UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended September 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 (State or other jurisdiction of incorporation or organization)	**52-2209244** (I.R.S. Employer Identification No.)
6931 Arlington Road, Suite 200, Bethesda, MD. (Address of principal executive offices)	**20814** (Zip Code)

(202) 467-6868

(Registrant's telephone number, including area code)

Securities registered pursuant 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**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

Aggregate market value of the Common Stock held by non-affiliates computed by reference to the Nasdaq closing price on March 31, 2020, the last business day of the most recently completed second fiscal quarter, was $101.9 million.

The number of shares of Common Stock outstanding as of December 4, 2020 was 34,148,936.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to its 2021 Annual Stockholders' Meeting, to be filed subsequently, are incorporated by reference into Part III (Items 10, 11, 12, 13 and 14) of this Form 10-K.

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Unless the context requires otherwise, references in this report to "we," "us," the "Company" and "our" refer to Liquidity Services, Inc. and its subsidiaries.

PART I

Item 1. Business.

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 idle 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, heavy equipment, fleet and transportation equipment and specialty equipment. The Company’s marketplaces are: www.allsurplus.com, 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.

We believe our ability to create liquid marketplaces for surplus and idle assets generates a continuous flow of goods from our sellers. This valuable and reliable flow of goods, in turn, attracts an increasing number of professional buyers to our marketplaces. Increasing numbers of professional buyers to our marketplaces, in turn, attracts more sellers to our marketplace which, in turn, reinforces a valuable and reliable flow of surplus assets. During the past three fiscal years, we have conducted over 1,727,000 online transactions generating $1.9 billion in gross merchandise volume or 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.

During 2020, the number of registered buyers grew from 3,580,000 to 3,772,000, or 5.4%. We believe the continuous flow of goods in our marketplaces attracts a growing buyer base which creates a self-sustaining cycle for our buyers and sellers.

During the year ended September 30, 2020, we generated GMV of $619.8 million and revenue of $205.9 million through multiple sources, including transaction fees from sellers and buyers, proceeds from the sale of products we purchased from sellers, and value-added service charges. Our GMV has grown at a compound annual growth rate of 9.5% since 2006.

Our Machinio segment, which operates a global online platform for listing used equipment for sale in the construction, machine tool, transportation, printing and agriculture sectors, grew revenue 28.8% during fiscal year 2020.

We were incorporated in Delaware in November 1999 as Liquidation.com, Inc. and commenced operations in early 2000.

Results from our operations are organized into four reportable segments: Retail Supply Chain Group (RSCG), Capital Assets Group (CAG), GovDeals, and Machinio. See Note 17 to the Consolidated Financial Statements for Segment Information.

Industry Overview

While a well-established forward supply chain exists for the procurement of assets, many manufacturers, retailers, corporations and government agencies are finally making a shift to recognize the growing need for strategic reverse supply chain solutions. For example, research from Worldwide Business Research found the global reverse supply chain market generated $415.2 billion in 2017 and is expected to reach $604 billion by 2025, growing at a CAGR of 4.6% from 2017 to 2025.

The retail industry, as indicated by an Appriss Retail report in 2019, estimates that approximately $309 billion of merchandise is returned on an annual basis, representing 8% of total sales. Liquidity Services estimates that at least $50 billion of these returns are moved through secondary markets, with the remaining volume returning to retailer shelves or being sold through discount retailers.

Estimates based on Bureau of Economic Analysis (BEA), U.S. Census, and World Bank reports, indicate that the global used equipment market is valued at approximately $350 billion.

Assets handled by reverse supply chain solutions generally consist of retail customer returns, overstock products and end-of-life goods or capital assets from both the corporate and government sectors. The supply of surplus and idle assets in the reverse supply chain results from a number of factors, including:

- *Supply chain inefficiencies.* Forecasting inaccuracies, manufacturer overruns, canceled orders, evolving market preferences, discontinued product lines, merchandise packaging changes and seasonal fluctuations result in the growth of surplus assets. Organizations that manufacture, distribute, sell or use finished goods regularly dispose of excess inventory or returned merchandise.
- *Product innovation.* Continuous innovation in technology products, such as computer and office equipment, consumer electronics, and personal communication and entertainment devices, results in a continuous flow of surplus assets. Innovation also results in manufacturing equipment and tooling being upgraded and replaced which generates a separate flow of surplus capital assets.
- *Return policies of large national and online retailers.* The flexible return practices of many large national retailers and online shopping sites result in a continuous supply of returned merchandise, a significant portion of which must be liquidated.
- *Growth of e-commerce.* According to Digital Commerce 360, online retail has flourished during the COVID-19 pandemic, up 44.4% from 2019 and making up 20.8% of all retail sales. With as much as 30% of e-commerce sales being returned, the flow of assets in the retail reverse supply chain is likely to grow.
- *Compliance with government regulations.* An increasingly stringent regulatory environment necessitates the verifiable recycling and remarketing of surplus assets that would otherwise be disposed of as waste.
- *Increasing focus by corporate and government agencies to seek green solutions for surplus assets.* Many organizations appreciate the growing need to be environmentally friendly by improving their management of end of life or surplus goods, including the need to repurpose or efficiently redistribute surplus and capital assets to minimize waste and maximize value for themselves and the communities they serve.
- *Changing budgetary trends in corporate and governmental entities.* As corporate and governmental entities increasingly are being pressured to enhance efficiencies, while utilizing less resources, they are looking to the liquidation of surplus and salvage capital assets as a source of funds.

The management and remarketing of surplus assets traditionally has been an inefficient process. While many organizations spend considerable resources developing systems and channels supporting the flow of finished goods to their core customers and developing procurement processes for acquiring equipment and assets to support their operations, we believe that many have not historically invested resources in the reverse supply chain in the same way as the forward supply chain. Factors contributing to these inefficiencies in the reverse supply chain include the lack of:

- a centralized and global marketplace to sell bulk products as well as machinery and equipment in the reverse supply chain;
- awareness of effective methods and mechanisms for disposal of surplus assets;
- experience in managing the reverse supply chain to seek optimal net returns and improve gross margins; and
- real time market data on surplus assets.

Traditional methods of surplus and salvage asset disposition include ad-hoc, negotiated direct sales, utilization of individual brokers or sales agents and live on-site auctions. We believe these solutions are generally highly fragmented, geographically dispersed and poorly integrated with supply chain operations. The manual, negotiated and geographically dispersed nature of traditional surplus resale methods results in a lack of pricing transparency for offered goods, multiple brokers/parties ultimately involved in the final disposition and a lower number of potential buyers and bids, which we believe typically leads to lower recovery for sellers.

Professional buyers seek surplus and salvage assets to sustain their operations and meet demands of end-customers. They include online and offline retailers, convenience and discount stores, value-added resellers such as refurbishers and scrap recyclers, import and export firms, and small businesses. Traditionally, these buyers have had limited access to a reliable flow of surplus goods and assets, relying instead on their own network of industry contacts and fixed-site auctioneers to locate, evaluate and purchase specific items of interest. Traditional methods are inefficient for buyers due to the lack of:

- global access to an available continuous supply of desired goods and assets;
- efficient and inexpensive sourcing processes;
- a professionally managed central marketplace with transparent, high quality services;
- detailed information and product description for the offered goods; and
- pricing transparency or ability to compare asset prices.

The Internet is a global medium enabling millions of people worldwide to share information, communicate and conduct business electronically. Strong growth has occurred in the business-to-business (B2B) online retail market, which can be attributed to the rapid migration of manufacturers and wholesalers to open, online platforms. According to McKinsey & Company, US e-commerce penetration grew two years' worth in two months related to the COVID-19 pandemic. Prior to the crisis in early 2020, e-commerce penetration rates were just over 15% but grew to nearly 35% penetration in spring of 2020. Further, Grandview Research estimates the global business-to-business e-commerce market size was valued at $5.7 trillion in 2019 and is expected to expand at a compound annual growth rate (CAGR) of 17.5% from 2020 to 2027.

We believe professional buyers of surplus and salvage assets will increasingly use these B2B platforms to identify and source goods available for immediate online purchase.

Our Solution

Our solution comprises e-commerce marketplaces, self-directed auction listing tools, and value-added services. Our marketplaces and services provide sellers a comprehensive solution to quickly bring surplus assets to market and enhance the financial value realized from the sale of their surplus assets while providing buyers with confidence in the reliable flow of goods they purchase. We provide our sellers access to a network of liquid marketplaces with over 3.7 million professional buyers and a suite of services including consultative surplus asset management, valuation, sales solutions, logistics capabilities, and self-directed service tools to efficiently manage our sellers' reverse supply chain and maximize total supply chain value. We also seek the optimal methods to maximize our sellers' net recovery using channel strategies and dedicated programs to deliver transparent, sustained value.

Through our relationships with our sellers, we provide our buyers convenient access to a substantial and continuous flow of surplus and salvage assets. Buyers can find products in over 500 categories in lot sizes ranging from full truck loads to pallets, packages and individual items. Our solution combines leading e-commerce marketplaces with integrated sales, marketing, merchandising, fulfillment, payment collection, customer support, dispute mediation and logistics services. We provide our buyers a convenient method for sourcing surplus consumer goods and commercial capital assets, including industrial equipment, energy equipment, and biopharma assets. We also are continually looking for new categories in which we can expand our presence, including construction and heavy equipment. For any given asset, our buyers have access to a detailed product description, product manifest, digital images, relevant transaction history regarding the seller, shipping weights, product dimensions and estimated shipping costs to the buyer's location. This enables our solutions to become an important source for surplus and salvage assets for many of our professional buyers and end-users.

We believe our marketplaces benefit over time from greater scale and adoption by our constituents creating a continuous flow of goods benefiting our buyers and sellers. As of September 30, 2020, we had 3,772,000 registered buyers in our marketplaces and access to millions of end-users through a range of existing consumer marketplaces. Aggregating this level of buyer demand and market data enables us to generate a continuous flow of goods from corporate and government sellers, which in turn attracts an increasing number of professional buyers. During the year ended September 30, 2020 we had approximately 1,899,000 auction participants in our online auctions. During 2020, we grew our registered buyer base by 5.4% or 192,000. None of our buyers represented more than 10% of our revenue during the year ended September 30, 2020. As buyers continue to discover and use our e-commerce marketplaces as an effective method to source assets, we believe our solutions become an increasingly attractive sales channel for corporate and government agency sellers. We believe this self-reinforcing cycle results in greater transaction volume and enhances the value of our marketplaces.

Our marketplaces serve clients in a large variety of industry verticals, including:

Industry Verticals	Marketplaces	Examples of Asset Categories Sold on Marketplaces	Segment
Business & Government Surplus	AllSurplus	• Heavy Equipment • Industrial Equipment • Transportation • Construction, Mining & Farming • Vehicles • Laboratory Equipment • Energy Equipment	Capital Assets Group (CAG)
Government	GovDeals	• Tools & Machinery • Emergency Responder Equipment • Vehicles • Industrial Equipment • Laboratory Equipment • Office Equipment/Supplies • School Equipment	GovDeals
Retail Consumer Brands & OEMs	Liquidation.com Liquidation.com DIRECT secondipity Multiple storefronts that we operate on Amazon and eBay	• General Merchandise • Apparel • Small Appliances • Laptops & Tablets • Phones • Housewares • Jewelry & Watches • Tools & Machinery • Consumer Electronics	Retail Supply Chain Group (RSCG)
Energy	Network International	• Pipe and Pipeline Equipment • Production Equipment • Process Equipment • Drilling and Well Service Equipment • Industrial and Heavy Equipment • Complete Plants • Power, Transmission & Distribution Equipment	Capital Assets Group (CAG)
Industrial, Automotive & Electronics Manufacturing	GoIndustry DoveBid	• Machine Tool • Lathes • Metalworking • Metal Finishing • Drilling Machines • Grinding Machines • Machining Centers and Way-Type Machines	
Biopharmaceuticals		• Manufacturing Equipment • Laboratory Equipment and Supplies • Refrigeration Equipment • Compressors and Vacuum Pumps • Centrifuges • Optical Instruments	
Transportation, Mining & Construction		• Trucks and Truck Tractors • Passenger Vehicles • Petroleum Production and Distribution • Storage Tanks	

Competitive Factors

We have created liquid marketplaces for virtually any type, quantity or condition of surplus or salvage assets. The strengths of our business model include:

Aggregation of supply and demand for surplus and salvage assets

The strength of our business model rests on our ability to aggregate sellers and buyers through our marketplaces. Sellers benefit from a liquid, transparent market and the active participation of our large base of professional buyers, which enhances their returns in comparison to less efficient models. Buyers benefit from our relationships with high-volume, corporate and government sellers, which provides them with continuous access to a comprehensive selection of surplus and salvage assets. Our solution eliminates the need for sellers and buyers to rely on the highly fragmented and geographically dispersed group of traditional liquidators. Instead, sellers and buyers access our global e-commerce marketplaces for their entire surplus and salvage asset needs.

Integrated and comprehensive solution

Our marketplaces provide sellers and buyers with a comprehensive solution for the online sale and purchase of surplus and salvage assets. We offer marketplaces with full-service solutions such as Liquidation.com, GoIndustry DoveBid, and Network International and we offer self-directed service solutions on GovDeals, Network International, Liquidiation.com, and AllSurplus.com, our newly launched aggregated marketplace that provides transaction settlement and marketing support while allowing sellers to save on their commissions by undertaking the work of photographing, cataloging, and building auctions.

We also have a full suite of value-added services to simplify the sales and supply chain processes for our sellers and improve the utility of our marketplaces for our buyers. For corporate and certain government sellers, we provide sales, marketing, logistics and seller support services that are fully integrated with our marketplaces, creating operational and system efficiencies. For many of these sellers, asset disposition is not a core business function to which they desire to dedicate internal resources. With our solution, we manage each step of the transaction and reverse supply chain for our sellers, reducing complexity while providing the ability to optimize the seller's net financial return in the sale of surplus goods and assets. Sellers simply make goods available at their facilities or deliver them to our distribution centers and we deliver the sale proceeds, less our portion of such proceeds and/or our commissions or fees, after the sale is completed. In response to feedback from our sellers, we have learned that our sellers would like bespoke returns process management or return to vendor solutions tailored to their own systems, and accordingly, we shifted focus from developing SaaS solutions to refining our own internal returns management processes that we use to serve our sellers.

We have also expanded our capabilities to process individual items, pallets, less-than-truckload (LTL) and full-truckload (FTL) auctions. This provides our retail sellers with flexible solutions that can scale to solve their unique liquidity challenges while leveraging our various retail channels to maximize their recovery value.

Our buyer services include intelligent alerts, search tools, dynamic pricing, shipping and delivery, secure settlement, live buyer support and dispute resolution to enable effective methods to source assets for their businesses.

Flexible and aligned transaction model

We offer two primary transaction models to our sellers: the purchase transaction model and the consignment transaction model. Under the purchase transaction model, we purchase inventory from a seller that we resell in our marketplaces. Sometimes our inventory purchase price is variable, as we may share the gross or net proceeds of such resales with the seller. Sellers that elect the purchase transaction model are considered vendors. Under the consignment transaction model, we do not purchase inventory from a seller; instead, we enable a seller to sell its goods in our marketplaces and we earn commission revenue based on the proceeds received from the sale. Sellers that elect the consignment transaction model are considered consignors.

Faster transaction cycle times for our sellers and buyers

We believe our marketplace solutions allow our sellers to complete the entire sales process more rapidly than through other liquidation methods by generally reducing the complexities in the reverse supply chain and utilizing our multi-channel strategies to optimize recovery and velocity. As a result, our sellers can reduce surplus or less valuable inventory quickly, generate additional working capital and reduce the cost of carrying unwanted assets. We provide a one stop solution to enable professional buyers of any size throughout the world to purchase assets efficiently. For these buyers, we provide a broad range of services to give them the information necessary to make an informed bid and ensure they quickly and efficiently receive the goods purchased.

Solutions that promote sustainability and green solutions for improved corporate/government stewardship

Our solutions provide a range of capabilities that enable corporate and government agency sellers to directly reduce waste generated by redistributing end-of-life products or assets through our solutions, thereby improving the net financial recovery generated while positively impacting the communities they serve. Some of the world's largest forward-thinking corporations and government agencies have enhanced their stewardship of communities and the environment by utilizing our services and selling their surplus assets through our marketplaces.

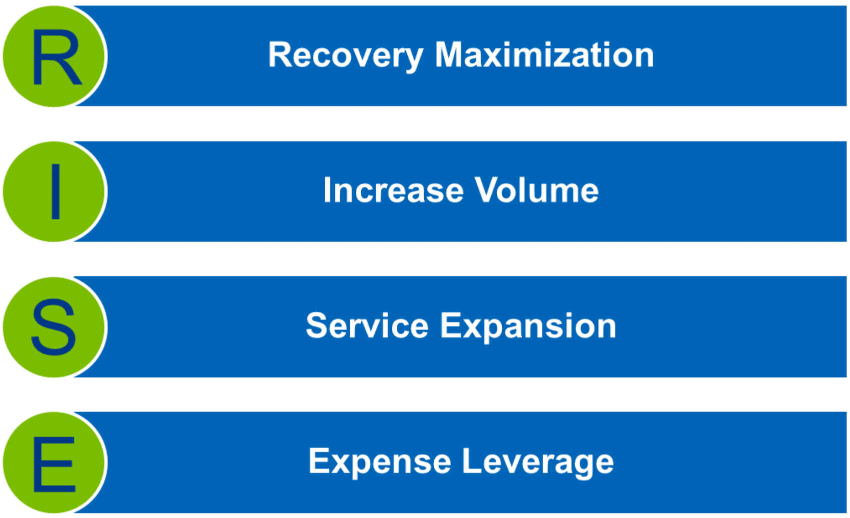
Technology, data & analytics are enhancing our services and solutions for buyers and sellers

We continue to make strategic investments in our technology capabilities. Aligning the capabilities of our auction platforms with the Company's unique, vertical-specific knowledge has enabled us to develop our newest marketplace, AllSurplus.com. This platform provides an aggregated view of all assets available globally in our government and commercial sectors. By coupling an intuitive, mobile optimized design with machine-learning driven site search and recommendations, the platform is optimized to assist buyers in quickly finding the assets that meet their needs. Our sellers benefit from the unique nature of our unified platform by having their assets available, simultaneously, on multiple marketplaces while guaranteeing the integrity of the cross-site auction bidding. Placing the assets on multiple sites enables the marketing organization to directly target unique buyer segments that resonate with a brand's identity.

Our data infrastructure and analytics continue to evolve to provide near real-time operational insights. By coupling our click-stream data and bid activity with our campaign activity, the marketing organization is able to create a feedback loop on campaign effectiveness and optimizing spend.

Our Strategy

The focus of our growth strategy is to build the world's leading marketplace for surplus assets to benefit buyers, sellers, and the planet. Our strategic plan rests on four pillars, that we refer to by the acronym RISE, which pillars are as follows: (1) **R**ecovery maximization; (2) **I**ncrease volume; (3) **S**ervice Expansion; and (4) **E**xpense Leverage.



Recovery Maximization

Based on feedback from our sellers, we believe recovery maximization is the single most important driver to attracting sellers to our marketplaces. We believe that the key to achieving higher net recovery is, in turn, driven by attracting buyers to our marketplace which we believe that we can do through technology and innovation that improves the buyer experience across our network of marketplaces. An improved buyer experience should drive growth in our buyer base which will, in turn, improve recovery rates for our sellers.

Increase Volume

We intend to grow the volume of transacted surplus on our marketplaces with flexible service offerings and pricing models to meet the needs of existing and new sellers. We have expanded our self-directed service model to allow commercial sellers that do not require a full-service solution to leverage the power of our marketing and online marketplaces to drive buyer demand for their assets. This approach allows us to more completely penetrate the total addressable market by better meeting the needs of small and mid-sized organizations, equipment dealers, and organizations with lower volume needs. We also anticipate increasing volume by placing a greater focus on certain categories, including construction and heavy equipment. We also intend to grow our volume within the retail supply chain by leveraging the self-directed service model. We will continue to provide flexible pricing models that allow our sellers to use either a consignment or a principal-based model.

Service Expansion

We intend to grow our services with recurring revenue characteristics that leverage our technology platform, domain expertise, data, and marketplace channels. By leveraging our extensive knowledge and technology, we intend to grow our revenue by attracting more sellers and more volume through expanding our services to better support sellers and buyers and expanding and improving our asset management and redeployment tools for commercial and municipal government sellers on our new aggregated marketplace. Lastly, we are leveraging our Machinio segment to expand our capabilities with respect to technology-enabled advertising. This is a natural adjunct to our self-service and full-service solutions available in our marketplaces.

Expense Leverage

We intend to improve operating expense leverage by controlling costs and through technology and innovation that increases productivity. We have simplified and streamlined our operations and consolidated business processes and systems, which has reduced our fixed costs and improved scalability. We have developed and will leverage a unified marketing organization to improve our seller and buyer marketing productivity by increasing the number of sellers using our platform and by driving increased volumes of highly targeted buyers to our marketplaces.

Future State

In sum, we intend to deliver a more diversified, asset light business with recurring revenue that focuses on profitability while growing a solid foundation for long-term growth. As we re-establish organic growth in GMV and revenues, grow our asset light technology enabled services, and build more recurring revenue, we believe our long-term value and ability to serve our sellers and buyers will grow.

Our Marketplaces

Our e-commerce marketplaces are efficient and convenient methods for the sale of surplus and salvage consumer goods and capital assets. They are designed to address the particular requirements and needs of buyers and sellers. We operate and enable several marketplaces, including the following:

- Our Liquidation.com marketplace enables corporations located in the United States and Canada to sell surplus and salvage consumer goods and retail capital assets. This leading B2B marketplace and our related value-added services are designed to meet the needs of our sellers by selling their surplus assets to domestic and international buyers.
- Our GovDeals.com marketplace provides self-directed service solutions in which sellers list their own assets, and enables local and state government entities including city, county and state agencies, located in the United States and Canada to sell surplus and salvage assets. GovDeals also offers a suite of self-directed solutions that include transaction settlement and buyer marketing.
- Our AllSurplus.com marketplace, launched in fiscal 2020, leverages our 20 years of experience in the online surplus industry to create a centralized marketplace that connects our entire global buyer base with assets from across our network of legacy marketplaces in a single destination. This marketplace also serves our heavy equipment vertical as we ramp up our service for this industry. AllSurplus will continually evolve as we enhance our marketplace platform technology and add new seller and buyer services.

- Our NetworkIntl.com marketplace enables corporations to sell idle, surplus, and scrap equipment in the oil and gas, petrochemical and power generation industries. This marketplace and our related services are designed to meet the unique needs of energy sector sellers.
- Our Go-Dove.com marketplace enables corporations located in the United States, Europe, and Asia to sell manufacturing surplus, salvage capital assets, and scrap material. This marketplace and our related services are designed to meet the specific needs of manufacturing sector sellers selling their surplus assets to domestic and international buyers.

Besides these leading business-to-business marketplaces, we recognize the need to reach end users for some assets our sellers have entrusted to us. We have developed the capability to sell products on our sellers' behalf directly to end-users and/or consumers using a range of existing marketplaces. Our *www.secondipity.com* marketplace provides consumers a trusted source of value products through a socially conscious online experience designed to provide "Better Value, Better Life," by donating a portion of the proceeds of every sale to charity. We also have an established global buyer base that seeks to buy in larger quantities than are offered through our standard auction platform. We have dedicated sales teams to support their needs and supply chain. These range from a single truckload to ongoing flows of goods for export anywhere in the world, where we market, handle, and support the full transaction on behalf of our buyers. We expect to continue to meet the needs of our sellers and to access a growing range of products for all our buyers by enhancing our multi-channel strategy to ensure we create value for assets at the end of their initial product life cycle.

We also operate www.machinio.com and www.machineryhost.com, which provide a global online platform and search engine for listing used equipment for sale in the construction, machine tool, transportation, printing and agriculture sectors.

Our Value-Added Services for Buyers and Sellers

In addition to our self-directed tools for our sellers, we have integrated value-added services to simplify the reverse supply chain processes for both our sellers and buyers. We believe these services generate operational efficiencies within this element of the supply chain enabling the greatest value for sellers and buyers with the highest level of confidence and transparency in the services we provide. Additionally, we believe these services improve compliance with the policies, regulations and sale restrictions of our corporate and government sellers while supporting, or greatly enhancing, many corporate or government environmental initiatives.

Seller services. We offer value-added services to sellers in three areas: (1) merchandising and channel optimization; (2) logistics; and (3) settlement and seller support, including compliance services.

- *Merchandising and Channel Optimization.* Our efforts encompass the services necessary to prepare merchandise for a successful auction and include the following:
    - Channel Optimization—we determine the marketplace and channel sales strategy that we believe will create the most value for the individual asset using our real-time transaction systems and proprietary data to support ongoing optimization.
    - Marketing and promotion—we use a variety of both online and traditional marketing methods to promote our sellers' merchandise and generate the interest in each asset.
    - Asset lotting and merchandising—we leverage our industry experience to organize the merchandise we receive into size and product combinations that meet buyer preferences within each marketplace and channel.
    - Product information enhancement—we provide digital images of the merchandise to be sold and combine the images with relevant information. To increase the realized sales value, we also research, collect and use supplemental product information to enhance product descriptions.

- *Logistics.* We provide logistics services designed to support the receipt, handling, transportation and tracking of merchandise offered through our marketplaces, including the following:
    - Distribution centers—we provide sellers with the flexibility of either having us manage the sales process at their location or delivering merchandise to one of our distribution centers.
    - Inventory management—sellers benefit from our management and inventory tracking system designed so merchandise is received, processed and delivered promptly.
    - Cataloguing merchandise—we catalogue all merchandise, which enables us to provide useful product information to buyers and sellers. In certain circumstances, we inspect the merchandise and provide condition descriptions to improve quality and the financial recovery to the seller.
    - Testing, data wiping, de-labeling and refurbishment—we test products, wipe electronic data, refurbish and remove labels and product markings from merchandise prior to sale in order to add value to the asset and protect sellers' brand equity and distribution relationships.

    - Return to vendor or product disposition to non-sales channels—we manage the end-to-end processes for our sellers ensuring that returned merchandise is disposed of in compliance with a variety of disposition requirements. We provide end-to-end management of returning products to vendors, charities, or channels outside of our leading marketplace solutions.
    - Outbound fulfillment—we can arrange for domestic or international shipping for all merchandise, whether it is a small item or container load for export located in one of our distribution centers or at a seller's facility.
    - Settlement and seller support. Settlement and seller support services are designed for successful and reliable completion of transactions and include:
        - Buyer qualification—we qualify buyers to ensure their compliance with government or seller mandated terms of sale, as well as to confirm their ability to complete a transaction.
        - Collection and settlement—we collect payments on behalf of sellers prior to delivery of any merchandise and disburse the proceeds to the seller after the satisfaction of all conditions of a sale.
        - Transaction tracking and reporting—we enable sellers and buyers to track and monitor the status of their transactions throughout the sales process. We support the successful completion of each transaction on behalf of the buyer and seller. We provide a range of comprehensive reporting services to sellers upon the completion of a transaction. Our invoicing and reporting tools can be integrated with the seller's information system, providing a more efficient flow of data.

- *Seller support and dispute resolution.* We provide full support throughout the transaction process and dispute resolution for our buyers and sellers if needed.

Buyer services. Many of the services we provide to sellers also benefit buyers by providing them with the information to make a more informed bid and by delivering the goods they purchased. Our buyer-focused services include:

- Intelligent alerts and recommendations—we notify buyers of upcoming auctions based on their registered preferences and prior transaction history. Registered preferences can be as broad as a product category or as specific as a part number or key word. We use this information to ensure informed recommendations whenever we identify a product that fits a buyer's preference. We will alert our buyers based on their preferences when auctions are initially launched or nearing conclusion and based on various other parameters to enable our buyers to see relevant products.
- Search and navigation tools—buyers can search our marketplaces for products based on a variety of criteria and personalized settings, including product category, keyword, lot size, product condition, product geographic location and auction ending date.
- Dynamic pricing tools, product information, and shipping quotes—we offer multiple dynamic pricing tools including outbid notification, automated bid agent and automatic auction extension. In addition, we provide buyers the information they need to make informed decisions, including product data, seller performance, and online shipping quotes to help understand their landed cost.
- Broad and flexible range of shipping/pick-up options—we can provide packaging and shipping services for each transaction, whether it is a small item or container loads for export, including buyer pick-up at our premises, for the majority of transactions, or support buyer arranged transportation.
- Secure settlement and buyer support—besides qualifying sellers, providing several electronic payment options and serving as a trusted market intermediary, we verify transaction completion, which enhances buyer confidence. In addition, we provide full reliable buyer support throughout the transaction process.

Sales and Marketing

We utilize a direct sales and marketing force to acquire and manage our seller and buyer accounts. Our sales activities are focused on acquiring new sellers and expanding existing sellers' use of our solutions. Our marketing activities are focused on acquiring and activating new buyers and increasing existing buyers' participation. Our marketing team also manages our marketplace brands and drives seller lead generation efforts that support the sales team.

Sales

Our sales personnel develop seller relationships, contract to provide our services and manage the business accounts on an on-going basis. Our sales team focuses on building long-term relationships with sellers that we believe will generate recurring transactions. They also leverage our years of experience and market data of completed transactions to identify which of our various services would be beneficial to each new or existing seller. Our sales team works with several auction partners globally for both purchase and consignment transaction model projects. In addition, we have a lead generation team which tracks announcements regarding plant closures around the world. The lead generation team uses several sources to research plant closures, which sources include news aggregators, trade journals, industry specific web sites and bankruptcy reports on a global basis.

We organize our sellers group into two distinct groups: large full-service sellers, and self-directed sellers. We base our approach on our experience in understanding and serving the unique needs of each type of seller:

- *Large full-service sellers.* These sellers require a customized approach, using a combination of our industry-focused sales team and our value-added services to create a comprehensive solution tailored to their needs.
- *Self-directed sellers.* These sellers are offered a turn-key solution enabling them to self-direct the sale of their assets on our marketplaces by accessing tools and resources to optimize their net recovery.

Our sales personnel receive salary and performance-based commissions.

Marketing

We use a variety of online and traditional marketing strategies to attract and activate professional buyers to maximize the number of bidders participating in our e-commerce marketplaces as well as to support our sales team:

- *Buyer acquisition.* We utilize marketing automation and digital online marketing, including paid search advertising, search engine optimization, affiliate programs and cross promotion to acquire new buyers. We supplement this online marketing with special event print media, classified advertisements and selected direct mail campaigns. Public relations campaigns, participation in trade shows and speaking engagements also complement our overall buyer acquisition efforts.
- *Buyer participation.* We use many tools to increase buyer participation, including: targeted opt-in e-mail newsletters that provide content based on the buyer's stated categories of interest and past bidding or transaction activity; special e-mail alerts highlighting specific products of interest; personalized recommendation engines; and convenient search tools that enable a buyer or prospective buyer to find desired items on our e-commerce marketplaces.
- *Market research.* In order to better target buyers by industry segment, geographic location or other criteria, our marketing department continually gathers data and information from each of the buyer segments we serve. In addition, the marketing department conducts regular surveys to better understand buyers' behavior and needs. We have adopted a privacy policy and have implemented security measures to protect this information.
- *Sales support.* Our marketing department employs a robust lead generation program, creates documentation and research to support our sales team in presenting our company to potential sellers and buyers, including sales brochures and white papers, and participates in selected trade shows.

All marketing activities are evaluated based on the level of auction participation in our marketplaces, the cost to acquire new sellers, and the cost effectiveness of each action.

Technology and IT Infrastructure

Our marketplaces are web-based and can be accessed from any Internet-enabled device by using a standard web browser. Our technology systems enable us to automate and streamline many of the manual processes associated with finding, evaluating, bidding on, paying for and shipping surplus and salvage assets. The technology and content behind our marketplaces and integrated value-added services were developed by us, providing us with control over the marketplaces and the ability to make enhancements quickly to better fit the specific needs of our buyers and sellers. Our infrastructure provides:

- an efficient channel to sell online through a variety of pricing mechanisms (standard auction, sealed bid, make an offer, fixed price, and a combination of fixed price and auction);
- a scalable back office that enables buyers and sellers to efficiently manage transactions among remote business users by utilizing account management tools, including payment collection, invoicing management, shipping and transaction settlement; and
- an input/output agnostic platform, including Application Programming Interface or other conduits that enable us to integrate seamlessly with partner enterprise applications of sellers and third party service providers.

We have designed our websites and supporting infrastructure to be robust and to support new services and increased traffic. Our servers are fully-managed and hosted by Amazon Web Services and Microsoft Azure Public Cloud Platforms. Our applications are designed with resiliency and fault tolerance in mind. Our network connectivity offers high performance and scalability to accommodate increases in website traffic. Since January 1, 2003, we have experienced no financially material service interruptions on our e-commerce marketplaces.

Our applications support multiple layers of security, including password-protected log-ins, encryption technology to safeguard information transmitted in web sessions and firewalls to help prevent unauthorized access to our network and servers. We devote resources to protecting our systems from intrusion.

Further, we devote resources to continuous improvement of our technology and IT infrastructure. In fiscal 2020, we continued to expand the capabilities of our newest e-commerce platform including:

- launching our new, aggregated marketplace, AllSurplus.com;
- incorporating a machine learning powered product recommendation engine;
- introduction of an improved site search engine, leveraging natural language processing and filtered navigation to assist customers with quickly identifying relevant assets; and
- creation of dedicated page templates, search, and navigation features supporting grouped asset auctions; virtual 'events' to facilitate clustered auctions in specific verticals.

Additionally, we introduced cross-listing and cross-bidding to our AllSurplus.com marketplace. This capability provides our GovDeals and commercial sellers' assets additional visibility by presenting them on multiple marketplaces, simultaneously, allowing real-time bidding to occur across marketplaces, while guaranteeing the integrity of the bid process.

For our existing marketplaces we continue to deploy new capabilities to improve the customer experience.
GovDeals is now optimized for mobile device viewing via responsive design while Liquidation.com has an improved site-wide navigation.

Our core back office infrastructure is flexible by design. In response to the COVID-19 travel restrictions and shelter-in-place orders, we quickly pivoted to a virtual working environment for both our corporate staff as well as our sales/sales support staff. We were able to swiftly transition to remote work because of the investments we had previously made in VoIP telephony, collaboration software, mobile device support, cloud-based enterprise services, as well as 'always on' VPN technology. These investments enable a global, remote workforce to service our customers' needs regardless of location.

Operations

Supporting large organizations that have a recurring need to sell surplus and salvage assets requires systematic processes to enhance the financial value and convenience received by our sellers. We believe we have integrated the required operational processes into our solution to efficiently and to effectively support our buyers and sellers. Our operations group comprises three functions: (1) buyer relations, (2) shipping logistics and (3) distribution center and field service operations.

Buyer relations

Our buyer relations group supports the completion of buyer transactions by managing the buyer registration and qualification process, answering questions and requests from buyers, collecting buyer payments and resolving disputes. Our websites contain extensive information about buying through our e-commerce marketplaces, including an online tutorial regarding the use of our marketplaces, answers to frequently-asked buyer questions and an indexed help section. Buyers can contact a buyer support service representative by live chat and e-mail or phone if they need additional support.

Shipping logistics

Our shipping logistics group manages and coordinates inbound and outbound shipping of merchandise for sellers and buyers. We offer, as part of our value-added services, integrated shipping services using our own fleet or multiple vetted and pre-qualified carrier partners. In addition, our shipping coordinators monitor the performance and service level of our network of carriers to help ensure speed and quality of service.

Distribution center and field service operations

Our distribution center and field service operations group performs selected pre-sale and post-sale value-added services at our distribution centers and at seller locations globally. These activities include unloading, manifesting and reporting discrepancies for all received assets and sales preparation of offered assets, including merchandising and organizing offered assets, writing product descriptions, capturing digital images and/or video and providing additional optional value-added services such as returns management (RM) services, return to vendor (RTV) services and product delabelling, data cleaning/wiping, testing, refurbishment and repackaging. Our distribution center and field service operations group personnel also arranges the outbound shipping or pick-up of purchased assets for our buyers.

Competition

The online services market for auctioning or liquidating surplus and salvage assets is competitive and growing rapidly. We compete with:

- other e-commerce platforms;
- auction, reverse auction, and direct sale websites;
- government agencies that have created websites to sell surplus and salvage assets; and
- traditional liquidators and fixed-site auctioneers.

In our marketplaces for surplus and salvage assets, we compete with a variety of online, mobile, and offline channels. These include, but are not limited to, e-commerce providers, B2B online marketplace platforms, auction websites, retailers, distributors, liquidators, import and export companies, auctioneers, and government agencies that have created websites to sell surplus. As our product offerings continue to broaden into new categories of surplus and salvage items, we expect to face additional competition from other online, mobile, and offline channels.

Our markets may become even more competitive as traditional and online liquidators and auctioneers continue to develop online and offline services for disposition, redeployment and remarketing of surplus and salvage assets. In addition, manufacturers, retailers and government agencies may create their own websites to sell their own surplus and salvage assets and those of third parties.

Competition may intensify as our competitors enter into business combinations or alliances and established companies in other market segments expand to become competitive with our business. In addition, new and enhanced technologies, including search, web and infrastructure computing services, digital content, and electronic devices, may increase our competition. The internet facilitates competitive entry and comparison shopping, and increased competition may reduce our sales and profits.

Our Vendor Contracts with Amazon.com, Inc. and the United States Department of Defense

Our RSCG segment has multiple vendor contracts with Amazon.com, Inc., under which we acquire commercial merchandise to sell under the purchase model. The commercial merchandise we purchased under this contract represented 55.1%, 43.6% and 33.7% of consolidated cost of goods sold for the years ended September 30, 2020, 2019 and 2018, respectively.

DoD agreements. Historically, we had two material vendor contracts with the Department of Defense (DoD): the Scrap Contract and the Surplus Contract. Both contracts were included in the results of our CAG segment.

- *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.

  Resale of scrap property that we purchased under the Scrap Contract accounted for 7.4% and 10.2% of our total revenues and 2.6% and 3.6% of our GMV in the years ended September 30, 2019 and 2018, respectively.

- *Surplus Contract.* Under the Surplus Contract, which concluded on June 30, 2018, we acquired, managed and sold usable surplus personal property of the DoD turned into the DLA. We paid the DLA 4.35% of the DoD's original acquisition value for the surplus property, which property consisted of items determined by the DoD to be no longer needed and not claimed for reuse by any federal agency, such as electronics, industrial equipment, office supplies, scientific and medical equipment, aircraft parts, clothing and textiles. We retained 100% of the profits from the resale of the property and bore all of the costs for the merchandising and sale of the property. The resale transactions for surplus property sourced under this contract followed the purchase model.

  Resales of surplus property that we purchased from the DoD under the Surplus Contract, as well as services we provided to the DoD under the Surplus Contract, accounted for 12.4% of our total revenues and 4.1% of our GMV for the year ended September 30, 2018.

Government Regulation

We are subject to federal and state consumer protection laws, including laws protecting the privacy of customer non-public information and regulations prohibiting unfair and deceptive trade practices. The growth and demand for e-commerce has resulted in and may continue to result in more stringent consumer protection laws and data privacy laws that impose additional compliance burdens on e-commerce companies. In particular, we continue to address changes in state, federal and international privacy laws and regulations, including the General Data Protection Regulations (GDPR) in the European Union. Many jurisdictions also regulate "auctions" and "auctioneers" and may regulate online auction services. These consumer protection laws and regulations could cause substantial compliance costs and could interfere with the conduct of our business.

Intellectual Property

We regard our intellectual property, particularly domain names, copyrights and trade secrets, as critical to our success. We rely on contractual restrictions and common law copyright and trade secret laws to protect our proprietary rights, know-how, information and technology. These contractual restrictions include confidentiality and non-compete provisions. We generally enter into agreements containing these provisions with our employees, contractors and third parties with whom we have strategic relationships. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our intellectual property without our authorization. We are the registered owners of several Internet domain names, including www.allsurplus.com, www.liquidation.com, www.govdeals.com, www.networkintl.com, www.secondipity.com, www.go-dove.com, and www.machinio.com. We pursue the registration of our trademarks in the U.S. and internationally. Effective patent, copyright, trademarks, trade secret and domain name protections are expensive to maintain and we may have to litigate to enforce our intellectual property rights. We seek to protect our domain names in an increasing number of jurisdictions and may not succeed in certain jurisdictions.

Human Capital Management

In order to achieve our goal to build the world's leading marketplace for surplus assets to benefit buyers, sellers, and the planet, it is crucial that we attract, develop and retain employees who deliver outstanding performance. To do so, we strive to make LSI a rewarding place to work and an environment where we promote diversity, equity and inclusion. As of September 30, 2020, we had 574 employees worldwide. We also utilize temporary workers to augment staffing during peak business cycles and to fill certain open positions on a temporary basis.
We believe our employees are key to achieving our business goals and growth strategy. We track and report internally on certain key metrics, such as employee engagement, employee net promoter score, turnover rate, workforce growth and internal mobility.

We embrace diversity, equity and inclusion. We actively recruit talent with a diversity of experiences, background and ideas. By doing so, we aim to leverage the variety of skills and perspectives inherent in a diverse workforce, improve our problem-solving abilities, and bring innovative solutions to a wider range of clients and customers.

We believe our management team has the experience, talent and dedication necessary to effectively execute our business goals and growth strategy. For discussion of the risks relating to the attraction and retention of key employees, see "Item 1A. Risk Factors."

Available Information

Our annual, quarterly and current reports, proxy statements, amendments to those reports and other information are provided free of charge on our website www.liquidityservices.com, as soon as reasonably practicable after we electronically file these materials with, or furnish them to the Securities and Exchange Commission (the SEC). We use our website as a channel of distribution for material company information. We post important information, including news releases, analyst presentations, investor presentations, and financial information regarding the Company at www.liquidityservices.com.

Cautionary Note Regarding Forward-Looking Statements

This document contains forward-looking statements made pursuant to the Private Securities Litigation Reform Act of 1995. These statements are only predictions. The outcome of the events described in these forward-looking statements are 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, statements regarding the Company's business outlook; anticipated economic and operational impacts of the COVID-19 global pandemic, especially if there is a rise in COVID-19 deaths that precipitates re-closures or extended restrictions on international travel; the migration of our retail marketplace to our core e-commerce technology platform; expected future effective tax rates; and trends and assumptions about future periods, the numerous factors that influence the supply of and demand for used equipment; economic and other conditions in local, regional and global sectors; and those listed in Part I, Item 1A ("Risk Factors") and in our other filings with the SEC from time to time. 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 apply only as of the date of this Annual Report 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 Annual Report or to reflect the occurrence of unanticipated events.

Item 1A. Risk Factors.

You should carefully consider the risks described below, together with all of the other information in this Annual Report, including the consolidated financial statements and related notes, before making an investment decision with respect to our common stock. If any of the following risks occur, our business, financial condition or operating results could suffer. As a result, the trading price of our common stock could decline and you may lose all or part of your investment in our common stock. The risks and uncertainties described below are not the only significant risks we may face. Other events that we do not currently anticipate or that we currently deem immaterial also may affect our results of operations and financial condition.

Business and Operating Risks

The success of our business depends on our ability to successfully obtain a supply of surplus assets sufficient to attract buyers to our platform and our ability to successfully attract and retain active professional buyers to create demand for surplus assets sufficient to attract sellers.

Our ability to increase our revenue and earn profits depends on whether we can successfully retain existing sellers, attract new sellers, expand the supply of merchandise available for sale on our e-commerce marketplaces and attract and retain active professional buyers to purchase the merchandise. Our ability to attract enough quantities of suitable merchandise and buyers will depend on various factors, some of which are out of our control. These factors include our ability to:

- offer sellers liquid marketplaces for their surplus and salvage assets;
- offer buyers desirable merchandise;
- develop and implement effective sales and marketing strategies;
- comply with regulatory and corporate seller requirements affecting marketing and disposition of certain categories of merchandise;
- efficiently catalogue, handle, store, ship and track merchandise; and
- achieve high levels of seller and buyer satisfaction.

Failure to continue to offer competitive products to the marketplace, to supply products that meet applicable regulatory requirements, or to predict market demands for, or gain market acceptance of, such products, would have a negative impact on our business, results of operations and financial condition.

If we do not respond to rapid technological changes or upgrade our systems, we could fail to grow our business and our revenue could decrease.

To remain competitive, we must continue to enhance and improve the functionality and features of our e-commerce business. As an e-commerce company, we must continuously improve and upgrade our technology, transaction processing systems and network infrastructure to allow our operations to grow in both size and scope. Without such improvements, our operations might suffer from unanticipated system disruptions, slow transaction processing, unreliable service levels, or impaired quality or delays in reporting accurate financial information, any of which could negatively affect our reputation and ability to attract and retain sellers and buyers. We may also face material delays in introducing new services, products and enhancements. The internet and the e-commerce industry are rapidly changing. If competitors introduce new products and services using new technologies or if new industry standards and practices emerge, our existing websites and our proprietary technology and systems may become obsolete. In addition, the expansion and improvement of our systems and infrastructure may require us to commit substantial financial, operational and technical resources, with no assurance our business will grow as a result. If we fail to respond to technological change or to adequately maintain, expand, upgrade and develop our systems and infrastructure promptly, our ability to grow could be limited and our revenue could decrease.

We may not realize the anticipated benefits from our recent initiatives.

We expect that our recent initiatives will increase our efficiency and productivity, the functionality of our marketplaces and our cross-selling opportunities, as well as decrease the cost of our systems infrastructure, all of which we expect will drive our scale and growth and have a positive effect on our business, competitive position and results of operations over time. Many of our previous operating and financial systems have been recently replaced, and if these new systems do not operate as expected, we may have to incur significant additional costs and delays to modify them. We cannot assure you that these initiatives will be beneficial to the extent, or within the timeframes, expected, or that the estimated efficiency, cost savings and other improvements will be realized as anticipated or at all. If our initiatives are not implemented successfully and within budget, or if our systems do not perform in a satisfactory manner, it could disrupt or otherwise materially adversely affect our business and results of operations, as well as divert management resources. Similarly, if our buyers and sellers fail to accept our new platform or our new unified process for handling transactions across our marketplaces, it could materially adversely affect our business and results of operations.

The information technology and digital marketing improvements that are core to our RISE strategy place a significant strain on our management, operational, financial and other resources.

We continue to decommission non-scalable legacy IT platforms with modular technology including key modules for unified management of sellers and buyers, property handling, transaction processing and finance functions across our entire company. Our AllSurplus marketplace launched during Q1 of Fiscal Year 2020 and has continued to receive regular capability updates as we leverage customer feedback and data analytics to optimize the user experience. Our AllSurplus marketplace is designed to provide our buyers access to all the property available in our CAG and GovDeals marketplaces, provides a common account experience for sellers and simplifies our operations. This program continues to place significant strain on our management, personnel, operations, systems, technical performance and financial resources and internal financial control and reporting function. Iterative information technology and digital marketing improvements require management time and resources to educate employees, redesign internal processes and implement new ways of conducting business with our sellers and buyers. If we do not effectively manage improvements to our marketplaces, including consolidation of our Network International and GoIndustry DoveBid marketplaces onto our AllSurplus marketplace, digital marketing and data driven improvements or the timing, costs, and adoption by sellers and buyers, it could negatively affect our business and our operating results, as well as damage our reputation and our prospects. In addition, the dedication of resources to the continuous improvement of our new aggregated marketplace initiative limits the resources we have available to devote to other initiatives or growth opportunities, or to invest in the maintenance of our internal systems.

We have vendor contracts with Amazon.com, Inc. in our RSCG segment under which we acquire a significant portion of our purchased inventory, and if our relationship with Amazon is disrupted, we would experience a significant decrease in revenue and income.

We have multiple vendor contracts with Amazon.com, Inc., under which we acquire then resell merchandise. The property we purchased under these contracts represented approximately 55.1%, 43.6% and 33.7% of cost of goods sold for the years ended September 30, 2020, 2019 and 2018, respectively. If Amazon stopped selling inventory to us on acceptable terms, we likely could not procure alternative inventory from other vendors in a timely and efficient manner and on acceptable terms, or at all, and would therefore experience a significant decrease in revenue and have difficulty generating income.

We face intense competition.

Our businesses operate in intensely competitive markets. We have many competitors in different industries, including the online services market for auctioning or liquidating surplus and salvage assets and retail markets. Competitive pressures could affect our ability to attract and retain buyers and sellers, which could decrease our revenue and negatively affect our operating results.

Some of our other current and potential competitors have longer operating histories, larger seller and buyer bases, greater brand recognition and greater financial, marketing and other resources than we do. They may devote greater financial resources to marketing and promotional campaigns, secure better terms from sellers and vendors, adopt more aggressive pricing or inventory availability policies and devote substantially more resources to technology and infrastructure than we do.

During the COVID-19 pandemic, several of our competitors were driven to upgrade aspects of their core information and marketing technology stacks. This heightened focus on e-commerce has increased the competition we face. If this competition continues to intensify, it may become progressively more difficult to attract enough buyers and sellers to our marketplaces to sustain growth without significant increases in resources.

In some countries, we have competitors that may have a better understanding of local culture and commerce. We increasingly may compete in other countries with local competitors that have advantages we do not, such as a greater ability to operate within the local regulatory environment.

If our strategy to compete against our many competitors is not effective, we may lose market share and our results of operations may be negatively affected. We may not be able to compete successfully against competitors and our financial condition and results of operations may be adversely impacted and we may not be able to achieve long term earnings growth targets.

If we do not retain our senior management and other highly skilled employees, we may not achieve our business objectives.

Our future success, including our ability to successfully implement recent initiatives, depends substantially on the continued service of our senior management and other key personnel, particularly William P. Angrick, III, our Chairman and Chief Executive Officer. We do not have key-person insurance on any of our officers or employees. Losing any member of our existing senior management team could damage key seller relationships, result in the loss of key information, expertise or know-how, lead to unanticipated recruitment and training costs and make it more difficult to operate our business and achieve our business goals. Our future success also depends on our ability to continue to attract, retain and motivate highly skilled employees, particularly employees with sales, marketing, operations and technology expertise. Competition for employees in our industry is intense. We have experienced occasional difficulty in attracting the personnel to support the growth of our business, and we may experience similar difficulties. If we cannot attract, assimilate and retain employees with the skills we require, we may not grow our business and revenue as expected and we could experience increased turnover, decreased levels of buyer and seller service, low morale, inefficiency or internal control failures.

Our operating results depend on our websites, network infrastructure and transaction processing systems, and our software runs on public clouds. Service interruptions or system failures could negatively affect the demand for our services and our ability to grow our revenue.

Any system interruptions that affect our websites or our transaction systems could impair the services we provide to our sellers and buyers. In addition, our systems and data centers may be vulnerable to damage from a variety of other sources, including: damage to, or failure of, our computer software or hardware, or our connections to, and outsourced service arrangements with, third parties; failure of, or defects in, the third-party systems, software or equipment on which we rely to access our data centers and other systems; errors in the processing of data; computer viruses, malware or software defects; physical or electronic break-ins, sabotage, distributed denial of service, or DDoS, penetration attacks, intentional acts of vandalism and similar events; and telecommunications failures, power outages, pandemics, political unrest, malicious human acts and natural disasters.

Improving the reliability and redundancy of our systems may be expensive, reduce our margins and may not be successful in preventing system failures.

Our ability to provide services depends substantially on systems provided by third parties, over whom we have little control. We have occasionally experienced interruptions to our services due to system failures. Any disruption to our data centers, interruptions or failures of our systems or our ability to communicate with third party systems could negatively affect the demand for our services and our ability to grow our revenue.

Many of our information technology systems consist of outsourced, cloud-based infrastructure, platform, and software-as-a-service solutions not under our direct management or control. Any disruption to either the outsourced systems or the communication links between us and the outsourced supplier could negatively affect our ability to operate our websites or our transaction systems and could impair our ability to provide services to our sellers and buyers. We may incur additional costs to remedy the damages caused by these disruptions.

Our inability to use software licensed from third parties or our use of open source software under license terms that interfere with our proprietary rights could disrupt our business.

We use software licensed from third parties, including some open-source software that we use without charge. We use, among others, the following licensed or open-source software: ADP, Akamai, Amazon Web Services, Google, Heroku, Jenkins, LeaseQuery, Liferay, Microsoft, MuleSoft, MySQL, Oracle and Red Hat Enterprise Linux Software, and we may use additional open-source software. Licenses to third party software may not continue to be available on terms that are acceptable to us, or at all.

Our inability to use third-party software or to enter into agreements on acceptable terms with providers of cloud-based solutions could cause disruptions to our business, or delays in developing future services or enhancements of existing services, which could impair our business. In addition, the terms of certain open source software licenses may require us to provide modified versions of the open source software or any proprietary software that we develop that incorporates all or a portion of the open source software to others on unfavorable license terms consistent with the open source license term. If we must license our proprietary software under the foregoing, our competitors and other third parties could obtain access to our intellectual property, which could harm our business.

Certain aspects of our marketing technology are dependent on third parties over whom we have no control.

Obtaining organic search engine traffic from Google is a significant traffic driver for our marketplaces. If Google were to modify the search engine algorithms that control our page rankings, we may experience a significant negative impact on the traffic coming to our marketplaces. A decrease in traffic would reduce the number of new buyers and sellers on our marketplaces and could harm our business.

Additionally, our marketing technology relies heavily on our ability to track our promotional campaign performance across marketing channels (i.e., email, search engines, social media and third party banner ads). If industry leading software browsers, such as Google Chrome or Apple Safari, disable user analytics tracking or other similar capabilities, our ability to track our promotional campaign performance could be affected, which could in turn prevent us from fully optimizing the marketing spend associated with our promotional campaigns.

We are exposed to risks related to cybersecurity and protection of confidential information.

We retain highly confidential information on behalf of our buyers and sellers in our systems and databases. Although we maintain security features in our systems designed to protect user information and prevent data loss and other security breaches, such measures cannot provide absolute security and our operations may be susceptible to breaches, including from circumvention of security systems, denial of service attacks or other cyber-attacks, hacking, computer viruses or malware, technical malfunction, employee error, malfeasance, physical breaches, system disruptions or other disruptions. For example, in 2018, we experienced a data breach incident that involved an employee’s email account and may have resulted in the exposure of personally identifiable information of our employees. We cannot be certain that the measures and processes taken by us to address this incident will prevent harm to our employees from the incident or prevent all similar events in the future.

Disruptions from cybersecurity events may jeopardize the security of information stored in and transmitted through our systems. An increasing number of websites, including those owned by several other large Internet and offline companies, have disclosed breaches of their security, some of which have involved sophisticated and highly targeted attacks on portions of their websites or infrastructure. The techniques used to obtain unauthorized access, disable, or degrade service, or sabotage systems, change frequently, may be difficult to detect for a long time, and often are not recognized until launched against a target. Certain efforts may be state sponsored and supported by significant financial and technological resources and therefore may be even more difficult to detect. We may not anticipate these techniques or implement adequate preventive measures. We currently expend, and may be required to expend significant additional capital and other resources, to protect against such security breaches or to alleviate problems caused by such breaches. Our insurance coverage may be inadequate to compensate us for any related losses we incur.

These issues are likely to become more difficult as we expand our operations. Any breach of our security measures, or even a perceived breach of our security measures, could cause us to lose sellers or buyers, suffer material harm to our business, financial condition, operating results and reputation or be subject to regulatory actions, sanctions or other statutory penalties, litigation, or liability for failure to safeguard our sellers’ and buyers’ information. Further, losing confidential seller or buyer information could also expose us to the risk of liability and costly litigation. In addition, if there is any perception that we cannot protect our users’ confidential information, we may lose the ability to retain existing, and attract new, sellers and buyers, and therefore our revenue could decline.

Shipment of merchandise sold in our marketplaces could be delayed or disrupted by factors beyond our control and we could lose buyers and sellers.

We rely upon third-party carriers such as United Parcel Service, or UPS, for timely delivery of our merchandise shipments. We are subject to carrier disruptions and increased costs due to factors beyond our control, including labor difficulties, inclement weather, terrorist activity and increased fuel costs. In addition, we do not have a long-term agreement with UPS or any other third-party carriers, and we cannot be sure that our relationship with UPS will continue on terms favorable to us, if at all. If our relationship with UPS is terminated or impaired or if UPS cannot deliver merchandise for us, we would have to use alternative carriers for the shipment of products to our buyers. We may not be able to engage alternative carriers timely or on terms favorable to us.

Potential adverse consequences may include reduced visibility of order status and package tracking; delays in merchandise receipt and delivery; increased cost of shipment; and reduced shipment quality, which may damage merchandise.

Any failure to receive merchandise at our distribution centers or deliver products to our buyers in a timely and accurate manner could lead to seller or buyer dissatisfaction and cause us to lose sellers and buyers.

An interruption in the operations of our buyer and seller support service system or our distribution centers could significantly harm our business and operating results.

Our business depends, to a large degree, on the provision of effective support services to our buyers and sellers, and on effective distribution center operations (including leased commercial warehouse distribution space). These operations could be harmed by several factors, including any material disruption or slowdown at our distribution centers resulting from labor disputes, changes in the terms of our underlying lease agreements, telecommunications failures, power or service outages, human error, terrorist attacks, natural disasters, government mandated business closures and shelter-in-place guidelines designed to contain the spread of epidemic or pandemic disease or other events.

If we fail to accurately predict our ability to sell merchandise in which we take inventory risk and credit risk our margins may decline.

Under our purchase transaction model, we purchase merchandise and assume the risk that the merchandise may sell for less than we paid for it. We assume general and physical inventory and credit risk. These risks are especially significant because some of the goods we purchase and resell on our websites are impacted by rapid technological change, obsolescence and price erosion, and because we sometimes make large purchases of particular types of inventory or industrial equipment when manufacturing facilities or campuses close. In addition, we do not typically receive warranties on the merchandise we purchase and, as a result, we must resell or dispose of any returned goods on an as-is basis, which limits the types of buyers willing to purchase our merchandise. Historically, the amount of disposed goods (which includes returned goods we have not resold) has been less than 2% of the goods we have purchased. To manage our inventory successfully, we must maintain enough buyer demand to sell merchandise for a reasonable financial return. We may overpay for the acquired merchandise if we miscalculate buyer demand or the acquired merchandise is not as desirable as we predicted. If merchandise is not attractive to our buyer base, we may have to take significant losses resulting from lower sale prices, which could reduce our revenue and margins.

Occasionally, in our capital assets marketplace, we make very significant inventory acquisitions, such as the purchase of semi-conductor and oil and gas equipment and biopharma and metal-working machinery, for later resale on our energy and industrial marketplaces. We plan to continue to opportunistically make such acquisitions. The risks described above are heightened in these acquisitions due to their size and, at times, the limited market for the assets we acquire. If we obtain financing to fund such acquisitions, such financing will increase our costs, which will decrease any profits we receive from the sale of the acquired assets.

As we grow our business, we may increase the merchandise we purchase directly from sellers, resulting in increased inventory levels and related risks, including increased risk of losses on the sale of the inventory acquired. Any such increase would require the use of additional working capital and any funds so used would not be available for other purposes.

Our quarterly operating results have fluctuated in the past and may do so in the future, which could cause volatility in our stock price.

Our prior operating results have fluctuated due to changes in our business and the e-commerce industry. Similarly, our future operating results may vary significantly from quarter to quarter due to many factors, including factors beyond our control. You should not rely on period-to-period comparisons of our operating results as an indication of our future performance. Factors that may, among others, affect our quarterly operating results include the following:

- our ability to increase sales to existing buyers, attract and retain new buyers and satisfy buyer demands;
- our ability to retain and expand our base of sellers;
- entry into, or the modification, termination or expiration of, material contracts;
- the volume, size, timing and completion rate of transactions in our marketplaces, including variability due to the timing of large, project-based activities;
- changes in the supply and demand for and the volume, price, mix and quality of our supply of surplus and salvage assets;
- introduction of new or enhanced websites, services or product offerings by us or our competitors, which may affect our margins;
- implementation costs of new contracts, particularly those requiring custom integrations and value-added services;
- changes in our pricing policies or the pricing policies of our competitors;

- changes in the conditions and economic prospects of the e-commerce industry or the economy generally, which could alter current or prospective buyers' and sellers' priorities;
- the extent to which use of our services is affected by spyware, viruses, phishing and other spam emails, denial of service attacks, data theft, computer intrusions, outages and similar events;
- event-driven disruptions such as war, terrorism, armed hostilities, disease and natural disasters;
- changes in energy and commodities prices, including the timing and speed of recovery in energy sector macro conditions;
- seasonal patterns in selling and purchasing activity; and
- costs related to acquisitions of technology or equipment.

Our operating results may fall below the expectations of market analysts and investors in some future periods. If this occurs, even temporarily, it could cause volatility in our stock price.

The seasonality of our business places increased strain on our operations.

We experience seasonality in each portion of our business. We expect a disproportionate amount of transactions on our marketplaces to occur at certain times during the year. If we cannot effectively manage increased demand, or the increased flow of goods we typically experience during these times, it could adversely affect our revenue and our future growth. If too many buyers and sellers access our websites within a short period of time due to increased demand, we may experience system interruptions that make our websites unavailable or prevent us from providing efficient service, which may reduce our GMV and the attractiveness of our value-added services. In addition, we may not adequately staff our distribution centers during these peak periods. If we cannot staff warehouses adequately, we may not be able to process assets quickly enough which, in turn, could mean dissatisfaction of sellers and reduced GMV or increased third party storage costs and reduced profitability.

If we fail to identify, finance and integrate acquisitions, our future operating results may be materially adversely affected.

We have expanded our business in part through acquisitions and may continue to do so in the future. The success of any future growth strategy involving acquisitions will depend on our ability to identify, and the availability of, suitable acquisition candidates. We may incur costs in connection with a potential acquisition but may ultimately be unable or unwilling to consummate the proposed transaction for various reasons. In addition, acquisitions involve numerous risks, including our ability to successfully integrate the acquired businesses and operations with our other businesses and realize the anticipated benefits of the acquisitions. If we cannot achieve these objectives in a cost-effective and timely manner, we may not realize the anticipated benefits of the acquisition or it may take us longer to realize the benefits of the acquisition than we expect. Acquired operations outside the U.S. may present unique challenges or increase our exposure to risks associated with foreign operations, including foreign currency risks and risks associated with local regulatory regimes.

The integration process could cause the loss of key employees, buyers, sellers or other vendors, increase our operating or other costs, decrease our profit margins or disrupt our other businesses, each of which could impair our ability to achieve the anticipated benefits of the acquisition. Our efforts to integrate acquired businesses will divert management's attention and resources from our other businesses. Any failure to timely and cost-effectively realize the anticipated benefits of the acquisition could have a material adverse effect on our revenues, expenses and operating results.

Acquisitions could cause dilutive issuances of equity securities, the incurrence of debt, one-time write-offs of goodwill and substantial amortization expenses of other intangible assets. We may not obtain any required acquisition financing on favorable terms, or at all, which could make it impossible or costlier to acquire other businesses. If we can obtain financing, the terms may be onerous and restrict our operations. Further, certain acquisitions may be subject to regulatory approval, which can be time-consuming and costly to obtain, and the terms of such regulatory approvals may impose limitations on our ongoing operations or require us to divest assets or lines of business.

Damage to our reputation could harm our business.

Our positive reputation is based on our core values of integrity, customer focus, relentless improvement, innovation to support leadership, mutual trust and accountability, shared success and doing well and doing good. Our ability to attract and retain highly skilled employees, clients and buyers, and to successfully do business would be harmed if our reputation was damaged. Harm to our reputation can arise from numerous sources, including, among others, employee misconduct, security breaches, compliance failures, litigation or regulatory outcomes or governmental investigations. Our reputation could also be harmed by the failure or perceived failure of an affiliate, joint-venture, or a vendor or other third party with which we do business, to comply with laws or regulations. In addition, our reputation or prospects may be significantly damaged by adverse publicity or negative information regarding us, whether or not true, that may be posted on social media, non-mainstream news services or other parts of the internet, and this risk can be magnified by the speed and pervasiveness with which information is disseminated through those channels. Should any of these or other events or factors that can undermine our reputation occur, the additional costs and expenses that we may need to incur to address the issues giving rise to the damage to our reputation may adversely affect our earnings and results of operations. Any damage to our reputation could impair our ability to retain existing or attract new customers, investors and employees.

Our international operations expose us to several risks.

Our international activities are significant to our revenues and profits, and we may continue to expand internationally, including through acquisitions, organic growth and through joint ventures or strategic alliances with third parties. We are required to comply with the laws of the countries or markets in which we operate. In addition, because our services are accessible worldwide and facilitate the sales of goods and provide services to users worldwide, one or more jurisdictions may claim that we or our users are required to comply with their laws based on the location of our servers, or one or more of our users, or location of the products or service being sold or provided.

It is costly to establish, develop, and maintain international operations and websites, and promote our brand internationally. Our international operations may not be profitable on a sustained basis or at all. In addition to the risks described elsewhere in this section, our international operations are subject to several risks, including:

- local economic and political conditions, or civil unrest that may disrupt economic activity in affected countries;
- government regulation of e-commerce and other services, competition, and restrictive governmental actions (such as trade protection measures, including export duties and quotas and custom duties and tariffs), nationalization, and restrictions on foreign ownership;
- restrictions on sales or distribution of certain products or services and uncertainty regarding liability for products and services, including uncertainty because of less Internet-friendly legal systems, local laws, lack of legal precedent, and varying rules, regulations, and practices regarding the enforcement of intellectual property rights;
- business licensing or certification requirements, such as for imports, exports, and web services;
- limitations on the repatriation and investment of funds and foreign currency exchange restrictions;
- shorter payable and longer receivable cycles and the resultant negative impact on cash flow;
- laws and regulations regarding consumer and data protection, privacy, network security, encryption, payments, and restrictions on pricing or discounts;
- lower levels of consumer spending and fewer opportunities for growth compared to the U.S.;
- lower levels of credit card usage and increased payment risk;
- different employee/employer relationships and the existence of works councils;
- compliance with the U.S. Foreign Corrupt Practices Act and other applicable U.S. and foreign laws prohibiting certain payments to government officials and other third parties;
- laws and policies of the U.S. and other jurisdictions affecting trade, foreign investment, loans, and taxes; and
- geopolitical events, including war and terrorism.

If we expand internationally through joint ventures or strategic alliances, we will also face counterparty risk in addition to the risks described above. If any counterparty to our joint ventures or strategic alliances is unwilling or unable to perform its obligations to us, we may not realize the benefits of such arrangements and we may experience material unanticipated problems, expenses and liabilities.

Our international operations expose us to foreign exchange fluctuations that could harm our operations.

We conduct business in many countries around the world and receive fees and pay expenses (including salaries to our international workforce) in several different currencies despite reporting our financial results in U.S. dollars. As a result, our financial results are impacted by fluctuations in foreign currency rates. The results of our foreign subsidiaries are translated from the local currency to U.S. dollars for financial reporting purposes. For example, if the U.S. dollar weakens against foreign currencies, the translation of these foreign currency denominated revenues and expenses will result in increased U.S. dollar denominated revenues and expenses. These factors and others may harm our business and our results of operations. In addition, currency exchange rates may negatively affect our results if we pay for inventory using a different currency than we receive when we sell the inventory.

Our stock price has been volatile, and your investment in our common stock could decline in value.

Worldwide financial crises have led to an increase in the overall volatility of the stock market. Increased volatility and other broad market and industry factors may adversely affect the market price of our common stock, regardless of our actual operating performance. Other factors that could cause fluctuation in our stock price may include:

- actual or anticipated variations in quarterly operating results;
- changes in financial estimates by us or by a securities analyst who covers our stock;
- publication of research reports about our company or industry;
- conditions or trends in our industry;
- stock market price and volume fluctuations of other publicly traded companies and, in particular, those whose business involves the Internet and e-commerce;
- announcements by us or our competitors of significant contracts (or the amendment or loss of such contracts), acquisitions, commercial relationships, strategic partnerships or divestitures;
- announcements by us or our competitors of technological innovations, new services or service enhancements;
- announcements of investigations or regulatory scrutiny of our operations or lawsuits filed against us;
- the passage of legislation or other regulatory developments that adversely affect us, our sellers or buyers, or our industry;
- additions or departures of key personnel;
- sales of our common stock, including sales of our common stock by our directors and officers or specific stockholders;
- general economic conditions and slow or negative growth of related markets; and
- the continued global spread of COVID-19 and related measures to contain its spread (such as government mandated business closures and shelter in-place guidelines).

Volatility in the market price of shares may prevent investors from being able to sell their shares of common stock at prices they view as attractive. In the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management's attention and resources.

We may need additional financing in the future, which may not be available on favorable terms, if at all.

We may need additional funds to finance our operations, as well as to enhance our services, acquire inventory for our businesses, fund initiatives, respond to competitive pressures, acquire complementary businesses or technologies or otherwise support our growth. We may also require additional funds if vendors and other third parties from whom we purchase inventory, other goods or services extend less favorable credit terms to us. Our business may not generate the cash needed to finance such requirements. We do not have a credit facility with third-party lenders from which we may draw funds. If we raise additional funds by issuing equity or convertible debt securities, the percentage ownership of our existing stockholders would be reduced, and these securities may have rights, preferences or privileges senior to those of our common stock. The general economic and capital market conditions in the United States and other parts of the world can deteriorate significantly, limiting access to capital and increasing the cost of capital. A large degree of economic uncertainty remains both domestically and abroad, which can adversely affect access to capital, and the cost of capital. If adequate funds are not available or are not available on acceptable terms, our ability to enhance our services, fund strategic initiatives, respond to competitive pressures, take advantage of business opportunities or grow our business would be limited, and we might need to restrict our operations and initiatives.

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 “additional 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 and 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. 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, perhaps materially. 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 light of uncertainties regarding the pandemic

Global and regional economic conditions could harm our business.

Our operations and performance depend significantly on global and economic conditions. Adverse economic conditions and events include, but are not limited to, uncertainties and instability due to the global COVID-19 pandemic. These conditions could have a material adverse effect on our business by reducing the ability of international buyers and sellers to conduct businesses due to travel restrictions impacting the ability of: sellers and their agents to travel to prepare assets for sale; buyers travelling to inspect assets; sellers and buyers completing international transactions requiring assets to cross export and import border control points; and the overall willingness of sellers and buyers to decommission capital assets and engage in cross-border transactions. Separately, any factors that reduce cross border trade or make such trade more difficult could harm our business. Increasing costs, such as increasing tariffs and trade wars between nations, may make international trade less profitable and adversely affect our global business.

Legal and Regulatory Risks

We face legal uncertainties relating to the internet in general and to the e-commerce industry in particular and may become subject to costly government regulation.

The laws and regulations related to the internet and e-commerce are evolving. These laws and regulations relate to issues such as user privacy, freedom of expression, pricing, fraud, quality of products and services, taxation, advertising, intellectual property rights and information security. Laws governing issues such as property ownership, copyrights and other intellectual property issues, taxation, libel and defamation, obscenity and personal privacy could also affect our business. Laws adopted prior to the advent of the internet may not contemplate or address the unique issues of the Internet and related technologies and it is not clear how they will apply. Current and future laws and regulations could increase our cost of doing business and/or decrease the demand for our services.

Our auction business may be subject to a variety of additional costly government regulations.

Many states and other jurisdictions have regulations governing the conduct of traditional "auctions," the liability of traditional "auctioneers" in conducting auctions and handling property by "secondhand dealers", which may apply to online auction services. In addition, certain states have laws or regulations that expressly apply to online auction services. We expect to continue to incur costs in complying with these laws and could be subject to fines or other penalties for any failure to comply with these laws. We may be required to make changes in our business to comply with these laws, which could increase our costs, reduce our revenue, cause us to prohibit the listing of certain items or restrict certain listing formats in some locations, which may adversely affect our financial condition or operating results.

In addition, the body of law regarding the potential liability of an online auction service for the activities of its users is not clear. Users of our websites may not always comply with our terms and conditions or with laws and regulations applicable to them and their transactions. It is possible that we may be subject to allegations of civil or criminal liability for any unlawful activities conducted by sellers or buyers. Any costs we incur because of any such allegations, or because of actual or alleged unlawful transactions using our marketplaces, or in our efforts to prevent any such transactions, may harm our opportunities for future revenue growth. In addition, any negative publicity we receive regarding any such transactions or allegations may damage our reputation, our ability to attract new sellers and buyers and our business.

In addition, if our sellers violate laws or regulations, or implement practices regarded as unethical, unsafe, or hazardous to the environment, it could damage our reputation, limit our growth, and negatively affect our business, prospects, financial condition and results of operations.

If we violate privacy regulations, our business could suffer harm.

We are subject to regulation at the federal, state and international levels relating to privacy and the use of third-party data, including personal user information and employee data. These statutory and regulatory requirements are evolving, increasing in complexity and number, sometimes conflicting and may change significantly. How companies collect, process, use, store, share or transmit personal and employee data is subject to increasing scrutiny by governments and the public, which could accelerate the adoption of additional legislation or regulation. New statutory or regulatory developments may restrict our ability to collect and use demographic and personal information from our buyers and our sellers, which could be costly or harm our marketing efforts. Further, there may be conflicts among the privacy and data protections laws adopted by the countries in which we operate. Judicial and regulatory application and interpretation of these statutory and regulatory requirements are often uncertain and may also limit our marketing efforts. Compliance with regulations regarding privacy, security and protection of user and employee data, increased government or private enforcement, and changing public attitudes about data privacy, may increase the cost of growing our business and require us to expend significant capital and other resources. Our failure to comply with these federal, state and international laws and regulations could subject us to lawsuits, fines, criminal penalties, statutory damages, adverse publicity and other costs which could decrease our profitability.

Certain categories of merchandise sold on our marketplaces are subject to government restrictions.

We sell merchandise, such as scientific instruments, information technology equipment and aircraft parts, that is subject to export control and economic sanctions laws, among other laws, imposed by the United States and other governments. Such restrictions include the U.S. Export Administration Regulations, the International Traffic in Arms Regulations, and economic sanctions and embargo laws administered by the Office of the Foreign Assets Control Regulations. These restrictions prohibit us from selling property to (1) persons or entities that appear on lists of restricted or prohibited parties maintained by the United States or other governments or (2) countries, regimes, or nationals that are the target of applicable economic sanctions or other embargoes.

We may incur significant costs or be required to modify our business to comply with these requirements. If we are alleged to have violated these laws or regulations we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or debarment from doing business with U.S. federal government agencies. In addition, we could suffer serious harm to our reputation if allegations of impropriety are made against us, whether or not true.

We may be subject to product liability claims if people or property are harmed by the products we sell.

Some products we sell through our e-commerce marketplaces may expose us to product liability claims relating to personal injury, death, or environmental or property damage, and may be the subject of product recalls or other actions. Our exposure to product liability claims may be increased if, for example, the manufacturers of the relevant products do not have enough protection from such claims. Defense of any such actions could be costly and involve significant time and attention of our management and commitment of other resources, may cause us to incur monetary liabilities or penalties, and may require us to change our business in ways adverse to us. We cannot be certain that our insurance coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. In addition, some of our agreements with our vendors and sellers do not indemnify us against product liability.

Unfavorable findings resulting from audit or investigation could subject us to a variety of penalties and sanctions, could negatively impact our future operating results and could force us to adjust previously reported operating results.

Many of our sellers, including large commercial corporations and federal, state and local governments, have the right to audit our performance under our contracts. Any adverse findings from audits or reviews of our performance could result in a significant adjustment to our previously reported operating results. The results of an audit could significantly limit the volume and type of merchandise made available to us, resulting in lower GMV, revenue and profitability. If such a government audit uncovers improper or illegal activities, we could be subject to civil and criminal penalties, administrative sanctions and could suffer serious harm to our reputation. Government and law enforcement agencies may also investigate our activities under contracts with commercial businesses and federal, state, local and municipal governments. If such an investigation alleges that we engaged in improper or illegal activities, we could be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or debarment from doing business with government agencies. If, as the result of a government audit or investigation, or for any other reason, we are suspended or debarred from contracting with the federal or other governments generally, or any specific agency, if our reputation or relationship with government agencies is impaired, or if any government otherwise ceases doing business with us or significantly decreases the amount of business it does with us, our revenue and profitability could substantially decrease.

Our operations are subject to extensive anti-corruption laws and regulations.

Due to the international scope of our operations, we are subject to the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and similar anti-corruption laws of other countries. These laws generally prohibit companies and their intermediaries from making improper payments or providing anything of value to improperly influence foreign government officials to obtain or retain business or obtain an unfair advantage. Global enforcement of these laws has increased substantially in recent years. Our practices and policies to promote compliance with such laws and regulations may not be effective and violations of anti-corruption laws or regulations by our employees or by intermediaries acting on our behalf may result in severe criminal or civil sanctions, disrupt our business and adversely affect our reputation, business and results of operations or financial condition.

Fraudulent activities involving our websites and disputes relating to transactions on our websites may cause us to lose sellers and buyers, and hurt our ability to grow our business.

We periodically receive complaints of fraudulent activities of buyers or sellers on our marketplace, including disputes over the quality of goods and services, unauthorized use of credit card and bank account information and identity theft, credit chargebacks that are fraudulent in nature, potential breaches of system security, and infringement of third-party copyrights, trademarks and trade names or other intellectual property rights. From time to time, we have received complaints that our sellers or buyers trading in our marketplaces are alleged to have engaged in fraudulent or unlawful activity. In addition, we may suffer losses because of purchases paid for with fraudulent credit card data even though the associated financial institution approved payment. If a transaction is disputed, we may not be able to require users of our services to make required payments or to deliver promised goods. We also may receive complaints from buyers about the quality of purchased goods, requests for reimbursement or communications threatening or commencing legal actions against us. Negative publicity generated because of fraudulent conduct by third parties or failure to satisfactorily settle disputes related to transactions on our websites could damage our reputation, cause us to lose sellers and buyers and hurt our ability to grow our business.

Some provisions of our charter, bylaws and Delaware law inhibit potential acquisition bids that some investors may consider favorable to management.

Our corporate documents and Delaware law contain provisions that may enable our board of directors to resist a change in control of our company even if a change in control were to be considered favorable by you and other stockholders. These provisions include: a staggered board of directors; a prohibition on actions by our stockholders by written consent; limitations on persons authorized to call a special meeting of stockholders; the authorization of undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval; advance notice procedures required for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders; and the requirement that board vacancies be filled by a majority of our directors then in office.

These provisions could discourage, delay or prevent a transaction involving a change in control of our company. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and cause us to take other corporate actions you desire. In addition, our bylaws provide that the Delaware Court of Chancery will be the exclusive forum for certain types of legal action (or, if the Court of Chancery does not have jurisdiction, another state court or a federal court within Delaware). This provision may make it more difficult for you and other stockholders to challenge certain corporate actions we take.

We may not adequately protect or enforce our intellectual property rights, which could harm our reputation and negatively affect the growth of our business.

We regard our intellectual property, particularly domain names, copyrights and buyer database trade secrets, as critical to our success. We rely on contractual restrictions and copyright and trade secret laws to protect our proprietary rights, know-how, information and technology. Despite these protections, a third party could copy or otherwise obtain and use our intellectual property without authorization or independently develop similar intellectual property.

We currently are the registered owners of several Internet domain names, including www.liquidation.com, www.govdeals.com, www.networkintl.com, www.secondipity.com, www.go-dove.com, www.machinio.com, www.machineryhost.com and www.allsurplus.com. We pursue the registration of our domain names in the U.S. and internationally. We have no patents or registered copyrights. Effective patent, copyright, trademark, service mark, trade secret and domain name protection are expensive to maintain and may require litigation to enforce. We have licensed in the past, and expect to license in the future, certain of our proprietary rights, such as trademarks or copyrighted material, to others. These licensees may take actions that diminish the value of our proprietary rights or harm our reputation. Our competitors may adopt trade names or domain names similar to ours, impeding our ability to promote our marketplaces and possibly leading to buyer or seller confusion. In addition, we could face trade name, trademark or service mark infringement claims brought by owners of other registered or unregistered trademarks or service marks, including trademarks or service marks that may incorporate variations of our marketplace names. Any claims related to our intellectual property or confusion related to our marketplaces could damage our reputation and negatively affect the growth of our business.

Assertions that we infringe on intellectual property rights of others could result in significant costs and substantially harm our business and operating results.

Third parties may assert that we have infringed their intellectual property rights in technology or otherwise. We use internally developed systems and licensed technology to operate our online auction platform and related websites. Third parties could assert intellectual property infringement claims against us based on our internally developed systems or use of licensed third-party technology. Third parties also could assert intellectual property infringement claims against parties from whom we license technology. If we are forced to defend against any infringement claims, whether they are with or without merit or are determined in our favor, we may face costly litigation, diversion of technical and management personnel and/or delays in completion of sales. Furthermore, the outcome of a dispute may require us to change technology, develop non-infringing technology or enter into royalty or licensing agreements. A switch to different technology could interrupt our business. Internal development of a non-infringing technology may be expensive and time-consuming, if we are able to successfully develop such technology at all. Royalty or licensing agreements, if required, may be unavailable on terms acceptable to us, or at all. Incurrence of any of these costs could negatively impact our operating results.

<u>**General Business Risks**</u>

Failure to maintain effective internal controls over financial reporting could have a material adverse effect on our business, operating results and stock price.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that we include in our annual report a report containing management's assessment of the effectiveness of our internal controls over financial reporting as of the end of our fiscal year and a statement as to whether or not such internal controls are effective. Compliance with these requirements has resulted in, and is likely to continue to result in, significant costs and the commitment of time and operational resources. Recently completed initiatives, as well as other changes in our business, including initiatives to invest in information systems or to transition particular functions to third party providers, have and will necessitate modifications to our internal controls. We cannot be certain that our design for internal control over financial reporting, or any changes to be made, will enable management to determine that our internal controls are effective for any period. If we cannot conclude that our internal controls over financial reporting are effective, market perception of our financial condition and the trading price of our stock may be adversely affected, and seller and buyer perception of our business may suffer.

Our internal control policies and procedures may not always protect us from reckless or criminal acts committed by our employees or agents, or by third parties with whom we work. Internal controls may become less effective over time because of, among other things, changes in conditions, failures to comply with our policies and procedures or new business that strains our system of internal controls.

Changes in accounting and reporting policies or practices may affect our financial results, which may affect our stock price.

Our accounting policies are fundamental to determining and understanding our financial results and condition. Some require our management to use estimates and make subjective and complex judgments about matters that are uncertain. Factors may arise over time that lead us to change our estimates and judgments. Sometimes, our management must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, yet may cause us to report materially different results than would have been reported under a different alternative. Any changes in accounting policies or methods could reduce our net income, which reductions may be independent of changes in our operations. These reductions in reported net income could cause our stock price to decline.

Item 1B. Unresolved Staff Comments.

Not Applicable

Item 2. Properties.

We lease the following properties as of September 30, 2020:

Purpose	Location	Segment	Square Feet	Lease Expiration Date
Corporate Headquarters	Bethesda, Maryland, USA	Corporate & Other	18,412	April 30, 2023
Warehouse	Dallas, Texas, USA	RSCG	127,144	January 31, 2026
Warehouse	Plainfield, Indiana, USA	RSCG	187,704	April 30, 2024
Warehouse	North Las Vegas, Nevada, USA	RSCG	102,400	March 31, 2021
Administrative	Scottsdale, Arizona, USA	CAG	23,536	December 31, 2020
Administrative	Plano, Texas USA	Corporate & Other	12,234	December 31, 2021
Administrative	Montgomery, Alabama, USA	GovDeals	16,168	December 31, 2023
Storage Lot	Fontana, California, USA	GovDeals	511,830	May 31, 2022
Warehouse	Florence, Kentucky, USA	RSCG	85,514	January 31, 2021
Administrative	London, GBR	CAG	3,430	June 5, 2022
Warehouse	Brampton, Canada	RSCG	53,621	August 31, 2025
Warehouse	E. Brunswick, NJ, USA	CAG	9,600	December 31, 2020
Administrative	Berlin, Germany	Machinio	3,143	July 31, 2022
Administrative	Chicago, Illinois, USA	Machinio	4,298	December 31, 2021
Warehouse	Atlanta, Georgia, USA	GovDeals	47,636	May 31, 2021

In addition, we lease various administrative spaces in North America totaling 18,952 square feet and in Asia, 3,745 square feet. We also own a 420,000 square foot warehouse located in North Wilkesboro, North Carolina, USA.

Item 3. Legal Proceedings.

From time to time, we may become involved in litigation relating to claims arising in the ordinary course of the business. There are no other claims or actions pending or threatened against us that, if adversely determined, would in the Company's management's judgment have a material adverse effect on the Company.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock has been traded on Nasdaq Stock Market under the symbol LQDT since February 23, 2006.

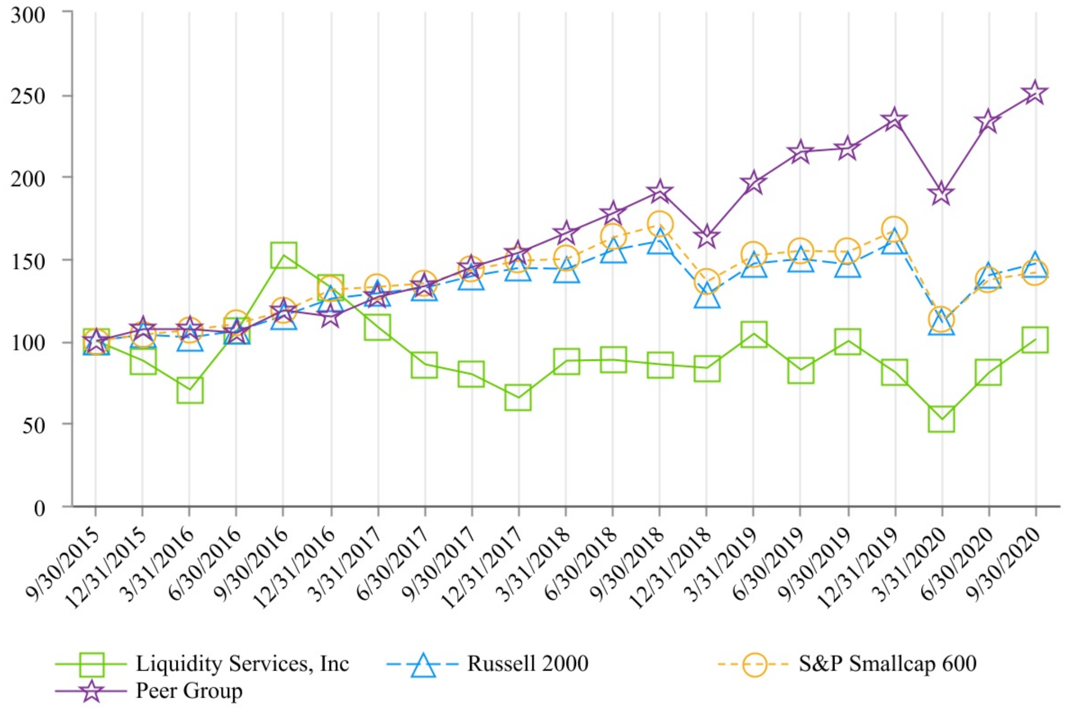
Holders

As of December 2, 2020, there were approximately 6,332 beneficial holders of our common stock and 23 holders of record of our common stock.

Dividends

We have not paid any cash dividends on our common stock, and we have no present intention to do so. Payment of cash dividends, if any, will be determined by our Board of Directors after consideration of our financial condition, operating results, current and anticipated cash needs and other relevant factors.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Liquidity Services, Inc, the Russell 2000 Index, the S&P Smallcap 6000 Index, and a Peer Group of Business Services Companies



Stock Performance Graph

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*$100 invested on 9/30/15 in stock or index, including reinvestment of dividends. Fiscal year ending September 30.

Issuer Purchases of Equity Securities

The following table presents information about our repurchases of common stock that were made through open market transactions during the three months ended September 30, 2020 (in millions, except share and per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as a Part of a Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
July 1 to July 31, 2020	—	$ —	—	$ 10.1
August 1 to August 31, 2020	62,630	6.21	62,630	9.7
September 1 to September 30, 2020	484,878	7.41	484,878	6.1
Total	547,508		547,508	

Item 6. Selected Financial Data.

You should read the following selected consolidated financial data together with our consolidated financial statements and the related notes, and with "Management's Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere in this Annual Report on Form 10-K. The consolidated statement of operations data for the years ended September 30, 2020, 2019 and 2018 and the consolidated balance sheet data as of September 30, 2020 and 2019 are derived from, and are qualified by reference to, our consolidated financial statements that are included in this Annual Report on Form 10-K. The consolidated statement of operations data for the years ended September 30, 2017 and 2016, and the consolidated balance sheet data as of September 30, 2018, 2017 and 2016 are derived from our audited consolidated financial statements that are not included in this Annual Report on Form 10-K, adjusted for the retrospective adoption of new accounting standards as applicable.

	Year ended September 30,				
	2016	2017	2018	2019	2020
	(dollars in thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenue	$ 233,828	$ 188,570	$ 149,677	$ 147,889	$ 127,580
Fee revenue	82,626	81,445	74,837	78,636	78,360
Total revenue	316,454	270,015	224,514	226,525	205,940
Costs and expenses:					
Cost of goods sold	143,127	126,227	100,087	102,414	96,016
Seller distributions	11,214	19,298	14,715	10,831	—
Technology and operations	93,405	82,988	60,786	51,594	42,158
Sales and marketing	37,570	35,211	33,703	36,703	35,629
General and administrative [7]	39,969	36,079	30,493	34,249	29,166
Depreciation and amortization	6,502	5,796	4,599	5,091	6,290
Acquisition costs and impairment of goodwill and long-lived assets	19,037	1,009	467	102	5
Other operating expenses	—	3,651	1,392	5,049	573
Total costs and expenses	350,824	310,259	246,242	246,033	209,837
Loss from operations	(34,370)	(40,244)	(21,728)	(19,508)	(3,897)
Interest and other income, net [7]	(1,469)	(606)	(785)	(1,448)	(924)
Loss before provision for income taxes	(32,901)	(39,638)	(20,943)	(18,060)	(2,973)
Provision (benefit) for income taxes	27,025	(451)	(9,328)	1,200	801
Net loss	$ (59,926)	$ (39,187)	$ (11,615)	$ (19,260)	$ (3,774)
Basic earnings per common share	$ (1.96)	$ (1.25)	$ (0.36)	$ (0.58)	$ (0.11)
Diluted earnings per common share	$ (1.96)	$ (1.25)	$ (0.36)	$ (0.58)	$ (0.11)
Basic weighted average shares outstanding	30,638,163	31,402,921	32,095,491	33,062,976	33,612,263
Diluted weighted average shares outstanding	30,638,163	31,402,921	32,095,491	33,062,976	33,612,263
Non-GAAP Financial Measures:					
EBITDA [1]	$ (27,616)	$ (34,204)	$ (16,794)	$ (14,070)	$ 2,740
Adjusted EBITDA [1]	3,668	(21,595)	(7,334)	(1,249)	9,013
Supplemental Operating Data:					
Gross merchandise volume [2]	$ 642,078	$ 629,330	$ 626,406	$ 639,876	$ 619,850
Completed transactions [3]	600,000	576,000	567,000	607,000	553,000
Total registered buyers [4]	2,986,000	3,171,000	3,357,000	3,580,000	3,772,000
Total auction participants [5]	2,417,000	2,290,000	2,079,000	2,085,000	1,899,000

	As of September 30,				
	2016	2017	2018	2019	2020
	(in thousands)				
Consolidated Balance Sheet Data					
Cash, cash equivalents and short-term investments	$ 134,513	$ 94,348	$ 78,448	$ 66,497	$ 76,036
Working capital (6)	99,424	68,166	34,512	21,103	20,255
Total assets (8)	260,109	215,229	201,832	187,283	196,634
Total liabilities (8)	97,498	82,593	72,178	71,108	84,819
Total stockholders' equity	162,611	132,636	129,654	116,175	111,815

(1) EBITDA and Adjusted EBITDA are supplemental non-GAAP financial measures. GAAP means generally accepted accounting principles in the United States. EBITDA is equal to net loss plus interest and other income, net; provision (benefit) for income taxes; and depreciation and amortization. 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. For a description of our use of EBITDA and Adjusted EBITDA and a reconciliation of these non-GAAP financial measures to net loss, see the discussion and related table below.
(2) Gross merchandise volume 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.
(3) Completed transactions represent the number of transactions in a given period from which we have recorded revenue.
(4) Total registered buyers as of a given date represent the aggregate number of persons or entities who have registered on one of our marketplaces.
(5) For each auction we manage, the number of auction participants represents the total number of registered buyers who have bid one or more times on that auction, and total auction participants for a given period is the sum of the auction participants in each auction conducted during that period.
(6) Working capital is defined as current assets minus current liabilities.
(7) On October 1, 2018, the Company adopted ASU 2017-17, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,* and retrospectively reclassified the components of net periodic benefit other than the service cost component from General and administrative, a component of loss from operations, to Interest and other income, net, which is outside of loss from operations. This retrospective reclassification was made in our prior year audited financial statements covering the years ended September 30, 2019, 2018 and 2017. The impact for the year ended September 30, 2016 was $252 thousand.
(8) On October 1, 2019, the Company adopted ASC 842, *Leases*, using the modified retrospective transition method. Prior periods have not been restated. Upon adoption, the Company recognized $11.3 million of operating lease assets and $12.2 million of operating lease liabilities. See Note 2 to the Consolidated Financial Statements for further details.

We believe non-GAAP financial measures, such as EBITDA and Adjusted EBITDA, are useful to an investor in evaluating our performance for the following reasons:

- Depreciation and amortization expense relates to property and equipment, and intangible assets. Both of these expenses are non-cash charges that have significantly fluctuated over the past five years. As a result, we believe that adding back these non-cash charges to net income 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 net income for provision 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 net income 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.

- We believe adjusting net income for acquisition and disposition related transaction expenses and changes in contingent consideration is useful to investors when evaluating the operating performance of our business on a consistent basis from year to year.
- We believe adjusting net income 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 by removing 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 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, loss from operations, cash provided by (used in) 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 income from continuing operations to EBITDA and Adjusted EBITDA for the periods presented:

	Year ended September 30,				
	2016	2017	2018	2019	2020
	(in thousands)				
Net loss	$ (59,926)	$ (39,187)	$ (11,615)	$ (19,260)	$ (3,774)
Interest and other income, net[1]	(1,217)	(362)	(450)	(1,101)	(577)
Provision (benefit) for income taxes	27,025	(451)	(9,328)	1,200	801
Depreciation and amortization	6,502	5,796	4,599	5,091	6,290
EBITDA	(27,616)	(34,204)	(16,794)	(14,070)	2,740
Stock compensation expense[2]	12,247	7,377	6,597	6,823	5,660
Acquisition costs and impairment of goodwill and long-lived assets[3]	19,037	1,009	467	102	5
Business realignment expenses[4]	—	4,223	1,942	1,578	405
Fair value adjustment to acquisition earn-out liability[3]	—	—	—	3,500	200
Deferred revenue purchase accounting adjustment	—	—	454	818	3
Adjusted EBITDA	$ 3,668	$ (21,595)	$ (7,334)	$ (1,249)	$ 9,013

[1] Interest expense and other income, net excludes non-services pension and other postretirement benefit expense.

(2) Excludes the impact of forfeitures of stock awards by employees terminated by business realignment actions. That impact is included in the business realignment expense line.
(3) Acquisition costs and impairment of long-lived assets, and fair value adjustments to acquisition earn-out liability are included in 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 15 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 year ended September 30, 2019, due to forfeitures of stock awards by terminated employees. No related impacts were associated with the other periods presented.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with our consolidated financial statements and related notes and the information contained under the caption "Selected Consolidated Financial Data" contained elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could vary materially from those indicated, implied, or suggested by these forward-looking statements as a result of many factors, including those discussed under "Risk Factors" and elsewhere in this Annual Report on Form 10-K.

Overview

About us. We operate a network of e-commerce marketplaces that enable buyers and sellers to transact in an efficient, automated environment offering over 500 product categories. Our marketplaces provide professional buyers access to a global, organized supply of new, surplus, and idle assets presented with digital images and other relevant product information. Additionally, we enable our 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. Our 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. We organize the products on our 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, heavy equipment, fleet and transportation equipment and specialty equipment. Our marketplaces are: www.allsurplus.com, 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. We have over 14,000 sellers, including Fortune 1000 and Global 500 organizations as well as federal, state, and local government agencies. We have four reportable segments: Retail Supply Chain Group (RSCG), Capital Assets Group (CAG), GovDeals, and Machinio. See Note 17 to the Consolidated Financial Statements for further information on our reportable segments.

We believe our ability to create liquid marketplaces for surplus and idle 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 2020, the number of registered buyers grew from 3,580,000 to 3,772,000, or 5.4%. During the past three years, we have conducted over 1,727,000 online transactions generating $1.9 billion in gross merchandise volume or GMV. We believe the continuous flow of goods in our marketplaces attracts a growing buyer base which, in turn, attracts more sellers and transactions.

Our Machinio segment, which operates a global online platform for listing used equipment for sale in the construction, machine tool, transportation, printing and agriculture sectors, grew revenue 28.8% during fiscal year 2020.

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 thus far stemming from the actions taken by governments and the private sector to limit the spread of COVID-19. The restrictions on economic activity were caused, in part, by business closures, limitations on the operations of business activity and significant prioritization of essential business functions. Starting in May, we have seen subsequent increases in GMV and revenues as businesses and governments re-opened from government ordered closures which, combined with cost control measures, generated positive net income for the third and fourth quarters of fiscal 2020. However, the likelihood, magnitude and timing of business developments across our segments are difficult to predict given the current economic uncertainty, unknown duration 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.

Throughout the COVID-19 pandemic, the Company has actively monitored its liquidity position and working capital needs. In the fourth quarter of fiscal 2020, the Company determined that its liquidity position and working capital was more than sufficient to meet its projected needs and commenced share repurchases, acquiring 547.5 thousand shares for $4.0 million as of September 30, 2020.

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.

See Part I, Item 1A, Risk Factors, for an additional discussion of risks related to the COVID-19 pandemic.

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 the disposition of surplus and end-of-life assets by corporations and government entities 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; (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 increase in demand from sellers and buyers to transact in a low touch, online solution as compared to live, in-person auctions or public sale events.

Revenues

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. Revenue from our purchase transaction model accounted for 62.0%, 65.3% and 66.7%, of our total revenue for the years ended September 30, 2020, 2019 and 2018, respectively. These amounts included sales of commercial merchandise sourced from multiple vendor contracts with Amazon.com, Inc. by our RSCG segment. The commercial merchandise we purchased under this contract represented 55.1%, 43.6% and 33.7%, of Cost of goods sold for the years ended September 30, 2020, 2019 and 2018, respectively. The merchandise sold under our purchase transaction model accounted for 20.9%, 23.0% and 22.9%, of our GMV for the years ended September 30, 2020, 2019 and 2018.

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. Revenue from our consignment model accounted for 31.8%, 29.4% and 30.3%, of our total revenue for the years ended September 30, 2020, 2019 and 2018, respectively, and 79.1%, 77.0% and 77.1%, of our GMV for the years ended September 30, 2020, 2019 and 2018, respectively.

Other — fee revenue. We also earn non-consignment fee revenue from Machinio's sales listing subscription and MachineryHost services, as well as other services including returns management, refurbishment of assets, and asset valuation services. Prior to the wind-down of our operations under the Surplus Contract, we also earned non-consignment fee revenue from services provided under that contract. Other revenues accounted for 6.2%, 5.3% and 3.0% of our total revenue for the years ended September 30, 2020, 2019 and 2018, respectively.

Our Vendor Agreements

Commercial agreements. We have multiple vendor contracts with Amazon.com, Inc. under which we acquire and sell commercial merchandise. The property we purchased under this contract represented 55.1%, 43.6% and 33.7%, of cost of goods sold for the years ended September 30, 2020, 2019 and 2018, respectively. This contract is included within our RSCG segment. Our agreements with our other sellers are generally terminable at will by either party.

DoD agreements. Historically, we had two material vendor contracts with the DoD: the Scrap Contract and the Surplus Contract. Both contracts were included in the results of our CAG segment.

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 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.

Resale of scrap property that we purchased under the Scrap Contract accounted for 7.4% and 10.2% of our total revenues and 2.6% and 3.6% of our GMV in the years ended September 30, 2019 and 2018, respectively.

Surplus Contract. Under the Surplus Contract, which concluded on June 30, 2018, we acquired, managed and sold usable surplus personal property of the DoD turned into the DLA. We paid the DLA 4.35% of the DoD's original acquisition value for the surplus property, which consisted of items determined by the DoD to be no longer needed, and not claimed for reuse by any federal agency, such as electronics, industrial equipment, office supplies, scientific and medical equipment, aircraft parts, clothing and textiles. We retained 100% of the profits from the resale of the property and bore all of the costs for the merchandising and sale of the property. The resale transactions for surplus property sourced under this contract followed the purchase model.

Resale of surplus property that we purchased under the Surplus Contract, as well as services we provided to the DoD under the Surplus Contract, accounted for 12.4% of our total revenues and 4.1% of our GMV in the year ended September 30, 2018.

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. Our GMV for the year ended September 30, 2020 was $619.8 million.

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 September 30, 2020 and 2019, we had 3,772,000 and 3,580,000 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 years ended September 30, 2020, 2019, and 2018, 1,899,000, 2,085,000, and 2,079,000 total auction participants participated in auctions on our marketplaces, respectively. Largely as a result of the wind-down of the Scrap Contract, there has been a decrease in auction participants during 2020 compared with 2019.

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 years ended September 30, 2020, 2019, and 2018, we completed 553,000, 607,000 and 567,000 transactions, respectively.

Critical Accounting Policies and Estimates

The Company's consolidated financial statements, included in Part IV, Item 15(a)(1) of this Annual Report on Form 10-K with their accompanying notes, have been prepared in accordance with GAAP, which requires management of the Company to make assumptions, judgments and estimates that affect amounts reported in its consolidated financial statements. Accounting policies and estimates are considered to be "critical" when the nature of the estimate includes subjective or sensitive assumptions or judgments that can have a material impact on the financial condition or operating performance of the Company. Actual results may differ from these estimates.

We consider the following accounting policies to be critical: revenue recognition, business combinations, valuation of goodwill and other intangible assets, and income taxes. Refer to Note 2 - *Summary of Significant Accounting Policies* to the Company's consolidated financial statements for further details on these accounting policies.

We consider the following accounting estimates to be critical: business combinations (Notes 4 and 13), valuation of goodwill and other intangible assets (Notes 7 and 8), and income taxes (Note 11). Refer to these individually referenced notes and Note 2 - *Summary of Significant Accounting Policies* to the Company's consolidated financial statements for further details on these accounting estimates. The following discussion is a supplement to the disclosures referenced.

Valuation of goodwill. Goodwill is allocated to our reporting units. The Company's reporting units are GovDeals, CAG, RSCG and Machinio. Only the GovDeals, CAG and Machinio reporting units have goodwill balances.

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 represented the Company's best estimate using information that was available at the time.

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.

As of July 1, 2020, the Company performed its annual impairment testing using a fair-value based test for all reporting units with goodwill balances. As there were favorable developments in the factors that indicated a goodwill impairment test was necessary as of March 31, 2020, the fair values of each of our reporting units with goodwill balances was higher as of July 1, 2020 than on March 31, 2020, and the fair values of each of those reporting units exceeded their carrying values by at least 20%.

Given the uncertainty associated with the COVID-19 pandemic, including its extent and duration, actual results could differ significantly from these estimates. The Company will continue to monitor these reporting units for changes that could impact the recoverability of goodwill, which will depend, in part, on 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* to the Company's consolidated financial statements in Part IV, Item 15(a)(1) of this Annual Report on Form 10-K for discussion of the Company's related accounting policies.

Cost of goods sold. Refer to Note 2 - *Summary of Significant Accounting Policies* to the Company's consolidated financial statements in Part IV, Item 15(a)(1) of this 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, 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 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.

Acquisition costs and impairment of goodwill and long-lived assets. Acquisition costs and impairment of goodwill and long-lived assets consist of expenses incurred to complete a business combination, and impairment of goodwill and long-lived assets.
Other operating expenses (income). Other operating expense includes the change in fair value of financial instruments and 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, net. Interest and other income, 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. During the years ended September 30, 2020, 2019, and 2018 had an effective income tax rate for continuing operations of (26.9)%, (6.6)% and 44.6%, respectively, which included federal, state and foreign income taxes.

Results of Operations

The following table presents segment revenue, gross profit, and gross profit margin for the periods indicated ($ in thousands):

	Year Ended September 30, 2020	2019	2018
GovDeals:			
GMV	$ 325,993	$ 327,455	$ 305,628
Total revenue	32,806	32,936	30,214
Gross profit	30,721	30,386	27,990
Gross profit margin	93.6 %	92.3 %	92.6 %
RSCG:			
GMV	181,473	156,096	131,042
Total revenue	136,491	127,321	101,954
Gross profit	49,727	44,967	33,009
Gross profit margin	36.4 %	35.3 %	32.4 %
CAG:			
GMV	112,384	155,855	186,071
Total revenue	29,481	60,242	88,025
Gross profit	22,714	32,679	48,873
Gross profit margin	77.0 %	54.2 %	55.5 %
Machinio:			
GMV	—	—	—
Total revenue	7,213	5,598	653
Gross profit	6,813	5,196	501
Gross profit margin	94.4 %	92.8 %	76.9 %
Corporate & Other, including elimination adjustments:			
GMV	—	469	3,665
Total revenue	(51)	428	3,668
Gross profit	(51)	52	(661)
Gross profit margin	NM	12.2 %	(18.0)%
Consolidated:			
GMV	619,850	639,876	626,406
Total revenue	205,940	226,525	224,514
Gross profit	109,924	113,280	109,712
Gross profit margin	53.4 %	50.0 %	48.9 %

NM = not meaningful

Year Ended September 30, 2020 Compared to Year Ended September 30, 2019

Segment Results

GovDeals. Revenue from our GovDeals segment decreased 0.4%, or $0.1 million, due to a 0.4%, or $1.5 million, decrease in GMV primarily resulting from decreased activity due to limitations on government facility operations in response to the COVID-19 pandemic. These declines were mostly offset by increasing transaction activity as those facilities re-opened, as well as increased recovery rates on vehicles sales. Gross profit within this segment increased 1.1%, or $0.3 million, and gross profit margin increased from 92.3% to 93.6%, as fewer of the vehicles sold during the year ended September 30, 2020 required transportation costs to arrive at the point of sale.

RSCG. Revenue from our RSCG segment increased 7.2%, or $9.2 million due to a 16.3%, or $25.4 million, increase in GMV driven by growing volumes within existing seller accounts and launching new programs with large and mid-sized retailers. As a result of the increase in revenues, gross profit increased 10.6%, or $4.8 million. Gross profit margin increased from 35.3% to 36.4% due the improved margins on certain retail programs.

CAG. Revenue and GMV from the CAG segment decreased 51.1%, or $30.8 million, and 27.9%, or $43.5 million, respectively. The conclusion of the Scrap Contract caused revenue and GMV to each decline by $16.8 million. Excluding the impact of the completed Scrap Contract, revenue decreased by 32.3%, or $14.0 million, and GMV decreased by 19.2%, or $26.7 million. These 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 with principal transactions in the Asia-Pacific region. Gross profit within the CAG segment decreased 30.5%, or $10.0 million, due to a $5.9 million impact from the completion of the Scrap Contract and the reduction in revenues. Gross profit margin increased from 54.2% to 77.0% due the completion of the Scrap Contract, which had lower gross profit margins than the remaining business, and due to the larger impact of the COVID-19 pandemic on principal transactions.

Machinio. Revenue from our Machinio segment increased 28.8%, or $1.6 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 31.1%, or $1.6 million.

Corporate & Other. The changes in revenue, GMV, gross profit and gross profit margin are primarily due to the Company's exit from the IronDirect business in January 2019. The activity for the year ended September 30, 2020 represents elimination adjustments.

Consolidated Results

The following table sets forth, for the periods indicated, our operating results (dollars in thousands):

	Year Ended September 30, 2020	Year Ended September 30, 2019	$ Change	% Change
Revenue	$ 127,580	$ 147,889	$ (20,309)	(13.7)%
Fee revenue	78,360	78,636	(276)	(0.4)
Total revenue	205,940	226,525	(20,585)	(9.1)
Costs and expenses from operations:				
Cost of goods sold (excludes depreciation and amortization)	96,016	102,414	(6,398)	(6.2)
Seller distributions	—	10,831	(10,831)	(100.0)
Technology and operations	42,158	51,594	(9,436)	(18.3)
Sales and marketing	35,629	36,703	(1,074)	(2.9)
General and administrative	29,166	34,249	(5,083)	(14.8)
Depreciation and amortization	6,290	5,091	1,199	23.6
Acquisition costs and impairment of goodwill and long-lived assets	5	102	(97)	(95.1)
Other operating expenses	573	5,049	(4,476)	(88.7)
Total costs and expenses	209,837	246,033	(36,196)	(14.7)
Loss from operations	(3,897)	(19,508)	15,611	(80.0)
Interest and other income, net	(924)	(1,448)	524	(36.2)
Loss before provision for income taxes	(2,973)	(18,060)	15,087	(83.5)
Provision (benefit) for income taxes	801	1,200	(399)	(33.3)
Net loss	$ (3,774)	$ (19,260)	$ 15,486	(80.4)%

Total Revenue. Total consolidated revenue decreased $20.6 million, or 9.1%. Refer to the discussion of Segment Results above for discussion of the decrease in revenue.

Cost of goods sold. Cost of goods sold decreased $6.4 million, or 6.2%, primarily due to revenue declines in CAG, partially offset by the revenue increases in RSCG.

Seller distributions. Seller distributions decreased $10.8 million, or 100.0%, due to the completion of the Scrap Contract.

Technology and operations expenses. Technology and operations expenses decreased $9.4 million, or 18.3%. The decrease included $5.2 million due to the conclusion of the Scrap Contract in fiscal year 2019, $5.7 million 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. However, the impact of the actions 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 $1.5 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 decreased $1.1 million, or 2.9%, due to actions taken to reduce operating expenses in response to the COVID-19 pandemic in the year ended September 30, 2020, partially offset by increased marketing expenses to promote our new e-commerce technology platform and consolidated marketplace. However, the impact of the action taken in response to COVID-19 on our operating expense levels will lessen as business conditions continue to recover.

General and administrative expenses. General and administrative expenses decreased $5.1 million, or 14.8%, and was impacted by actions taken to reduce operating expenses in response to the COVID-19 pandemic in the year ended September 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.

Depreciation and amortization expenses. Depreciation and amortization expenses increased $1.2 million, or 23.6%, primarily due the launch of our new e-commerce technology platform and related change of useful lives of internally developed software for internal-use, both occurring in the fourth quarter of fiscal 2019.

Acquisition costs and impairment of goodwill and long-lived assets. Acquisition costs and impairment of goodwill and long-lived assets were not significant for the years ended September 30, 2020 and 2019.

Other operating expense. Other operating expense of $0.6 million represents $0.4 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 $5.0 million during the year ended September 30, 2019 includes $1.6 million of business realignment expenses, and a $3.5 million increase in the fair value of the Machinio earn-out liability.

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

Provision (benefit) for income taxes. Income taxes decreased $0.4 million, to an expense of $0.8 million for the year ended September 30, 2020, from an expense of $1.2 million for the year ended September 30, 2019 due to lower state tax expense and the release of $0.2 million of unrecognized tax benefits related to foreign operations. The Company's effective income tax rate was (26.9)%. for the twelve months ended September 30, 2020. The 2020 effective tax rate differed from the statutory federal rate of 21.0% primarily as a result of the valuation allowance on deferred tax assets, state taxes, and the impact of permanent tax adjustments.

Net loss. Net loss for the year ended September 30, 2020, decreased $15.5 million, to $3.8 million, compared to a loss of $19.3 million for the year ended September 30, 2019, due to the reasons described above.

Year Ended September 30, 2019 Compared to Year Ended September 30, 2018

Segment Results

GovDeals. Revenue from our GovDeals segment increased 9.0%, or $2.7 million, due to a 7.1%, or $21.8 million, increase in GMV resulting from additional sales volume from existing sellers and an increase in the number of new sellers. As a result of the increase in revenues, gross profit within this segment increased 8.6%, or $2.4 million. Gross profit margin was consistent between the periods.

RSCG. Revenue from our RSCG segment increased 24.9%, or $25.4 million due to a 19.1%, or $25.1 million, increase in GMV, an increase in the mix of transactions conducted under the purchase model, and an increase in the non-consignment fee services provided. Gross profit within the RSCG segment increased 36.2%, or $12.0 million, due to the impacts of the increased revenues, as well as improved margins on certain retail programs. Gross profit margin increased from 32.4% to 35.3% due the improved margins on certain retail programs, and the increase in non-consignment fee services provided.

CAG. Revenue and GMV from the CAG segment decreased 31.6%, or $27.8 million, and 16.2%, or $30.2 million, respectively. The conclusion of the Scrap and Surplus Contracts caused revenue and GMV to decline by $33.8 million and $31.5 million, respectively. Excluding the impact of the completed Scrap and Surplus Contracts, revenue increased by $6.1 million, or 16.3%, driven by a $1.3 million, or 1.0% increase in GMV, and an increase in the mix of transactions conducted under the purchase model. Gross profit within the CAG segment decreased 33.1%, or $16.2 million, due to a $14.2 million impact from the conclusion of the Scrap and Surplus Contracts, and the impact of the increase in mix of transactions conducted under the purchase model. Gross profit margin declined from 55.5% to 54.2% due the increase in the mix of transactions conducted under the purchase model, partially offset by the conclusion of the Scrap and Surplus Contracts, which had lower gross profit margins than the remaining business.

Machinio. Machinio's revenues for the period represent $3.5 million related to new subscriptions and subscription renewals during fiscal 2019, and $2.1 million related to revenues recognized for subscriptions that started prior to fiscal 2019. Because Machinio was acquired on July 10, 2018, the prior period results only include revenues recognized subsequent to that date.

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

Consolidated Results

The following table sets forth, for the periods indicated, our operating results (dollars in thousands):

	Year Ended September 30, 2019	Year Ended September 30, 2018	$ Change	% Change
Revenue	$ 147,889	$ 149,677	$ (1,788)	(1.2)%
Fee revenue	78,636	74,837	3,799	5.1
Total revenue	226,525	224,514	2,011	0.9
Costs and expenses from operations:				
Cost of goods sold (excludes depreciation and amortization)	102,414	100,087	2,327	2.3
Seller distributions	10,831	14,715	(3,884)	(26.4)
Technology and operations	51,594	60,786	(9,192)	(15.1)
Sales and marketing	36,703	33,703	3,000	8.9
General and administrative	34,249	30,493	3,756	12.3
Depreciation and amortization	5,091	4,599	492	10.7
Acquisition costs and impairment of goodwill and long-lived assets	102	467	(365)	(78.2)
Other operating expenses	5,049	1,392	3,657	262.7
Total costs and expenses	246,033	246,242	(209)	(0.1)
Loss from operations	(19,508)	(21,728)	2,220	(10.2)
Interest and other income, net	(1,448)	(785)	(663)	84.5
Loss before provision for income taxes	(18,060)	(20,943)	2,883	(13.8)
Provision (benefit) for income taxes	1,200	(9,328)	10,528	NM
Net loss	$ (19,260)	$ (11,615)	$ (7,645)	65.8 %

NM = not meaningful

Total Revenue. Total consolidated revenue increased $2.0 million, or 0.9%. Refer to the discussion of Segment Results above for discussion of the increase in revenue.

Cost of goods sold. Cost of goods sold increased $2.3 million, or 2.3%. This included decreases of $15.8 million due to the conclusion of the Surplus Contract and $4.0 million due to the Company's decision to exit the IronDirect business in January

2019. These decreases were primarily offset by increases of $13.4 million in RSCG and $7.9 million in CAG (excluding the Surplus Contract), driven by increases in revenues and the mix of transactions conducted under the purchase model.

Seller distributions. Seller distributions decreased $3.9 million, or 26.4%, due to lower sales under the Scrap Contract, which concluded on September 30, 2019.

Technology and operations expenses. Technology and operations expenses decreased $9.2 million, or 15.1%. The decrease included $6.9 million due to the conclusion of the Scrap and Surplus contracts, $4.6 reductions in Corporate and CAG (excluding the Scrap and Surplus Contract) driven by benefits from restructuring and other organizational changes, and $0.5 million from the Company's decision to exit the IronDirect business in January 2019. These decreases were partially offset by a $3.0 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 $3.0 million, or 8.9%, due to a $1.6 million increase in sales expenses driven by the increases in revenues, and a $1.4 million increase in marketing expenses driven by increased promotional activities related to our new e-commerce technology platform and development of our consolidated marketplace.

General and administrative expenses. General and administrative expenses increased $3.8 million, or 12.3%, and were impacted by increases in compensation expenses, as well as external costs associated with new accounting standard adoptions.

Depreciation and amortization expenses. Depreciation and amortization expenses increased $0.5 million, or 10.7%, primarily due to a full year amortization expense recognized during 2019 on intangible assets acquired as part of Machinio acquisition on July 10, 2018.

Acquisition costs and impairment of goodwill and long-lived assets. Acquisition costs and impairment of goodwill and long-lived assets were $0.1 million, for the year ended September 30, 2019, compared to $0.5 million for the year ended September 30, 2018. The acquisition costs incurred during the years ended September 30, 2019 and 2018 related to the acquisition of Machinio. There were no impairments recorded during either year.

Other operating expense. Other operating expense of $5.0 million represents $1.6 million of business restructuring costs related to organizational changes, the conclusion of the Scrap Contract, and other cost saving actions, and $3.5 million related to the increase in fair value of the Machinio earn-out liability. Other operating expense of $1.4 million during the year ended September 30, 2018 represents $1.9 million related to business restructuring costs, partially offset by $0.6 million of other miscellaneous income.

Interest and other income, net. Interest and other income, net, increased $0.7 million, primarily due to increased holdings of short-term investments.

Provision (benefit) for income taxes. Income taxes increased $10.5 million, to an expense of $1.2 million for the year ended September 30, 2019, from a benefit of $9.3 million for the year ended September 30, 2018 due to benefits derived from the Tax Act enacted in fiscal year 2018, a valuation allowance charge and the impact of foreign, state, and local taxes and permanent tax adjustments. The Company’s effective income tax rate was (6.6)% for the twelve months ended September 30, 2019. The 2019 effective tax rate differed from the statutory federal rate of 21.0% primarily as a result of the valuation allowance change and the impact of permanent tax adjustments.

Net loss. Net loss for the year ended September 30, 2019, increased $7.6 million, to $19.3 million, compared to a loss of $11.6 million for the year ended September 30, 2018, due to the reasons described above.

Liquidity and Capital Resources

Our operational cash needs primarily relate to working capital, including capital used for inventory purchases, which we have funded through cash generated from operations. From time to time, we may use our capital resources for other activities, such as share repurchases or acquisitions. As of September 30, 2020, we had $76.0 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 in the third and fourth quarters of fiscal 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. 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, 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 $4.5 million as of September 30, 2020. As of September 30, 2020, and September 30, 2019, $19.5 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.
The Company repurchased 547.5 thousand shares for $4.0 million under this program during the twelve months ended September 30, 2020. As of September 30, 2020, the Company may repurchase an additional $6.1 million of 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: 2020 Compared to 2019

Net cash provided by (used in) operating activities was $16.5 million and $(6.2) million for the year ended September 30, 2020 and 2019, respectively. The $22.7 million increase in cash provided by operations between periods was to attributable changes in accounts payable and payables to sellers driven by timing of payments, including an increase in the seller settlement cycle for sellers being paid by check due to the COVID-19 pandemic; and $12.5 million of lower net loss 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 activity in payables to seller normalizes, and as the Company makes its annual bonus payments in the first quarter of fiscal 2021.

Net cash provided by (used in) investing activities was $28.6 million for the year ended September 30, 2020, and $(15.7) million for the year ended September 30, 2019. The $44.4 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 $2.8 million of principal payments on the promissory note issued to JTC. The Company continues to monitor for changes that could impact the recoverability of the promissory note, which depends on JTC's subsequent operating performance and ability to make the payments required by the new repayment schedule. JTC made all of its scheduled payments during the year ended September 30, 2020.

Net cash (used in) provided by financing activities was $(5.7) million for the year ended September 30, 2020, and $0.5 million for the year ended September 30, 2019. The $6.2 million increase in cash used by financing activities consisted of $4.0 million to repurchase common stock, $1.2 million as the portion of the Machinio earn-out payment that represented its fair value at the date of acquisition, and a $0.6 million increase in taxes paid associated with net settlement of stock compensation awards.

Changes in Cash Flows: 2019 Compared to 2018

Net cash used in operating activities was $6.2 million for the year ended September 30, 2019, and net cash provided by operating activities was $0.6 million for the year ended September 30, 2018. The $6.9 million increase in cash used in operations between periods was primarily attributable to increase in net loss as well as changes in working capital from collections of receivables, sales of inventory and payables to sellers. Our working capital accounts are subject to natural variations depending on the timing of cash receipts and payments, however, there have been no significant changes to the working capital requirements for the Company, other than the Machinio earn-out that was paid in fiscal 2020.

Net cash used in investing activities was $15.7 million for the year ended September 30, 2019, and $37.1 million for the year ended September 30, 2018. The decrease was driven by the $16.7 million related to the acquisition of Machinio in fiscal 2018, and a $10.0 million decrease in short-term investments purchased. These decreases were partially offset by $3.0 million related to the JTC Note, as we received the 2019 annual payment in October 2019, after our fiscal year end. There was also a $1.8 million increase in capital expenditures, primarily related to our new e-commerce technology platform.

Net cash provided by financing activities was $0.5 million for the year ended September 30, 2019, and net cash provided by financing activities was $0.4 million for the year ended September 30, 2018. The change was primarily driven from an increase in proceeds from stock option exercises.

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 our existing cash balances. Our capital expenditures for the year ended September 30, 2020 were $4.2 million. As of September 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. Although we are currently not a party to any definitive agreement with respect to potential investments in, or acquisitions of, complementary businesses, products or technologies, we may enter into these types of arrangements in the future, which could also require us to seek additional equity or debt financing. The sale of additional equity securities or convertible debt securities would result in additional dilution to our stockholders. Additional debt would result in increased interest expense and could result in covenants that would restrict our operations. There is no assurance that such financing, if required, will be available in amounts or on terms acceptable to us, if at all.

Contractual and Commercial Commitments

The table below represents our significant commercial commitments as of September 30, 2020. Operating and finance leases represent commitments to rent office and warehouse space, as well as equipment used in our operations. Other contractual cash obligations represent information technology commitments related to licensing fees, hardware maintenance and other, and are not reflected on our balance sheets.

	Total	Less than 1 year	1 to 3 years	3 to 5 Years	5+ years
	(in thousands)				
Operating leases	$ 12,723	$ 4,421	$ 5,581	$ 2,513	$ 208
Finance leases	328	56	111	111	50
Other contractual cash obligations	3,391	2,385	1,006	—	—
Total contractual cash obligations	$ 16,442	$ 6,862	$ 6,698	$ 2,624	$ 258

Off-Balance Sheet Arrangements

We do not have any transactions, obligations or relationships that could be considered material off-balance sheet arrangements.

Inflation

Inflation generally affects us by increasing our cost of labor and equipment. We do not believe that inflation had any material effect on our results of operations during the years ended September 30, 2020, 2019 and 2018.

New Accounting Pronouncements

Information regarding our adoption of new accounting and reporting standards is discussed in Note 2 to the consolidated financial statements included in Part IV, Item 15(a)(1) of this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Interest rate sensitivity. As of September 30, 2020, we do not have any debt, and we are not holding any short-term investments, but we do hold $30.0 million of cash and cash equivalents in money market funds. Changes in yields on the money market funds are 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 8. Financial Statements and Supplementary Data.

The consolidated financial statements and accompanying notes are included in Part IV, Item 15(a)(1) of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreement with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Attached as exhibits to this Form 10-K are certifications of our Chief Executive Officer and Chief Financial Officer, which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (Exchange Act). This "Controls and Procedures" section includes information concerning the controls and controls evaluation referred to in the certifications. The report of Ernst & Young LLP, our independent registered public accounting firm, regarding its audit of our internal control over financial reporting is set forth below in this section. This section should be read in conjunction with the certifications and the Ernst & Young LLP report for a more complete understanding of the topics presented.

Evaluation of Disclosure Controls and Procedures

Management conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures and our internal control over financial reporting as of the end of the period covered by this Form 10-K. The controls evaluation was conducted under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures are also designed to reasonably assure that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our quarterly evaluation of disclosure controls includes an evaluation of some components of our internal control over financial reporting. Internal control over financial reporting is also separately evaluated on an annual basis for purposes of providing the management report which is set forth below.

The evaluation of our disclosure controls included a review of the controls' objectives and design, our implementation of the controls and their effect on the information generated for use in this Form 10-K. In the course of the controls evaluation, we reviewed identified data errors, control deficiencies and, where appropriate, sought to confirm that appropriate corrective actions, including process improvements, were being undertaken. This type of evaluation is performed on a quarterly basis so that the conclusions of management, including the Chief Executive Officer and Chief Financial Officer, concerning the effectiveness of the disclosure controls can be reported in our periodic reports on Form 10-Q and Form 10-K. Many of the components of our disclosure controls are also evaluated on an ongoing basis by our finance organization. The overall goals of these various evaluation activities are to monitor our disclosure controls, and to modify them as necessary. Our intent is to maintain the disclosure controls as dynamic systems that change as conditions warrant.

Based upon the controls evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this Form 10-K, our disclosure controls were effective to ensure assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC, and that material information related to Liquidity Services and our consolidated subsidiaries is made known to management, including the Chief Executive Officer and Chief Financial Officer, particularly during the period when our periodic reports are being prepared. We reviewed the results of management's evaluation with the Audit Committee of our Board of Directors.

Management Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining effective internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP; and (iii) provide reasonable assurance regarding authorization to effect the acquisition, use or disposition of company assets, as well as the prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Management assessed our internal control over financial reporting as of September 30, 2020, the end of our fiscal year. Management based its assessment on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Management's assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies and our overall control environment. This assessment is supported by testing and monitoring performed by our finance organization.

Based on this assessment, management has concluded that our internal control over financial reporting was effective as of the end of the fiscal year to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP.

Our independent registered public accounting firm, Ernst & Young LLP, independently assessed the effectiveness of the company's internal control over financial reporting. Ernst & Young LLP has issued an attestation report, which is included at the end of this section.

Inherent Limitations on Effectiveness of Controls

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Other inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Changes in Internal Control over Financial Reporting

During the three months ended September 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 the COVID-19 pandemic and our actions taken in response, including terminations, furloughs and employees working remotely, have not materially affected our internal control over financial reporting as of September 30, 2020, we will continue to monitor and assess this ongoing situation for potential material effects.

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Liquidity Services, Inc. and Subsidiaries

Opinion on Internal Control over Financial Reporting

We have audited Liquidity Services, Inc. and Subsidiaries' internal control over financial reporting as of September 30, 2020, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Liquidity Services, Inc. and Subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of September 30, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Liquidity Services, Inc. as of September 30, 2020 and 2019, the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended September 30, 2020, and the related notes and financial statement schedule listed in the Index at Item 15(a) and our report dated December 8, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Tysons, Virginia
December 8, 2020

Item 9B. Other Information.

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

The Board of Directors adopted an Annual Incentive Plan (the "Incentive Plan") on December 2, 2020, which is effective as of October 1, 2020. The Incentive Plan will be administered by the Compensation Committee or other committee appointed by the Board in accordance with the plan (the "Committee"). Participation in the Incentive Plan is limited to certain eligible participants, including executive officers and certain other employees designated by the Committee. The right to receive a bonus under the Incentive Plan depends on the achievement of specific performance goals, referred to as Management Objectives. The Committee will establish the Management Objectives and amount of incentive bonus payable for a performance period.

Management Objectives may be described in terms of company-wide objectives or objectives that are related to the performance of the individual participant or of the subsidiary, division, department or function within the company or subsidiary in which the participant is employed. The Management Objectives are limited to specified levels of growth in, or relative peer company performance in, one or more of the following:

(i) sales, including net sales, unit sales volume, and aggregate product price;

(ii) share price, including market price per share, and share price appreciation;

(iii) earnings, including earnings per share, reflecting dilution of shares, gross or pretax profits, post-tax profits, operating profit, contribution profit, gross profit, earnings net of or including dividends, earnings net of or including the after-tax cost of capital, earnings before (or after) interest and taxes ("EBIT"), earnings per share from continuing operations, diluted or basic, (xi) earnings before interest, taxes, depreciation and amortization ("EBITDA"), adjusted EBIT or adjusted EBITDA, pre-tax operating earnings after interest and before incentives, service fees and extraordinary or special items, operating earnings, growth in earnings or growth in earnings per share, total earnings and operating income;

(iv) return on equity, including return on equity, return on invested capital, return or net return on assets, return on net assets, return on equity, return on gross sales, return on investment, return on capital, return on invested capital, return on committed capital, financial return ratios, value of assets, and change in assets;

(v) cash flow(s), including operating cash flow, net cash flow, free cash flow, cash flow on investment, levered free cash flow, and unlevered free cash flow;

(vi) revenue, including gross or net revenue, and changes in annual revenues;

(vii) margins, including adjusted pre-tax margin, and operating margins;

(viii) income, including net income, and consolidated net income;

(ix) economic value added;
(x) costs, including operating or administrative expenses, operating expenses as a percentage of revenue, general and administrative expenses as a percentage of revenue, expense or cost levels, reduction of losses, loss ratios or expense ratios, reduction in fixed costs, expense reduction levels, operating cost management, and cost of capital;

(xi) financial ratings, including credit rating, capital expenditures, debt, debt reduction, working capital, average invested capital, and attainment of balance sheet or income statement objectives;

(xii) market or category share, including market share, volume, unit sales volume, and market share or market penetration with respect to specific designated products or product groups and/or specific geographic areas;

(xiii) shareholder return, including total shareholder return, stockholder return based on growth measures or the attainment of a specified share price for a specified period of time, and dividends; and

(xiv) objective nonfinancial performance criteria measuring either regulatory compliance, productivity and productivity improvements, inventory turnover, average inventory turnover or inventory controls, net asset turnover, customer satisfaction based on specified objective goals or company-sponsored customer surveys, employee satisfaction based on specified objective goals or company-sponsored employee surveys, objective employee diversity goals, employee turnover, specified objective environmental goals, specified objective social goals, specified objective goals in corporate ethics and integrity, specified objective safety goals, specified objective business expansion goals or goals relating to acquisitions or divestitures, and succession plan development and implementation.

The Committee may, for a performance period, amend or adjust the applicable Management Objective(s) or other terms and conditions relating thereto in recognition of acquisitions or divestitures; litigation or claim judgments or settlements; unusual, nonrecurring or one-time events affecting us or our subsidiaries, our financial statements, or changes in law or accounting principles; asset write downs; capital charges; costs and expenses; reorganization and restructuring programs; or similar non-GAAP adjustments.

The Committee will determine whether the Management Objectives have been achieved and the amounts payable following the end of the applicable performance period. The Committee will also have the ability to modify such amounts payable in its discretion. The Committee may amend the Incentive Plan from time to time and the Incentive Plan will remain effective until otherwise terminated by the Board.

The foregoing summary is qualified by reference to the full text of the Incentive Plan, a copy of which is attached hereto as Exhibit 10.20, and is incorporated herein by reference.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Incorporated by reference from the Company's Proxy Statement relating to its 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after September 30, 2020.

Code of Ethics, Governance Guidelines and Committee Charters

We have adopted a Code of Conduct that applies to all of our directors, officers and employees, including our principal executive, principal financial and principal accounting officers, or persons performing similar functions. The Code of Conduct is available on our website at http://investors.liquidityservices.com. We intend to disclose future amendments to certain provisions of the Code of Conduct, and waivers of the Code of Conduct granted to executive officers and directors, on the website within four business days following the date of the amendment or waiver.

Item 11. Executive Compensation.

Incorporated by reference from the Company's Proxy Statement relating to its 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after September 30, 2020.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters.

Incorporated by reference from the Company's Proxy Statement relating to its 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after September 30, 2020.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Incorporated by reference from the Company's Proxy Statement relating to its 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after September 30, 2020.

Item 14. Principal Accountant Fees and Services.

Incorporated by reference from the Company's Proxy Statement relating to its 2021 Annual Meeting of Stockholders to be filed with the SEC within 120 days after September 30, 2020.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a)

(1) The following documents related to the financial statements are filed as part of this report:

(2) The following financial statement schedule is filed as part of this report:
Schedules for the three years ended September 30, 2020, 2019 and 2018:

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required or are inapplicable and therefore have been omitted.

(3) The documents required to be filed as exhibits to this report under Item 601 of Regulation S-K are listed in the Exhibit Index included elsewhere in this report, which list is incorporated herein by reference.

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Liquidity Services, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Liquidity Services, Inc. and Subsidiaries (the Company) as of September 30, 2020 and 2019, the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended September 30, 2020, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at September 30, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of September 30, 2020, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated December 8, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion..

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2001.

Tysons, Virginia
December 8, 2020

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

	September 30, 2020	September 30, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 76,036	$ 36,497
Short-term investments	—	30,000
Accounts receivable, net of allowance for doubtful accounts of $389 and $291	5,322	6,704
Inventory, net	5,607	5,843
Prepaid taxes and tax refund receivable	1,652	2,531
Prepaid expenses and other current assets	5,962	8,350
Total current assets	94,579	89,925
Property and equipment, net	17,843	18,846
Operating lease assets	10,561	—
Intangible assets, net	4,758	6,043
Goodwill	59,839	59,467
Deferred tax assets	806	866
Other assets	8,248	12,136
Total assets	$ 196,634	$ 187,283
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 21,957	$ 15,051
Accrued expenses and other current liabilities	19,124	28,794
Current portion of operating lease liabilities	3,818	—
Distributions payable	—	1,675
Deferred revenue	3,255	3,049
Payables to sellers	26,170	20,253
Total current liabilities	74,324	68,822
Operating lease liabilities	7,499	—
Deferred taxes and other long-term liabilities	2,996	2,286
Total liabilities	84,819	71,108
Commitments and contingencies (Notes 9 and 16)		
Stockholders' equity:		
Common stock, $0.001 par value; 120,000,000 shares authorized; 34,082,406 shares issued and outstanding at September 30, 2020; 33,687,115 shares issued and outstanding at September 30, 2019	34	34
Additional paid-in capital	247,892	242,686
Treasury stock, at cost; 547,508 shares at September 30, 2020 and — shares at September 30, 2019	(3,983)	—
Accumulated other comprehensive loss	(9,782)	(7,973)
Accumulated deficit	(122,346)	(118,572)
Total stockholders' equity	111,815	116,175
Total liabilities and stockholders' equity	$ 196,634	$ 187,283

See accompanying notes to the consolidated financial statements.

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

	Year Ended September 30,		
	2020	2019	2018
Revenue	$ 127,580	$ 147,889	$ 149,677
Fee revenue	78,360	78,636	74,837
Total revenue	205,940	226,525	224,514
Costs and expenses from operations:			
Cost of goods sold (excludes depreciation and amortization)	96,016	102,414	100,087
Seller distributions	—	10,831	14,715
Technology and operations	42,158	51,594	60,786
Sales and marketing	35,629	36,703	33,703
General and administrative	29,166	34,249	30,493
Depreciation and amortization	6,290	5,091	4,599
Acquisition costs and impairment of goodwill and long-lived assets	5	102	467
Other operating expenses	573	5,049	1,392
Total costs and expenses	209,837	246,033	246,242
Loss from operations	(3,897)	(19,508)	(21,728)
Interest and other income, net	(924)	(1,448)	(785)
Loss before provision for income taxes	(2,973)	(18,060)	(20,943)
Provision (benefit) for income taxes	801	1,200	(9,328)
Net loss	$ (3,774)	$ (19,260)	$ (11,615)
Basic and diluted loss per common share	$ (0.11)	$ (0.58)	$ (0.36)
Basic and diluted weighted average shares outstanding	33,612,263	33,062,976	32,095,491

See accompanying notes to the consolidated financial statements.

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

	Year Ended September 30,		
	2020	**2019**	**2017**
Net loss	$ (3,774)	$ (19,260)	$ (11,615)
Other comprehensive (loss) income:			
Defined benefit pension plan—unrecognized amounts, net of taxes	(2,293)	(540)	773
Foreign currency translation	484	(984)	(791)
Other comprehensive (loss) income, net of taxes	(1,809)	(1,524)	(18)
Comprehensive loss	$ (5,583)	$ (20,784)	$ (11,633)

See accompanying notes to the consolidated financial statements.

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

	Common Stock			Treasury Stock				
	Shares	**Amount**	**Additional Paid-in Capital**	**Shares**	**Amount**	**Accumulated Other Comprehensive Loss**	**Accumulated Deficit**	**Total**
Balance at September 30, 2017	31,503,349	$ 29	$ 227,264	—	—	$ (6,431)	$ (88,226)	$ 132,636
Exercise of common stock options and vesting of restricted stock	973,755	1	403	—	—	—	—	404
Compensation expense and incremental tax benefit from grants of common stock options and restricted stock	—	—	6,346	—	—	—	—	6,346
Issuance of common stock for acquisition activity	297,014	3	2,002	—	—	—	—	2,005
Cumulative adjustment related to adoption of ASU 2016-09	—	—	100	—	—	—	(207)	(107)
Net loss	—	—	—	—	—	—	(11,615)	(11,615)
Defined benefit pension plan—unrecognized amounts, net of taxes	—	—	—	—	—	773	—	773
Foreign currency translation and other	—	—	—	—	—	(791)	3	(788)
Balance at September 30, 2018	32,774,118	$ 33	$ 236,115	—	—	$ (6,449)	$ (100,045)	$ 129,654
Exercise of common stock options, grants of restricted stock awards, and vesting of restricted stock units	953,066	1	589	—	—	—	—	590
Taxes paid associated with net settlement of stock compensation awards	(6,906)	—	(44)	—	—	—	—	(44)
Forfeiture of restricted stock awards	(33,163)	—	—	—	—	—	—	—
Stock compensation expense	—	—	6,026	—	—	—	—	6,026
Cumulative adjustment related to adoption of ASC 606	—	—	—	—	—	—	730	730
Net loss	—	—	—	—		—	(19,260)	(19,260)
Defined benefit pension plan—unrecognized amounts, net of taxes	—	—	—	—	—	(540)	—	(540)
Foreign currency translation and other	—	—	—	—	—	(984)	3	(981)
Balance at September 30, 2019	33,687,115	$ 34	$ 242,686	—	$ —	$ (7,973)	$ (118,572)	$ 116,175
Common stock repurchases	—	—	—	(547,508)	(3,983)	—	—	(3,983)
Exercise of common stock options, grants of restricted stock awards, and vesting of restricted stock units	494,683	—	111	—	—	—	—	111
Taxes paid associated with net settlement of stock compensation awards	(84,392)	—	(594)	—	—	—	—	(594)
Forfeiture of restricted stock awards	(15,000)	—	—	—	—	—	—	—
Stock compensation expense	—	—	5,689	—	—	—	—	5,689
Net loss	—	—	—	—	—	—	(3,774)	(3,774)
Defined benefit pension plan—unrecognized amounts, net of taxes	—	—	—	—	—	(2,293)	—	(2,293)
Foreign currency translation	—	—	—	—	—	484	—	484
Balance at September 30, 2020	34,082,406	$ 34	$ 247,892	(547,508)	$ (3,983)	$ (9,782)	$ (122,346)	$ 111,815

See accompanying notes to the consolidated financial statements.

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

	Year Ended September 30,		
	2020	2019	2018
Operating activities			
Net loss	$ (3,774)	$ (19,260)	$ (11,615)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	6,290	5,091	4,599
Change in fair value of earnout liability	200	3,500	100
Stock compensation expense	5,660	6,508	6,597
Inventory adjustment to net realizable value	300	331	2,494
Provision for doubtful accounts	200	178	199
Deferred tax expense (benefit)	106	136	(10,945)
Change in fair value of financial instruments	—	—	90
Gain on disposal of property and equipment	(29)	(15)	(480)
Changes in operating assets and liabilities:			
Accounts receivable	1,182	(2,012)	6,582
Inventory	(64)	3,948	8,120
Prepaid taxes and tax refund receivable	878	(811)	739
Prepaid expenses and other assets	1,375	1,554	(689)
Operating lease assets and liabilities	(187)	—	—
Accounts payable	6,907	1,191	670
Accrued expenses and other current liabilities	(8,198)	1,999	(9,576)
Distributions payable	(1,675)	(453)	(953)
Deferred revenue	207	906	743
Payables to sellers	5,917	(8,716)	4,586
Other liabilities	1,183	(317)	(642)
Net cash provided by (used in) operating activities	16,478	(6,242)	619
Investing activities			
Increase in intangibles	(62)	(23)	(35)
Purchases of property and equipment, including capitalized software	(4,186)	(5,938)	(4,174)
Proceeds from note receivable	2,824	—	3,000
Proceeds from sale of property and equipment	71	247	828
Purchase of short-term investments	(25,000)	(70,000)	(20,000)
Maturities of short-term investments	55,000	60,000	—
Cash paid for business acquisition, net of cash acquired	—	—	(16,673)
Net cash provided by (used in) investing activities	28,647	(15,714)	(37,054)
Financing activities			
Payments of the principal portion of finance lease liabilities	(34)	—	—
Proceeds from exercise of common stock options (net of tax)	111	590	404
Taxes paid associated with net settlement of stock compensation awards	(594)	(44)	—
Payment of earnout liability related to business acquisition	(1,200)	—	—
Common stock repurchases	(3,983)	—	—
Net cash (used in) provided by financing activities	(5,700)	546	404
Effect of exchange rate differences on cash and cash equivalents	114	(541)	131
Net increase (decrease) in cash and cash equivalents	39,539	(21,951)	(35,900)
Cash and cash equivalents at beginning of year	36,497	58,448	94,348
Cash and cash equivalents at end of year	$ 76,036	$ 36,497	$ 58,448
Supplemental disclosure of cash flow information			
Earnout liability for acquisition activity	$ —	$ —	$ 1,200
Issuance of common stock for acquisition activity	—	—	2,005
Cash paid (received for) for income taxes, net of refunds	(1,519)	1,008	916

See accompanying notes to the consolidated financial statements.

1. Organization

Liquidity Services, Inc. (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 idle 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, heavy equipment, fleet and transportation equipment and specialty equipment. The Company's marketplaces are: www.allsurplus.com, www.liquidation.com, www.govdeals.com, www.networkintl.com, www.secondipity.com, 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: Retail Supply Chain Group (RSCG), Capital Assets Group (CAG), GovDeals and Machinio. See Note 17 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

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 year ended September 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 from those estimates.

Principles of Consolidation and Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC. In addition, in the opinion of management, all adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation of the results for the periods presented have been included.

Business Combinations

The Company recognizes all of the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. Acquisition-related costs are recognized separately from the acquisition and expensed as incurred. Restructuring costs incurred in periods subsequent to the acquisition date are expensed when incurred. Subsequent changes to the purchase price (*i.e.*, working capital adjustments) or other fair value adjustments determined during the measurement period are recorded as an adjustment to goodwill, with the exception of contingent consideration, which is recognized in the statement of operations in the period it is modified. All subsequent changes to a valuation allowance or uncertain tax position that relate to the acquired company and existed at the acquisition date that occur both within the measurement period and as a result of facts and circumstances that existed at the acquisition date are recognized as an adjustment to goodwill. All other changes in valuation allowances are recognized as a reduction or increase to income tax expense or as a direct adjustment to additional paid-in capital as required.

Cash and Cash Equivalents

The Company considers all highly liquid securities purchased with an initial maturity of three months or less to be cash equivalents.

Short-term Investments

The Company's short-term investments at September 30, 2019 consisted of various certificates of deposit with maturities of six months or less with interest rates between 1.97% and 2.50%.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and are non-interest bearing. The Company maintains an allowance for doubtful accounts to reserve for potentially uncollectible receivables. Allowances are based on management's judgment, which considers historical bad debt experience, a specific review of all significant outstanding invoices, and an assessment of general economic conditions.

Inventory

Inventory consists of property obtained for resale, generally through the online auction process, and is stated at the lower of cost or net realizable value. Cost is generally determined using the specific identification method. Costs associated with our warehouse operations are expensed as incurred and included within Technology and operations expenses in the Statements of Operations. Charges for unsellable inventory, as well as for inventory written down to net realizable value, are included in Cost of goods sold in the period in which they have been determined to occur. As of September 30, 2020 and September 30, 2019, the Company's inventory reflects write-downs of $0.3 million and $0.3 million, respectively.

Prepaid expenses and other current assets

Prepaid expenses and other current assets includes the short-term portion of a promissory note (described in "Other Assets"), as well as other miscellaneous prepaid expenses.

Other Assets

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 of 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 initially owed to the Company in conjunction with the sale of the Jacobs Trading business, $6.9 million of principal has been repaid as of September 30, 2020. Of the $5.4 million in principal outstanding at September 30, 2020, $3.8 million was recorded in Other assets, and $1.6 million in Prepaid expenses and other current assets based on the scheduled repayment dates.

Property and Equipment

Property and equipment are recorded at cost, and depreciated or amortized on a straight-line basis over the following estimated useful lives:

Computers and purchased software	One to five years
Office/operational equipment	Three to five years
Furniture and fixtures	Five to seven years
Internally developed software for internal-use	Five years (1)
Leasehold improvements	Shorter of lease term or useful life
Buildings	Thirty-nine years
Vehicles	Five years
Land	Not depreciated

(1) As part of our reassessment of the estimated useful lives of our property and equipment, our estimate of the useful life of internally developed software for internal-use changed from seven years to five years in the fourth quarter of the year ended September 30, 2019. This change in estimate was applied prospectively and it increased amortization expense by $0.1 million for the year ended September 30, 2019 and $0.7 million for the year ended September 30, 2020.

Leases

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.

Intangible Assets

Intangible assets consist of contract intangibles, brand and technology, and patent and trademarks. Intangible assets are amortized using the straight-line method over their estimated useful lives.

Impairment of Long-Lived Assets

Long-lived assets, including definite-lived intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. If an impairment indicator is present, the Company evaluates recoverability by comparing the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If the assets are impaired, the impairment recognized is measured by the amount by which the carrying amount exceeds the estimated fair value of the assets. No impairment charges were recorded during the years ended September 30, 2020 and 2019 and 2018.

Goodwill

The Company reviews goodwill for impairment annually on July 1, or more frequently if events or circumstances indicate impairment may exist. Examples of such events or circumstances could include a significant change in business climate or the loss of a significant contract.

In evaluating goodwill for impairment, the Company may first assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. If the Company concludes that it is not more likely than not that the fair value of the reporting unit is less than its carrying value, no further testing of goodwill assigned to the reporting unit is required. If the Company concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying value, the Company applies a fair value-based test.

The Company generally tests its goodwill for impairment using a fair-value based test, where the Company determines the fair value of each of its reporting units and compares that amount to the carrying amount of the respective reporting units, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, no impairment loss is recognized. If, instead, the carrying value of the reporting unit exceeds its fair value, an impairment loss is recognized in the amount of the excess carrying value. Under previous accounting guidance applied to goodwill impairment tests performed in fiscal 2018 and prior, a second step was required. The second step involved comparing the carrying amount of a reporting unit's goodwill to the implied fair value of its goodwill, and recognizing an impairment loss in the amount that the carrying amount of goodwill exceeded the implied fair value of goodwill.

Deferred Revenue

Deferred revenue is primarily derived from Machinio and MachineryHost subscriptions that range from one to forty months. Subscription fees are recognized ratably over the term of the agreements.

Short-Term Borrowings

The Company may enter into collateralized short-term borrowing agreements with banks to facilitate certain international transactions conducted under the purchase model. During the year ended September 30, 2019, the Company borrowed and fully repaid its borrowings under such arrangements. No short-term debt was outstanding as of September 30, 2020 and 2019.

Revenue Recognition

In the Consolidated Statements of Operations, revenue from the resale of inventory that the Company purchases from sellers is recognized within Revenue. Revenue from the sale of inventory that the Company sells on a consignment basis, and other non-consignment fee revenue, which includes Machinio's sales listing subscription service, service revenue from the Surplus Contract (defined below), as well as other services including returns management and refurbishment of assets, is recognized within Fee Revenue.

The Company adopted the Financial Accounting Standard Board's (FASB) Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers (ASC 606) effective October 1, 2018.

The Company recognizes revenue when or as performance obligations are satisfied and control is transferred to the customer. Revenue is recognized in the amount that reflects the consideration to which the Company expects to be entitled.

Revenue is also evaluated to determine whether the Company should report the gross proceeds as revenue, when the Company acts as the principal in the arrangement, or the Company should report its revenue on a net basis, when the Company acts as an agent. Specifically, when other parties are involved in providing goods or services to a customer, the Company must determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself, or to arrange for another party to provide them. The Company evaluates the following factors to determine if it is acting as a principal: (1) whether the Company is primarily responsible for fulfilling the promise to provide the asset or assets; (2) whether the Company has inventory risk of the asset or assets before they are transferred to the buyer; and (3) whether the Company has discretion in establishing the price for the asset or assets.

The Company enters into contracts with buyers and sellers. The Company has master agreements with some sellers pertaining to the sale of a flow of surplus assets over the term of the master agreement; however, a revenue contract for accounting purposes exists when the Company agrees to sell a specific asset or assets. When acting as a principal (a “purchase” arrangement), the Company purchases an asset or assets from a seller and then the Company seeks to sell the asset or assets to a buyer. The Company recognizes as Revenue the gross proceeds from the sale, including buyer's premiums. In purchase arrangements, the contract with the seller is not a revenue contract in the scope of the revenue recognition guidance; rather, it is a purchase of inventory. When the Company is acting as an agent (a “consignment” arrangement), its performance obligation is to arrange for the seller to sell an asset or assets to the buyer directly. The Company recognizes Fee Revenue based on the sales commissions that are paid to the Company by the sellers for utilizing the Company's services; in this situation, sales commissions represent a percentage of the gross proceeds from the sale that the seller pays to the Company upon completion of the transaction.

In both purchase and consignment contracts, the Company sometimes provides distinct services to the seller, such as returns management, refurbishment of assets, or valuation services. These services are distinct because the seller could benefit from the services separately from the asset sale, and as such they are treated as separate performance obligations. Some services provided to sellers are not distinct, like providing access to the Company’s e-commerce marketplaces or promoting the asset or assets for sale, because they could not benefit the seller separately from the sale of the asset or assets.

The consideration received from buyers and sellers includes (1) buyer’s premiums, (2) seller’s commissions, and (3) fees for services, including reimbursed expenses. Consideration is variable based on units, final auction prices, or other factors, until the buyer’s purchase of the asset or assets is complete, or the service has been provided. Recognition of variable consideration that is based on the results of auctions or purchases by buyers is constrained until those transactions have been finalized. The Company estimates and recognizes amounts related to sales returns, discounts or rebates promised to customers, and reimbursed expenses, however, those estimates are not significant relative to the Company's consolidated revenues. The total transaction price is allocated to each distinct performance obligation and revenue is recognized when or as the performance obligation is satisfied. Variable consideration is allocated to individual performance obligations when the variable consideration is related to satisfying that performance obligation and consistent with the allocation objective. The Company's revenue is generally recorded subsequent to receipt of payment authorization, utilizing credit cards, wire transfers and PayPal, an Internet-based payment system, as methods of payments. Goods are generally not shipped before payment is received. For certain transactions, payment is due upon invoice and the payment terms vary depending on the business segment.

The Company collects and remits sales taxes on merchandise that it purchases and sells and has elected the practical expedient to report such amounts under the net method in its Consolidated Statements of Operations. The Company also provides shipping and handling services in some arrangements and has elected the practical expedient to treat those activities as a fulfillment cost. If the Company is acting as a principal for the combined obligation, amounts received from customers for shipping are recognized as Revenue, and amounts paid for shipping are recognized as costs of goods sold. If the Company is acting as an agent for the combined obligation, shipping revenue and costs will be netted and recognized within costs of goods sold.

The Company’s performance obligations are satisfied when control of the asset is transferred to the buyer or when the service is completed. The Company determines when control has transferred by evaluating the following five indicators: (1) whether the Company has a present right to payment for the asset or assets; (2) whether the buyer has legal title to the asset; (3) whether the buyer has physical possession of the asset or assets; (4) whether the buyer has the significant risks and rewards of ownership; and (5) whether the buyer has accepted the asset or assets.

For the Company's Machinio business segment, the performance obligation is satisfied over time as the Company provides the services over the term of the subscription. At September 30, 2020, the Machinio business segment had a remaining performance obligation of $3.3 million; the Company expects to recognize the substantial majority of that amount as Fee Revenue over the next 12 months.

Cost of Goods Sold

Cost of goods sold includes the costs of purchasing inventory, transporting property for auction, shipping and handling costs, and credit card transaction fees. For transactions where the Company resells inventory that was purchased from sellers, the cost of goods sold includes the cost of that inventory, generally using specific identification. There are no inventory costs associated with consignment sales.

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 $0.3 million as of September 30, 2019 and $0.4 million as of September 30, 2020 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 September 30, 2019, and $3.3 million as of September 30, 2020 and is included in the line item

Deferred revenue on the consolidated balance sheets. Of the September 30, 2019 contract liability balance, $3.0 million was earned as Fee Revenue during the year ended September 30, 2020.

Contract Costs

Contract costs relate to sales commissions paid on consignment contracts that are capitalized. Contract costs are amortized over the expected life of the customer contract. The contract cost balance was $0.7 million as of September 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 year ended September 30, 2020.

Risk Associated with Certain Concentrations

For the majority of buyers that receive goods before payment to the Company is made, credit evaluations are performed. However, for the remaining buyers, goods are not shipped before payment is made, and as a result the Company is not subject to significant collection risk from those buyers.

For consignment sales transactions, funds are typically collected from buyers and are held by the Company on the sellers' behalf. The funds are included in Cash and cash equivalents in the consolidated financial statements. The Company releases the funds to the seller, less the Company's commission and other fees due, after the buyer has accepted the goods or within 30 days, depending on the state where the buyer and seller conduct business. The amount of cash held on behalf of the sellers is recorded as Payables to sellers in the accompanying Consolidated Balance Sheets.

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of Cash and cash equivalents in banks over FDIC limits, Short-term investments, and Accounts receivable. The Company deposits its Cash and cash equivalents with and acquires Short-term investments from financial institutions that the Company considers to be of high credit quality.

Additionally, the Company has multiple vendor contracts with Amazon.com, Inc. under which it acquires and sells commercial merchandise. The property purchased under this contract represented 55.1%, 43.6%, and 33.7% of cost of goods sold for the years ended September 30, 2020, 2019, and 2018, respectively. This contract is included within the RSCG segment.

During the years ended September 30, 2019 and 2018, the Company had two material vendor contracts with the Department of Defense (DoD) under which it acquired, managed and sold government property. Revenue from the sale of property acquired, as well as provision of services, under the Surplus Contract accounted for 0% and 12.4% of the Company's consolidated revenue for the years ended September 30, 2019 and 2018, respectively. Revenue from the sale of property acquired under the Scrap Contract accounted for 7.4% and 10.2% of the Company's total revenue for the years ended September 30, 2019 and 2018, respectively. These contracts are included within the Company's CAG segment. See Note 3, Significant Contracts, for further information related to the Scrap and Surplus Contracts.

Income Taxes

The Company accounts for income taxes using an asset and liability approach for measuring deferred taxes based on temporary differences between the financial statement and income tax bases of assets and liabilities existing at each balance sheet date using enacted tax rates for the years in which the taxes are expected to be paid or recovered. The Company recognizes deferred tax assets to the extent that it believes that these assets are more likely than not to be realized. In making such determination, the Company considers all available positive and negative evidence to estimate whether future taxable income will be generated to permit use of the existing deferred tax asset. The resulting net tax asset reflects management's estimate of the amount that will be realized.

The Company applies the authoritative guidance related to uncertainty in income taxes. Accounting Standards Codification (ASC) 740 states that a benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of technical merits. During the year ended September 30, 2020, the Company recorded a benefit of $0.2 million for the reversal of an unrecognized tax benefit related to foreign operations. The Company’s policy is to recognize interest and penalties in the period in which they occur in the income tax provision. The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, various state and local jurisdictions and in foreign jurisdictions including, among others, Canada and the U.K.

Stock-Based Compensation

The Company has incentive plans under which stock options, restricted stock units, restricted stock awards, and stock appreciation rights are issued. The awards issued can contain service conditions, performance conditions based upon Company financial results, and/or market conditions based upon changes in the Company's stock price.

Service- and performance-based stock awards are measured at fair value on their grant date. Stock options and stock appreciation rights are measured at fair value using the Black-Scholes option-pricing model. However, because the stock appreciation rights are cash settled, they are also measured at fair value in each reporting period. The Black-Scholes option-pricing model includes assumptions for the expected term, volatility, and dividend yield, each of which are determined in reference to the Company's historical results. Restricted stock units and restricted stock awards are measured at fair value using the closing price of the Company's stock on the grant date. For service-based stock awards, the Company recognizes expense on a straight-line basis over the service period, which is generally a period one to four years. For performance-based stock awards, the Company recognizes expense on a straight-line basis over the derived service period expected to be required to achieve the performance condition. The Company records a cumulative adjustment to compensation expense for performance-based awards if there is a change in determination of whether it is probable that the performance condition will be achieved.

Market-based stock awards are measured at fair value on their grant date using a Monte Carlo simulation. The Monte Carlo simulation includes assumptions for the expected term, volatility, and dividend yield, each of which are determined in reference to the Company's historical results. For market-based stock option and restricted stock awards, the Company recognizes expense on a straight-line basis over the derived service period determined by the Monte Carlo simulation, for each stock price target within the award. The Company accelerates expense when a stock price target is achieved prior to the derived service period. The Company, however, does not reverse expense recognized if the stock price target(s) are not ultimately achieved, as required by equity accounting for market-based awards. For market-based stock appreciation rights, because they are cash settled, they are measured at fair value in each reporting period. The Company recognized expense on a straight-line basis over the derived service period determined by the Monte Carlo simulation in each reporting period, for each stock price target within the award. The Company accelerates expense when a stock price target is achieved prior to the derived service period, and reverses expense recognized if the stock price target(s) are not ultimately achieved, as required by liability accounting for market-based awards.

The Company recognizes the impact of forfeitures in the period they occur. This policy was adopted in the first quarter of 2018 due to the adoption of ASU 2016-09, which resulted in a $0.2 million retained earnings adjustment as of October 1, 2017.

Compensation expense from the stock awards is included in the same lines on the consolidated statements of operations as the cash compensation to the employees receiving the stock awards.

Excess tax benefits realized from stock awards are reported as cash flows from operating activities on the consolidated statement of cash flows.

Advertising Costs

Advertising expenditures are expensed as incurred. Advertising costs charged to expense were $2.6 million, $2.7 million and $3.6 million for the years ended September 30, 2020, 2019, and 2018, respectively.

Treasury Stock

Treasury stock is presented at cost, including any applicable commissions and fees, as a reduction of stockholders’ equity in the consolidated balance sheets and statements of equity. Treasury stock held by us may be retired or reissued in the future.

Foreign Currency Translation

The functional currency of the Company's foreign subsidiaries is primarily the local currency. The translation of the subsidiary's financial statements into U.S. dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet date and for revenue and expense accounts using an average exchange rate during the period. The resulting translation adjustments are recognized in Accumulated other comprehensive loss, a separate component of stockholders' equity. Realized and unrealized foreign currency transaction gains and losses are included in Interest and other income, net in the Consolidated Statements of Operations.

Accumulated Other Comprehensive Loss

The following table shows the changes in accumulated other comprehensive income loss, net of taxes (in thousands):

	Foreign Currency Translation Adjustments	Net Change Pension and Other Postretirement Benefit Plans	Accumulated Other Comprehensive Loss
Balance at September 30, 2017	$ (6,794)	$ 363	$ (6,431)
Current-period other comprehensive (loss) income	(791)	773	(18)
Balance at September 30, 2018	(7,585)	1,136	(6,449)
Current-period other comprehensive (loss) income	(984)	(540)	(1,524)
Balance at September 30, 2019	(8,569)	596	(7,973)
Current-period other comprehensive (loss) income	484	(2,293)	(1,809)
Balance at September 30, 2020	$ (8,085)	$ (1,697)	$ (9,782)

Net Loss Per Share (EPS)

The Company calculates basic EPS by dividing net loss by the weighted-average number of common shares outstanding during the reporting period, excluding unvested restricted stock awards.

The Company calculates diluted EPS giving effect to potentially dilutive common shares using the treasury stock method. The Company's potentially dilutive common shares include stock options, restricted stock units, and restricted stock awards. For such awards that have performance- or market-conditions, they are considered only when those performance- or market-conditions have been satisfied as of the reporting date. However, in periods of a net loss, the Company's diluted EPS will equal its basic EPS, as all its potential common shares are anti-dilutive in that case.

For the years ended September 30, 2020, 2019 and 2018, the Company operated at a net loss, and basic and diluted weighted average common shares were the same because the inclusion of potentially dilutive common shares would have been anti-dilutive. See Note 12 for outstanding stock options, restricted stock units, and restricted stock awards, all of which are anti-dilutive as of September 30, 2020.

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 6 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 year ended September 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, Cash equivalents, 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 does not expect that the adoption of this ASU will have an immediate material impact on its consolidated financial statements. Material impacts could be experienced if and when the Company implements cloud computing arrangements in the future.

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. DoD Contracts with DLA Disposition Services

Historically, the Company had two material vendor contracts with the DoD, the Scrap Contract and the Surplus Contract.

Under the Scrap Contract, which concluded on September 30, 2019, the Company was the remarketer of all DoD non-electronic scrap turned into the Defense Logistics Agency (DLA) available for sale within the United States, Puerto Rico, and Guam. The Company paid a revenue-sharing payment to the DLA under this contract equal to 64.5% of the gross resale proceeds of the scrap property, and the Company bore all of the costs for the sorting, merchandising and sale of the property. Revenue from the Scrap Contract accounted for 7.4% and 10.2% of the Company's consolidated revenue for the years ended September 30, 2019 and 2018, respectively.

Under the Surplus Contract, which concluded on June 30, 2018, the Company managed and sold usable DoD surplus personal property turned into the DLA. Surplus property generally consisted of items the DoD determined were no longer needed, and not claimed for reuse by any federal agency, such as consumer electronics, industrial equipment, office supplies, scientific and medical equipment, aircraft parts, clothing and textiles. The Surplus Contract required the Company to purchase all usable surplus property offered to the Company by the DoD at 4.35% of the DoD's original acquisition value. The Company retained 100% of the profits from the resale of the property and bore all of the costs for the merchandising and sale of the property. Revenue from the Surplus Contract accounted for 12.4% of the Company's consolidated revenue for the year ended September 30, 2018.

4. Acquisition

Machinio

On July 10, 2018, the Company acquired 100% of the issued and outstanding capital stock of Machinio. Machinio operates a global online platform for listing used equipment for sale in the construction, machine tool, transportation, printing and agriculture sectors. The reason for the acquisition was to expand the services and channels the Company offers to its sellers, and to grow the Company's network of buyers. For segment reporting purposes, Machinio is a separate reportable segment.

The consideration paid to the Sellers for the acquisition of Machinio equity was $19.9 million in cash, earn-out consideration, and Company equity, including the acquisition of Machinio cash of $1.5 million at the closing and a closing working capital purchase price adjustment (for a net cash consideration of $16.7 million). Shares of restricted stock of the Company issued in a private placement to Machinio executives in exchange for their shares of Machinio stock valued at $2.0 million were included in the consideration. In addition, the Machinio sellers are eligible to receive earn-out consideration up to $5.0 million, based upon Machinio's adjusted EBITDA performance for the calendar year ended December 31, 2019. The earn-out consideration was valued at $1.2 million at the acquisition date. The earn-out consideration was subject to fair value measurement each reporting period until it was settled in fiscal 2020, see Note 13 for further details.

In connection with the acquisition, the Company issued restricted stock units and restricted stock awards valued at $4.7 million in the aggregate to Machinio's executives and employees. The restricted stock units and restricted stock awards are subject to performance-based vesting, based upon Machinio's achievement of certain annual revenue and adjusted EBITDA targets through calendar year 2021, in each case, subject to each recipient's continued employment with the Company on such vesting dates and other standard terms and conditions set forth in the respective grant agreements.

Under the acquisition method of accounting, the total estimated purchase price is allocated to Machinio's net tangible and intangible assets acquired based on their estimated fair values as of July 10, 2018. Based on management's valuation of the fair value of tangible and intangible assets acquired and liabilities assumed, goodwill of $14.6 million was recorded, of which zero is deductible for tax purposes. The purchase price was allocated as follows:

	Consideration Amount (in thousands)
Other Current Assets	$ 106
Goodwill	14,558
Customer relationships intangible asset	3,100
Developed technology intangible asset	2,700
Trade name intangible asset	1,500
Property and equipment and other long-term assets	252
Liabilities excluding deferred revenue	(956)
Deferred revenue	(1,400)
Total consideration	$ 19,860

Related to the recognition of intangible assets for customer relationships, developed technology, and trade name, as well as the earn-out consideration and deferred revenue, certain nonrecurring fair value measurements were performed as of the acquisition date under the provisions of ASC 805. The fair value measurements were classified as Level 3 assets within the fair value hierarchy under the provisions of ASC 820 and ASC 805. The significant unobservable inputs used in the fair value measurements categorized within Level 3 of the fair value hierarchy were discount rates ranging from 30% to 35% for the identifiable intangible assets and deferred revenue and 12% to 17% for the contingent consideration. The valuation processes used included the relief from royalty method and the multi-period excess earnings method for the identifiable intangible assets, cost to fulfill method for the deferred revenue, and a Monte Carlo simulation to estimate the fair value of the contingent consideration.

The net sales and operating losses of Machinio included within the Consolidated Financial Statements since the date of acquisition was $0.7 million and $(0.9) million for the year ended September 30, 2018.

The following pro-forma financial information presents the Company's results as if the acquisition had occurred on October 1, 2016:

	Year Ended September 30, 2018
	(in thousands)
Revenue	$ 228,484
Net loss	$ (12,857)

This pro-forma information includes nonrecurring adjustments for the amortization of intangible assets and the recognition of deferred revenue.

5. Property and Equipment

Property and equipment, including equipment under capital lease obligations, consists of the following:

	September 30,	
	2020	2019
	(in thousands)	
Computers and purchased software	$ 2,060	$ 2,234
Internally developed software for internal-use	13,860	12,166
Office/Operational equipment	5,781	6,154
Leasehold improvements	3,451	2,965
Building	2,151	2,604
Furniture and fixtures	945	1,075
Vehicles	1,043	1,091
Land	754	754
Construction in progress	2,353	369
Total property and equipment	32,398	29,412
Less: Accumulated depreciation and amortization	(14,555)	(10,566)
Total property and equipment, net	$ 17,843	$ 18,846

Depreciation and amortization expense related to property and equipment for the years ended September 30, 2020, 2019 and 2018, was $4.9 million, $3.7 million and $4.2 million, respectively. Included in those amounts is amortization of internally developed software for internal-use of $2.9 million, $1.2 million and $1.4 million, respectively.

There were no property and equipment impairment charges for the years ended September 30, 2020, 2019 and 2018.

6. Leases

The Company has operating leases for its corporate offices, warehouses, vehicles and equipment. The operating leases have remaining terms of up to 5.3 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)	Year ended September 30, 2020
Finance lease – lease asset amortization	$ 69
Finance lease – interest on lease liabilities	23
Operating lease cost	5,264
Short-term lease cost	125
Variable lease cost [1]	1,463
Sublease income	(258)
Total net lease cost	$ 6,686

[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:

	September 30, 2020	
(in thousands)	Operating Leases	Finance Leases
2021	$ 4,421	$ 56
2022	3,097	55
2023	2,484	56
2024	1,525	56
2024	988	55
Thereafter	208	50
Total lease payments [1]	$ 12,723	$ 328
Less: imputed interest [2]	(1,406)	(62)
Total lease liabilities	$ 11,317	$ 266

[1] The weighted average remaining lease term is 3.5 years for operating leases and 5.8 years for finance leases.
[2] The weighted average discount rate is 6.6% for operating leases and 7.5% for finance leases.

Supplemental disclosures of cash flow information related to leases are:

(in thousands)	Year ended September 30, 2020
Cash paid for amounts included in operating lease liabilities	$ 4,771
Cash paid for amounts included in finance lease liabilities	34
Non-cash: lease liabilities arising from new operating lease assets obtained [1]	12,190
Non-cash: lease liabilities arising from new finance lease assets obtained	10
Non-cash: adjustments to lease assets and liabilities	3,942

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

7. Goodwill

The carrying value and changes in the carrying value of goodwill attributable to each reportable segment were as follows:

Goodwill (in thousands)	CAG	GovDeals	Machinio	Total
Balance at September 30, 2017	$ 21,657	$ 23,731	$ —	$ 45,388
Business acquisition	—	—	14,558	14,558
Translation adjustments	(127)	—	—	(127)
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	372	—	—	372
Balance at September 30, 2020	$ 21,550	$ 23,731	$ 14,558	$ 59,839

Accumulated goodwill impairment losses as of September 30, 2020 and 2019 were $168.6 million.

Impairment Analysis

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 was available at the time. The DCF analysis also used included significant assumptions and judgments about long-term growth rates and discount rates.

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

As of July 1, 2020, the Company performed its annual impairment testing using a fair-value based test for all reporting units with goodwill balances. As there were favorable developments in the factors that indicated a goodwill impairment test was necessary as of March 31, 2020, the fair values of each of our reporting units with goodwill balances was higher as of July 1, 2020 than on March 31, 2020, and the fair values of each of those reporting units exceeded their carrying values by at least 20%. No impairment charge was recorded as a result of the annual test. However, given the uncertainty associated with the COVID-19 pandemic, including its extent and duration, actual results could differ significantly from the assumptions made in these goodwill impairment tests.

8. Intangible Assets

Intangible assets consist of the following:

	Useful Life (in years)	Weighted average useful Life (in years)	Balance as of September 30, 2020 Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Balance as of September 30, 2019 Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
				(in thousands)			(in thousands)	
Contract intangibles	6	6.0	$ 3,100	$ (1,162)	$ 1,938	$ 3,100	$ (646)	$ 2,454
Brand and technology	5	5.0	2,700	(1,215)	1,485	2,700	(675)	2,025
Patent and trademarks	7 - 10	8.0	2,329	(994)	1,335	2,276	(712)	1,564
Total intangible assets, net			$ 8,129	$ (3,371)	$ 4,758	$ 8,076	$ (2,033)	$ 6,043

Future expected amortization of intangible assets at September 30, 2020, is as follows:

Year Ending September 30,	Amortization
	(in thousands)
2021	$ 1,336
2022	1,328
2023	1,184
2024	645
2025	265
Thereafter	—
Total	$ 4,758

Amortization expense related to intangible assets for the years ended September 30, 2020, 2019 and 2018 was $1.3 million, $1.3 million and $0.4 million, respectively.

Impairment Analysis

The factors associated with the COVID-19 pandemic discussed in Note 7 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 was available at the time. 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. However, given the uncertainty associated with the COVID-19 pandemic, including its extent and duration, actual results could differ significantly from the assumptions made in this 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 previously indicated that a long-lived asset impairment test was necessary as of March 31, 2020, the Company did not identify any indicators of impairment that required an additional long-lived asset impairment test during the year ended September 30, 2020.

The Company did not record intangible asset impairment charges during the years ended September 30, 2020, 2019 and 2018.

9. Commitments and Contingencies

Leases

The Company leases certain office space and equipment under non-cancelable operating lease agreements, which expire at various dates through 2026. Certain of the leases contain escalation clauses and provide for the pass-through of increases in operating expenses and real estate taxes. Rent related to leases that have escalation clauses is recognized on a straight-line basis. Resulting deferred rent charges are included in other long-term liabilities and were $0.4 million at September 30, 2019.

Future minimum payments under the leases as of September 30, 2019, are as follows:

Year Ending September 30,		Operating Lease Payments		Capital Lease Payments		Total
				(in thousands)		
2020	$	5,572	$	52	$	5,624
2021		3,551		53	$	3,604
2022		2,279		53	$	2,332
2023		1,500		54	$	1,554
2024		545		160	$	705
Total future minimum lease payments	$	13,447	$	372	$	13,819

Rent expense for the years ended September 30, 2019 and 2018, was $5.9 million and $10.7 million, respectively.

Contingencies

During the year ended September 30, 2019, the Company determined that it was probable that a liability would result from a sales tax audit performed by the State of California. The liability was $0.6 million, including interest and penalties, and is recorded as a component of Accrued expenses and other current liabilities in the consolidated balance sheets as of September 30, 2019. The liability was paid in the first quarter of fiscal 2020.

10. 401(k) Benefit Plan

The Company has a retirement plan (the Plan), which is intended to be a qualified plan under Section 401(k) of the Internal Revenue Code. The Plan is a defined contribution plan available to all eligible employees and allows participants to contribute up to the legal maximum of their eligible compensation, not to exceed the maximum tax-deferred amount allowed by the Internal Revenue Service. The Plan also allows the Company to make discretionary matching contributions. During the year ended September 30, 2020, the Company changed its employer contributions from a safe harbor matching program to be fully discretionary where employer contributions may be provided to participants based upon the Company's financial performance and metrics at the end of its fiscal and calendar years. For the years ended September 30, 2020, 2019, and 2018, the Company recorded expenses of $0.9 million, $1.6 million and $1.4 million, respectively, related to its contributions to the Plan.

11. Income Taxes

The components of the provision for income taxes of continuing operations are as follows:

	Year Ended September 30,		
	2020	2019	2018
		(in thousands)	
Current tax provision (benefit):			
U.S. Federal	$ —	$ —	$ 108
State	382	453	714
Foreign	313	611	795
	695	1,064	1,617
Deferred tax provision (benefit):			
U.S. Federal	74	103	(6,796)
State	(27)	(31)	(4,182)
Foreign	59	64	33
	106	136	(10,945)
Total (benefit) provision	$ 801	$ 1,200	$ (9,328)

Deferred taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

	September 30,	
	2020	2019
	(in thousands)	
Deferred tax assets:		
Net operating losses—Foreign	$ 12,709	$ 13,009
Net operating losses—U.S.	35,126	34,856
Accrued vacation and bonus	571	674
Inventory capitalization	54	226
Allowance for doubtful accounts	65	87
Stock compensation expense	1,804	1,989
Operating lease assets	2,236	—
Restructuring costs	—	42
Depreciation	1,266	485
Other	893	953
Total deferred tax assets before valuation allowance	54,724	52,321
Less: valuation allowance	(41,788)	(41,909)
Net deferred tax assets	12,936	10,412
Deferred tax liabilities:		
Amortization of intangibles	291	408
Amortization of goodwill	6,666	6,374
Depreciation	—	—
Capitalized costs	4,470	3,730
Operating lease liabilities	2,059	—
Pension liability	138	482
Total deferred tax liabilities	$ 13,624	$ 10,994
Net deferred taxes	$ (688)	$ (582)

The reconciliation of the U.S. federal statutory rate to the effective rate for continuing operations is as follows:

	Year Ended September 30,		
	2020	2019	2018
U.S. statutory rate	21.0 %	21.0 %	24.5 %
Stock-based stock compensation expense	(14.9)%	(2.0)%	(0.7)%
Non deductible compensation expense	(6.0)%	(0.6)%	— %
Other permanent items	(1.1)%	(4.2)%	(0.5)%
State taxes	(13.2)%	(0.4)%	0.1 %
Net foreign rate differential	(0.8)%	(0.6)%	(1.3)%
Unrecognized tax benefits	5.1 %	(1.5)%	(0.5)%
Change in valuation allowance	9.9 %	(22.5)%	(31.6)%
Benefit from new Tax Act	— %	— %	51.3 %
Write-down of deferred tax assets on share-based stock compensation	(12.3)%	(7.9)%	— %
Write-down of deferred tax assets on net operating loss	(15.9)%	10.6 %	— %
Other	1.3 %	1.5 %	3.3 %
Provision for income taxes	(26.9)%	(6.6)%	44.6 %

At September 30, 2020 and 2019, the Company had federal and state deferred tax assets of $27.7 million and $27.9 million, respectively, related to available federal and state net operating loss (NOL) carryforwards, foreign tax credit carryforwards, and other U.S. deductible temporary differences. The federal and state NOL carryforwards expire beginning in 2032 and 2021, respectively. The foreign tax credit carryforwards expire beginning in 2023. At September 30, 2020 and 2019, the Company had deferred tax assets related to available foreign NOL carryforwards of $12.7 million and $13.0 million respectively. All but $0.2 million of our foreign NOLs maintain an indefinite carry forward life. The NOLs with limited carryforward periods will expire beginning in 2021.

On March 27, 2020, The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, accelerates the recovery of alternative minimum tax (AMT) credits into fiscal year 2020. During fiscal year 2020, the Company recovered its full AMT refund of $1.7 million. Prior to the CARES Act, the Company's AMT credits were recoverable in fiscal years 2021 through 2023. The CARES Act also permits net operating loss (NOL) carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, NOLs incurred in fiscal years 2019, 2020, and 2021 may be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. The Company is currently evaluating the impact of the CARES Act, but at present does not expect the NOL provisions of the CARES Act to result in a material cash benefit.

The Tax Act and Jobs Act of 2017 ("The Tax Act") subjects a U.S. shareholder to a minimum tax on "global intangible low-taxed income" ("GILTI") earned by certain foreign subsidiaries. The FASB Staff Q&A Topic 740 No. 5. Accounting for Global Intangible Low-Taxed Income states that an entity can make an accounting policy election to either recognize deferred taxes for temporary differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI resulting from those items in the year the tax is incurred. The Company has elected to recognize the resulting tax on GILTI as an expense in the period the tax is incurred.

The Company assesses available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended September 30, 2020. Such objective evidence limits the ability to consider other evidence such as our projections for future growth. On the basis of this evaluation, the Company recorded a net change to its valuation allowance of $(0.1) million to bring the total valuation allowance to $41.8 million at September 30, 2020.

On July 10, 2018, the Company acquired 100% of the stock of Machinio for $19.9 million. Under the acquisition method of accounting, the Company recorded a net deferred tax liability of $0.7 million comprised primarily of acquired intangibles netted against NOLs and other deferred assets and recognized a $0.7 million tax benefit from a reduction to its valuation allowance. The total amount of acquired NOLs, which are subject to limitations under Section 382, were $1.4 million.

The Company has not recorded a provision for deferred U.S. tax expense on the undistributed earnings of foreign subsidiaries since the Company intends to indefinitely reinvest the earnings of these foreign subsidiaries outside the U.S. The amount of such undistributed foreign earnings was $4.5 million as of September 30, 2020. As of September 30, 2020, and 2019, $19.5 million and $21.0 million, respectively, of cash and cash equivalents was held overseas and not available to fund domestic operations without incurring taxes upon repatriation.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits (in thousands):

	Year Ended September 30,		
	2020	2019	2018
Beginning balance at October 1	$ 273	$ —	$ —
Additions based on positions related to the current year	—	—	—
Additions for tax positions of prior years	—	273	107
Reductions for tax positions of prior years	(150)	—	(107)
Settlements	—	—	—
Balance at September 30	$ 123	$ 273	$ —

The Company applies the authoritative guidance related to uncertainty in income taxes. ASC 740 states that a benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits. During 2020, the Company recorded a benefit of $0.2 million due to the reduction of unrecognized tax benefits related to foreign operations.

The Company recognizes interest and penalties in the period in which they occur in the income tax provision. 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 U.K. The Company has no open income tax examinations in the U.S. and the statute of limitations for years prior to 2017 is now closed. However, certain tax attribute carryforwards that were generated prior to fiscal year 2017 may be adjusted upon examination by tax authorities if they are utilized. The Company's Hong Kong subsidiary is currently under examination for fiscal years 2015 through 2017.

12. Equity Transactions

Stock Compensation Incentive Plans

The Company has several incentive plans under which stock options, restricted stock units (RSUs), restricted stock awards (RSAs), and cash-settled stock appreciation rights (SARs) have been issued, including the Third Amended and Restated 2006 Omnibus Long-Term Incentive Plan, as amended, and a plan and private placement issuances related to the Company’s acquisition of Machinio. As of September 30, 2020, the Company has reserved at total of 19,100,000 shares of its common stock for exercises of stock options, vesting of RSUs, and grants of RSAs under these plans. Vesting of RSUs and grants of RSAs count as 1.5x shares against the plan reserves. As of September 30, 2020, 3,087,929 shares of common stock remained available for use.

Stock Compensation Expense

The table below presents the components of share-based compensation expense (in thousands):

	Year Ended September 30,		
	2020	2019	2018
Equity-classified awards:			
Stock options	$ 2,054	$ 1,530	$ 858
RSUs & RSAs	3,635	4,496	5,454
Liability-classified awards:			
SARs	$ (29)	$ 482	$ 285
Total stock compensation expense:	$ 5,660	$ 6,508	$ 6,597

The Company’s total liabilities for liability-classified stock compensation awards was $102 thousand and $758 thousand as of September 30, 2020 and 2019, the current portion of which was $61 thousand and $707 thousand, respectively.

Share-Based Award Activity

Stock Options

The table below presents stock option activity (aggregate intrinsic value in thousands):

	Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of September 30, 2019	2,672,278	$ 9.50	6.12	$ 2,502
Granted	818,519	$ 6.82		$ —
Exercised	(28,399)	$ 3.91		$ 92
Forfeited	(282,266)	$ 12.16		$ 58
Expired	(104,218)	$ 11.12		$ —
Outstanding as of September 30, 2020	3,075,914	$ 8.54	6.16	$ 2,841
Vested and expected to vest as of September 30, 2020	2,951,816	$ 8.60	6.14	$ 2,742
Exercisable as of September 30, 2020	1,313,243	$ 11.15	4.61	$ 1,199

Of the 1,762,671 stock options not yet exercisable as of September 30, 2020, 707,834 can become exercisable by satisfying service conditions only, and 1,054,837 can become exercisable by satisfying service and performance or market conditions.

Stock options containing only service conditions generally vest over periods of one to four years and expire five to ten years from the date of grant. Stock compensation cost is expensed ratably over the entire service period. As of September 30, 2020, there was $1.6 million of unrecognized compensation cost related to stock options containing only service conditions, which is expected to be recognized over a weighted-average period of 2.7 years.

The range of assumptions used to determine the fair value of stock options using the Black-Scholes option-pricing model during the years ended September 30, 2020, 2019 and 2018 were as follows:

	Year ended September 30		
	2020	2019	2018
Dividend yield	—	—	—
Expected volatility	46.5% - 51.0%	47.8% - 53.7%	50.8% - 58.6%
Risk-free interest rate	0.5% - 1.5%	1.9% - 2.8%	0.5% - 2.7%
Expected term	4.6- 7.4 years	4.2 - 7.1 years	3.8 years

The weighted-average grant date fair value of options granted during the year-ended September 30, 2020, 2019 and 2018 was $2.66, $2.70 and $2.04, respectively. The total intrinsic value of options exercised during 2020, 2019 and 2018 was $92 thousand, $307 thousand and $30 thousand, respectively.

Stock options containing performance conditions are discussed separately in the section below.

RSUs & RSAs

The table below presents RSU & RSA activity (aggregate fair value in thousands):

	RSU & RSA	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (years)	Aggregate Fair Value
Outstanding as of September 30, 2019	1,923,980	$ 7.19	2.10	$ 14,237
Granted	524,093	$ 6.21		$ 3,257
Vested	(488,913)	$ 7.19		$ 3,145
Forfeited	(413,875)	$ 7.00		$ 2,410
Outstanding as of September 30, 2020	1,545,285	$ 6.84	1.85	$ 11,528
Expected to vest as of September 30, 2020	1,160,925	$ 6.72	2.11	$ 8,661

Of the outstanding RSUs & RSAs as of September 30, 2020, 629,303 can vest by satisfying service conditions only, and 915,982 can vest by satisfying service and performance or market conditions.

RSUs containing only service conditions vest ratably each year over periods of one to four years. Stock compensation cost is expensed ratably over the entire service period. As of September 30, 2020, there was $2.6 million of unrecognized compensation cost related to RSUs containing only service conditions, which is expected to be recognized over a weighted-average period of 2.5 years.

RSUs and RSAs containing performance conditions and market conditions are discussed separately in the section below.

SARs

The table below presents SAR award activity (aggregate intrinsic value in thousands):

	SARs	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of September 30, 2019	433,582	$ 6.49	0.93	$ 748
Exercised	(226,142)	$ 4.58		$ 595
Forfeited	(46,630)	$ 9.02		$ —
Outstanding as of September 30, 2020	160,810	$ 8.45	1.00	$ 96
Vested and expected to vest as of September 30, 2020	141,973	$ 8.21	1.13	$ 96
Exercisable as of September 30, 2020	47,662	$ 9.53	0.42	$ 12

Of the 113,148 SARs not yet exercisable as of September 30, 2020, 37,974 can become exercisable by satisfying service conditions only, and 75,174 can become exercisable by satisfying service and performance or market conditions.

As of September 30, 2020, there was less than $0.1 million of unrecognized compensation cost related to SARs containing only service conditions, which is expected to be recognized over a weighted-average period of 2.3 years. The Company made cash payments of $0.6 million, $0.5 million and $0.2 million to settle SARs exercised during the years ended September 30, 2020, 2019 and 2018, respectively.

The fair value of outstanding SARs containing only service conditions is estimated using the Black-Scholes option-pricing model. The range of assumptions used to determine the fair value of outstanding SARs as of September 30, 2020, 2019 and 2018 were as follows:

	Year ended September 30		
	2020	2019	2018
Dividend yield	—	—	—
Expected volatility	55.0% - 68.8%	38.2% - 48.8%	34.9% - 53.6%
Risk-free interest rate	0.1% - 0.1%	1.3% - 1.7%	2.6% - 2.8%
Expected term	0.0-2.3 years	0.1-3.3 years	0.1-2.0 years

As of September 30, 2020 and 2019, the weighted-average fair value of SARs outstanding was $0.63 and $1.67 per award.
SARs containing performance conditions and market conditions are discussed separately in the section below.

Stock Awards Containing Performance and Market Conditions

Stock awards containing performance conditions vest upon the achievement of specified financial targets of the Company or its business units. Vesting is generally measured on 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 twelve months performance of the Company or its business units. When it is probable that the performance targets will be achieved, stock compensation expense is recognized ratably over the derived service period. If the Company determines that achievement of the performance targets is no longer probable, the Company no longer records expense and reverses all previously recognized expense. As of September 30, 2020, there was $0.1 million of unrecognized compensation costs related to stock options and RSUs & RSAs, containing performance conditions that are considered probable of being met, which is expected to be recognized over a weighted-average period of 1.1 years.

Stock awards containing market conditions 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 award, 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. Stock compensation cost is expensed on a straight-line basis over the derived service period for each stock price target within the award. The Company accelerates expense when a stock price target is achieved prior to the derived service period. For equity-classified awards, the Company does not reverse expense recognized if the stock price target(s) are not ultimately achieved, but expense is reversed when such situations occur for liability classified awards. As of September 30, 2020, there was $1.0 million of unrecognized compensation costs related to stock options, RSUs and SARs, containing market conditions, which is expected to be recognized over a weighted-average period of 0.8 years.

The fair value of stock options, RSUs and SARs containing market conditions is estimated using Monte Carlo simulations. The range of assumptions used to determine the fair value of these awards during the years ended September 30, 2020, 2019 and 2018 were as follows:

	Year ended September 30		
	2020	2019	2018
Dividend yield	—	—	—
Expected volatility	45.2% - 54.9%	45.5% - 55.0%	50.0% - 54.5%
Risk-free interest rate	0.1% - 1.7%	1.5% - 2.9%	2.0% - 2.5%
Expected holding period (% of remaining term)	30.7% - 100.0%	25.9% - 100.0%	20.3%

Share Repurchase Program

The Company is authorized to repurchase issued and outstanding shares of its common stock under a share repurchase program approved by the 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 the Company's available cash. The Company's Board of Directors reviews the share repurchase program periodically, the last such review having occurred in September 2020. During the year ended September 30, 2020, the Company repurchased 547,508 shares of its common stock for $4.0 million. As of September 30, 2020, the Company may repurchase an additional $6.1 million of shares under this program.

13. Fair Value Measurement

The Company measures and records in the accompanying consolidated financial statements 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 September 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 for which the Company has used Level 3 inputs to determine fair value for the year ended September 30, 2020, are as follows (dollars in thousands):

	Contingent Consideration	
Balance at September 30, 2019	$	4,800
Change in fair value of earn-out liability		200
Settlement	$	(5,000)
Balance at September 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.

Management’s estimation of the fair value of these assets and liabilities is based on the best information available in the circumstances and may incorporate management's own assumptions regarding market demand for these assets. Such assumptions involve management's judgment, taking into consideration a combination of internal and external factors.

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 2.5%. The Company has $30.0 million of money market funds considered cash equivalents at September 30, 2020. These assets were measured at fair value at September 30, 2020 and 2019 and were classified as Level 1 assets within the fair value hierarchy.

The Company’s financial assets not measured at fair value are cash, accounts receivable, and a promissory note. The Company believes the carrying values of these instruments approximate fair value.

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

14. 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 Company recognizes the funded status of its postretirement benefit plans, with a corresponding noncash adjustment to accumulated other comprehensive loss, net of tax, in stockholders' equity. The funded status is measured as the difference between the fair value of the Scheme's assets and the benefit obligation of the Scheme.

The net periodic benefit cost is recognized within Interest and other income, net in the Consolidated Statements of Operations, and for the years ended September 30, 2020, 2019 and 2018, included the following components:

	Year Ended September 30,		
	2020	2019	2018
	(in thousands)		
Interest cost	$ 431	$ 618	$ 651
Expected return on plan assets	(797)	(965)	(986)
Amortization of prior service cost	19	—	—
Total net periodic benefit	$ (347)	$ (347)	$ (335)

The following table provides a reconciliation of benefit obligations, plan assets, and funded status related to the Company's qualified defined benefit pension plan for the years ended September 30, 2020 and 2019:

	Year Ended September 30,	
	2020	2019
	(in thousands)	
Change in benefit obligation		
Beginning balance	$ 23,240	$ 22,226
Interest cost	431	618
Benefits paid	(597)	(879)
Actuarial loss/(gain)	1,803	2,508
Foreign currency exchange rate changes	1,170	(1,233)
Ending balance	$ 26,047	$ 23,240

	Year Ended September 30,	
	2020	2019
	(in thousands)	
Change in plan assets		
Beginning balance at fair value	$ 25,779	$ 25,132
Actual return on plan assets	297	3,003
Benefits paid	(597)	(879)
Foreign currency exchange rate changes	1,292	(1,477)
Ending balance at fair value	$ 26,771	$ 25,779
Overfunded status of the Scheme	$ 724	$ 2,539

The pension asset of $0.7 million is recorded in Other long-term assets in the Consolidated Balance Sheet. Because the Scheme is closed to new participants, the accumulated benefit obligation is equal to the projected benefit obligation, which was $26.0 million and $23.2 million at September 30, 2020 and 2019, respectively.

The amounts recognized in other comprehensive (income) loss related to the Company's qualified defined benefit pension plan, net of taxes, and the related foreign currency translation adjustments, for the years ended September 30, 2020 and 2019, is shown in the following table:

	Year Ended September 30,	
	2020	2019
	(in thousands)	
Accumulated other comprehensive income at beginning of year	$ 303	$ 892
Net actuarial loss	(2,293)	(540)
Foreign currency translation adjustments	19	(49)
Accumulated other comprehensive income (loss) at end of year	$ (1,971)	$ 303

The plan complies with the funding provisions of the UK Pensions Act 2004 and the Occupational Pension Schemes Regulations Act 2005. The Company does not plan to make contributions to the plan in the near future.

Actuarial Assumptions

The actuarial assumptions used to determine the benefit obligations at September 30, 2020 and 2019, and to determine the net periodic (benefit) cost for the year were as follows:

	September 30, 2020	September 30, 2019
Discount rate to determine net periodic (benefit) cost	1.80 %	2.90 %
Expected return on plan assets	3.00 %	4.00 %
Discount rate to determine benefit obligations	1.60 %	1.80 %
Rate of increases to deferred CPI linked benefits	2.50 %	2.10 %
Rate of increases to deferred RPI linked benefits	3.00 %	3.20 %

Mortality—105% for males and females of S2PxA mortality tables, projected in line with the 2019 Continuous Mortality Investigation projection model and a 1.3% per annum long-term rate of improvement.

Estimated Future Benefit Payments

The Company's pension plan expects to make the following benefit payments to participants over the next 10 years:

	Pension Benefits
	(in thousands)
Year ending September 30,	
2021	$ 740
2022	869
2023	758
2024	1,168
2025	1,013
2026 through 2030	5,020
Total	$ 9,568

Fair Value Measurements

The investment policy and strategy of the plan assets, as established by the Trustees (the "Trustees") of the plan, strive to maximize the likelihood of achieving primary objectives of the investment policy established for the plan, which are:

- Funding—to ensure that the Plan is fully funded using assumptions that contain a modest margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the employer;
- Stability—to have due regard to the likely level and volatility of required contributions when setting the Plan's investment strategy; and
- Security—to ensure that the solvency position of the Scheme is expected to improve. The Trustees will take into account the strength of employer's covenant when determining the expected improvement in the solvency position of the Plan.

The assets are allocated among equity securities, corporate bonds, and diversified funds. The assets are not rebalanced, but the allocation is reviewed on a periodic basis to ensure that the investments are appropriate to the Scheme's circumstances. The Trustees review the investment policy on an ongoing basis, to determine whether a change in the policy or asset allocation targets is necessary. The Company has elected to use a bid value of Scheme assets to calculate the expected return on assets in the net periodic benefit cost. The assets consisted of the following as of September 30, 2020 and 2019:

	2020	2019
Equity securities	20.6 %	19.7 %
Corporate bonds	53.0 %	56.4 %
Diversified fund	26.0 %	23.5 %
Cash	0.4 %	0.4 %
Total	100.0 %	100.0 %

The expected long-term rate of return for the plan's total assets is based on the expected returns of each of the above categories, weighted based on the current target allocation for each class. The Trustees evaluate whether adjustments are needed based on historical returns to more accurately reflect expectations of future returns.

The Company is required to present certain fair value disclosures related to its postretirement benefit plan assets, even though those assets are not included in the Company's Consolidated Balance Sheets. The following table presents the fair value of the assets of the Company's qualified defined benefit pension plan by asset category and their level within the fair value hierarchy.

Balance as of September 30, 2020	Level 1	Level 2	Level 3	Total
	(in thousands)			
Equity securities	$ —	$ 5,526	$ —	$ 5,526
Corporate bonds	—	14,194	—	14,194
Diversified fund	—	6,957	—	6,957
Cash	94	—	—	94
Total	$ 94	$ 26,677	$ —	$ 26,771

Balance as of September 30, 2019	Level 1	Level 2	Level 3	Total
	(in thousands)			
Equity securities	$ —	$ 5,077	$ —	$ 5,077
Corporate bonds	—	14,546	—	14,546
Diversified fund	—	6,062	—	6,062
Cash	94	—	—	94
Total	$ 94	$ 25,685	$ —	$ 25,779

Valuation Techniques

The Company relies on pricing inputs from investment fund managers to value investments. The fund manager prices the underlying securities using independent external pricing sources.

15. Business Realignment Expenses

Business realignment expenses are associated with management changes, exiting certain businesses, or other cost saving actions, and include employee severance and benefit costs associated with terminations, occupancy costs associated the ceased use of facilities, and other related costs, such as impairments. Business realignment expenses are recorded as a component of Other operating expenses on the Consolidated Statements of Operations.

For the year ended September 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.

For the year ended September 30, 2018, business realignment expenses were incurred related to: cost saving actions in the CAG segment and Corporate IT department. These actions were partially offset by an adjustment to reduce the liability associated with the ceased use of the Company's previous headquarters location in Washington D.C. that was initially recognized during the year ended September 30, 2017.

The table below sets forth the significant components and activity in the liability for business realignment initiatives during the year ended September 30, 2020, 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 September 30, 2020
Employee severance and benefit costs:								
GovDeals	$ —	$ —	$ —	$ —	$ —	$ 29	$ (25)	$ 4
RSCG	—	—	—	—	—	84	(64)	20
CAG	89	443	(118)	414	—	120	(481)	53
Corporate & Other	21	1,537	(1,320)	238	—	172	(410)	—
Total employee severance and benefit costs	110	1,980	(1,438)	652	—	405	(980)	77
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)	$ 405	$ (980)	$ 77

16. Legal Proceedings

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 the Company's management's judgment have a material adverse effect on the Company.

17. Segment Information

The Company provides operating results in four reportable segments: GovDeals, Capital Assets Group (CAG), Retail Supply Chain Group (RSCG), 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 and idle 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 on the AllSurplus marketplace. Prior to the conclusion of the Scrap and Surplus Contracts (see Note 3), CAG sold surplus and 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, including elimination adjustments. For the years ended September 30, 2019 and 2018 Corporate & Other included 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, with oversight by the Board of Directors. 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:

(in thousands)	Year Ended September 30, 2020	2019	2018
GovDeals:			
Revenue	$ —	$ —	$ —
Fee revenue	32,806	32,936	30,214
Total revenue	32,806	32,936	30,214
Gross profit	30,721	30,386	27,990
RSCG:			
Revenue	118,398	110,736	88,295
Fee revenue	18,093	16,585	13,659
Total revenue	136,491	127,321	101,954
Gross profit	49,727	44,967	33,009
CAG:			
Revenue	9,182	36,684	57,717
Fee revenue	20,299	23,558	30,308
Total revenue	29,481	60,242	88,025
Gross profit	22,714	32,679	48,873
Machinio:			
Revenue	—	—	—
Fee revenue	7,213	5,598	653
Total revenue	7,213	5,598	653
Gross profit	6,813	5,196	501
Corporate & Other, including elimination adjustments:			
Revenue	—	469	3,665
Fee revenue	(51)	(41)	3
Total revenue	(51)	428	3,668
Gross profit	(51)	52	(661)
Consolidated:			
Revenue	127,580	147,889	149,677
Fee revenue	78,360	78,636	74,837
Total revenue	205,940	226,525	224,514
Gross profit	109,924	113,280	109,712

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

(in thousands)	Year Ended September 30, 2020	2019	2018
Reconciliation:			
Gross profit	109,924	113,280	109,712
Operating expenses	113,248	127,739	130,048
Other operating expenses	573	5,049	1,392
Interest and other income, net	(924)	(1,448)	(785)
Loss before provision for income taxes	(2,973)	(18,060)	(20,943)

Total segment assets reconciled to consolidated amounts are as follows:

(in thousands)	September 30, 2020		September 30, 2019
Segment Assets:			
GovDeals	$ 102,083		$ 75,218
RSCG	51,230		27,075
CAG	107,529		128,918
Machinio	26,568		26,613
Corporate & Other, including elimination adjustments	(90,776)		(70,541)
Total Segment Assets:	$ 196,634	196634000	$ 187,283

Revenue attributed to countries that represent a significant portion of consolidated revenues are as follows:

(in thousands)	Year Ended September 30, 2020	2019	2018
United States	$ 180,887	$ 191,816	$ 193,240
Rest of the world	25,053	34,709	31,274
Consolidated	$ 205,940	$ 226,525	$ 224,514

Total property and equipment by geographic areas are as follows:

(in thousands)	September 30, 2020	2019
United States	$ 17,358	$ 18,455
Rest of the world	485	391
Consolidated	$ 17,843	$ 18,846

18. Quarterly Results (Unaudited)

The following table sets forth for the eight most recent quarters the selected unaudited quarterly consolidated statement of operations data. The unaudited quarterly consolidated statement of operations data has been prepared on the same basis as the Company's audited consolidated financial statements and, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of this data.

	Three months ended Dec. 31, 2018	Mar. 31, 2019	June 30, 2019	Sept. 30, 2019	Dec. 31, 2019	Mar. 31, 2020	June 30, 2020	Sept. 30, 2020
	(in thousands, except share and per share data)							
Revenue	$ 54,053	$ 56,800	$ 56,882	$ 58,790	$ 49,504	$ 52,824	$ 47,722	$ 55,890
Gross profit (excludes depreciation and amortization)	$ 26,473	$ 29,218	$ 28,551	$ 29,038	$ 25,328	$ 26,205	$ 25,228	$ 33,163
Income (loss) before provision for income taxes	$ (4,756)	$ (4,034)	$ (4,107)	$ (5,163)	$ (4,738)	$ (4,195)	$ 422	$ 5,538
Net income (loss)	$ (5,022)	$ (4,362)	$ (4,649)	$ (5,227)	$ (5,196)	$ (4,238)	$ 213	$ 5,447
Basic income (loss) per common share	$ (0.15)	$ (0.13)	$ (0.14)	$ (0.16)	$ (0.15)	$ (0.13)	$ 0.01	$ 0.16
Diluted income (loss) per common share	$ (0.15)	$ (0.13)	$ (0.14)	$ (0.16)	$ (0.15)	$ (0.13)	$ 0.01	$ 0.16
Basic weighted average shares outstanding	32,808,144	32,987,608	33,164,750	33,291,275	33,545,235	33,624,889	33,695,936	33,584,040
Diluted weighted average shares outstanding	32,808,144	32,987,608	33,164,750	33,291,275	33,545,235	33,624,889	33,815,332	33,986,862

LIQUIDITY SERVICES, INC.
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
(Dollars in Thousands)

	Balance at beginning of period	Charged (credited) to expense	Reductions	Balance at end of period
Deferred tax valuation allowance (deducted from net deferred tax assets)				
Year ended September 30, 2018	$ 54,379	(15,042)	—	$ 39,337
Year ended September 30, 2019	39,337	2,572	—	41,909
Year ended September 30, 2020	$ 41,909	(121)	—	$ 41,788
Allowance for doubtful accounts (deducted from accounts receivable)				
Year ended September 30, 2018	$ 668	199	(530)	$ 337
Year ended September 30, 2019	337	178	(224)	291
Year ended September 30, 2020	$ 291	200	(102)	$ 389
Provision for inventory allowance (deducted from inventory)				
Year ended September 30, 2018	$ 4,572	2,494	(6,563)	$ 503
Year ended September 30, 2019	503	331	(503)	331
Year ended September 30, 2020	$ 331	328	(359)	$ 300

EXHIBIT INDEX

Exhibit No.	Description
2.1	Stock Purchase Agreement, dated July 10, 2018, by and between 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 Form 10-Q filed with the SEC on August 2, 2018.
2.2	Purchase and Sale Agreement, dated September 22, 2015, by and between Jacobs Trading, LLC and Tanager Acquisitions, LLC, incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the SEC on October 6, 2015.
2.3	First Amendment to Purchase and Sale Agreement dated September 30, 2015 by and between Jacobs Trading, LLC and Tanager Acquisitions, LLC.
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, incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q, filed with the SEC on August 4, 2016.
4.1	Form of Certificate of Common Stock of the Company, incorporated herein by reference to Exhibit 4.1 to Amendment No. 5 to the Company's Registration Statement on Form S-1 (Registration No. 333-129656), filed with the SEC on February 21, 2006.
4.2	Description of Securities
10.1#	Executive Employment Agreement, dated June 13, 2016, by and between the Company and William P. Angrick, III, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on June 17, 2016.
10.2#	Executive Employment Agreement dated July 20, 2015 by and between the Company and Jorge Celaya, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on July 23, 2015.
10.3#	Executive Employment Agreement, dated November 5, 2019, by and between the Company and John Daunt, incorporated herein by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K, filed with the SEC on December 10, 2019.
10.4#	Executive Employment Agreement, dated June 13, 2019, by and between the Company and Steven Weiskircher, incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 1, 2019.
10.5#	Executive Employment Agreement by and between the Company and Mark A. Shaffer, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on July 13, 2016.
10.6#	Executive Employment Agreement, dated October 1, 2020, by and between the Company and Novelette Murray.
10.7#	Executive Employment Agreement, dated November 5, 2019, by and between the Company and Nicholas Rozdilsky, incorporated herein by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K, filed with the SEC on December 10, 2019.
10.8#	Executive Employment Agreement, dated January 27, 2005, by and between the Company and James M. Rallo, incorporated herein by reference to Exhibit 10.6.1 to Amendment No. 3 to the Company's Registration Statement on Form S-1 (Registration No. 333-129656), filed with the SEC on February 1, 2006.
10.8.1#	Amendment to Executive Employment Agreement between the Company and James M. Rallo, dated January 25, 2006, incorporated herein by reference to Exhibit 10.6.2 to Amendment No. 3 to the Company's Registration Statement on Form S-1 (Registration No. 333-129656), filed with the SEC on February 1, 2006.
10.8.2#	Severance Agreement and General Release, dated May 6, 2019, by and between James M. Rallo and the Company, incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on May 8, 2019.
10.9#	Executive Employment Agreement, dated January 10, 2018, by and between the Company and Roger Gravley, incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on February 1, 2018.
10.9.1#	Letter Agreement, dated March 2, 2018, by and between the Company and Roger Gravley, incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on May 3, 2018.

10.9.2#	Retirement Agreement and General Release dated May 13, 2019 by and between the Company and Roger Gravley, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, field with the SEC on May 17, 2019.
10.10#	Executive Employment Agreement, dated March 15, 2012, by and between the Company and Michael Lutz, incorporated herein by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K, filed with the SEC on December 10, 2019.
10.10.1#	Second Amendment to Executive Employment Agreement, dated January 18, 2016, by and between the Company and Michael Lutz, incorporated herein by reference to Exhibit 10.8.1 to the Company's Annual Report on Form 10-K, filed with the SEC on December 10, 2019.
10.11#	Form of Indemnification Agreement for directors and officers, incorporated herein by reference to Exhibit 10.11 to Amendment No. 3 to the Company's Registration Statement on Form S-1 (Registration No. 333-129656), filed with the SEC on February 1, 2006.
10.12#	Notice of Award, Statement and Release Document (Sales Contract Number 14-0091-0002), dated July 25, 2014, between the Company and DLA Disposition Services, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on July 30, 2014.
10.13#	Supplemental Agreement No. 1 to Surplus Usable Property Sales Contract (Sales Contract Number 14-0091-0002), dated December 6, 2016, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on December 8, 2016.
10.14#	Third Amended and Restated 2006 Omnibus Long-Term Incentive Plan, incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A, filed with the SEC on January 28, 2020.
10.15#	Machinio Corp. 2014 Stock Incentive Plan, incorporated herein by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-8, filed with the SEC on July 10, 2018.
10.16#	Form of Notice of Time-Based Stock Option Grant, filed with the SEC on December 10, 2019.
10.17#	Form of Notice of Time-Based Restricted Stock Units Grant, filed with the SEC on December 10, 2019.
10.18#	Form of Notice of Performance Based Stock Option Grant, filed with the SEC on December 10, 2019.
10.19#	Form of Notice of Performance-Based Restricted Stock Units Grant, filed with the SEC on December 10, 2019.
10.20#	Liquidity Services Inc. Annual Incentive Plan, adopted on December 2, 2020.
21.1	List of Subsidiaries.
23.1	Consent of Ernst & Young LLP.
24.1	Power of Attorney (included on signature page).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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 Annual Report on Form 10-K for the year ended September 30, 2020, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets as of September 30, 2020 and 2019, (ii) Consolidated Statements of Operations for each of the three years in the period ended September 30, 2020, (iii) Consolidated Statements of Comprehensive Loss for each of the three years in the period ended September 30, 2020, (iv) Consolidated Statements of Stockholders' Equity for each of the three years in the period ended September 30, 2020, (v) Consolidated Statements of Cash Flows for each of the three years in the period ended September 30, 2020, and (vi) Notes to Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

# Indicates management contract or compensatory plan.

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 on December 8, 2020.

LIQUIDITY SERVICES, INC.

By: /s/ WILLIAM P. ANGRICK, III
William P. Angrick, III
Chairman of the Board of Directors and Chief Executive Officer

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We, the undersigned directors and officers of Liquidity Services, Inc., hereby severally constitute William P. Angrick, III, Jorge A. Celaya, and Mark A. Shaffer, and each of them singly, our true and lawful attorneys with full power to them and each of them to sign for us, in our names in the capacities indicated below, any and all amendments to this Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on December 8, 2020.

Signature	**Title**
/s/ WILLIAM P. ANGRICK, III William P. Angrick, III	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)
/s/ JORGE A. CELAYA Jorge A. Celaya	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
/s/ PHILLIP A. CLOUGH Phillip A. Clough	Director
/s/ KATHARIN S. DYER Katharin S. Dyer	Director
/s/ GEORGE H. ELLIS George H. Ellis	Director
/s/ PATRICK W. GROSS Patrick W. Gross	Director
/s/ BEATRIZ V. INFANTE Beatriz V. Infante	Director
/s/ EDWARD J. KOLODZIESKI Edward J. Kolodzieski	Director
/s/ JAIME MATEUS-TIQUE Jaime Mateus-Tique	Director

DESCRIPTION OF COMMON STOCK

Our authorized capital stock consists of 120,000,000 shares of common stock, $0.001 par value, and 5,000,000 shares of preferred stock, $0.001 par value. The following description summarizes important terms of our common stock. Because it is only a summary, it does not contain all the information that may be important to you. For a complete description, you should refer to our certificate of incorporation and bylaws, copies of which have been filed as exhibits to the Annual Report on Form 10-K for the fiscal year ended September 30, 2020, as well as the relevant portions of the Delaware General Corporation Law (the "DGCL").

Common Stock

General. As of December 4, 2020, there were 34,148,936 shares of our common stock outstanding. As of December 2, 2020, there were approximately 6,332 beneficial holders of our common stock and 23 holders of record of our common stock.

Voting Rights. The holders of our common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders, including the election of directors, and do not have cumulative voting rights. Unless otherwise required by law, matters submitted to a vote of our stockholders require the approval of a majority of votes cast by stockholders represented in person or by proxy and entitled to vote on such matter, except that directors are elected by a plurality of votes cast. Accordingly, the holders of a majority of the shares of common stock entitled to vote in any election of directors can elect all of the directors standing for election, if they so choose.

Dividends. Subject to preferences that may be applicable to any then outstanding preferred stock, holders of common stock are entitled to receive ratably those dividends, if any, as may be declared by the board of directors out of legally available funds.

Liquidation, Dissolution and Winding Up. Upon our liquidation, dissolution or winding up, the holders of common stock will be entitled to share ratably in the net assets legally available for distribution to stockholders after the payment of all of our debts and other liabilities, subject to the prior rights of any preferred stock then outstanding.

Preemptive Rights. Holders of common stock have no preemptive or conversion rights or other subscription rights and there are no redemption or sinking funds provisions applicable to the common stock.

Assessment. All outstanding shares of common stock are fully paid and nonassessable.

Preferred Stock

The board of directors has the authority, without further action by the stockholders, to issue from time to time up to 5,000,000 undesignated shares of preferred stock in one or more series and to fix the number of shares, designations, preferences, powers, and relative, participating, optional or other special rights and the qualifications or restrictions thereof. The preferences, powers, rights and restrictions of different series of preferred stock may differ with respect to dividend rates, amounts payable on liquidation, voting rights, conversion rights, redemption provisions, sinking fund provisions, and purchase funds and other matters. The issuance of preferred stock could decrease the amount of earnings and assets available for distribution to holders of common stock or adversely affect the rights and powers, including voting rights, of the holders of common stock and may have the effect of delaying, deferring or preventing a change in control of our company.

Anti-Takeover Effects of Provisions of our Certificate of Incorporation, Bylaws and the DGCL

Some provisions of the DGCL and our certificate of incorporation and bylaws contain provisions that could make the following transactions more difficult: (1) acquisition of us by means of a tender offer; (2) acquisition of us by means of a proxy contest or otherwise; or (3) removal of our incumbent officers and directors. These provisions, summarized below, are intended to encourage persons seeking to acquire control of us to first negotiate with our board of directors. These provisions also serve to discourage hostile takeover practices and inadequate takeover bids.

We believe that these provisions are beneficial because the negotiation they encourage could result in improved terms of any unsolicited proposal.

Undesignated Preferred Stock. Our board of directors has the ability to authorize undesignated preferred stock, which allows the board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any unsolicited attempt to change control of our company. This ability may have the effect of deferring hostile takeovers or delaying changes in control or management of our company.

Stockholder Meetings. Our bylaws provide that a special meeting of stockholders may be called only by our President, our Chairman of the board of directors or by a resolution adopted by a majority of our board of directors.

Requirements for Advance Notification of Stockholder Nominations and Proposals. Our bylaws establish advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of our board of directors or a committee of our board of directors.

Elimination of Stockholder Action by Written Consent. Our certificate of incorporation eliminates the right of stockholders to act by written consent without a meeting.

Election and Removal of Directors. Our board of directors is divided into three classes. The directors in each class will serve for a three-year term, one class being elected each year by our stockholders. Once elected, directors may be removed only for cause and only by the affirmative vote of at least $66^{2/3}$% of our outstanding common stock. This system of electing and removing directors may tend to discourage a third party from making a tender offer or otherwise attempting to obtain control of us because it generally makes it more difficult for stockholders to replace a majority of the directors.

Amendment of Certain Provisions in Our Organizational Documents. The amendment of any of the above provisions would require approval by holders of at least $66^{2/3}$% of our then outstanding common stock.

The provisions of the DGCL and our certificate of incorporation and bylaws could have the effect of discouraging others from attempting hostile takeovers and, as a consequence, they may also inhibit temporary fluctuations in the market price of our common stock that often result from actual or rumored hostile takeover attempts. Such provisions may also have the effect of preventing changes in our management. It is possible that these provisions could make it more difficult to accomplish transactions which stockholders may otherwise deem to be in their best interests.

Transfer Agent and Registrar

The transfer agent and registrar for the common stock is Computershare Trust Company, N.A.

LIQUIDITY SERVICES, INC.
EXECUTIVE EMPLOYMENT AGREEMENT

THIS EXECUTIVE EMPLOYMENT AGREEMENT (**"Agreement"**) is entered into as of October 1, 2020 (the **"Effective Date"**), by and between Liquidity Services, Inc., a Delaware corporation ("**LSI**" or the **"Company"**), and Novelette Murray (the **"Executive"**).

1. **Employment Agreement.** On the terms and conditions set forth in this Agreement, the Company agrees to employ the Executive and the Executive agrees to be employed by the Company for the Employment Period set forth in Section 2 hereof and in the position and with the duties set forth in Section 3 hereof. Terms used herein with initial capitalization are defined in Section 10.12 below.

2. **Term.** The term of employment under this Agreement shall be the period set forth in Schedule 1 attached hereto commencing on the Effective Date (the **"Employment Period"**).

3. **Position and Duties.** The Executive shall serve in the position and with the duties and title set forth in Schedule 1 attached hereto during the Employment Period. In such capacity, the Executive shall have the normal duties, responsibilities, and authority of such position, subject to the power of the Executive's **"Reporting Officer"** as designated in Schedule 1, the Chairman of the Board of Directors (the **"Board"**) or the Board to reasonably expand or limit such duties, responsibilities and authority. The Executive shall report to the Reporting Officer designated in Schedule 1. The Executive shall devote the Executive's best efforts and full business time and attention to the business and affairs of the Company; *provided, however,* that Executive may, to the extent such participation or service does not materially interfere with the performance of the obligations described in this Agreement, (i) participate in charitable, civic, political, social, trade, or other non-profit organizations and (ii) with the consent of the Board such consent not to be unreasonably withheld, serve as a non-management director of business corporations (or in a like capacity in other for-profit organizations).

1. **Place of Performance.** In connection with the Executive's employment by the Company, the Executive shall be based at the principal executive offices of the Company, except as otherwise agreed by the Executive and the Company and except for reasonable travel on Company business.
2. **Compensation**.

5.1. **Base Salary.** During the Employment Period, the Company shall pay to the Executive an annual base salary (the **"Base Salary"**), which initially shall be at the rate per year as set forth in Schedule 1. The Base Salary shall be payable semi-monthly or in such other installments as shall be consistent with the Company's payroll procedures. The Base Salary may be increased at any time or from time to time, but it may not be decreased without the consent of the Executive.

5.2 **Bonus.** The Executive shall be eligible for a performance bonus as set forth in Schedule 1. Bonus eligibility will commence in the 2021 Fiscal year, which begins October 1, 2020.

5.3 **Equity Awards.**

5.3.1. **Annual Award**. Subject to any conditions set in Schedule 1, Executive shall be eligible to receive an annual equity award, subject to the terms of the Liquidity Services, Inc. Second Amended and Restated 2006 Omnibus Long-Term Incentive Plan or successor plan, as determined by the Board or any committee thereof.

5.3.2 **Special Award**. In consideration of Executive entering into this Agreement and subject to approval by the Board or any committee thereof, the Company shall grant Executive the equity awards described in Schedule 1.

5.4 **Benefits**. During the Employment Period, the Executive will be entitled to receive such other benefits approved by the Reporting Officer and made available to similarly situated senior executives of the Company, including health insurance, disability insurance, and 401(k) benefits. At all times the Company agrees to maintain Director's and Officer's Liability coverage for the Executive. Nothing contained in this Agreement shall prevent the Company from changing insurance carriers or otherwise modifying the Company's employee benefit programs.

5.5 **Employee Leave.** The Executive shall be entitled to all public holidays observed by the Company in addition to a total of 26 days of paid time off in accordance with the applicable policies of the Company, which shall be taken at a reasonable time or times per year.

6. **Expenses.** The Executive is expected and is authorized to incur reasonable expenses in the performance of his duties hereunder, including the costs of entertainment, travel, and similar business expenses

incurred in the performance of his duties. The Company shall reimburse the Executive for all such expenses promptly upon periodic presentation by the Executive of an itemized account of such expenses and appropriate receipts. Any reimbursements provided under this Agreement that constitute deferred compensation within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") shall be made or provided in accordance with the requirements of Code Section 409A, including that (i) in no event shall any fees, expenses or other amounts eligible to be reimbursed by the Company under this Agreement be paid later than the last day of the calendar year next following the calendar year in which the applicable fees, expenses or other amounts were incurred; and (ii) the amount of expenses eligible for reimbursement that the Company is obligated to pay or provide, in any given calendar year shall not affect the expenses that the Company is obligated to reimburse in any other calendar year.

7. **Termination of Employment**.

7.1. **Termination.** The Executive's employment by the Company during the Employment Period will continue until Executive's death, Disability, resignation or until Executive's termination by the Reporting Officer or the Board at any time.

7.2. **Notice of Termination.** Any termination of the Executive's employment by the Company or the Executive (other than because of the Executive's death) shall be communicated by written Notice of Termination to the other party hereto in accordance with Section 10.1 hereof. For purposes of this Agreement, a **"Notice of Termination"** shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon, if any, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. Termination of the Executive's employment shall take effect on the Date of Termination.

8. **Compensation Upon Termination.**

8.1. **Death.** If the Executive's employment is terminated during the Employment Period as a result of the Executive's death, the Company shall pay to the Executive's estate, or as may be directed by the legal representatives of such estate, the Executive's full Base Salary through the next full calendar month following the Date of Termination and all other unpaid amounts, if any, to which the Executive is entitled as of the Date of Termination in connection with any fringe benefits pursuant to Section 5.4 and expenses pursuant to Section 6. Subject to Section 8.5 below, the payments contemplated by this Section 8.1 shall be paid at the time they are due, and the Company shall have no further obligations to the Executive or his or her estate under this Agreement.

8.2. **Disability.** If the Company terminates the Executive's employment during the Employment Period because of the Executive's Disability, the Company shall pay the Executive the Executive's full Base Salary through the third full calendar month following the Date of Termination and all other unpaid amounts, if any, to which the Executive is entitled as of the Date of Termination in connection with any fringe benefits pursuant to Section 5.4 and expenses pursuant to Section 6. Subject to Section 8.5 below, the payments contemplated by this Section 8.2 shall be paid at the time they are due, and the Company shall have no further obligations to the Executive under this Agreement; *provided, however,* that the Base Salary shall be reduced by the amount of any disability benefit payments made to the Executive during a period of Disability from any insurance or other policies provided by the Company.

8.3. **By the Company with Cause or by the Executive without Good Reason.** If the Company terminates the Executive's employment during the Employment Period for Cause or if the Executive voluntarily terminates the Executive's employment during the Employment Period other than for Good Reason, the Company shall pay the Executive the Executive's full Base Salary through the Date of Termination and all other unpaid amounts, if any, to which Executive is entitled as of the Date of Termination in connection with any fringe benefits pursuant to Section 5.4 and expenses pursuant to Section 6. Subject to Section 8.5 below, the payments contemplated by this Section 8.3 shall be paid at the time such payments are due, and the Company shall have no further obligations to the Executive under this Agreement.

a. **By the Company without Cause or by the Executive for Good Reason.** If the Company terminates the Executive's employment during the Employment Period other than for Cause, death, or Disability or the Executive terminates his employment during the Employment Period for Good Reason, the Company shall pay the Executive: (A) the Executive's full Base Salary through the Date of Termination and all other unpaid amounts, if any, to which the Executive is entitled as of the Date of Termination in connection with any fringe benefits pursuant to Section 5.4 and expenses pursuant to Section 6; and (B) a lump-sum severance package equal to nine (9) months of the Executive's Base Salary (collectively the **"Severance Payment"**). Subject to Section 8.5 below, the Severance Payment shall be payable to the Executive within 60 days of the Date of Termination, provided the Executive timely executes and returns a separation agreement and release of claims in a form acceptable to the Company, and such release has become irrevocable by such date.

b. **Code Section 409A Matters**. Anything in this Agreement to the contrary notwithstanding, if (A) on the date of Executive's "separation from service" (within the meaning of Section 409A(a)(2)(A)(i) of the Code) with the Company, Executive is a "specified employee" (within the meaning of Section 409A(a)(2)(B)(i) of the Code) and (B) as a result of such separation from service, Executive would receive any payment under this Agreement that, absent the application of this Section 8.5, would be subject to the additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(2)(B)(i) of the Code, then no such payment shall be payable prior to the date that is the earliest of (1) six months after the Executive's separation from service, (2) the Executive's death or (3) such other date as will cause such payment not to be subject to such additional tax. Any payments which are required to be delayed as a result of this Section 8.5 shall be accumulated and paid as a lump-sum on the earliest possible date determined in accordance the preceding sentence.

9. **Other Agreements.** Executive contemporaneously executed an Employee Agreement Regarding Confidentiality, Intellectual Property, and Competitive Activities (the "Employee Agreement"), and the terms and conditions of the Employee Agreement are specifically incorporated herein by reference. Executive's equity awards detailed in Schedule 1 shall be the subject of a separate grant agreements which shall control for purposes of the award terms and conditions.

1. **Miscellaneous.**

a. **Notices.** All notices, demands, requests or other communications required or permitted to be given or made hereunder shall be in writing and shall be delivered by hand or mailed by first class registered or certified mail or delivery carrier, postage prepaid, addressed as follows:

10.1.1. If to the Company:

Liquidity Services, Inc.
6931 Arlington Road, Suite 200
Bethesda, MD 20814
ATTN: VP, General Counsel & Corporate Secretary

10.1.2. If to the Executive:

at the address set forth in Schedule 1.

or to such other address as may be designated by either party in a notice to the other. Each notice, demand, request or other communication that shall be given or made in the manner described above shall be deemed sufficiently given or made for all purposes three days after it is deposited in the U.S. mail, postage prepaid, or at such time as it is delivered to the addressee (with the return receipt, the delivery receipt, the answer back, the confirmation (if electronic record) or the affidavit of messenger being deemed conclusive evidence of such delivery) or at such time as delivery is refused by the addressee upon presentation.

10.2. **Representations.** Executive agrees to execute any proper oath or verify any proper document required to carry out the terms of this Agreement. Executive represents that performance of all the terms of this Agreement and the Employee Agreement will not breach any existing non-compete or similar agreement. Executive has not entered into, and Executive agrees not to enter into, any oral or written agreement in conflict herewith.

10.3. **Severability.** The invalidity or unenforceability of any one or more provisions of this Agreement shall not affect the validity or enforceability of the other provisions of this Agreement, which shall remain in full force and effect.

10.4. **Survival.** It is the express intention and agreement of the parties hereto that the provisions of Section 8 hereof shall survive the termination of employment of the Executive. In addition, all obligations of the Company to make payments hereunder shall survive any termination of this Agreement on the terms and conditions set forth herein.

10.5. **Assignment.** The rights and obligations of the parties to this Agreement shall not be assignable or delegable, except that (i) in the event of the Executive's death, the personal representative or legatees or distributees of the Executive's estate, as the case may be, shall have the right to receive any amount owing and unpaid to the Executive hereunder and (ii) the rights and obligations of the Company hereunder shall be assignable and delegable to any Affiliate of the Company or in connection with any subsequent merger, consolidation, sale of all or substantially all of the assets of the Company or similar reorganization of a successor corporation.

10.6. **Binding Effect.** Subject to any provisions hereof restricting assignment, this Agreement shall be binding upon the parties hereto and shall inure to the benefit of the parties and their respective heirs, devisees, executors, administrators, legal representatives, successors and assigns.

10.7. **Amendment; Waiver.** This Agreement shall not be amended, altered or modified except by an instrument in writing duly executed by the parties hereto; provided, that the parties may amend Schedule 1 hereto by executing and delivering a revised version of Schedule 1 and attaching such revised version to this Agreement. Neither the waiver by either of the parties hereto of a breach of or a default under any of the provisions of this Agreement, nor the failure of either of the parties, on one or more occasions, to enforce any of the provisions of this Agreement or to exercise any right or privilege hereunder, shall thereafter be construed as a waiver of any subsequent breach or default of a similar nature, or as a waiver of any such provisions, rights or privileges hereunder.

10.8. **Headings.** Section and subsection headings contained in this Agreement are inserted for convenience of reference only, shall not be deemed to be a part of this Agreement for any purpose, and shall not in any way define or affect the meaning, construction or scope of any of the provisions hereof.

10.9. **Governing Law.** This Agreement, the rights and obligations of the parties hereto, and any claims or disputes relating thereto, shall be governed by and construed in accordance with the laws of the State of Maryland not including the choice of law rules thereof. Any suit, action or proceeding arising out of or relating to this Agreement must be instituted in the state or federal courts located in Montgomery County, Maryland. Each of the Company and the Executive irrevocably submits to the exclusive jurisdiction of such courts in any such suit, action or proceeding.

10.10. **Entire Agreement.** This Agreement, including Schedule 1 hereto and the Employee Agreement, constitute the entire agreement between the parties respecting the employment of Executive, there being no representations, warranties or commitments except as set forth herein.

10.11 **Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall be an original and all of which shall be deemed to constitute one and the same instrument.

10.12. **Definitions.**

"Affiliate" means as to a specified Person any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the specified Person.

"Agreement" means this Executive Employment Agreement.

"Base Salary" is defined in Section 5.1 above.

"Beneficial Owner" means a beneficial owner within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934, as amended.

"Cause" means (i) a material breach by the Executive of any term of this Agreement, the Company's policies set by the Board or the Company, the Company's Code of Conduct, Executive's fiduciary duties to the Company or of any law, statute or regulation; (ii) the material failure to achieve the Company's written objectives or goals as reasonably determined by the Executive's Reporting Officer in consultation with the Executive and the Board of Directors or a committee thereof; (iii) misconduct which is injurious to the Company or any of its affiliates, either monetarily or otherwise, or which impairs Executive's ability to effectively perform his duties or responsibilities; (iv) personal conduct which reflects poorly on the Company or Executive or which impairs the Executive's ability to perform his duties or manage subordinate employees, including but not limited to the abuse of alcohol or controlled substances; (v) habitual or repeated neglect of Executive's duties or responsibilities; (v) misappropriation of (or attempted misappropriation of) a business opportunity of the Company or its affiliates, including attempting to secure or securing any personal profit in connection with any transaction by the Company or its affiliates; (vi) the commission of or conviction for (or the procedural equivalent or conviction for), or the entering of a guilty plea or plea of no contest with respect to a crime, which in the Company's reasonable judgment, involves moral turpitude; (vii) the commission of or conviction for (or the procedural equivalent or conviction for), or the entering of a guilty plea or plea of no contest with respect to a crime, which is a felony or in the Company's reasonable judgment, involves moral turpitude; (viii) intentional injury of another employee or any person in the course of performing services for the company; any conflict of interest, including, but not limited to solicitation of business on behalf of a competitor or potential competitor; (ix) any conflict of interest, including, but not limited to solicitation of business on behalf of a competitor or potential competitor; (x) violation of the company's policies prohibiting discrimination or harassment of employees, clients, guests or vendors of the Company; failure to comply with the company's written Human Resources policies published on LSI Connect or any replacement to this; or (xi) failure to follow any material and lawful instruction given to Executive by Executive's Reporting Officer.

“Company” means Liquidity Services, Inc. and its successors and assigns.

“Date of Termination” means (i) if the Executive’s employment is terminated by the Executive’s death, the date of the Executive’s death; (ii) if the Executive’s employment is terminated because of the Executive’s Disability, 30 days after Notice of Termination; (iii) if the Executive’s employment is terminated by the Company with or without Cause, the date specified in the Notice of Termination; (iv) if the Executive’s employment is terminated by the Executive with or without Good Reason, the date specified in the Executive’s Notice of Termination, which shall be no less than 30 days following the date on which the Notice of Termination is delivered; provided that the Company may waive all or any of the notice period for no consideration and the Executive’s Termination Date shall be determined by the Company; and (iv) if the Executive’s employment is terminated during the Employment Period other than pursuant to Section 7.1, the date on which Notice of Termination is given.

“Disability” means the Executive’s inability to perform all of the Executive’s duties hereunder by reason of illness, physical or mental disability or other similar incapacity, as determined by a competent medical doctor appointed by the Reporting Officer after a complete and thorough medical examination and evaluation, which inability shall continue for more than three consecutive months or for such shorter periods that when aggregated exceed six (6) months in any twelve (12) month period.

“Effective Date” means the date as of which this Agreement is executed as set out above.

“Employee Agreement” is defined in Section 9 above.

“Employment Period” is defined in Section 2 above.

“Good Reason” means (i) the Company’s failure to perform or observe any of the material terms or provisions of this Agreement (including the provisions of Schedule 1) or the Employee Agreement, and the failure of the Company to cure such default within 30 days after written demand for performance has been given to the Company by the Executive, which demand shall describe specifically the nature of such alleged failure to perform or observe such material terms or provisions; or (ii) a material reduction in the scope of the Executive’s responsibilities and duties without the written consent of Executive; or (iii) any change to the job title given to Executive without her written consent; or (iv) any reduction in Base Salary or any other material change in benefits provided to Executive hereunder; or (v) any constructive termination of Executive; or (vi) any request, instruction, directive or order, whether direct or indirect, to Executive by the Board, the Company or any executive officer of the Company to perform any act which is unlawful; or (vii) a requirement by the Company for the Executive to relocate outside of the Washington DC metropolitan region to retain his position without the written consent of the Executive.

“Notice of Termination” is defined in Section 7.2 above.

“Person” means an individual, a partnership, a limited liability company, a corporation, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof.

“Severance Payment” is defined in Section 8.4 above.

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement, or have caused this Agreement to be duly executed on their behalf, as of the day and year first hereinabove written.

LIQUIDITY SERVICES, INC.

By: /s/ William P. Angrick, III
William P. Angrick, III
CEO and Chairman

EXECUTIVE:

/s/ Novelette Murray
Novelette Murray

SCHEDULE 1

CERTAIN TERMS OF EMPLOYMENT

All capitalized but undefined terms in this Schedule shall have the meaning ascribed to them in the Agreement.

Executive: Novelette Murray

Position/Title: Chief Human Resources Officer

Duties: In coordination with the CEO and executive leadership team this position will have responsibility for the Company's human resources strategy and for driving human resources best practices across the enterprise to support the needs of LSI's business.

These responsibilities shall include: recruiting, leadership development, talent alignment with Company strategy, institution of best practices for succession/bench strength; designing and communicating executive compensation programs with the CEO and Board Compensation Committee; communicating and reinforcing the Company's culture across our dispersed organization (including acquired companies), M&A due diligence/integration from a human capital perspective; employee engagement and diversity programs, ensuring our existing team's maintenance of best practices regarding performance reviews, compliance training, employee benefits, and healthcare.

Anticipated Start Date: October 1, 2020

Employment Term: One Year from the Effective Date, automatically renewable for successive one-year terms unless earlier terminated by either party.

Reporting Officer: Chairman and CEO

Base Salary: $280,000 per annum

Bonus: Executive shall be eligible for an annual incentive bonus one year from the Effective Date with a target of 50% of her Base Salary based upon the Company's or the Executive's achievement of certain deliverables or goals by the Executive and the Board's Compensation Committee. The amount of the bonus is further governed by the financial performance of the company. The Board's Compensation Committee reserves the right to award a discretionary bonus based on the Executive's performance and contributions.

Special Award: In consideration of Executive entering into this Agreement and subject to approval by the Board or the Board's Compensation Committee, the Company shall grant Executive 40,000 shares of Restricted Stock pursuant to the Liquidity Services, Inc. Third Amended and Restated 2006 Omnibus Long-Term Incentive Plan, the grant date of which shall be the date the grant is approved by the Board or any committee thereof (the "Special Award"). Vesting shall commence on October 1, 2020 as follows:

- The restrictions on half of the Special Award shall lapse equally over four years, with twenty-five percent of the Restricted Stock vesting each year on the anniversary of the vesting commencement date.
- The restrictions on the other half of the Special Award will be performance-based shares dependent on Company attaining certain financial targets over a four-year period of time, which financial targets shall be set by the Board or a committee thereof. The targets will be explained in a written equity grant agreement that shall be separately furnished to the Executive.

Review and approval of Executive's new hire equity will be reviewed by the Board or the Compensation Committee thereof at its next meeting. All other terms and conditions of such award shall be governed by the Liquidity Services, Inc. Third Amended and Restated 2006 Omnibus Long-Term Incentive Plan and the applicable award agreements.

Annual Equity Award: In addition to Executive's initial equity award, Executive will be eligible for annual equity awards as part of the as part of the executive leadership team's annual equity program which shall be subject to review and approval by the board's compensation committee

Ownership Requirement: Executive is subject to the Company's equity ownership policy to align Executive's interests with those of LSI's public shareholders. This policy requires Executive to hold 150% of her base salary in equity and the Company's expectation is that Executive will be able to meet this requirement by accumulating vested equity through the grant process and not be required to purchase shares of stock outright.

COMPANY:	**EXECUTIVE:**
/s/ William P. Angrick, III	/s/ Novelette Murray
William P. Angrick, III	Novelette Murray
Chairman & CEO	

Liquidity services, inc.
ANNUAL INCENTIVE PLAN

1. **Purpose**. The purpose of the Liquidity Services, Inc. Annual Incentive Plan (the "**Plan**") is to attract and retain key executives and management team members for Liquidity Services, Inc., a Delaware corporation (the "**Corporation**"), and its Subsidiaries and to provide such persons with an annual cash bonus incentives based on the achievement of pre-established performance goals.

2. **Definitions**. As used in this Plan,

"**Board**" means the Board of Directors of the Corporation.

"**Code**" means the Internal Revenue Code of 1986, as amended from time to time.

"**Committee**" means the Compensation Committee of the Board or any other committee appointed by the Board to administer the Plan.

"**Eligible Participant**" means any executive officer or other employee of the Corporation or its Subsidiaries designated by the Committee.

"**Incentive Bonus**" shall mean, for each Eligible Participant, a bonus opportunity amount determined by the Committee pursuant to Section 5 below.

"**Management Objectives**" means the achievement of a performance objective or performance goals for a Performance Period established pursuant to this Plan for Eligible Participants. Management Objectives may be described in terms of Corporation-wide objectives or objectives that are related to the performance of the individual Eligible Participant or of the Subsidiary, division, department or function within the Corporation or Subsidiary in which the Eligible Participant is employed. The Management Objectives shall be limited to specified levels of, growth in or relative peer company performance in one or more of the following (and the Committee may, for a Performance Period, amend or adjust the applicable Management Objective(s) or other terms and conditions relating thereto in recognition of (1) asset write-downs; (2) litigation or claim judgments or settlements; (3) the effect of changes in tax laws, accounting principles, regulations, or other laws or regulations affecting reported results; (4) any reorganization and restructuring programs; (5) acquisitions or divestitures; (6) unusual, nonrecurring or extraordinary items identified in the Corporation's audited financial statements, including footnotes; (7) capital charges; (8) costs and expenses; or (9) similar non-GAAP adjustments):

i. Sales, including (i) net sales, (ii) unit sales volume, and (iii) aggregate product price;

ii. Share price, including (i) market price per share, and (ii) share price appreciation;

iii. Earnings, including (i) earnings per share, reflecting dilution of shares, (ii) gross or pretax profits, (iii) post-tax profits, (iv) operating profit, (v) contribution profit, (vi) gross profit, (vii) earnings net of or including dividends, (viii) earnings net of or including the after-tax cost of capital, (ix) earnings before (or after) interest and taxes ("**EBIT**"), (x) earnings per share from continuing operations, diluted or basic, (xi) earnings before interest, taxes, depreciation and amortization ("**EBITDA**"), (xii) adjusted EBIT or adjusted EBITDA, (xiii) pre-tax operating earnings after interest and before incentives, service fees and extraordinary or special items, (xiv) operating earnings, (xv) growth in earnings or growth in earnings per share, (xvi) total earnings (xvii) operating income;

iv. Return on equity, including (i) return on equity, (ii) return on invested capital, (iii) return or net return on assets, (iv) return on net assets, (v) return on equity, (vi) return on gross sales, (vii) return on investment, (viii) return on capital, (ix) return on invested capital, (x) return on committed capital, (xi) financial return ratios, (xii) value of assets, and (xiii) change in assets;

v. Cash flow(s), including (i) operating cash flow, (ii) net cash flow, (iii) free cash flow, (iv) cash flow on investment, (v) levered free cash flow, and (vi) unlevered free cash flow;

vi. Revenue, including (i) gross or net revenue, and (ii) changes in annual revenues;

vii. Margins, including (i) adjusted pre-tax margin, and (ii) operating margins;

viii. Income, including (i) net income, and (ii) consolidated net income;

ix. Economic value added;

x. Costs, including (i) operating or administrative expenses, (ii) operating expenses as a percentage of revenue, (iii) general and administrative expenses as a percentage of revenue, (iv) expense or cost levels, (v) reduction of losses, loss ratios or expense ratios, (vi) reduction in fixed costs, (vii) expense reduction levels, (viii) operating cost management, and (ix) cost of capital;

xi. Financial ratings, including (i) credit rating, (ii) capital expenditures, (iii) debt, (iv) debt reduction, (v) working capital, (vi) average invested capital, and (vii) attainment of balance sheet or income statement objectives;

xii. Market or category share, including (i) market share, (ii) volume, (iii) unit sales volume, and (iv) market share or market penetration with respect to specific designated products or product groups and/or specific geographic areas;

xiii. Shareholder return, including (i) total shareholder return, stockholder return based on growth measures or the attainment of a specified share price for a specified period of time, and (ii) dividends; and

xiv. Objective nonfinancial performance criteria measuring either (i) regulatory compliance, (ii) productivity and productivity improvements, (iii) inventory turnover, average inventory turnover or inventory controls, (iv) net asset turnover, (v) customer satisfaction based on specified objective goals or company-sponsored customer surveys, (vi) employee satisfaction based on specified objective goals or company-sponsored employee surveys, (vii) objective employee diversity goals, (viii) employee turnover, (ix) specified objective environmental goals, (x) specified objective social goals, (xi) specified objective goals in corporate ethics and integrity, (xii) specified objective safety goals, (xiii) specified objective business expansion goals or goals relating to acquisitions or divestitures, and (xiv) succession plan development and implementation.

"**Performance Period**" means the period for which performance is calculated, which shall be the Plan Year unless otherwise specified by the Committee.

"**Plan Year**" means the Corporation's fiscal year which begins on October 1 and ends on September 30, with the first Plan Year of the Plan commencing October 1, 2020 and ending September 30, 2021.

"**Pro-rated Incentive Bonus**" means an amount equal to the Incentive Bonus otherwise payable to an Eligible Participant for a Performance Period in which the Eligible Participant was actively employed by the Corporation or a Subsidiary, multiplied by a fraction, the numerator of which is the number of days the Eligible Participant was actively employed by the Corporation or a Subsidiary during the Performance Period and the denominator of which is the number of days in the Performance Period.

"**Regulations**" mean the Treasury Regulations promulgated under the Code, as amended from time to time.

"**Subsidiary**" means a corporation, partnership, joint venture, unincorporated association or other entity in which the Corporation has a direct or indirect ownership or other equity interest.

"**Termination for Cause**" means a termination of employment of an Eligible Participant by the Corporation or a Subsidiary due to the Eligible Participant's (a) willful failure to substantially perform his or her duties with the Corporation (other than any such failure resulting from the Eligible Participant's disability), after a written demand for substantial performance is delivered to the Eligible Participant that specifically identifies the manner in which the Corporation believes that the Eligible Participant has not substantially performed his or her duties, and the Eligible Participant has failed to remedy the situation within fifteen (15) business days of such written notice from the Corporation; (b) willful gross negligence in the performance of the Eligible Participant's duties; (c) conviction of, or plea of guilty or nolo contendere, to any felony or a lesser crime or offense which, in the reasonable opinion of the Corporation, could adversely affect the business or reputation of the Corporation; (d) willful engagement in conduct that is demonstrably and materially injurious to the Corporation, monetarily or otherwise; (e) willful violation of any provision of the Corporation's code of conduct; (f) act of dishonesty resulting in, or intended to result in, personal gain at the expense of the Corporation; (g) engaging in any act that is intended to harm, or may be reasonably expected to harm, the reputation, business prospects, or operations of the Corporation; or (h) engaging in any act that justifies termination of employment with immediate effect under the local laws applicable to the Eligible Participant's employment relationship.

i. For purposes of this Plan, there shall be no Termination for Cause pursuant to subsections (a) through (g) above, unless a written notice, containing a detailed description of the grounds constituting cause hereunder, is delivered to the Eligible Participant stating the basis for the termination. Upon receipt of such notice, the Eligible Participant shall be given thirty (30) days to fully cure (if such violation, neglect, or conduct is capable of cure) the violation, neglect, or conduct that is the basis of such claim.

ii. For purposes of this definition, no act or omission by the Eligible Participant shall be considered "willful" unless it is done or omitted in bad faith or without reasonable belief that the Eligible Participant's action or omission was in the best interests of the Corporation. Any act or failure to act based upon: (a) authority given pursuant to a resolution duly adopted by the Board; or (b) advice of counsel for the Corporation, shall be conclusively presumed to be done or omitted to be done by the Eligible Participant in good faith and in the best interests of the Corporation.

iii. As used herein, "disability" shall have the meaning set forth in the definition of Disability within the Corporation's applicable policies and procedures.

3. **Administration of the Plan**. The Plan shall be administered by the Committee, which shall have full power and authority to construe, interpret and administer the Plan and shall have the exclusive right to establish Management Objectives for a Performance Period and the amount of Incentive Bonus payable to each Eligible Participant upon the achievement of the specified Management Objectives.
4. **Eligibility**. Eligibility under this Plan is limited to Eligible Participants designated by the Committee in its sole and absolute discretion.
5. **Awards.**
   a. Subject to Regulations under Code Section 409A, not later than the ninetieth (90th) day after the beginning of the applicable Performance Period (and upon which date the outcome of the Management Objective(s) applicable to such Incentive Bonus are substantially uncertain), the Committee shall establish the Management Objective(s) for each Eligible Participant and the amount of Incentive Bonus payable (or formula for determining such amount) upon full achievement of the specified Management Objective(s). The Committee may further specify in respect of the specified Management Objective(s) a minimum acceptable level of achievement below which no Incentive Bonus payment will be made and shall set forth a formula for determining the amount of any payment to be made if performance is at or above the minimum acceptable level but falls short of full achievement of the specified Management Objective(s).
   b. The Committee retains the discretion to increase and to reduce the amount of any Incentive Bonus that would be otherwise payable to an Eligible Participant (including a reduction in such amount to zero).
6. **Committee Determination**. As soon as reasonably practicable after the end of each Performance Period, the Committee shall determine whether the applicable Management Objective(s) has/have been achieved and the amount of the Incentive Bonus to be paid to each Eligible Participant for such Performance Period.
7. **Payment of Incentive Bonuses**. Incentive Bonuses shall be paid within thirty (30) days after the Committee's determination pursuant to Section 6, but in no event later than two and a half months from the end of the Performance Period.
8. **Termination of Employment**.
   a. Except as otherwise provided in Section 8(b), if an Eligible Participant's employment with the Corporation and its Subsidiaries terminates prior to the date of payment of an Incentive Bonus with respect to a Performance Period, all of the Eligible Participant's rights to an Incentive Bonus for such Performance Period shall be forfeited.
   b. If an Eligible Participant's employment with the Corporation and its Subsidiaries is terminated by reason of the Eligible Employee's death or disability (or, in the Committee's discretion any other termination other than a Termination for Cause, to the extent not established by another applicable agreement) during a Performance Period, the Eligible Participant (or the Eligible Participant's estate) will be paid a Pro-rated Incentive Bonus. Payment of such Pro-rated Incentive Bonus will be made at the same time and in the manner as Incentive Bonuses are paid to other Eligible Participants pursuant to Section 7 of the Plan.
9. **No Right to Bonus or Continued Employment**. Neither the establishment of the Plan, the provision for or payment of any amounts hereunder nor any action of the Corporation, the Board or the Committee with respect to the Plan shall be held or construed to confer upon any person (a) any legal right to receive, or any interest in, an Incentive Bonus or any other benefit under the Plan or (b) any legal right to continue to serve as an officer or employee of the Corporation or any Subsidiary of the Corporation.
10. **Withholding**. The Corporation shall have the right to withhold or require an Eligible Participant to remit to the Corporation, an amount sufficient to satisfy any applicable federal, state, local or foreign withholding tax requirements imposed with respect to the payment of any Incentive Bonus.
11. **Non-transferability**. Except as expressly provided by the Committee, the rights and benefits under the Plan shall not be transferable or assignable other than by will or the laws of descent and distribution.
12. **Amendment and Termination**. The Committee may amend the Plan from time to time, provided that any such amendment shall comply with Section 409A, or an exception thereto, and the Regulations promulgated thereunder. The Committee may also terminate the Plan at any time; provided, however, that no termination shall adversely affect the rights of any Eligible Participant with respect to any Performance Period that commenced prior to such termination.
13. **Governing Law**. The Plan shall be construed, administered and enforced in accordance with the laws of the State of Delaware without regard to conflicts of law.

14. **Code Section 409A**. It is intended that payments of Incentive Bonuses under the Plan qualify as short-term deferrals exempt from the requirements of Section 409A of the Code.
15. **Clawback**. All Incentive Bonuses paid under the Plan are subject to any clawback policy of the Corporation as in effect from time to time and, in accordance with such policy, may be subject to the requirement that such Incentive Bonuses be repaid to the Corporation after they have been paid.
16. **Unfunded Plan**. The Plan is an unfunded compensation plan, and all payments to be made hereunder shall be paid from the general funds of the Corporation.
17. **Establishment of Sub-plans**. The Board may from time to time establish one or more sub-plans under the Plan for purposes of providing a bonus opportunity to Participants at the Corporation. The Board shall establish such sub-plans by adopting supplements to the Plan setting forth (a) such limitations on the Committee's discretion under the Plan as the Board deems necessary or desirable, and (b) such additional terms and conditions not otherwise inconsistent with the Plan as the Board shall deem necessary or desirable. All supplement adopted by the Board shall be deemed to be part of the Plan, but each supplement shall apply to only to the affected Eligible Participant.
18. **Effective Date**. This Plan shall remain effective until the date the Board terminates the Plan.

* * *

SUBSIDIARIES OF LIQUIDITY SERVICES, INC.

The following is a list of subsidiaries of Liquidity Services, Inc., the names under which such subsidiaries do business, and the state or country in which each was organized as of December 8, 2020. The list does not include subsidiaries which would not, if considered in the aggregate as a single subsidiary, constitute a significant subsidiary within the meaning of Item 601(b)(21)(ii) of Regulation S-K.

Company	Jurisdiction of Organization	DBA's
Liquidity Services Operations, LLC	Delaware	GovDeals AllSurplus Liquidation.com
Liquidity Services Limited	United Kingdom	N/A
LSI Liquidity Services Canada Ltd (1)	British Columbia, Canada	GovDeals Canada
Machinio Corp.	Delaware	N/A

(1) LSI Liquidity Services Canada Ltd. is a subsidiary of Liquidity Services Limited.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

- Registration Statement (Form S-8 No. 333-132192) pertaining to the 2005 Stock Option and Incentive Plan and the 2006 Omnibus Long-Term Incentive Plan of Liquidity Services, Inc.,

- Registration Statement (Form S-8 No. 333-159004) pertaining to the 2006 Omnibus Long-Term Incentive Plan of Liquidity Services, Inc.,

- Registration Statement (Form S-8 No. 333-194257) pertaining to the Liquidity Services, Inc. 401(k) Profit Sharing Plan,

- Registration Statement (Form S-8 No. 333-202548) pertaining to the Amended and Restated 2006 Omnibus Long-Term Incentive Plan of Liquidity Services, Inc.,

- Registration Statement (Form S-8 No. 333-216242) pertaining to the Second Amended and Restated 2006 Omnibus Long-Term Incentive Plan of Liquidity Services, Inc.,

- Registration Statement (Form S-8 No. 333-226114) pertaining to the Machinio Corp. 2014 Stock Incentive Plan; and

- Registration Statement (Form S-8 No. 333-236547) pertaining to the Third Amended and Restated 2006 Omnibus Long-Term Incentive Plan of Liquidity Services, Inc.

of our reports dated December 8, 2020, with respect to the consolidated financial statements and schedule of Liquidity Services, Inc. and subsidiaries and the effectiveness of internal control over financial reporting of Liquidity Services, Inc. and subsidiaries, included in this Annual Report (Form 10-K) of Liquidity Services, Inc. for the year ended September 30, 2020.

/s/ Ernst & Young LLP

Tysons, Virginia
December 8, 2020

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 annual report on Form 10-K 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.

Date: December 8, 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 annual report on Form 10-K 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.

Date: December 8, 2020

/s/ Jorge A. Celaya

By: Jorge A. Celaya
Title: *Executive Vice President and Chief 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 annual report of Liquidity Services, Inc. (the "Company") on Form 10-K for the period ended September 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.

December 8, 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-K 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 annual report of Liquidity Services, Inc. (the “Company”) on Form 10-K for the period ended September 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.

December 8, 2020	/s/ Jorge A. Celaya
	Jorge A. Celaya
	Executive Vice President and Chief 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-K 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.