# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended June 30, 2020**

**OR**

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

**For the transition period from to**

**Commission file number 0-51813**

# LIQUIDITY SERVICES, INC.
(Exact Name of Registrant as Specified in Its Charter)

| | |
|---|---|
| **Delaware** | **52-2209244** |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |
| **6931 Arlington Road, Suite 200, Bethesda, MD** | **20814** |
| (Address of Principal Executive Offices) | (Zip Code) |

**(202) 467-6868**
(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

Securities registered to Section 12(b) of the Act:

| Title of Each Class | Trading Symbol(s) | Name of Each Exchange on Which Registered |
|---|---|---|
| **Common Stock, $0.001 par value** | **LQDT** | **Nasdaq** |

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

| | |
|---|---|
| Large accelerated filer ☐ | Accelerated filer ☒ |
| Non-accelerated filer ☐ | Smaller reporting company ☒ |
| | Emerging growth company ☐ |

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

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

The number of shares outstanding of the issuer's common stock, par value $0.001 per share, as of August 3, 2020 was 34,045,094.

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# PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements.

**Liquidity Services, Inc. and Subsidiaries**
**Consolidated Balance Sheets**
**(Dollars in Thousands, Except Par Value)**

| | June 30, 2020 | September 30, 2019 |
|---|---|---|
| | (Unaudited) | |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 72,729 | $ 36,497 |
| Short-term investments | — | 30,000 |
| Accounts receivable, net of allowance for doubtful accounts of $357 and $291 | 5,159 | 6,704 |
| Inventory, net | 7,415 | 5,843 |
| Prepaid taxes and tax refund receivable | 3,081 | 2,531 |
| Prepaid expenses and other current assets | 6,546 | 8,350 |
| Total current assets | 94,930 | 89,925 |
| Property and equipment, net of accumulated depreciation of $13,678 and $10,566 | 18,500 | 18,846 |
| Operating lease assets | 9,263 | — |
| Intangible assets, net | 5,086 | 6,043 |
| Goodwill | 59,587 | 59,467 |
| Deferred tax assets | 821 | 866 |
| Other assets | 10,677 | 12,136 |
| Total assets | $ 198,864 | $ 187,283 |
| **Liabilities and stockholders' equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 29,002 | $ 15,051 |
| Accrued expenses and other current liabilities | 17,757 | 28,794 |
| Current portion of operating lease liabilities | 4,127 | — |
| Distributions payable | — | 1,675 |
| Deferred revenue | 3,025 | 3,049 |
| Payables to sellers | 26,325 | 20,253 |
| Total current liabilities | 80,236 | 68,822 |
| Operating lease liabilities | 5,908 | — |
| Deferred taxes and other long-term liabilities | 2,482 | 2,286 |
| Total liabilities | 88,626 | 71,108 |
| Commitments and contingencies (Note 11) | | |
| Stockholders' equity: | | |
| Common stock, $0.001 par value; 120,000,000 shares authorized; 34,021,773 shares issued and outstanding at June 30, 2020; 33,687,115 shares issued and outstanding at September 30, 2019 | 34 | 34 |
| Additional paid-in capital | 246,016 | 242,686 |
| Accumulated other comprehensive loss | (8,019) | (7,973) |
| Accumulated deficit | (127,793) | (118,572) |
| Total stockholders' equity | 110,238 | 116,175 |
| Total liabilities and stockholders' equity | $ 198,864 | $ 187,283 |

*See accompanying notes to the unaudited consolidated financial statements.*

**Liquidity Services, Inc. and Subsidiaries**
**Consolidated Statements of Operations**
**(Dollars in Thousands, Except Per Share Data)**

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | (Unaudited) | | | |
| Revenue | $ 30,442 | $ 36,388 | $ 95,994 | $ 109,478 |
| Fee revenue | 17,280 | 20,494 | 54,056 | 58,257 |
| Total revenue | 47,722 | 56,882 | 150,050 | 167,735 |
| Costs and expenses from operations: | | | | |
| Cost of goods sold (excludes depreciation and amortization) | 22,494 | 25,337 | 73,289 | 75,100 |
| Seller distributions | — | 2,994 | — | 8,393 |
| Technology and operations | 9,515 | 12,145 | 32,342 | 38,098 |
| Sales and marketing | 7,412 | 8,771 | 27,126 | 26,887 |
| General and administrative | 6,217 | 8,959 | 21,321 | 26,217 |
| Depreciation and amortization | 1,567 | 1,206 | 4,716 | 3,575 |
| Other operating expenses | 319 | 2,031 | 500 | 3,586 |
| Total costs and expenses | 47,524 | 61,443 | 159,294 | 181,856 |
| Income (loss) from operations | 198 | (4,561) | (9,244) | (14,121) |
| Interest and other income, net | (224) | (454) | (733) | (1,224) |
| Income (loss) before provision for income taxes | 422 | (4,107) | (8,511) | (12,897) |
| Provision for income taxes | 209 | 542 | 710 | 1,136 |
| Net income (loss) | $ 213 | $ (4,649) | $ (9,221) | $ (14,033) |
| Basic income (loss) per common share | $ 0.01 | $ (0.14) | $ (0.27) | $ (0.43) |
| Diluted income (loss) per common share | $ 0.01 | $ (0.14) | $ (0.27) | $ (0.43) |
| Basic weighted average shares outstanding | 33,695,936 | 33,164,750 | 33,621,740 | 32,986,040 |
| Diluted weighted average shares outstanding | 33,815,332 | 33,164,750 | 33,621,740 | 32,986,040 |

*See accompanying notes to the unaudited consolidated financial statements.*

**Liquidity Services, Inc. and Subsidiaries**
**Consolidated Statements of Comprehensive Income (Loss)**
**(Dollars in Thousands)**

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | | (Unaudited) | | |
| Net income (loss) | $ 213 | $ (4,649) | $ (9,221) | $ (14,033) |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation | 424 | (255) | (46) | (484) |
| Other comprehensive income (loss) | 424 | (255) | (46) | (484) |
| Comprehensive income (loss) | $ 637 | $ (4,904) | $ (9,267) | $ (14,517) |

*See accompanying notes to the unaudited consolidated financial statements.*

**Liquidity Services, Inc. and Subsidiaries**
**Consolidated Statement of Stockholders' Equity**
**(Dollars In Thousands)**

| | Common Stock | | | | | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Total |
| | | | (Unaudited) | | | |
| Balance at September 30, 2019 | 33,687,115 | $ 34 | $ 242,686 | $ (7,973) | $ (118,572) | $ 116,175 |
| Net loss | — | — | — | — | (5,196) | (5,196) |
| Exercise of stock options, grants of restricted stock awards, and vesting of restricted stock units | 283,164 | — | 2 | — | — | 2 |
| Taxes paid associated with net settlement of stock compensation awards | (67,688) | — | (498) | — | — | (498) |
| Forfeitures of restricted stock awards | (15,000) | — | — | — | — | — |
| Stock compensation expense | — | — | 1,121 | — | — | 1,121 |
| Foreign currency translation | — | — | — | 833 | — | 833 |
| Balance at December 31, 2019 | 33,887,591 | 34 | 243,311 | (7,140) | (123,768) | 112,437 |
| Net loss | — | — | — | — | (4,238) | (4,238) |
| Exercise of stock options, grants of restricted stock awards, and vesting of restricted stock units | 111,272 | — | 32 | — | — | 32 |
| Taxes paid associated with net settlement of stock compensation awards | (10,065) | — | (60) | — | — | (60) |
| Stock compensation expense | — | — | 1,244 | — | — | 1,244 |
| Foreign currency translation | — | — | — | (1,303) | — | (1,303) |
| Balance at March 31, 2020 | 33,988,798 | 34 | 244,527 | (8,443) | (128,006) | 108,112 |
| Net income | — | — | — | — | 213 | 213 |
| Exercise of stock options, grants of restricted stock awards, and vesting of restricted stock units | 34,185 | — | 1 | — | — | 1 |
| Taxes paid associated with net settlement of stock compensation awards | (1,210) | — | (6) | — | — | (6) |
| Stock compensation expense | — | — | 1,494 | — | — | 1,494 |
| Foreign currency translation | — | — | — | 424 | — | 424 |
| Balance at June 30, 2020 | 34,021,773 | $ 34 | $ 246,016 | $ (8,019) | $ (127,793) | $ 110,238 |

*See accompanying notes to the unaudited consolidated financial statements.*

**Liquidity Services, Inc. and Subsidiaries**
**Consolidated Statements of Cash Flows**
**(Dollars In Thousands)**

| | Nine Months Ended June 30, | |
|---|---|---|
| | 2020 | 2019 |
| | (Unaudited) | |
| **Operating activities** | | |
| Net loss | $ (9,221) | $ (14,033) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 4,716 | 3,575 |
| Stock compensation expense | 3,785 | 5,138 |
| Provision for doubtful accounts | 131 | 184 |
| Deferred tax provision | 228 | 81 |
| Loss (gain) on disposal of property and equipment | (29) | 20 |
| Change in fair value of earnout liability | 200 | 2,300 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 1,415 | (1,056) |
| Inventory | (1,572) | 1,231 |
| Prepaid and deferred taxes | (551) | 47 |
| Prepaid expenses and other assets | 942 | 244 |
| Operating lease assets and liabilities | (165) | — |
| Accounts payable | 13,951 | (570) |
| Accrued expenses and other current liabilities | (9,525) | (777) |
| Distributions payable | (1,675) | (301) |
| Deferred revenue | (23) | 1,043 |
| Payables to sellers | 6,072 | (4,129) |
| Other liabilities | 522 | (222) |
| Net cash provided by (used in) operating activities | 9,201 | (7,225) |
| **Investing activities** | | |
| Increase in intangibles | (53) | (20) |
| Purchases of property and equipment, including capitalized software | (3,608) | (4,784) |
| Proceeds from sales of property and equipment | 47 | 112 |
| Proceeds from promissory note | 2,553 | — |
| Purchases of short-term investments | (25,000) | (50,000) |
| Maturities of short-term investments | 55,000 | 40,000 |
| Net cash provided by (used in) investing activities | 28,939 | (14,692) |
| **Financing activities** | | |
| Payments of the principal portion of finance lease liabilities | (26) | — |
| Taxes paid associated with net settlement of stock compensation awards | (564) | — |
| Proceeds from exercise of stock options | 36 | 129 |
| Payment of earnout liability related to business acquisition | (1,200) | — |
| Net cash (used in) provided by financing activities | (1,754) | 129 |
| Effect of exchange rate differences on cash and cash equivalents | (154) | (246) |
| Net increase (decrease) in cash and cash equivalents | 36,232 | (22,034) |
| Cash and cash equivalents at beginning of period | 36,497 | 58,448 |
| Cash and cash equivalents at end of period | $ 72,729 | $ 36,414 |
| **Supplemental disclosure of cash flow information** | | |
| Cash paid for income taxes, net | $ 203 | $ 872 |

*See accompanying notes to the unaudited consolidated financial statements.*

## 1. Organization

Liquidity Services, Inc. (the Company) operates a network of ecommerce marketplaces that enable buyers and sellers to transact in an efficient, automated environment offering over 500 product categories. The Company's marketplaces provide professional buyers access to a global, organized supply of new, surplus and scrap assets presented with digital images and other relevant product information. Additionally, the Company enables corporate and government sellers to enhance their financial return on offered assets by providing a liquid marketplace and value-added services that encompass the consultative management, valuation and sale of surplus assets. The Company's services include program management, valuation, asset management, reconciliation, refurbishment and recycling, fulfillment, marketing and sales, warehousing and transportation, buyer support, compliance and risk mitigation, as well as self-directed service tools for its sellers. The Company organizes the products on its marketplaces into categories across major industry verticals such as consumer electronics, general merchandise, apparel, scientific equipment, aerospace parts and equipment, technology hardware, energy equipment, industrial capital assets, fleet and transportation equipment and specialty equipment. Currently, the Company's marketplaces are: www.liquidation.com, www.govdeals.com, www.networkintl.com, www.secondipity.com, and www.go-dove.com. The Company also operates a global search engine for listing used machinery and equipment for sale at www.machinio.com. The Company has four reportable segments: GovDeals, Retail Supply Chain Group (RSCG), Capital Assets Group (CAG), and Machinio. See Note 12 in the Notes to the Consolidated Financial Statements for Segment Information.

The Company's operations are subject to certain risks and uncertainties, many of which are associated with technology-oriented companies, including, but not limited to, the Company's dependence on use of the Internet; the effect of general business and economic trends, including the extent and duration of the COVID-19 pandemic; the Company's susceptibility to rapid technological change; actual and potential competition by entities with greater financial and other resources; and the potential for the commercial sellers from which the Company derives a significant portion of its inventory to change the way they conduct their disposition of surplus assets or to otherwise terminate or not renew their contracts with the Company.

## 2. Summary of Significant Accounting Policies

### Unaudited Interim Financial Information

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal, recurring adjustments considered necessary for a fair presentation, have been included. The information disclosed in the notes to the consolidated financial statements for these periods is unaudited. Operating results for the three and nine months ended June 30, 2020 are not necessarily indicative of the results that may be expected for the year ending September 30, 2020 or for any future period.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect amounts in the consolidated financial statements and accompanying notes. For the three and nine months ended June 30, 2020, these estimates required the Company to make assumptions about the extent and duration of the COVID-19 pandemic and its impacts on the Company's results of operations. As there remains uncertainty associated with the COVID-19 pandemic, the Company will continue to update its assumptions as conditions change. Actual results could differ significantly from those estimates.

### Leases

The Company adopted Accounting Standards Codification (ASC) Topic 842, Leases (ASC 842) effective October 1, 2019. As a result of adopting ASC 842, there have been significant changes to the Company's lease accounting policy from the disclosures in the Company's Annual Report on Form 10-K for the year ended September 30, 2019. These changes are described below.

The Company determines if an arrangement is a lease upon inception. A contract is or contains a lease if the contract provides the right to control the use of an identified asset for a period of time.

Lease assets and liabilities are recognized at the lease commencement date at an amount equal to the present value of the lease payments to be made over the lease term. The lease payments represent the combination of lease and nonlease components. The discount rate used to determine the present value is the Company's incremental borrowing rate for a duration that is consistent with the lease term, as the rates implicit in the Company’s leases are generally not determinable. The Company’s incremental borrowing rate is estimated using publicly-available information for companies with comparable financial profiles, adjusted for the impact of collateralization. The lease term includes the impacts of options to extend or terminate the lease only if it is reasonably certain that the option will be exercised.

Lease expense related to operating lease assets and liabilities is recognized on a straight-line basis over the lease term. Lease expense related to finance lease assets is recognized on a straight-line basis over the shorter of the useful life of the asset or the lease term, while lease expense related to finance lease liabilities is recognized using the interest method. Lease-related payments not included in the determination of the lease assets and liabilities, such as variable lease payments, are expensed as incurred.

Lease assets and liabilities are not recognized when the lease term is 12 months or less, however, short-term lease expense is still recognized on a straight-line basis over the lease term.

Balances related to the Company's finance leases are included with Other assets (finance lease assets), Accrued expenses and other liabilities (current portion of finance lease liabilities), and Deferred taxes and other long-term liabilities (non-current portion of finance lease liabilities).

Lease assets are assessed for impairment in accordance with the Company’s accounting policy for the impairment of long-lived assets.

**Contract Assets and Liabilities**

Contract assets reflect an estimate of expenses that will be reimbursed upon settlement with a seller. The contract asset balance was $0.5 million as of June 30, 2020 and $0.3 million as of September 30, 2019 and is included in the line item Prepaid expenses and other current assets on the Consolidated Balance Sheets.

Contract liabilities reflect obligations to provide services for which the Company has already received consideration, and generally arise from up-front payments received in connection with Machinio's subscription services. The contract liability balance was $3.0 million as of June 30, 2020 and $3.0 million as of September 30, 2019, and is included in the line item Deferred revenue on the Consolidated Balance Sheets. Of the September 30, 2019 contract liability balance, $2.8 million was earned as Fee revenue during the nine months ended June 30, 2020.

The $3.0 million contract liability balance as of June 30, 2020 also represents the Company's remaining performance obligations related to contracts with customers that are one year or greater in duration. The Company expects to recognize the substantial majority of that amount as Fee revenue over the next 12 months.

**Contract Costs**

Contract costs relate to sales commissions paid on subscription contracts that are capitalized. Contract costs are amortized over the expected life of the customer contract. The contract cost balance was $0.6 million as of June 30, 2020 and $0.5 million as of September 30, 2019 and is included in the line item Prepaid expenses and other current assets and Other assets on the Consolidated Balance Sheet. Amortization expense was immaterial during the three and nine months ended June 30, 2020 and 2019.

**Other Assets - Promissory Note**

On September 30, 2015, the Company sold certain assets related to its Jacobs Trading business to Tanager Acquisitions, LLC (Tanager). In connection with the disposition, Tanager assumed certain liabilities related to the Jacobs Trading business. Tanager issued a $12.3 million five-year interest-bearing promissory note to the Company.

On October 10, 2019, the Company entered into a Forbearance Agreement and Amendment to Note, Security Agreement and Guaranty Agreement (the "Forbearance Agreement") with Tanager (now known as Jacobs Trading, LLC) and certain of its affiliates (collectively, "JTC"). In exchange for additional collateral, security, and a higher interest rate, the Company granted JTC a new repayment schedule that requires quarterly payments to be made from August 2020 to August 2023. Upon execution of the Forbearance Agreement, JTC repaid $2.5 million in principal, plus $0.4 million in accrued interest. JTC had the opportunity to prepay the full amount remaining before May 15, 2020 at a $0.5 million discount. Of the $12.3 million owed to the Company, $6.6 million has been repaid as of June 30, 2020.

The Company considered the terms of the Forbearance Agreement and the cash flows expected to be received from JTC under the new repayment schedule in concluding that it remains probable that the Company will collect the amounts due to the Company as of June 30, 2020 and that no impairment loss has been incurred. Of the $5.7 million outstanding at June 30, 2020, $4.2 million is recorded in Other assets, and $1.5 million is recorded in Prepaid expenses and other current assets, based on the scheduled repayment dates.

**Risk Associated with Certain Concentrations**

The Company does not perform credit evaluations for the majority of its buyers. However, most sales are recorded subsequent to payment authorization being received. As a result, the Company is not subject to significant collection risk, as most goods are not shipped before payment is received.

For consignment sales transactions, funds are typically collected from buyers and are held by the Company on the sellers' behalf in Payables to sellers on the Consolidated Balance Sheets. The Company releases the funds, less the Company's commission and other fees due, to the seller through Accounts payable after the buyer has accepted the goods or within 30 days, depending on the state where the buyer and seller conduct business.

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash in banks over FDIC limits, certificates of deposit, accounts receivable, and the promissory note. The Company deposits its cash with financial institutions that the Company considers to be of high credit quality.

The Company's RSCG segment has vendor contracts with Amazon.com, Inc. under which the RSCG segment acquires and sells commercial merchandise. Transactions under these contracts represented 60.4% and 41.6% of consolidated Cost of goods sold for the three months ended June 30, 2020 and 2019, respectively, and 54.5% and 43.9% of consolidated Cost of goods sold for the nine months ended June 30, 2020 and 2019, respectively.

During the three and nine months ended June 30, 2019, the Company had one material vendor contract with the Department of Defense (DoD) under which its CAG segment acquired, managed and sold government property: the Scrap Contract, which concluded on September 30, 2019. Sales of property acquired under the Scrap Contract accounted for 8.2% and 7.8% of the Company's consolidated revenues for the three and nine months ended June 30, 2019, respectively.

**Earnings per Share**

For the three months ended June 30, 2020, diluted weighted average common shares outstanding contains 119,396 shares representing the dilutive impact of stock options, RSUs and RSAs. 3,841,385 stock options, RSUs and RSAs were excluded from the computation of diluted weighted average common shares outstanding as they were anti-dilutive. For the nine months ended June 30, 2020 and the three and nine months ended June 30, 2019, basic and diluted weighted average common shares were the same because the Company operated at a net loss in both periods, causing any inclusion of potentially dilutive securities in the computation of diluted net income (loss) per share to be anti-dilutive. See Note 7 for the amounts of outstanding stock options, restricted stock awards and restricted stock units that could potentially dilute net income (loss) per share in the future.

**Recent Accounting Pronouncements**

*Accounting Standards Adopted*

On October 1, 2019, the Company adopted ASC 842 using the modified retrospective transition method. Prior periods have not been restated. To perform the adoption, the Company elected several practical expedients, including the package of practical expedients to not reassess prior conclusions on whether a contract is or contains a lease, lease classification, and initial direct costs. The Company also elected to combine both the lease and non-lease components as a single component to be accounted for as a lease, to not recognize lease assets or liabilities for leases with initial lease terms of 12 months or less, and to not use hindsight when determining the lease term.

Upon adoption, the Company recognized $11.3 million of operating lease assets and $12.2 million of operating lease liabilities. The Company does not have significant finance lease assets and liabilities. No cumulative-effect adjustment to opening retained earnings was required. No material impacts were noted on the Consolidated Statements of Operations or Consolidated Statements of Cash Flows. Refer to Note 3 for additional details on the Company’s leases.

On October 1, 2019, the Company adopted ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. As the Company had no stranded tax effects resulting from the Tax Cuts and Jobs Act enacted on December 22, 2017, no election to reclassify stranded tax effects from Accumulated other comprehensive to Retained earnings was made.

The Company also adopted the following ASU 2018-07, *Improvements to Nonemployee Share-based Payment Accounting*, during the nine months ended June 30, 2020. It did not have a significant impact on the consolidated financial statements or the related footnote disclosures.

*Accounting Standards Not Yet Adopted*

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments (Topic 326)*, or ASC 326. ASC 326, including all amendments and related guidance, was designed to provide financial statement users with more useful information about the expected credit losses on financial instruments and other commitments to extend credit. ASC 326 will require estimation of expected credit losses using a methodology that takes into consideration a broad range of reasonable and supportable information. The guidance will be effective for the Company beginning on October 1, 2023 and will be applied on a modified-retrospective basis, with any cumulative-effect adjustment recorded to retained earnings on the adoption date. The Company is in the process of evaluating the impact ASC 326 will have on its consolidated financial statements and expects to estimate credit losses on its financial assets such as its Accounts receivable, Short-term investments, and promissory note. While the Company has not experienced significant credit losses historically, the materiality of the impact of adoption will depend on events and conditions as of the date of adoption, which cannot be determined conclusively at this time.

In August 2018, the FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. ASU 2018-15 aligns the requirements for capitalizing implementation costs in a cloud computing arrangement with the requirement for capitalizing implementation costs incurred to develop or obtain internal-use software. This ASU will become effective for the Company beginning October 1, 2020. The Company is currently evaluating the effect that the adoption of this ASU may have on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes*. ASU 2019-12 seeks to improve the consistent application of and simplify the guidance for the accounting for income taxes. The ASU removes certain exceptions to the general principals in ASC 740, *Income Taxes*, and clarifies and amends other existing guidance. The ASU will become effective for the Company beginning October 1, 2021. The Company is currently evaluating the effect that the adoption of this ASU may have on its consolidated financial statements.

## 3. Leases

The Company has operating leases for its corporate offices, warehouses, vehicles and equipment. The operating leases have remaining terms of up to 5.2 years. Some of the leases have options to extend or terminate the leases. The exercise of such options is generally at the Company's discretion. The lease agreements do not contain any significant residual value guarantees or restrictive covenants. The Company also subleases excess corporate office space. The Company's finance leases and related balances are not significant.

The components of lease expense are:

| (in thousands) | Three months ended June 30, 2020 | Nine months ended June 30, 2020 |
|---|---|---|
| Finance lease – lease asset amortization | $ 16 | $ 53 |
| Finance lease – interest on lease liabilities | 6 | 18 |
| Operating lease cost | 1,310 | 3,990 |
| Short-term lease cost | 48 | 92 |
| Variable lease cost [1] | 371 | 1,122 |
| Sublease income | (61) | (200) |
| **Total net lease cost** | $ 1,690 | $ 5,075 |

[1] Variable lease costs primarily relate to the Company's election to combine non-lease components such as common area maintenance, insurance and taxes related to its real estate leases. To a lesser extent, the Company's equipment leases have variable costs associated with usage and subsequent changes to costs based upon an index.

Maturities of lease liabilities are:

| | June 30, 2020 | |
|---|---|---|
| (in thousands) | Operating Leases | Finance Leases |
| Remainder of 2020 | $ 1,261 | $ 14 |
| 2021 | 4,020 | 56 |
| 2022 | 2,634 | 55 |
| 2023 | 1,886 | 56 |
| 2024 | 911 | 56 |
| Thereafter | 361 | 105 |
| **Total lease payments** [1] | $ 11,073 | $ 342 |
| Less: imputed interest [2] | (1,038) | (67) |
| **Total lease liabilities** | $ 10,035 | $ 275 |

[1] The weighted average remaining lease term is 3.1 years for operating leases and 6.1 years for finance leases.
[2] The weighted average discount rate is 6.4% for operating leases and 7.5% for finance leases.

Supplemental disclosures of cash flow information related to leases are:

| (in thousands) | Nine Months Ended June 30, 2020 |
|---|---|
| Cash paid for amounts included in operating lease liabilities | $ 3,642 |
| Cash paid for amounts included in finance lease liabilities | 26 |
| Non-cash: lease liabilities arising from new operating lease assets obtained [1] | 12,188 |
| Non-cash: lease liabilities arising from new finance lease assets obtained | 10 |
| Non-cash: adjustments to lease assets and liabilities | 1,592 |

[1] Amount includes $12.2 million of lease liabilities recognized upon the adoption of ASC 842 on October 1, 2019 (see Note 2).

## 4. Goodwill

The following table presents changes in the carrying amount of goodwill by reportable segment:

| (in thousands) | CAG | GovDeals | Machinio | Total |
|---|---|---|---|---|
| Balance at September 30, 2018 | $ 21,530 | $ 23,731 | $ 14,558 | $ 59,819 |
| Translation adjustments | (352) | — | — | (352) |
| Balance at September 30, 2019 | $ 21,178 | $ 23,731 | $ 14,558 | $ 59,467 |
| Translation adjustments | 120 | — | — | 120 |
| Balance at June 30, 2020 | $ 21,298 | $ 23,731 | $ 14,558 | $ 59,587 |

Goodwill is tested for impairment at the beginning of the fourth quarter and during interim periods whenever events or circumstances indicate that the carrying value may not be recoverable.

During the three months ended March 31, 2020, the Company identified factors associated with the COVID-19 pandemic that indicated that an interim goodwill impairment test was necessary. These factors included a deterioration of macroeconomic conditions, near-term declines in the Company's results of operations as a result of "shelter-in-place" orders and other related measures, and a decline in the Company's market capitalization.

For the interim goodwill impairment test, the Company performed a fair-value based test for all reporting units with goodwill balances. The fair value of each reporting unit was determined using a discounted cash flow (DCF) analysis. The DCF analysis relied on significant assumptions and judgments about the forecasted future cash flows over the five-year projection period, including revenues, gross profit margins, operating expenses, income taxes, capital expenditures, working capital, and an estimate of the impact and duration of COVID-19 on those factors. These forecasts of future cash flows represent the Company's best estimate using information that is currently available. However, given the uncertainty associated with the COVID-19 pandemic, including its extent and duration, actual results could differ significantly from those estimates. The DCF analysis also used included significant assumptions and judgments about long-term growth rates and discount rates.

The fair value of the GovDeals reporting unit is substantially in excess of its carrying value. The fair value of the CAG and Machinio reporting units exceeded their carrying values by 21% and 12%, respectively, as of March 31, 2020. No impairment charge was recorded as a result of the interim goodwill impairment test.

The Company has continued to evaluate the impact of the COVID-19 pandemic on the recoverability of its goodwill. As there have been favorable developments in the factors that indicated a goodwill impairment test was necessary in the previous quarter, the Company did not identify any indicators of impairment that required an additional interim goodwill impairment test during the three months ended June 30, 2020.

## 5. Intangible Assets

The components of intangible assets are as follows:

| | | June 30, 2020 | | | September 30, 2019 | | |
|---|---|---|---|---|---|---|---|
| (dollars in thousands) | Useful Life (in years) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Contract intangibles | 6 | $ 3,100 | $ (1,033) | $ 2,067 | $ 3,100 | $ (646) | $ 2,454 |
| Technology | 5 | 2,700 | (1,080) | 1,620 | 2,700 | (675) | 2,025 |
| Patent and trademarks | 7 - 10 | 2,322 | (923) | 1,399 | 2,276 | (712) | 1,564 |
| Total intangible assets | | $ 8,122 | $ (3,036) | $ 5,086 | $ 8,076 | $ (2,033) | $ 6,043 |

The remaining intangible assets balance at June 30, 2020 is expected to be amortized as follows:

| **(in thousands)**<br>**Years ending September 30,** | **Expected Amortization Expense** |
|---|---|
| Remainder of 2020 | $ 335 |
| 2021 | 1,336 |
| 2022 | 1,327 |
| 2023 | 1,183 |
| 2024 | 645 |
| 2025 and thereafter | 260 |
| Total | $ 5,086 |

Intangible asset amortization expense was $0.3 million and $0.3 million for the three months ended June 30, 2020 and 2019, respectively and $1.0 million and $1.0 million for the nine months ended June 30, 2020 and 2019, respectively.

The factors associated with the COVID-19 pandemic discussed in Note 4 also indicated that an interim long-lived asset impairment test was necessary during the three months ended March 31, 2020. For each asset group, the Company performed an undiscounted cash flow analysis that relies on significant assumptions and judgments surrounding the forecasts of future cash flows over each asset group's projection period. These forecasts of future cash flows represent the Company's best estimate using information that is currently available. However, given the significant uncertainty associated with the COVID-19 pandemic, including its extent and duration, actual results could differ significantly from those estimates.

For each asset group, the undiscounted cash flows exceeded the asset group's carrying value as of March 31, 2020. No impairment charge was recorded as a result of the interim long-lived asset impairment test.

The Company has continued to evaluate the impact of the COVID-19 pandemic on the recoverability of its long-lived assets. As there have been favorable developments in the factors that indicated a long-lived asset impairment test was necessary in the previous quarter, the Company did not identify any indicators of impairment that required an additional long-lived asset impairment test during the three months ended June 30, 2020.

**6. Income Taxes**

The Company’s interim effective income tax rate is based on management’s best current estimate of the Company's expected annual effective income tax rate. The Company recorded a pre-tax loss in the first nine months of fiscal year 2020 and its corresponding effective tax rate is (8.4%) compared to (8.8%) for the first nine months of fiscal year 2019. The change in the effective tax rate for the nine months ended June 30, 2020 as compared to the same period in the prior yea

r was primarily due to state and foreign taxes. Tax expense in the nine months ended June 30, 2020 is due to state and foreign taxes paid. The effective tax rate differed from the statutory federal rate of 21% primarily as a result of the valuation allowance charge on current year losses and the impact of foreign, state, and local income taxes and permanent tax adjustments.

The Company identified no new uncertain tax positions during the nine months ended June 30, 2020. The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, various state and local jurisdictions and in foreign jurisdictions, primarily Canada and the United Kingdom. As of June 30, 2020, none of the Company's federal or state income tax returns are under examination, however, we remain subject to examination for certain of our foreign income tax returns. The statute of limitations for U.S. federal income tax returns for years prior to fiscal 2017 is now closed. However, certain tax attribute carryforwards that were generated prior to fiscal 2017 may be adjusted upon examination by tax authorities if they are utilized.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was signed into law. The CARES Act provides opportunities for additional liquidity, loan guarantees, and other government programs to support companies affected by the COVID-19 pandemic and their employees. Based on our preliminary analysis of the CARES Act, we do not expect a significant impact to our consolidated financial statements.

## 7. Stockholders' Equity

The changes in stockholders' equity for the prior year comparable period is as follows:

| (dollars in thousands) | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Total |
|---|---|---|---|---|---|---|
| Balance at September 30, 2018 | 32,774,118 | $ 33 | $ 236,115 | $ (6,449) | $ (100,045) | $ 129,654 |
| Cumulative adjustment related to the adoption of ASC 606 | — | — | — | — | 730 | 730 |
| Net loss | — | — | — | — | (5,022) | (5,022) |
| Exercise of stock options, grants of restricted stock awards, and vesting of restricted stock units | 409,060 | — | 8 | — | — | 8 |
| Stock compensation expense | — | — | 1,556 | — | — | 1,556 |
| Foreign currency translation | — | — | — | (427) | — | (427) |
| Balance at December 31, 2018 | 33,183,178 | $ 33 | $ 237,679 | $ (6,876) | $ (104,337) | $ 126,499 |
| Net loss | — | — | — | — | (4,362) | (4,362) |
| Exercise of stock options, grants of restricted stock awards, and vesting of restricted stock units | 197,642 | — | 116 | — | — | 116 |
| Stock compensation expense | — | — | 2,011 | — | — | 2,011 |
| Forfeitures of restricted stock awards | (33,163) | — | — | — | — | — |
| Foreign currency translation and other | — | — | — | 198 | 3 | 201 |
| Balance at March 31, 2019 | 33,347,657 | $ 33 | $ 239,806 | $ (6,678) | $ (108,696) | $ 124,465 |
| Net loss | — | — | — | — | (4,649) | (4,649) |
| Exercise of stock options, grants of restricted stock awards, and vesting of restricted stock units | 150,421 | — | 5 | — | — | 5 |
| Stock compensation expense | — | — | 1,550 | — | — | 1,550 |
| Foreign currency translation and other | — | — | — | (255) | (3) | (258) |
| Balance at June 30, 2019 | 33,498,078 | $ 33 | $ 241,361 | $ (6,933) | $ (113,348) | $ 121,113 |

### Stock Compensation Incentive Plans

During the quarter ended March 31, 2020, the Company's shareholders approved an amendment and restatement to its Second Amended and Restated 2006 Omnibus Long-Term Incentive Plan (the Third Amended and Restated 2006 Omnibus Long-Term Incentive Plan) to increase the number of shares of common stock reserved for issuance from 16,300,000 to 19,100,000.

### Stock Compensation Expense

Stock-based compensation expense was $3.8 million for the nine months ended June 30, 2020, which included $3.9 million of expense related to equity-classified stock options and RSUs & RSAs (restricted stock units and awards) and a $0.1 million benefit related to liability-classified SARs (cash-settled stock appreciation rights).

**Stock Options and RSUs & RSAs**

The following table presents stock option and RSUs & RSAs grant activity:

| | | Nine Months Ended June 30, 2020 |
|---|---|---|
| **Stock Options granted:** | | |
| Options containing only service conditions: | | 415,719 |
| Weighted average exercise price | $ | 6.82 |
| Weighted average grant date fair value | $ | 2.72 |
| | | |
| Options containing performance or market conditions: | | 402,800 |
| Weighted average exercise price | $ | 6.82 |
| Weighted average grant date fair value | $ | 2.62 |
| | | |
| **RSUs & RSAs granted:** | | |
| RSUs & RSAs containing only service conditions: | | 310,493 |
| Weighted average grant date fair value | $ | 5.92 |
| | | |
| RSUs & RSAs containing performance or market conditions: | | 173,600 |
| Weighted average grant date fair value | $ | 4.49 |

The stock options and RSUs & RSAs containing only service conditions will vest over a four year service period. The stock options and RSUs & RSAs containing performance conditions will vest upon the achievement of specified financial targets of the Company or its business units. The stock options and RSUs & RSAs containing market conditions will vest upon the achievement of specified increases in the Company's share price. Vesting is measured the first day of each fiscal quarter over the four-year terms of the awards, starting with the first fiscal quarter after the first anniversary of the grant date, based upon the trailing 20-days average of the Company's share price.

The range of assumptions used to determine the fair value of stock options containing only service conditions using the Black-Scholes option-pricing model during the nine months ended June 30, 2020 include a dividend yield of 0.0%, expected volatility rates of 46.5% to 51.0%, risk-free interest rates of 0.5% to 1.5%, and expected terms of 4.6 to 7.4 years.

The range of assumptions used to determine the fair value of stock options and RSUs & RSAs containing market conditions using Monte Carlo simulations during the nine months ended June 30, 2020 include a dividend yield of 0.0%, expected volatility rates of 46.7% to 51.2%, risk-free interest rates of 1.5% to 1.7%, and expected holding period (% of remaining term for stock options only) of 30.7% to 100%.

**SARs**

During the six months ended June 30, 2020, the Company did not issue any SARs, 225,267 SARs were exercised requiring the Company to make cash payments of $0.6 million, and 40,355 SARs were canceled. As of June 30, 2020, 167,960 SARs were outstanding.

**Share Repurchase Program**

The Company did not repurchase shares during the nine months ended June 30, 2020 or 2019. As of June 30, 2020, the Company has $10.1 million of remaining authorization to repurchase shares under its share repurchase program.

### 8. Fair Value Measurement

The Company measures and records certain assets and liabilities at fair value on a recurring basis. Authoritative guidance issued by the FASB establishes a fair value hierarchy for those instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and the Company's assumptions (unobservable inputs). The hierarchy consists of three levels:

Level 1: Quoted market prices in active markets for identical assets or liabilities;
Level 2: Inputs other than Level 1 inputs that are either directly or indirectly observable; and
Level 3: Unobservable inputs developed using estimates and assumptions developed by the Company, which reflect those that a market participant would use.

During the year ended September 30, 2018, and as a result of the acquisition of Machinio, the Company recorded contingent consideration which was measured at fair value (Level 3). At September 30, 2019, the Company estimated the fair value of the contingent consideration using a Monte Carlo simulation. The simulation estimated Machinio's adjusted EBITDA over the calendar year 2019 earn-out period using a market-based volatility factor and market interest rates resulting in an average EBITDA. A present value factor was applied based on the expected settlement date of the contingent consideration. At June 30, 2020, the calendar year 2019 earn-out period was complete and the liability has been paid in full.

The changes in the earn-out liability measured at fair value using Level 3 inputs to determine fair value for the nine months ended June 30, 2020 are as follows:

| (in thousands) | | Contingent Consideration |
|---|---|---|
| Balance at September 30, 2019 | $ | 4,800 |
| Change in fair value | | 200 |
| Settlement | | (5,000) |
| Balance at June 30, 2020 | $ | — |

The increase in the fair value of the earn-out liability is due to Machinio's full attainment of its actual adjusted EBITDA target for the calendar year 2019 earn-out period. The expense for the change in fair value was included in Other operating expenses in the Consolidated Statements of Operations. The earn-out liability was paid in full during the three months ended March 31, 2020.

The Company had short-term investments of $30.0 million at September 30, 2019 in certificates of deposit with maturities of six months or less, and interest rates between 1.97% and 2.50%. The Company has $30.0 million of money market funds considered cash equivalents at June 30, 2020. These assets were measured at fair value at June 30, 2020 and September 30, 2019 and were classified as Level 1 assets within the fair value hierarchy.

The Company's financial assets and liabilities not measured at fair value are cash and cash equivalents (which includes cash and commercial paper with original maturities of less than 90 days), accounts receivable, a promissory note and accounts payable. The Company believes the carrying values of these instruments approximate fair value.

At June 30, 2020 and September 30, 2019, the Company did not have any assets or liabilities measured at fair value on a non-recurring basis.

### 9. Defined Benefit Pension Plan

Certain employees of Liquidity Services UK Limited (GoIndustry), which the Company acquired in July 2012, are covered by the Henry Butcher Pension Fund and Life Assurance Scheme (the Scheme), a qualified defined benefit pension plan. The Company guarantees GoIndustry's performance on all present and future obligations to make payments to the Scheme for up to a maximum of £10 million British pounds. The Scheme was closed to new members on January 1, 2002.

The net periodic benefit, other than service costs, is recognized within Interest other income, net in the Consolidated Statements of Operations, and for the three and nine months ended June 30, 2020 and 2019 included the following components:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| **(in thousands)** | **2020** | **2019** | **2020** | **2019** |
| Service cost | $ — | $ — | $ — | $ — |
| Interest cost | 119 | 136 | 336 | $ 446 |
| Expected return on plan assets | (192) | (222) | (595) | (695) |
| Amortization of prior service cost | 5 | — | 15 | — |
| Total net periodic (benefit) | $ (68) | $ (86) | $ (244) | $ (249) |

## 10. Business Realignment Expenses

Business realignment expenses are associated with management changes, exiting certain businesses, or other cost saving actions and are recorded as a component of Other operating expenses on the Consolidated Statements of Operations.

For the three and nine ended June 30, 2020, business realignment expenses were incurred related to the elimination of certain positions in response to the COVID-19 pandemic.

For the year ended September 30, 2019, business realignment expenses were incurred related to: management changes associated with a strategic reorganization of the Company's go-to-market strategy for self-directed and fully-managed market place services, the conclusion of the Scrap Contract, and other cost saving actions.

Business realignment expenses were as follows for the periods presented:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| **(in thousands)** | **2020** | **2019** | **2020** | **2019** |
| Employee severance and benefit costs: | | | | |
| GovDeals | $ 25 | $ — | $ 25 | $ — |
| RSCG | 64 | — | 64 | — |
| CAG | 67 | 248 | 67 | 248 |
| Corporate & Other | 172 | 1,125 | 172 | 1,295 |
| Total employee severance and benefit costs | $ 328 | $ 1,373 | $ 328 | $ 1,543 |
| | | | | |
| Occupancy and other costs: | | | | |
| CAG | — | — | — | 51 |
| Corporate & Other | — | — | — | 134 |
| Total occupancy and other costs | — | — | — | 185 |
| Total business realignment expenses | $ 328 | $ 1,373 | $ 328 | $ 1,728 |

The table below sets forth the significant components and activity in the liability for business realignment initiatives, on a segment and consolidated basis:

| (in thousands) | Liability Balance at September 30, 2018 | Business Realignment Expenses | Cash Payments | Liability Balance at September 30, 2019 | Adoption of ASC 842 | Business Realignment Expenses | Cash Payments | Liability Balance at June 30, 2020 |
|---|---|---|---|---|---|---|---|---|
| Employee severance and benefit costs: | | | | | | | | |
| GovDeals | $ — | $ — | $ — | $ — | $ — | $ 25 | $ (15) | $ 10 |
| RCSG | — | — | — | — | — | 64 | (52) | 12 |
| CAG | 89 | 443 | (118) | 414 | — | 67 | (435) | 46 |
| Corporate & Other | 21 | 1,537 | (1,320) | 238 | — | 172 | (343) | 67 |
| Total employee severance and benefit costs | $ 110 | $ 1,980 | $ (1,438) | $ 652 | $ — | $ 328 | $ (845) | $ 135 |
| Occupancy and other costs: | | | | | | | | |
| CAG | 459 | 51 | (341) | 169 | (169) | — | — | — |
| Corporate & Other | 807 | 134 | (941) | — | — | — | — | — |
| Total occupancy and other costs | $ 1,266 | $ 185 | $ (1,282) | $ 169 | $ (169) | $ — | $ — | $ — |
| Total business realignment | $ 1,376 | $ 2,165 | $ (2,720) | $ 821 | $ (169) | $ 328 | $ (845) | $ 135 |

## 11. Legal Proceedings and Other Contingencies

The Company reserves for contingent liabilities based on ASC 450, *Contingencies*, when it determines that a liability is probable and reasonably estimable. From time to time, the Company may become involved in litigation relating to claims arising in the ordinary course of the business. There are no claims or actions pending or threatened against the Company that, if adversely determined, would in management's judgment have a material adverse effect on the Company.

During the three months ended December 31, 2019, the Company paid its $0.6 million liability resulting from a sales tax audit performed by the State of California.

**12. Segment Information**

The Company provides results in four reportable operating segments: GovDeals, RSCG, CAG and Machinio. Descriptions of our reportable segments are as follows:

- The GovDeals reportable segment provides self-directed service solutions in which sellers list their own assets, and it consists of marketplaces that enable local and state government entities including city, county and state agencies, as well as quasi-governmental businesses located in the United States and Canada to sell surplus and salvage assets. GovDeals also offers a suite of services to sellers that includes asset sales and marketing. Through the end of fiscal 2019, GovDeals provided self-directed service solutions to commercial businesses as part of the Auction Deals marketplace.

- The RSCG reportable segment consists of marketplaces that enable corporations located in the United States and Canada to sell surplus and salvage consumer goods and retail capital assets. RSCG also offers a suite of services that includes returns management, asset recovery, and e-commerce services. This segment includes the Company's Liquidation.com, Liquidation.com DIRECT, and Secondipity marketplaces.

- The CAG reportable segment provides full-service solutions to sellers and it consists of marketplaces that enable commercial businesses to sell surplus, salvage, and scrap assets. CAG also offers a suite of services that includes surplus management, asset valuation, asset sales and marketing. Commercial sellers are located in the United States, Europe, Australia and Asia. This segment includes the Company's Network International and GoIndustry DoveBid marketplaces and, beginning in fiscal 2020, self-directed service solutions for commercial businesses within a unified marketplace previously referred to as Auction Deals. Prior to the conclusion of the Scrap Contract (see Note 2), CAG sold scrap assets from the DoD on its Government Liquidation marketplace.

- The Machinio reportable segment operates a global online platform for listing used equipment for sale in the construction, machine tool, transportation, printing and agriculture sectors.

We also report results of Corporate & Other, which for the nine months ended June 30, 2019 includes a previously existing operating segment that did not meet the quantitative thresholds to be a reportable segment, IronDirect. The Company exited the IronDirect business in January 2019.

Decisions concerning the allocation of the Company’s resources are made by the Company’s Chief Operating Decision Maker (CODM), which is the Company's Chief Executive Officer. The Company reports segment information based on the internal performance measures used by the CODM to assess the performance of each operating segment in a given period. In connection with that assessment, the CODM uses segment gross profit to evaluate the performance of each segment. Gross profit is calculated as total revenue less cost of goods sold and seller distributions.

The following table sets forth certain financial information for the Company's reportable segments:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| **(in thousands)** | **2020** | **2019** | **2020** | **2019** |
| **GovDeals:** | | | | |
| Revenue | $ — | $ — | $ — | $ — |
| Fee revenue | 6,021 | 9,280 | 21,858 | 24,635 |
| Total revenue | 6,021 | 9,280 | 21,858 | 24,635 |
| Gross profit | $ 5,637 | $ 8,560 | $ 20,361 | $ 22,663 |
| **RSCG:** | | | | |
| Revenue | $ 29,454 | $ 27,011 | $ 89,857 | $ 82,904 |
| Fee revenue | 4,099 | 4,250 | 11,650 | 11,846 |
| Total revenue | 33,553 | 31,261 | 101,507 | 94,750 |
| Gross profit | $ 12,022 | $ 10,874 | $ 34,721 | $ 32,710 |
| **CAG:** | | | | |
| Revenue | $ 988 | $ 9,377 | $ 6,137 | $ 26,105 |
| Fee revenue | 5,384 | 5,513 | 15,216 | 17,951 |
| Total revenue | 6,372 | 14,890 | 21,353 | 44,056 |
| Gross profit | $ 5,892 | $ 7,759 | $ 16,628 | $ 25,255 |
| **Machinio:** | | | | |
| Revenue | $ — | $ — | $ — | $ — |
| Fee revenue | 1,776 | 1,451 | 5,332 | 3,816 |
| Total revenue | 1,776 | 1,451 | 5,332 | 3,816 |
| Gross Profit | $ 1,677 | $ 1,358 | $ 5,051 | $ 3,501 |
| **Corporate & Other:** | | | | |
| Revenue | $ — | $ — | $ — | $ 469 |
| Fee revenue | — | — | — | 9 |
| Total revenue | — | — | — | 478 |
| Gross profit | $ — | $ — | $ — | $ 113 |
| **Consolidated:** | | | | |
| Revenue | $ 30,442 | $ 36,388 | $ 95,994 | $ 109,478 |
| Fee revenue | 17,280 | 20,494 | 54,056 | 58,257 |
| Total revenue | 47,722 | 56,882 | 150,050 | 167,735 |
| Gross profit | $ 25,228 | $ 28,551 | $ 76,761 | $ 84,242 |

The following table presents a reconciliation of gross profit used in the reportable segments to the Company's consolidated results:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| **(in thousands)** | **2020** | **2019** | **2020** | **2019** |
| **Reconciliation:** | | | | |
| Gross profit | $ 25,228 | $ 28,551 | $ 76,761 | $ 84,242 |
| Operating expenses | 24,711 | 31,081 | 85,505 | 94,777 |
| Other operating expenses | 319 | 2,031 | 500 | 3,586 |
| Interest and other income, net | (224) | (454) | (733) | (1,224) |
| Income (loss) before provision for income taxes | $ 422 | $ (4,107) | $ (8,511) | $ (12,897) |

The percent of our revenues that came from transactions conducted outside of the United States for the three months ended June 30, 2020 and 2019 was 11.2% and 13.6%, respectively and the percent of our revenues that came from transactions conducted outside of the United States for the nine months ended June 30, 2020 and 2019 was 12.5% and 14.9%, respectively.

**Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

**FORWARD-LOOKING STATEMENTS**

*This document contains forward-looking statements. These statements are only predictions. The outcome of the events described in these forward-looking statements is subject to known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks and other factors include but are not limited to the factors set forth in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019 and subsequent filings with the Securities and Exchange Commission (SEC). You can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “would,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “continues” or the negative of these terms or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. There may be other factors of which we are currently unaware or deem immaterial that may cause our actual results to differ materially from the forward-looking statements.*

*All forward-looking statements attributable to us or persons acting on our behalf apply only as of the date of this document and are expressly qualified in their entirety by the cautionary statements included in this document. Except as may be required by law, we undertake no obligation to publicly update or revise any forward-looking statement to reflect events or circumstances occurring after the date of this document or to reflect the occurrence of unanticipated events.*

*The following discussion should be read in conjunction with our consolidated financial statements and related notes and the information contained elsewhere in this document.*

**Overview**

The Company operates a network of e-commerce marketplaces that enable buyers and sellers to transact in an efficient, automated environment offering over 500 product categories. The Company’s marketplaces provide professional buyers access to a global, organized supply of new, surplus, and scrap assets presented with digital images and other relevant product information. Additionally, the Company enables its corporate and government sellers to enhance their financial return on offered assets by providing a liquid marketplace and value-added services that encompass the consultative management, valuation, and sale of surplus assets. The Company's services include program management, valuation, asset management, reconciliation, refurbishment and recycling, fulfillment, marketing and sales, warehousing and transportation, buyer support, compliance and risk mitigation, as well as self-directed service tools for its sellers. The Company organizes the products on its marketplaces into categories across major industry verticals such as consumer electronics, general merchandise, apparel, scientific equipment, aerospace parts and equipment, technology hardware, energy equipment, industrial capital assets, fleet and transportation equipment and specialty equipment. Currently, the Company’s marketplaces are: www.liquidation.com, www.govdeals.com, www.networkintl.com, www.secondipity.com, and www.go-dove.com. We also operate a global search engine for used machinery and equipment at www.machinio.com. The Company has over 14,000 sellers, including Fortune 1000 and Global 500 organizations as well as federal, state, and local government agencies.

**Impacts of the COVID-19 Pandemic**

The Company has been closely monitoring the COVID-19 pandemic. In April, the Company experienced the largest impacts on its operations, resulting from the actions taken by governments and private sector entities to limit the spread of COVID-19 that included restrictions on economic activity, including business closures, limitations on the operations of business activity, and significant prioritization of essential business functions. However, relative to April, we saw increases in GMV and revenues in May and June as businesses and governments re-opened from government ordered closures which, combined with cost control measures, generated positive net income for the three months ended June 30, 2020. However, the likelihood, magnitude and timing of business developments across our segments are difficult to predict given the current economic uncertainty, unknown timing and overall impact of the global pandemic. As a result, prior trends in the Company's results of operations may not be applicable throughout the duration of the COVID-19 pandemic.

In the longer term, we continue to be highly focused on creating efficiencies and benefits for our sellers and our buyers by focusing on the platform services and support that will deliver optimal liquidity in the reverse supply chain and further enable our growth through an asset light, low-touch marketplace solution. As e-commerce penetration continues to grow substantially for both consumers and B2B, our online platform and cloud-based solutions should become even more relevant and necessary for the evolving global economy.

**Evolving Response to COVID-19 Pandemic**

Last quarter we announced several safety measures and temporary cost control measures to protect both our employees and our business during the COVID-19 global pandemic. While we are still strictly abiding by all social distancing and safety measures in keeping the current health-expert recommendations, the hard work and performance of the Company has enabled us to review and loosen some of our cost control measures including:

- restoring full pay and providing back pay for all salary reductions for our current workforce;
- bringing a portion of furloughed employees back to full-time status, mainly in our sales department;
- resuming technology and marketing investments over the next quarter.

**Our Marketplace Transactions**

We believe our ability to create liquid marketplaces for surplus and salvage assets generates a continuous flow of goods from our corporate and government sellers. This flow of goods in turn attracts an increasing number of professional buyers to our marketplaces. During the twelve months ended June 30, 2020, the approximate number of registered buyers increased from 3,627,000 to 3,719,000, or 2.5%.

*Our revenue.* Substantially all of our revenue is earned through the following transaction models:

*Purchase model.* Under our purchase transaction model, we recognize revenue within the Revenue line item on the Consolidated Statements of Operations from the resale of inventory that we purchased from sellers. We consider these sellers to be our vendors. We pay our sellers either a fixed amount or a portion of the net or gross proceeds received from our completed sales based on the value we receive from the sale, in some cases, after deducting a required return to us that we have negotiated with the seller. Because we are the principal in purchase transaction model sales, we recognize as revenue the sale price paid by the buyer upon completion of a transaction. The proceeds paid by buyers also include transaction fees, referred to as buyer premiums. For the three and nine months ended June 30, 2020, our purchase transaction model accounted for 22.1% and 22.4% of our GMV, and 63.8% and 64.0% of our total revenues, respectively. For the three and nine months ended June 30, 2019, our purchase transaction model accounted for 21.8% and 22.5% of our GMV, and 64.0% and 65.3% of our total revenues, respectively. These amounts included sales of commercial merchandise sourced from vendor contracts with Amazon.com, Inc. by our RSCG segment. The commercial merchandise we purchased under these contracts represented 60.4% and 54.5% of consolidated Costs of goods sold for three and nine months ended June 30, 2020 and 41.6% and 43.9% of consolidated Costs of goods sold for three and nine months ended June 30, 2019. For the three and nine months ended June 30, 2019, purchase model revenues also included revenue earned from the sale of property obtained under the Scrap Contract, which concluded on September 30, 2019, and accounted for 8.2% and 7.8% of our total revenue, respectively.

*Consignment model — fee revenue.* Under our consignment transaction model, we enable our sellers to sell goods they own in our marketplaces and we charge them a commission fee based on the gross or net proceeds received from such sales. The revenue from our consignment transaction model is recognized within the Fee revenue line item on the Consolidated Statements of Operations. Because we are the agent in consignment model sales, our commission fee revenue, which we refer to as seller commissions, represents a percentage of the sales price the buyer pays upon completion of a transaction. We vary the percentage amount of the seller commission depending on the various value-added services we provide to the seller to facilitate the transaction. For example, we generally increase the percentage amount of the commission if we take possession, handle, ship, or provide enhanced product information for the merchandise. In most cases we collect the seller commission by deducting the appropriate amount from the sales proceeds prior to the distribution to the seller after completion of the transaction. In addition to seller commissions, we also collect buyer premiums. For the three and nine months ended June 30, 2020, our consignment model accounted for 77.9% and 77.6% of our GMV, and 30.2% and 29.9% of our total revenues, respectively. For the three and nine months ended June 30, 2019, our consignment model accounted for 78.2% and 77.5% of our GMV, and 30.8% and 30.0% of our total revenues, respectively.

*Other — fee revenue*. We also earn non-consignment fee revenue from Machinio's sales listing subscription service, as well as other services including returns management and refurbishment of assets, as well as asset valuation services. For the three and nine months ended June 30, 2020, our other revenues accounted for 6.0% and 6.2% of our total revenues, respectively. For the three and nine months ended June 30, 2019, our other revenues accounted for 5.2% and 4.7% of our total revenues, respectively

*Industry trends.* While we are experiencing challenges presented by the COVID-19 pandemic, we believe there are several industry trends positively impacting the long-term growth of our business including: (1) the increase in the volume of returned merchandise handled both online and in stores as online and omni-channel retail grow as a percentage of overall retail sales; (2) the increase in government regulations and the need for corporations to have sustainability solutions necessitating verifiable recycling and remarketing of surplus assets; (3) the increase in outsourcing by corporate and government organizations of disposition activities for surplus and end-of-life assets as they focus on reducing costs, improving transparency, compliance and working capital flows, and increasingly prefer service providers with a proven track record, innovative scalable solutions and the ability to make a strategic impact in the reverse supply chain, which we expect to increase our seller base; (4) an increase in buyer demand for surplus merchandise as consumers trade down by purchasing less expensive goods and seek greater value from their purchases, which results in lower per unit prices and margins in our retail goods vertical; (5) in the long-term we expect innovation in the retail supply chain will increase the pace of product obsolescence and, therefore, increase the supply of surplus assets; and (6) the increased demand by sellers and buyers to transact in a low touch, online solution as compared to live, in-person auctions or public sale events.

**Our Vendor Agreements**

*Our commercial agreements.* We have vendor contracts with Amazon.com, Inc. under which we acquire and sell commercial merchandise. The property we purchased under these contracts represented 60.4% and 41.6% of consolidated cost of goods sold for the three months ended June 30, 2020 and 2019, respectively, and 54.5%, and 43.9% of consolidated cost of goods sold for the nine months ended June 30, 2020 and 2019, respectively.

*Scrap Contract.* Under the Scrap Contract, which concluded on September 30, 2019, we acquired, managed and sold all non-electronic scrap property of the DoD turned into the Defense Logistics Agency (DLA), and paid the DLA a revenue-sharing payment equal to 64.5% of the gross resale proceeds. Scrap property generally consisted of items determined by the DoD to have no use beyond their base material content, such as metals, alloys, and building materials. We bore all of the costs for the sorting, merchandising and sale of the property. The resale transactions for scrap property sourced under this contract followed the purchase model.

The resale of scrap property that we purchased under the Scrap Contract accounted for approximately 2.8% of our GMV and 8.2% of our total revenues for the three months ended June 30, 2019 and 2.7% of our GMV and 7.8% of our total revenues for the nine months ended June 30, 2019 The results of the Scrap Contract were included in our CAG segment.

**Key Business Metrics**

Our management periodically reviews certain key business metrics for operational planning purposes and to evaluate the effectiveness of our operational strategies, allocation of resources and our capacity to fund capital expenditures and expand our business. These key business metrics include:

*Gross merchandise volume (GMV).* GMV is the total sales value of all merchandise sold by us or our sellers through our marketplaces or by us through other channels during a given period of time. We review GMV because it provides a measure of the volume of goods being sold in our marketplaces and thus the activity of those marketplaces. GMV also provides a means to evaluate the effectiveness of investments that we have made and continue to make, including in the areas of buyer and seller support, value-added services, product development, sales and marketing, and operations.

*Total Registered Buyers.* We grow our buyer base through a combination of marketing and promotional efforts. A person becomes a registered buyer by completing an online registration process on one of our marketplaces. As part of this process, we collect business and personal information, including name, title, company name, business address and contact information, and information on how the person intends to use our marketplaces. Each prospective buyer must also accept our terms and conditions of use. Following the completion of the online registration process, we verify each prospective buyer's e-mail address and confirm that the person is not listed on any banned persons list maintained internally or by the U.S. federal government. After the verification process, which is completed generally within 24 hours, the registration is approved and activated, and the prospective buyer is added to our registered buyer list.

Total registered buyers, as of a given date, represent the aggregate number of persons or entities who have registered on one of our marketplaces. We use this metric to evaluate how well our marketing and promotional efforts are performing. Total registered buyers exclude duplicate registrations, buyers who are suspended from utilizing our marketplaces and those buyers who have voluntarily removed themselves from our registration database. In addition, if we become aware of registered buyers that are no longer in business, we remove them from our database. As of June 30, 2020 and 2019, we had approximately 3,719,000 and 3,627,000 registered buyers, respectively.

*Total auction participants.* For each auction we manage, the number of auction participants represents the total number of registered buyers who have bid one or more times in that auction. As a result, a registered buyer who bids, or participates, in more than one auction is counted as an auction participant in each auction in which he or she participates. Thus, total auction participants for a given period is the sum of the auction participants in each auction conducted during that period. We use this metric to allow us to compare our online auction marketplaces to our competitors, including other online auction sites and traditional on-site auctioneers. In addition, we measure total auction participants on a periodic basis to evaluate the activity level of our base of registered buyers and to measure the performance of our marketing and promotional efforts. During the three months ended June 30, 2020 and 2019, approximately 420,000 and 528,000, respectively, total auction participants participated in auctions on our marketplaces. During the nine months ended June 30, 2020 and 2019, approximately 1,363,000 and 1,561,500, respectively, total auction participants participated in auctions on our marketplaces.

*Completed transactions.* Completed transactions represents the number of auctions in a given period from which we have recorded revenue. Similar to GMV, we believe that completed transactions is a key business metric because it provides an additional measurement of the volume of activity flowing through our marketplaces. During the three months ended June 30, 2020 and 2019, we completed approximately 134,000 and 160,000 transactions, respectively. During the nine months ended June 30, 2020 and 2019, we completed approximately 420,000 and 458,000 transactions, respectively.

**Non-GAAP Financial Measures**

*EBITDA and Adjusted EBITDA.* EBITDA is a supplemental non-GAAP financial measure and is equal to net income (loss) plus interest and other expense, net excluding the non-service components of net periodic pension (benefit) expense; provision (benefit) for income taxes; and depreciation and amortization. Interest and other expense, net, can include non-operating gains and losses, such as from foreign currency fluctuations. Our definition of Adjusted EBITDA differs from EBITDA because we further adjust EBITDA for stock-based compensation expense, acquisition costs such as transaction expenses and changes in earn out estimates, business realignment expense, deferred revenue purchase accounting adjustments, and goodwill and long-lived asset impairment.

We believe EBITDA and Adjusted EBITDA are useful to an investor in evaluating our performance for the following reasons:

- Depreciation and amortization expense primarily relates to property and equipment and the amortization of intangible assets. These expenses are non-cash charges that have fluctuated significantly in the past. As a result, we believe that adding back these non-cash charges is useful in evaluating the operating performance of our business on a consistent basis from year-to-year.
- As a result of varying federal and state income tax rates, we believe that presenting a financial measure that adjusts for provision (benefit) for income taxes is useful to investors when evaluating the operating performance of our business on a consistent basis from year to year.
- The authoritative guidance for stock-based compensation requires all share-based payments to employees, including grants of employee stock options, restricted stock and stock appreciation rights to be recognized in the income statement based on their estimated fair values. We believe adjusting for this stock-based compensation expense is useful to investors when evaluating the operating performance of our business on a consistent basis from year to year.
- The authoritative guidance related to business combinations requires the initial recognition of contingent consideration at fair value with subsequent changes in fair value recorded through the statements of operations, and disallows the capitalization of transaction costs. We believe adjusting for these acquisition related expenses is useful to investors when evaluating the operating performance of our business on a consistent basis from year-to-year.
- We believe adjusting for business realignment expense is useful to investors when evaluating the operating performance of our business on a consistent basis from year-to-year, as these expenses are outside our ordinary course of business.
- We believe isolating non-cash charges, such as amortization and depreciation, and other items, such as impairment costs incurred outside our ordinary course of business, provides additional information about our cost structure, and, over time, helps track our performance.
- We believe EBITDA and Adjusted EBITDA are important indicators of our operational strength and the performance of our business because they provide a link between profitability and operating cash flow.
- We also believe that analysts and investors use EBITDA and Adjusted EBITDA as supplemental measures to evaluate the overall operating performance of companies in our industry.

Our management uses EBITDA and Adjusted EBITDA:

- as measurements of operating performance because they assist us in comparing our operating performance on a consistent basis as they remove the impact of items not directly resulting from our core operations;
- for planning purposes, including the preparation of our internal annual operating budget;
- to allocate resources to enhance the financial performance of our business;
- to evaluate the effectiveness of our operational strategies; and
- to evaluate our capacity to fund capital expenditures and expand our business.

EBITDA and Adjusted EBITDA as calculated by us are not necessarily comparable to similarly titled measures used by other companies. In addition, EBITDA and Adjusted EBITDA: (a) do not represent net (loss) income or cash flows from operating activities as defined by GAAP; (b) are not necessarily indicative of cash available to fund our cash flow needs; and (c) should not be considered as alternatives to net (loss) income, income from operations, cash provided by operating activities or our other financial information as determined under GAAP.

We prepare Adjusted EBITDA by adjusting EBITDA to eliminate the impact of items that we do not consider indicative of our core operating performance. You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. As an analytical tool, Adjusted EBITDA is subject to all of the limitations applicable to EBITDA. Our presentation of Adjusted EBITDA should not be construed as an implication that our future results will be unaffected by unusual or non-recurring items.

The table below reconciles net income (loss) to EBITDA and Adjusted EBITDA for the periods presented.

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| **(in thousands)** | | (Unaudited) | | |
| Net income (loss) | $ 213 | $ (4,649) | $ (9,221) | $ (14,033) |
| Interest and other income, net[1] | (156) | (368) | (489) | (976) |
| Provision for income taxes | 209 | 542 | 710 | 1,136 |
| Depreciation and amortization | 1,567 | 1,206 | 4,716 | 3,575 |
| EBITDA | 1,833 | (3,269) | (4,284) | (10,298) |
| Stock compensation expense[2] | 1,516 | 1,362 | 3,785 | 5,456 |
| Acquisition costs and impairment of long-lived assets[3] | — | 52 | 5 | 171 |
| Business realignment expenses[3,4] | 328 | 1,055 | 328 | 1,095 |
| Fair value adjustments to acquisition earn-outs[3] | — | 900 | 200 | 2,300 |
| Deferred revenue purchase accounting adjustment | — | 110 | 3 | 800 |
| Adjusted EBITDA | $ 3,677 | $ 210 | $ 37 | $ (476) |

[1] *Represents Interest and other income, net, per the Statement of Operations, excluding the non-service components of net periodic pension (benefit) expense.*
[2] *Excludes the impact of forfeitures of stock awards by employees terminated by business realignment actions, which is included in the business realignment expenses line for the three and nine months ended June 30, 2019. There were no such impacts for the three and nine months ended June 30, 2020.*
[3] *Acquisition costs, impairment of long-lived assets, fair value adjustments to acquisition earn-outs, and business realignment expenses are components of Other operating expenses on the Statements of Operations.*
[4] *Business realignment expense includes the amounts accounted for as exit costs under ASC 420 as described in Note 10 to the Consolidated Financial Statements, and the related impacts of business realignment actions subject to other accounting guidance. Those related impacts were $317 thousand for the three and nine months ended June 30, 2019, primarily due to forfeitures of stock awards by terminated employees. There were no related impacts for the three and nine months ended June 30, 2020.*

**Critical Accounting Policies and Estimates**

The Company's critical accounting policies and estimates are described in our Annual Report on Form 10-K for the year ended September 30, 2019, and in Note 2 — *Summary of Significant Accounting Policies* to the consolidated financial statements.

As discussed in Note 2 — *Summary of Significant Accounting Policies*, we adopted ASC 842, *Leases*, as of October 1, 2019, using a modified retrospective approach where our Consolidated Balance Sheet as of September 30, 2019 was not changed.

Relative to the most recent annual report on Form 10-K, there have been no other material changes to the Company's accounting policies used in preparing these interim consolidated financial statements.

As of July 1, 2019, the Company performed its annual impairment testing using a fair-value based test for all reporting units, and determined the fair value for each of its reporting units with goodwill balances substantially exceeded their carrying values except for the Machinio reporting unit, which exceeded its carrying value by approximately 11%.

As of March 31, 2020, in response change in economic conditions resulting from the COVID-19 pandemic, the Company performed an interim impairment test using a fair-value based test for all reporting units with goodwill balances, and determined that the fair value for each of its reporting units with goodwill balances substantially exceeded their carrying values except for CAG and Machinio, which exceeded their carrying values by approximately 21% and 12%, respectively.

As of March 31, 2020, the Company determined the fair value of the CAG and Machinio reporting units using a discounted cash flow (DCF) analysis. The DCF analysis relied on significant assumptions and judgments about the forecasts of future cash flows over the five-year projection period, including revenues, gross profit margins, operating expenses, income taxes, capital expenditures, working capital, and an estimate of the impact and duration of COVID-19 on those factors. A long-term growth rate of 2.5% was applied thereafter. These forecasts of future cash flows represent the Company's best estimate using information that is currently available. However, given the uncertainty associated with the COVID-19 pandemic, including its extent and duration, actual results could differ significantly from those estimates.

The cash flows for CAG and Machinio were discounted at a weighted average cost of capital (WACC) of 17% and 26%, respectively, and reflected an increase in the equity risk premium caused by the emergence of the COVID-19 pandemic. Given the uncertainty that COVID-19 has introduced into the equity markets, the Company performed a sensitivity analysis that noted that the CAG and Machinio WACCs would need to increase by over 180 and 260 basis points, respectively, to impact the recovery of goodwill.

The Company has continued to evaluate the impact of the COVID-19 pandemic on the recoverability of its goodwill. As there have been favorable developments in the factors that indicated a goodwill impairment test was necessary in the previous quarter, the Company did not identify any indicators of impairment that required an additional interim goodwill impairment test during the three months ended June 30, 2020.

The Company will continue to monitor these reporting units for changes that could impact the recoverability of goodwill, which will depend on changes to the extent and duration of the COVID-19 pandemic, and its impact on the equity markets.

**Components of Revenue and Expenses**

*Revenue.* Refer to the discussion in the *Our revenue* section above, and to Note 2 — *Summary of Significant Accounting Policies* in our Annual Report on Form 10-K for discussion of the Company's related accounting policies.

*Cost of goods sold.* Refer to the discussion in Note 2 — *Summary of Significant Accounting Policies* in our Annual Report on Form 10-K for discussion of the Company's Costs of goods sold and related accounting policies.

*Seller distributions.* Under the Scrap Contract, which concluded on September 30, 2019, we acquired scrap property from the DLA for resale and paid the DLA seller distributions equal to 64.5% of the gross resale proceeds.

*Technology and operations.* Technology expenses consist primarily of the cost of technical staff who develop, deploy, and maintain our marketplaces and corporate infrastructure. These personnel also develop and upgrade the software systems that support our operations, such as sales processing. Technology expenses also includes certain costs associated with our e-commerce platform.

Because our marketplaces and support systems require frequent upgrades and enhancements to maintain viability, we have determined that the useful life for certain internally developed software is less than one year. As a result, we expense those costs as incurred. However, where we determine that the useful life of the internally developed software will be greater than one year, we capitalize development costs in accordance with ASC 350-40, Internal-use software. As such, we are capitalizing certain development costs associated with our e-commerce platform, as well as other software development activities.

Operations expenses consist primarily of operating costs, including buyer relations, shipping logistics and distribution center operating costs.

*Sales and marketing.* Sales and marketing expenses include the cost of our sales and marketing personnel as well as the cost of marketing and promotional activities. These activities include all sales and marketing-related activity, including but not limited to trade shows and online marketing campaigns such as paid search advertising.

*General and administrative.* General and administrative expenses include all corporate and administrative functions that support our operations and provide an infrastructure to facilitate our future growth. These expenses are generally more fixed in nature than our other operating expenses and do not significantly vary in response to the volume of merchandise sold through our marketplaces.

*Depreciation and amortization.* Depreciation and amortization expenses consist of depreciation of property and equipment, amortization of internally developed software, and amortization of intangible assets.

*Other operating expenses (income).* Other operating expense includes the change in fair value of contingent consideration, as well as business realignment expenses, including those associated with restructuring initiatives and the exit of certain business operations.

*Interest and other (income) expense, net.* Interest (income) expense and other expense, net consists of interest income on short-term investments and the promissory note issued to JTC, the components of net periodic pension (benefit) other than the service component, and impacts of foreign currency fluctuations.

*Income taxes.* For interim income tax reporting, we estimate our annual effective tax rate and apply this effective tax rate to our year-to-date pre-tax (loss) income. Our effective income tax rate before discrete items was (8.4%) for the nine months ended June 30, 2020. The effective tax rate differed from the statutory federal rate of 21% primarily as a result of the valuation allowance charge on current year losses and the impact of foreign, state, and local income taxes and permanent tax adjustments.

**Results of Operations**

The following table sets forth, for the periods indicated, our operating results:

| | Three Months Ended June 30, | | | | Nine Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| **(dollars in thousands)** | **2020** | **2019** | **$ Change** | **% Change** | **2020** | **2019** | **$ Change** | **% Change** |
| Revenue | $ 30,442 | $ 36,388 | $ (5,946) | (16.3) % | $ 95,994 | $ 109,478 | $ (13,484) | (12.3) % |
| Fee revenue | 17,280 | 20,494 | (3,214) | (15.7) | 54,056 | 58,257 | (4,201) | (7.2) |
| Total revenue | 47,722 | 56,882 | (9,160) | (16.1) | 150,050 | 167,735 | (17,685) | (10.5) |
| Costs and expenses from operations: | | | | | | | | |
| Cost of goods sold (excludes depreciation and amortization) | 22,494 | 25,337 | (2,843) | (11.2) | 73,289 | 75,100 | (1,811) | (2.4) |
| Seller distributions | — | 2,994 | (2,994) | (100.0) | — | 8,393 | (8,393) | (100.0) |
| Technology and operations | 9,515 | 12,145 | (2,630) | (21.7) | 32,342 | 38,098 | (5,756) | (15.1) |
| Sales and marketing | 7,412 | 8,771 | (1,359) | (15.5) | 27,126 | 26,887 | 239 | 0.9 |
| General and administrative | 6,217 | 8,959 | (2,742) | (30.6) | 21,321 | 26,217 | (4,896) | (18.7) |
| Depreciation and amortization | 1,567 | 1,206 | 361 | 29.9 | 4,716 | 3,575 | 1,141 | 31.9 |
| Other operating expenses | 319 | 2,031 | (1,712) | (84.3) | 500 | 3,586 | (3,086) | (86.1) |
| Total costs and expenses | 47,524 | 61,443 | (13,919) | (22.7) | 159,294 | 181,856 | (22,562) | (12.4) |
| Income (loss) from operations | 198 | (4,561) | 4,759 | NM | (9,244) | (14,121) | 4,877 | 34.5 |
| Interest and other income, net | (224) | (454) | 230 | 50.7 | (733) | (1,224) | 491 | 40.1 |
| Income (loss) before provision for income taxes | 422 | (4,107) | 4,529 | NM | (8,511) | (12,897) | 4,386 | 34.0 |
| Provision for income taxes | 209 | 542 | (333) | (61.4) | 710 | 1,136 | (426) | (37.5) |
| Net income (loss) | $ 213 | $ (4,649) | $ 4,862 | NM | $ (9,221) | $ (14,033) | $ 4,812 | 34.3 % |

NM = not meaningful

The following table presents segment GMV, revenue, gross profit (which is calculated as total revenue less cost of goods sold (exclusive of depreciation and amortization) and Seller distributions), and gross profit margin for the periods indicated:

| (dollars in thousands) | Three Months Ended June 30, 2020 | Three Months Ended June 30, 2019 | Nine Months Ended June 30, 2020 | Nine Months Ended June 30, 2019 |
|---|---|---|---|---|
| **GovDeals:** | | | | |
| GMV | $ 57,906 | $ 90,927 | $ 214,255 | $ 244,626 |
| Total revenue | 6,021 | 9,280 | 21,858 | 24,635 |
| Gross profit | 5,637 | 8,560 | 20,361 | 22,663 |
| Gross profit margin | 93.6 % | 92.2 % | 93.2 % | 92.0 % |
| **RSCG:** | | | | |
| GMV | 44,991 | 39,561 | 129,181 | 116,904 |
| Total revenue | 33,553 | 31,261 | 101,507 | 94,750 |
| Gross profit | 12,022 | 10,874 | 34,721 | 32,710 |
| Gross profit margin | 35.8 % | 34.8 % | 34.2 % | 34.5 % |
| **CAG:** | | | | |
| GMV | 27,191 | 37,656 | 79,546 | 120,086 |
| Total revenue | 6,372 | 14,890 | 21,353 | 44,056 |
| Gross profit | 5,892 | 7,759 | 16,628 | 25,255 |
| Gross profit margin | 92.5 % | 52.1 % | 77.9 % | 57.3 % |
| **Machinio:** | | | | |
| GMV | — | — | — | — |
| Total revenue | 1,776 | 1,451 | 5,332 | 3,816 |
| Gross profit | 1,677 | 1,358 | 5,051 | 3,501 |
| Gross profit margin | 94.4 % | 93.6 % | 94.7 % | 91.7 % |
| **Corporate & Other:** | | | | |
| GMV | — | — | — | 469 |
| Total revenue | — | — | — | 478 |
| Gross profit | — | — | — | 113 |
| Gross profit margin | — % | — % | — % | 23.6 % |
| **Consolidated:** | | | | |
| GMV | 130,088 | 168,144 | 422,982 | 482,085 |
| Total revenue | 47,722 | 56,882 | 150,050 | 167,735 |
| Gross profit | 25,228 | 28,551 | 76,761 | 84,242 |
| Gross profit margin | 52.9 % | 50.2 % | 51.2 % | 50.2 % |

***Three Months Ended June 30, 2020 Compared to the Three Months Ended June 30, 2019***

***Segment Results***

*GovDeals.* Revenue from our GovDeals segment decreased 35.1%, or $3.3 million due to a 36.3%, or $33.0 million decrease in GMV primarily resulting from decreased activity due to limitations on government facility operations in response to the COVID-19 pandemic. As a result of the decrease in revenues, gross profit decreased 34.1%, or $2.9 million. Gross profit margin remained relatively consistent between the periods.

*RSCG.* Revenue from our RSCG segment increased 7.3%, or $2.3 million, due to a 13.7%, or $5.4 million, increase in GMV driven primarily by growing volumes within existing seller accounts, partially offset by a decrease in the mix of transactions performed under the purchase model. As a result of the increase in revenues and an increase in gross profit margin, gross profit increased 10.6%, or $1.1 million. Gross profit margin remained relatively consistent between the periods.

*CAG.* Revenue and GMV from the CAG segment decreased 57.2%, or $8.5 million, and 27.8%, or $10.5 million, respectively. The conclusion of the Scrap Contract in fiscal 2019 caused revenue and GMV to each decline by $4.6 million. Excluding the impact of the completed Scrap Contract, revenue decreased by 37.8%, or $3.9 million, and GMV decreased by 17.6%, or $5.8 million. The declines were primarily driven by lower activity due to limitations on commercial facility operations and global travel restrictions in response to the COVID-19 pandemic. These restrictions had a larger impact on principal transactions than on transactions using our lower-touch consignment model. Gross profit within the CAG segment decreased 24.1%, or $1.9 million, primarily due to a $1.6 million impact from the completion of the Scrap Contract and the reduction in revenues. Gross profit margin increased to 92.5% from 52.1% due the larger impact of the COVID-19 pandemic on principal transactions, and the completion of the Scrap Contract, which had lower gross profit margins than the remaining business.

*Machinio.* Revenue from our Machinio segment increased 22.4%, or $0.3 million, due to an increase in subscription activity, and due to revenue earned from deferred revenues no longer containing effects from purchase accounting. As a result of the increase in revenues, gross profit increased 23.5%, or $0.3 million.

*Corporate & Other.* The are no amounts of revenue, GMV, gross profit and gross profit margin due to the Company's exit from the IronDirect business in January 2019.

***Consolidated Results***

*Revenue* - Total consolidated revenue decreased $9.2 million, or 16.1%. Refer to the discussion of Segment Results above for discussion of the decrease in revenue.

*Cost of goods sold.* Cost of goods sold decreased $2.8 million, or 11.2%, primarily due to revenue declines in CAG, partially offset by the revenue increases in RSCG.

*Seller distributions.* Seller distributions decreased $3.0 million, or 100.0%, due to the completion of the Scrap Contract.

*Technology and operations expenses.* Technology and operations expenses decreased $2.6 million, or 21.7%. The decrease included $1.1 million due to the completion of the Scrap Contract in fiscal 2019, $1.9 million in reductions in Corporate and CAG expenses (excluding the Scrap Contract) driven by benefits from restructuring and other organizational changes performed in fiscal 2019, and actions taken to reduce operating expenses in response to the COVID-19 pandemic in the quarter ended June 30, 2020. However, the impact of the action taken to reduce our operating expenses in response to the COVID-19 pandemic will lessen as business conditions continue to recover. These decreases were partially offset by a $0.3 million increase in RSCG and GovDeals driven by increased customer support and operations expenses from the continued growth in those segments.

*Sales and marketing expenses.* Sales and marketing expenses decreased $1.4 million, or 15.5%, due to actions taken to reduce operating expenses in response to the COVID-19 pandemic in the quarter ended June 30, 2020. However, the impact of these actions on our operating expense levels will lessen as business conditions continue to recover.

*General and administrative expenses.* General and administrative expenses decreased $2.7 million, or 30.6%, and was impacted by actions taken to reduce operating expenses in response to the COVID-19 pandemic in the quarter ended June 30, 2020, benefits from restructuring and other organizational changes performed in fiscal 2019, and the completion of the Scrap Contract in fiscal 2019. The impact of the actions taken to reduce operating expenses in response to the COVID-19 pandemic will lessen as business conditions continue to recover.

*Other operating expenses.* Other operating expense of $0.3 million for the three months ended June 30, 2020 represents business realignment expenses were incurred related to the elimination of certain positions in response to the COVID-19 pandemic. Other operating expense of $2.0 million for the three months ended June 30, 2019 included $1.4 million of business realignment expenses, partially offset by $0.3 million of reversed stock-based compensation expense due to the related forfeitures, and a $0.9 million increase in the fair value the Machinio earn-out liability.

*Interest and other income, net.* Interest and other income, net, decreased by $0.2 million due to a decline in the holdings of short-term investments and also in their interest rates.

*Provision for income taxes*. Provision for income taxes decreased $0.3 million due to the impact of foreign, state, and local taxes and permanent tax adjustments.

***Nine Months Ended June 30, 2020 Compared to the Nine Months Ended June 30, 2019***

***Segment Results***

*GovDeals.* Revenue from our GovDeals segment decreased 11.3%, or $2.8 million, due to a 12.4%, or $30.4 million decrease in GMV primarily resulting from lower activity due to limitations on government facility operations in response to the COVID-19 pandemic, partially offset by adding new sellers prior to its onset. As a result of the decrease in revenues, gross profit decreased 10.2%, or $2.3 million. Gross profit margin remained relatively consistent between the periods.

*RSCG.* Revenue from our RSCG segment increased 7.1%, or $6.8 million, due to an 10.5%, or $12.3 million, increase in GMV driven by growing volumes within existing seller accounts and launching new programs with mid-sized and large retailers. As a result of the increase in revenues, gross profit increased 6.1%, or $2.0 million. Gross profit margin remained relatively consistent between the periods.

*CAG.* Revenue and GMV from the CAG segment decreased 51.5%, or $22.7 million, and 33.8%, or $40.5 million, respectively. The conclusion of the Scrap Contract caused revenue and GMV to each decline by $13.0 million. Excluding the impact of the completed Scrap Contract, revenue decreased by 31.5%, or $9.8 million, and GMV decreased by 25.8%, or $27.6 million. The declines were primarily driven by lower activity due to limitations on commercial facility operations and global travel restrictions in response to the COVID-19 pandemic. These restrictions had a larger impact on principal transactions than on transactions using our lower-touch consignment model. The declines were also influenced by a strong prior year performance in the Asia-Pacific region, and associated with softness in the industrial and bio-pharma verticals in North America. Gross profit within the CAG segment decreased 34.2%, or $8.6 million, due to a $4.5 million impact from the completion of the Scrap Contract and the reduction in revenues. Gross profit margin increased to 77.9% from 57.3% due the completion of the Scrap Contract, which had lower gross profit margins than the remaining business, and due the larger impact of the COVID-19 pandemic on principal transactions

*Machinio.* Revenue from our Machinio segment increased 39.7%, or $1.5 million, due to an increase in subscription activity, and due to revenue earned from deferred revenues no longer containing effects from purchase accounting. As a result of the increase in revenues, gross profit increased 44.3%, or $1.6 million.

*Corporate & Other.* The changes in revenue, GMV, gross profit and gross profit margin are due to the Company's exit from the IronDirect business in January 2019.

***Consolidated Results***

*Revenue* - Total consolidated revenue decreased $17.7 million, or 10.5%. Refer to the discussion of Segment Results above for discussion of the decrease in revenue.

*Cost of goods sold.* Cost of goods sold increased $1.8 million, or 2.4%, primarily due to revenue increases in RSCG, partially offset by revenue declines in CAG.

*Seller distributions.* Seller distributions decreased $8.4 million, or 100.0%, due to the completion of the Scrap Contract.

*Technology and operations expenses.* Technology and operations expenses decreased $5.8 million, or 15.1%. The decrease included $3.9 million due to the completion of the Scrap Contract in fiscal 2019, $4.2 million in reductions in Corporate and CAG (excluding the Scrap Contract) driven by benefits from restructuring and other organizational changes performed in fiscal 2019, and actions taken to reduce operating expenses in response to the COVID-19 pandemic in the quarter ended June 30, 2020. However, the impact of the action taken to reduce our operating expenses in response to the COVID-19 pandemic will lessen as business conditions continue to recover. These decreases were partially offset by a $2.5 million increase in RSCG and GovDeals driven by increased customer support and operations expenses from the continued growth in those segments.

*Sales and marketing expenses.* Sales and marketing expenses increased $0.2 million, or 0.9%, due to an increase in marketing expenses to promote our new e-commerce technology platform and develop our consolidated marketplace, which was partially offset by actions taken to reduce operating expenses in response to the COVID-19 pandemic in the quarter ended June 30, 2020. However, the impact of these actions on our operating expense levels will lessen as business conditions continue to recover.

*General and administrative expenses.* General and administrative expenses decreased $4.9 million, or 18.7%, and was impacted by actions taken to reduce operating expenses in response to the COVID-19 pandemic in the quarter ended June 30, 2020, benefits from restructuring and other organizational changes performed in fiscal 2019, and the completion of the Scrap Contract in fiscal 2019. The impact of the actions taken to reduce operating expenses in response to the COVID-19 pandemic will lessen as business conditions continue to recover.

*Other operating expenses.* Other operating expense of $0.5 million for the nine months ended June 30, 2020 represents $0.3 million of business realignment expenses that were incurred related to the elimination of certain positions in response to the COVID-19 pandemic, and a $0.2 million increase in fair value of the Machinio earn-out liability. Other operating expense of $3.6 million for the nine months ended June 30, 2019 includes $1.5 million of business realignment expenses, partially offset by $0.3 million of reversed stock-based compensation expense due to related forfeitures, and a $2.3 million increase in the fair value of the Machinio earn-out liability.

*Interest and other income, net.* Interest and other income, net, decreased by $0.5 million due to a decline in the holdings of short-term investments and also in their interest rates.

*Provision for income taxes*. Provision for income taxes decreased $0.4 million due to the impact of foreign, state, and local taxes and permanent tax adjustments.

**Liquidity and Capital Resources**

Our operational cash needs primarily relate to working capital, including staffing costs, technology expenses and capital used for inventory purchases, which we have funded through existing cash balances and cash generated from operations. From time to time, we may use our capital resources for other activities, such as contract start-up costs, joint ventures and acquisitions. As of June 30, 2020, we had $72.7 million in cash and cash equivalents.

The COVID-19 pandemic caused the Company's GMV and revenues to decline in the short-term. The temporary cost control measures put into place mitigated those declines, resulting in net income of $0.2 million for the quarter ended June 30, 2020. From a cash flow perspective, the Company employed working capital management practices, primarily in the form of temporary extensions to vendor payment terms, and also experienced accumulation in its payables to sellers balance due to COVID-19 restrictions causing some buyer delays in being able to pick up purchased assets. The effects of these items caused our cash balance to increase relative to the $41.8 million in cash as well as $10.0 million in short-term investments we held as of March 31, 2020. While the Company expects to use working capital in the near-term as these temporary effects unwind, we believe that our existing cash and cash equivalents will be sufficient to meet our anticipated cash needs for at least the next twelve months.

In fiscal 2019, we deployed our new e-commerce technology platform. We expect to continue to invest in enhancements to our marketplace capabilities and for the implementation of tools for data-driven product recommendations, omni-channel behavioral marketing and predictive analytics and integrated services for our retail supply chain segment.

During the second quarter of fiscal 2020 the Company paid the $5.0 million earn-out payment for the Machinio acquisition we made in July 2018 for which we paid $16.7 million in cash at closing.

We did not record a provision for deferred U.S. tax expense on the undistributed earnings of foreign subsidiaries because we intend to indefinitely reinvest the earnings of these foreign subsidiaries outside the United States. The amount of such undistributed foreign earnings was $3.7 million as of June 30, 2020. As of June 30, 2020 and September 30, 2019, $17.2 million and $21.0 million, respectively, of cash and cash equivalents was held outside of the U.S.

We are authorized to repurchase issued and outstanding shares of our common stock under a share repurchase program approved by our Board of Directors. Share repurchases may be made through open market purchases, privately negotiated transactions or otherwise, at times and in such amounts as management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements and other market conditions. The repurchase program may be discontinued or suspended at any time and will be funded using our available cash. We did not repurchase shares under this program during the nine months ended June 30, 2020 or 2019. As of June 30, 2020, we are authorized to repurchase up to an additional $10.1 million in shares under this program.

Most of our sales are recorded subsequent to receipt of payment authorization, utilizing credit cards, wire transfers, and PayPal, an Internet based payment system, as methods of payments. As a result, we are not subject to significant collection risk, as goods are generally not shipped before payment is received.

***Changes in Cash Flows: Nine Months Ended June 30, 2020 Compared to the Nine Months Ended June 30, 2019***

*Net cash provided by (used in) operating activities* was $9.2 million and $(7.2) million for the nine months ended June 30, 2020 and 2019, respectively. The $16.4 million increase in cash provided by operations between periods was attributable changes in payables to sellers, driven by timings of payments, and increases in transactions that have been paid for but not yet picked up due to delays caused the COVID-19 pandemic; changes to accounts payable, accrued expenses and other liabilities driven by the management of working capital, such as temporary extensions of payment terms in response to the COVID-19 pandemic; and $2.5 million of higher net income as adjusted for non-cash items, including the impact of temporary cost control measures. These changes were partially offset by the $3.8 million portion of the Machinio earn-out payment associated with its increase in value post-acquisition, and the final payments of seller distributions associated with the completion of the Scrap Contract. Our working capital accounts are subject to natural variations depending on the timing of cash receipts and payments, and our variations in our transaction volumes are related to settlements between our buyers and sellers. However, the Company expects to use working capital in the near-term as the temporary responses to the COVID-19 pandemic implemented in the third quarter start to unwind.

*Net cash provided by (used in) investing activities* was $28.9 million for the nine months ended June 30, 2020, and $(14.7) million was used by investing activities for the nine months ended June 30, 2019. The $43.6 million increase in cash provided by investing activities was driven by a $40.0 million increase in activity related to short-term investments which are used to manage the Company's excess cash balances, and $2.5 million principal payment on the promissory note issued to JTC. As discussed in Note 2 - *Summary of Significant Accounting Policies* to the Company's consolidated financial statements, the Company concluded that it remains probable that the Company will collect the amounts related to the promissory note issued to JTC. However, the Company will continue to monitor for changes that could impact the recoverability of the promissory note, which will depend on JTC's subsequent operating performance and ability to make the payments required by the new repayment schedule.

*Net cash used in financing activities* was $1.8 million for the nine months ended June 30, 2020. The $1.9 million increase in cash used by financing activities consisted of $1.2 million the portion of the Machinio earn-out payment that represented its fair value at the date of acquisition, and $0.6 million taxes paid associated with net settlement of stock compensation awards. Net settlement was not used in the prior year comparable period.

*Capital Expenditures.* Our capital expenditures consist primarily of capitalized software, computers and purchased software, office equipment, furniture and fixtures, and leasehold improvements. The timing and volume of such capital expenditures in the future will be affected by the addition of new sellers or buyers or expansion of existing seller or buyer relationships. We intend to fund those expenditures primarily from operating cash flows. Our capital expenditures for the nine months ended June 30, 2020 were $3.6 million. As of June 30, 2020, we had no significant outstanding commitments for capital expenditures.

Our future capital requirements will depend on many factors including our rate of revenue growth, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, the development and deployment of new marketplaces, the introduction of new value-added services and the costs to establish additional distribution centers.

**Off-Balance Sheet Arrangements**

We do not have any transactions, agreements or other contractual arrangements that could be considered material off-balance sheet arrangements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

*Interest rate sensitivity.* We had no debt as of June 30, 2020, but we do hold $30.0 million of cash equivalents in money market funds. The impact of changes in interest rates on these money market funds is not expected to have a significant impact to our consolidated results of operations. Our investment policy requires us to invest funds in excess of current operating requirements. The principal objectives of our investment activities are to preserve principal, provide liquidity and maximize income consistent with minimizing risk of material loss.

*Exchange rate sensitivity.* Because of the number of countries and currencies we operate in, movements in currency exchange rates may affect our results. We report our operating results and financial condition in U.S. dollars. Our U.S. operations earn revenues and incur expenses primarily in U.S. dollars. Outside the United States, we predominantly generate revenues and expenses in the local currency. When we translate the results and net assets of these operations into U.S. dollars for reporting purposes, movements in exchange rates will affect reported results and net assets. Volatile market conditions arising from the COVID-19 pandemic may result in significant changes in exchange rates, which could affect our results of operations expressed in U.S. dollars.

**Item 4. Controls and Procedures.**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer (Principal Financial Officer), as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

During the three months ended June 30, 2020, no change occurred in our internal controls over financial reporting that materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting. While the impact of COVID-19 pandemic and our actions taken in response, including terminations, furloughs and employees working remotely, has not materially affected our internal control over financial reporting as of June 30, 2020, we will continue to monitor and assess this ongoing situation for potential material effects.

As of June 30, 2020, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer (Principal Financial Officer), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer (Principal Financial Officer) concluded that our disclosure controls and procedures were effective and were operating to provide reasonable assurance that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer, principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

Information regarding the Company's legal proceedings may be found in Note 11 of the accompanying Notes to the Unaudited Consolidated Financial Statements.

### Item 1A. Risk Factors.

**The global COVID-19 pandemic could harm our business and results of operations.**

The global spread of COVID-19 and related measures to contain its spread (such as government mandated business closures and shelter in-place guidelines) have created significant volatility, uncertainty and economic disruption. Although the COVID-19 pandemic and the related measures to contain its spread have not had a material adverse effect on our consolidated results of operations to date, they have adversely affected certain components of our business, particularly revenues during times and in places in which governments ordered business and governmental closures and issued the most restrictive shelter in-place guidelines. The extent to which the COVID-19 pandemic impacts our business, results of operations, financial condition and liquidity in the future will depend on numerous evolving factors that we cannot predict, including the duration and scope of the pandemic; any resurgence or “second waves” of the pandemic; governmental, business and individuals’ actions that have been and continue to be taken in response to the pandemic; the availability of government funding programs benefiting our sellers and buyers; the impact of the pandemic on national and global economic activity, unemployment levels and financial markets, including the possibility of a national or global recession; the potential for shipping difficulties, including slowed deliveries from sellers to their customers; and the ability of consumers to pay for products. The COVID-19 pandemic has generally resulted in a decrease in consumer spending, which could have an adverse impact on our sellers through reduced consumer demand for their surplus assets, which could in turn negatively impact the demand for use of our platforms. Additionally, the COVID-19 pandemic has caused us to require employees to work remotely for an indefinite period of time, which could negatively impact our business and harm productivity and collaboration. If there is a prolonged impact of COVID-19, it could adversely affect our business, results of operations, financial condition and liquidity, perhaps materially. The future impact of COVID-19 and these containment measures cannot be predicted with certainty and may adversely affect our business, results of operations, financial condition and liquidity, and we cannot assure that we will have access to external financing at times and on terms we consider acceptable, or at all, or that we will not experience other liquidity issues going forward.

*In addition to the other information set forth in this report, you should carefully consider the factors set forth in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019 and Part II, "Item 1A. Risk Factors" in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020, which could materially affect our business, financial condition or future results. The risks described in our Form 10-K and Form 10-Q are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.*

### Item 5. Other Information.

None

## Item 6. Exhibits.

| Exhibit No. | Description |
|---|---|
| 2.1 | Stock Purchase Agreement, dated July 10, 2018, by and among the Company, Machinio, Corp., the stockholders of Machinio, Corp., and Shareholder Representative Services., LLC., incorporated herein by reference to Exhibit 2.1 to the Company's Quarterly Report on 10-Q, filed with SEC on August 2, 2018. |
| 3.1 | Fourth Amended and Restated Certificate of Incorporation, incorporated herein by reference to Exhibit 3.1 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (Registration No. 333-129656), filed with the SEC on January 17, 2006. |
| 3.2 | Amended and Restated Bylaws dated August 2, 2016,incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on 10-Q, filed with SEC on August 4, 2016. |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934. |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934. |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following materials from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Loss, (iv) Consolidated Statement of Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to the Unaudited Consolidated Financial Statements. |
| 104 | Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101) |

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LIQUIDITY SERVICES, INC.
(Registrant)

| | | |
|---|---|---|
| August 6, 2020 | By: | /s/ William P. Angrick, III |
| | | William P. Angrick, III<br>*Chairman of the Board of Directors*<br>*and Chief Executive Officer* |
| August 6, 2020 | By: | /s/ Jorge A. Celaya |
| | | Jorge A. Celaya<br>*Executive Vice President and Chief Financial Officer* |
| August 6, 2020 | By: | /s/ Samuel M. Guzman, Jr. |
| | | Samuel M. Guzman, Jr.<br>*Vice President and Chief Accounting Officer* |

**EXHIBIT 31.1**

**CERTIFICATION PURSUANT TO RULE 13a-14(a)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

I, William P. Angrick, III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Liquidity Services, Inc.;

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

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

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

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

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

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

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

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

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

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

August 6, 2020

/s/ William P. Angrick, III

| | |
|---|---|
| By: | William P. Angrick, III |
| Title: | *Chairman of the Board of Directors and Chief Executive Officer* |

**EXHIBIT 31.2**

**CERTIFICATION PURSUANT TO RULE 13a-14(a)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

I, Jorge A. Celaya, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Liquidity Services, Inc.;

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

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

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

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

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

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

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

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

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

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

August 6, 2020

/s/ Jorge A. Celaya

| | |
|---|---|
| By: | Jorge A. Celaya |
| Title: | *Executive Vice President and Chief Financial Officer* |
| | *(Principal Financial Officer)* |

**EXHIBIT 32.1**

**CERTIFICATION PURSUANT TO**

**18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Liquidity Services, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2020 as filed with the Securities and Exchange Commission (the “Report”), I, William P. Angrick, III, Chief Executive Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

| | |
|---|---|
| August 6, 2020 | /s/ William P. Angrick, III |
| | William P. Angrick, III |
| | *Chairman of the Board of Directors and Chief Executive Officer* |

THE FOREGOING CERTIFICATION IS BEING FURNISHED SOLELY PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 AND IS NOT BEING FILED AS PART OF THE FORM 10-Q OR AS A SEPARATE DISCLOSURE DOCUMENT.

A SIGNED ORIGINAL OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906, OR OTHER DOCUMENT AUTHENTICATING, ACKNOWLEDGING, OR OTHERWISE ADOPTING THE SIGNATURE THAT APPEARS IN TYPED FORM WITHIN THE ELECTRONIC VERSION OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906, HAS BEEN PROVIDED TO LIQUIDITY SERVICES, INC. AND WILL BE RETAINED BY LIQUIDITY SERVICES, INC. AND FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION OR ITS STAFF UPON REQUEST.

**EXHIBIT 32.2**

**CERTIFICATION PURSUANT TO**

**18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Liquidity Services, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2020 as filed with the Securities and Exchange Commission (the "Report"), I, Jorge A. Celaya, Chief Financial Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

August 6, 2020

/s/ Jorge A. Celaya

Jorge A. Celaya

*Executive Vice President and Chief Financial Officer*

*(Principal Financial Officer)*

THE FOREGOING CERTIFICATION IS BEING FURNISHED SOLELY PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 AND IS NOT BEING FILED AS PART OF THE FORM 10-Q OR AS A SEPARATE DISCLOSURE DOCUMENT.

A SIGNED ORIGINAL OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906, OR OTHER DOCUMENT AUTHENTICATING, ACKNOWLEDGING, OR OTHERWISE ADOPTING THE SIGNATURE THAT APPEARS IN TYPED FORM WITHIN THE ELECTRONIC VERSION OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906, HAS BEEN PROVIDED TO LIQUIDITY SERVICES, INC. AND WILL BE RETAINED BY LIQUIDITY SERVICES, INC. AND FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION OR ITS STAFF UPON REQUEST.