold securities and may be subject to revision, suspension or withdrawal at any time.

One or more independent credit rating agencies may assign credit ratings to our debt and issue a corporate credit rating. The ratings may not reflect the potential impact of all risks related to the structure, market, additional risk factors discussed herein. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal by the rating agency at any time. No assurance can be given that a credit rating will remain constant for any given period of time or that a credit rating will not be lowered or withdrawn entirely by the credit rating agency if, in its judgment, circumstances in the future so warrant. A suspension, reduction or withdrawal at any time of the credit rating assigned to the our debt or of our corporate credit rating by one or more of the credit rating agencies may adversely affect the cost and terms and conditions of our financings.

Negative changes in our credit rating (including the credit rating assigned to our debt securities) may have a material adverse effect on our financial condition.

A downgrade in our credit rating (including due to the effects of the economic conditions described below) may negatively affect our ability to obtain future financing (including from financial institutions, retail investors and banks) to fund our operations, capital and liquidity needs. A downgrade of our credit rating could have significant effects on our ability to obtain financing and therefore on our liquidity and may increase our financing costs by increasing the interest rates of our outstanding debt or the interest rates at which we are able to refinance existing debt or incur new debt. A downgrade in our credit rating may also negatively impact the trading prices of and market for our debt securities, including the 2027 Notes.

(See Note 11 of Notes to Condensed Consolidated Financial Statements for further information regarding our debt obligations.)

The Merger could result in operating difficulties and other adverse consequences.

The consummation of the Merger may create unforeseen operating difficulties and expenditures and pose significant management, administrative and financial challenges to our business. These challenges include:

- integration of Sotheby's into BidFair's current structure in a cost effective manner;
- outstanding or unforeseen legal, regulatory, contractual, labor or other issues arising from the Merger;
- our ability to preserve customer, supplier and other important relationships of Sotheby's and resolve potential conflicts that may arise;
- integration of different company and management cultures; and
- retention, hiring and training of management, other key personnel and employees.

In such circumstances, the failure to effectively address these and other operational challenges could have a material adverse effect on our financial condition and results of operations. Moreover, the Merger has required, and will likely continue to require, substantial amounts of certain of management's time and focus, which could potentially affect their ability to operate the business.

Counterparties to certain significant agreements with Sotheby's may exercise contractual rights under such agreements in connection with the Merger.

Pursuant to change-in-control provisions in our employment agreements and management and service contracts, certain of our key employees are entitled to receive severance payments upon a constructive termination of employment. Certain of our key employees potentially could also terminate their employment following specified circumstances set forth in the applicable employment or transition agreement, including certain changes in such key employees' title, status, authority, duties, responsibilities or compensation, and collect severance.

We will continue to rely on the SFS business and certain real estate holdings in New York and London (the "Real Estate Portfolio") pursuant to certain current and expected arrangements.

As part of the Merger, we transferred the SFS business to BidFair USA Inc. from Sotheby's pursuant to the SFS Business Transfer and transferred the York Property and expect to transfer a significant portion of our London real estate holdings (the "London Properties"), (collectively, the "Real Estate Portfolio Transfer") to BidFair Property Holdings Inc. in respect of the York Property and a separate legal entity in respect of the London Properties. Following the SFS Business Transfer, the SFS business will continue to provide art financing loans to our clients in accordance with its usual and customary ordinary course business practices. We rely on support of the SFS business to establish or enhance mutually beneficial relationships with art collectors, help us generate future auction or private sale consignments and/or purchases and, in certain situations, refinance receivables generated by the auction and private sale purchases of our clients. Upon the successful completion of the Real Estate Portfolio Transfer, the Company or a subsidiary of the Company will enter into long-term lease agreements with BidFair Property Holdings Inc. in respect of the York Property and a separate legal entity in respect of the London Properties that will allow us to use these properties in substantially the same manner as we are using them currently. BidFair Property Holdings Inc. is a subsidiary of BidFair USA Inc. but will be managed separately from the Company. The Company will rely on the SFS business and BidFair Property Holdings Inc. to perform their respective obligations under their respective agreements. We cannot assure you that the services provided to us by the SFS business and BidFair Property Holdings Inc. will continue to be provided on the same terms and with the same scope as it is currently being provided. Additionally, if we were unable to continue to have access to the York Property or the London Properties in the same manner that we currently do, we may be required to seek alternative spaces from which to run our business. If SFS or BidFair Property Holdings Inc. were to breach or to be unable to satisfy their obligations under these agreements or if the terms or scope of the services we receive was to be materially altered, our results of operations, liquidity and financial condition may be adversely affected.

Anticipated cost savings and synergies from the Merger may not materialize.

We expect to achieve certain cost savings and synergies following the Merger, including the elimination of costs associated with having operated as a public company. We may not realize any or all of the anticipated cost savings and synergies of the Merger that we currently anticipate, realizing such cost savings and synergies may take longer than expected and such cost savings and synergies may be more expensive to achieve than currently estimated. In addition, while our principal shareholder has a history of achieving significant cost savings in the entities it has acquired, we cannot assure we will be able to realize the same level of cost savings following the acquisition of Sotheby's. There can be no assurance that such assumptions are correct and, as a result, the amount of cost savings and synergies that we will actually realize over time may differ significantly from the ones that we currently estimate.

The recent changes in senior management could adversely impact our business.

Our business is unique and dependent on key members of management. Following the Merger, certain members of our Board of Directors and senior management left the Company, including our Chief Executive Officer, Chief Financial Officer and Chief Commercial Officer. While highly qualified personnel have been appointed to these positions, the recent turnover in our senior management could adversely affect our business, client relationships and our ability to retain qualified personnel.

(See Note 1 of Notes to Condensed Consolidated Financial Statements for further information regarding the Merger.)

Our financial and operating performance and cash flows may be adversely impacted by epidemics or pandemics, including the outbreak of the novel coronavirus COVID-19 ("COVID-19").

Our financial and operating performance may be adversely affected by epidemics or pandemics, such as the ongoing COVID-19 pandemic. During an epidemic or pandemic, countries may adopt certain restrictive measures to prevent or limit the spread of a disease, including quarantines, limitations on travel, prohibition of events and other social gatherings, and the closure of offices. Such restrictive measures could delay or otherwise inhibit our ability to conduct live auctions as scheduled and inhibit our ability to obtain property for consignment for future sales. In addition, an epidemic or pandemic and thereto related restrictive measures may also adversely impact global economic development and the financial and credit markets which in turn could reduce the demand for our products and services and adversely impact our ability to operate our business. Accordingly, an epidemic or pandemic, including the COVID-19 pandemic, could have a material adverse impact on our financial and operating performance, as well as on the timing and amount of cash inflows. To the extent an epidemic or pandemic, including the COVID-19 pandemic, adversely affects our business and financial results, this may result in heightening the effect of many of the other risks described in this "Risk factors" section, such as, for example, those relating to our high level of indebtedness, our liquidity, our ability to comply with the covenants contained in the agreements governing our indebtedness and our credit ratings.