

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2021

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**

**20814**

(Address of Principal Executive Offices)

(Zip Code)

**(202) 467-6868**

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

The number of shares outstanding of the issuer's common stock, par value \$0.001 per share, as of May 3, 2021 was 35,126,267.



## INDEX

|   | <u>Page</u>  |                  |
|---|--|------------------|
| <b><u>PART I. FINANCIAL INFORMATION</u></b> |  |                  |
| <u>Item 1.</u>                              | <u>Financial Statements</u>  | <u>3</u>         |
|   | <u>Consolidated Balance Sheets</u>   | <u>3</u>         |
|   | <u>Consolidated Statements of Operations</u>   | <u>4</u>         |
|   | <u>Consolidated Statements of Comprehensive Income (Loss)</u>                                | <u>5</u>         |
|   | <u>Consolidated Statement of Stockholders' Equity</u>  | <u>6</u>         |
|   | <u>Consolidated Statements of Cash Flows</u>   | <u>7</u>         |
|   | <u>Notes to the Unaudited Consolidated Financial Statements</u>                              | <u>8</u>         |
| <u>Item 2.</u>                              | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>21</u>        |
| <u>Item 3.</u>                              | <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | <u>31</u>        |
| <u>Item 4.</u>                              | <u>Controls and Procedures</u>   | <u>31</u>        |
| <b><u>PART II. OTHER INFORMATION</u></b>    |  |                  |
| <u>Item 1.</u>                              | <u>Legal Proceedings</u>   | <u>32</u>        |
| <u>Item 1A.</u>                             | <u>Risk Factors</u>  | <u>32</u>        |
| <u>Item 2.</u>                              | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | <u>32</u>        |
| <u>Item 5.</u>                              | <u>Other Information</u>   | <u>32</u>        |
| <u>Item 6.</u>                              | <u>Exhibits</u>  | <u>33</u>        |
| <b><u>SIGNATURES</u></b>                    |  | <b><u>34</u></b> |

## PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements.

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

|  | March 31, 2021    | September 30, 2020 |
|--|-------------------|--------------------|
|  | (Unaudited)       |                    |
| <b>Assets</b>  |                   |                    |
| Current assets:  |                   |                    |
| Cash and cash equivalents  | \$ 87,613         | \$ 76,036          |
| Accounts receivable, net of allowance for doubtful accounts of \$569 and \$389   | 5,731             | 5,322              |
| Inventory, net   | 13,124            | 5,607              |
| Prepaid taxes and tax refund receivable  | 1,594             | 1,652              |
| Prepaid expenses and other current assets  | 6,843             | 5,962              |
| Total current assets   | 114,905           | 94,579             |
| Property and equipment, net of accumulated depreciation of \$16,554 and \$14,555   | 17,341            | 17,843             |
| Operating lease assets   | 12,596            | 10,561             |
| Intangible assets, net   | 4,110             | 4,758              |
| Goodwill   | 59,986            | 59,839             |
| Deferred tax assets  | 777               | 806                |
| Other assets   | 7,868             | 8,248              |
| <b>Total assets</b>  | <b>\$ 217,583</b> | <b>\$ 196,634</b>  |
| <b>Liabilities and stockholders' equity</b>  |                   |                    |
| Current liabilities:   |                   |                    |
| Accounts payable   | \$ 36,904         | \$ 21,957          |
| Accrued expenses and other current liabilities   | 21,727            | 19,124             |
| Current portion of operating lease liabilities   | 4,058             | 3,818              |
| Deferred revenue   | 4,172             | 3,255              |
| Payables to sellers  | 31,552            | 26,170             |
| Total current liabilities  | 98,413            | 74,324             |
| Operating lease liabilities  | 9,421             | 7,499              |
| Other long-term liabilities  | 2,811             | 2,996              |
| <b>Total liabilities</b>   | <b>110,645</b>    | <b>84,819</b>      |
| Commitments and contingencies (Note 12)  |                   |                    |
| Stockholders' equity:  |                   |                    |
| Common stock, \$0.001 par value; 120,000,000 shares authorized; 35,115,307 shares issued and outstanding at March 31, 2021; 34,082,406 shares issued and outstanding at September 30, 2020 | 35                | 34                 |
| Additional paid-in capital   | 249,866           | 247,892            |
| Treasury stock, at cost; 1,587,199 shares at March 31, 2021 and 547,508 shares at September 30, 2020   | (21,628)          | (3,983)            |
| Accumulated other comprehensive loss   | (8,763)           | (9,782)            |
| Accumulated deficit  | (112,572)         | (122,346)          |
| Total stockholders' equity   | 106,938           | 111,815            |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 217,583</b> | <b>\$ 196,634</b>  |

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

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

|   | Three Months Ended March 31, |            | Six Months Ended March 31, |            |
|---|------------------------------|------------|----------------------------|------------|
|   | 2021                         | 2020       | 2021                       | 2020       |
|   | (Unaudited)                  |            |                            |            |
| Revenue   | \$ 35,968                    | \$ 35,203  | \$ 67,040                  | \$ 65,552  |
| Fee revenue   | 25,818                       | 17,621     | 50,498                     | 36,776     |
| Total revenue   | 61,786                       | 52,824     | 117,538                    | 102,328    |
| Costs and expenses from operations:                         |                              |            |                            |            |
| Cost of goods sold (excludes depreciation and amortization) | 26,385                       | 26,619     | 48,958                     | 50,795     |
| Technology and operations                                   | 12,085                       | 11,586     | 22,644                     | 22,827     |
| Sales and marketing   | 8,910                        | 10,109     | 18,018                     | 19,714     |
| General and administrative                                  | 6,892                        | 7,397      | 13,902                     | 15,104     |
| Depreciation and amortization                               | 1,670                        | 1,577      | 3,541                      | 3,149      |
| Other operating expenses (income)                           | 206                          | (12)       | 210                        | 181        |
| Total costs and expenses                                    | 56,148                       | 57,276     | 107,273                    | 111,770    |
| Income (loss) from operations                               | 5,638                        | (4,452)    | 10,265                     | (9,442)    |
| Interest and other income, net                              | (29)                         | (257)      | (214)                      | (509)      |
| Income (loss) before provision for income taxes             | 5,667                        | (4,195)    | 10,479                     | (8,933)    |
| Provision for income taxes                                  | 407                          | 43         | 704                        | 501        |
| Net income (loss)   | \$ 5,260                     | \$ (4,238) | \$ 9,775                   | \$ (9,434) |
| Basic income (loss) per common share                        | \$ 0.16                      | \$ (0.13)  | \$ 0.29                    | \$ (0.28)  |
| Diluted income (loss) per common share                      | \$ 0.15                      | \$ (0.13)  | \$ 0.28                    | \$ (0.28)  |
| Basic weighted average shares outstanding                   | 33,491,395                   | 33,624,889 | 33,332,417                 | 33,584,844 |
| Diluted weighted average shares outstanding                 | 35,559,747                   | 33,624,889 | 34,914,549                 | 33,584,844 |

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

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

|                                    | Three Months Ended March 31, |                   | Six Months Ended March 31, |                   |
|------------------------------------|------------------------------|-------------------|----------------------------|-------------------|
|                                    | 2021                         | 2020              | 2021                       | 2020              |
|                                    | (Unaudited)                  |                   |                            |                   |
| Net income (loss)                  | \$ 5,260                     | \$ (4,238)        | \$ 9,775                   | \$ (9,434)        |
| Other comprehensive income (loss): |                              |                   |                            |                   |
| Foreign currency translation       | 123                          | (1,303)           | 1,019                      | (470)             |
| Other comprehensive income (loss)  | 123                          | (1,303)           | 1,019                      | (470)             |
| Comprehensive income (loss)        | <u>\$ 5,383</u>              | <u>\$ (5,541)</u> | <u>\$ 10,794</u>           | <u>\$ (9,904)</u> |

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

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

|   | Common Stock |        |                                  | Treasury Stock |             | Accumulated<br>Other<br>Comprehensive<br>Loss | Accumulated<br>Deficit | Total      |
|---|--------------|--------|----------------------------------|----------------|-------------|---|------------------------|------------|
|   | Shares       | Amount | Additional<br>Paid-in<br>Capital | Shares         | Amount      |   |                        |            |
|   | (Unaudited)  |        |                                  |                |             |   |                        |            |
| Balance at September 30, 2020   | 34,082,406   | \$ 34  | \$ 247,892                       | (547,508)      | \$ (3,983)  | \$ (9,782)                                    | \$ (122,346)           | \$ 111,815 |
| Net income  | —            | —      | —                                | —              | —           | —   | 4,514                  | 4,514      |
| Exercise of stock options, grants of restricted stock awards, and vesting of restricted stock units | 151,845      | —      | 197                              | —              | —           | —   | —                      | 197        |
| Taxes paid associated with net settlement of stock compensation awards                              | (7,703)      | —      | (57)                             | —              | —           | —   | —                      | (57)       |
| Forfeitures of restricted stock awards  | (13,733)     | —      | —                                | —              | —           | —   | —                      | —          |
| Common stock repurchased  | —            | —      | —                                | (309,496)      | (4,103)     | —   | —                      | (4,103)    |
| Common stock surrendered in the exercise of stock options   | —            | —      | 169                              | (9,384)        | (169)       | —   | —                      | —          |
| Stock compensation expense  | —            | —      | 1,801                            | —              | —           | —   | —                      | 1,801      |
| Foreign currency translation  | —            | —      | —                                | —              | —           | 896   | —                      | 896        |
| Balance at December 31, 2020  | 34,212,815   | \$ 34  | \$ 250,002                       | (866,388)      | \$ (8,255)  | \$ (8,886)                                    | \$ (117,832)           | \$ 115,063 |
| Net income  | —            | —      | —                                | —              | —           | —   | 5,260                  | 5,260      |
| Exercise of stock options, grants of restricted stock awards, and vesting of restricted stock units | 1,079,955    | 1      | 154                              | —              | —           | —   | —                      | 155        |
| Taxes paid associated with net settlement of stock compensation awards                              | (177,463)    | —      | (3,145)                          | —              | —           | —   | —                      | (3,145)    |
| Common stock repurchased  | —            | —      | —                                | (647,583)      | (12,040)    | —   | —                      | (12,040)   |
| Common stock surrendered in the exercise of stock options   | —            | —      | 1,333                            | (73,228)       | (1,333)     | —   | —                      | —          |
| Stock compensation expense  | —            | —      | 1,522                            | —              | —           | —   | —                      | 1,522      |
| Foreign currency translation  | —            | —      | —                                | —              | —           | 123   | —                      | 123        |
| Balance at March 31, 2021   | 35,115,307   | \$ 35  | \$ 249,866                       | (1,587,199)    | \$ (21,628) | \$ (8,763)                                    | \$ (112,572)           | \$ 106,938 |

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

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

|   | Six Months Ended March 31, |            |
|---|----------------------------|------------|
|   | 2021                       | 2020       |
|   | (Unaudited)                |            |
| <b>Operating activities</b>   |                            |            |
| Net income (loss)   | \$ 9,775                   | \$ (9,434) |
| Adjustments to reconcile net loss to net cash used in operating activities: |                            |            |
| Depreciation and amortization   | 3,541                      | 3,149      |
| Stock compensation expense  | 3,990                      | 2,270      |
| Provision for doubtful accounts   | 175                        | 66         |
| Deferred tax provision  | 64                         | 362        |
| Loss (gain) on disposal of property and equipment                           | 44                         | (25)       |
| Change in fair value of earnout liability                                   | —                          | 200        |
| Impairment of long-lived assets   | 203                        | —          |
| Changes in operating assets and liabilities:                                |                            |            |
| Accounts receivable   | (594)                      | 666        |
| Inventory   | (7,517)                    | (2,648)    |
| Prepaid and deferred taxes  | 57                         | (869)      |
| Prepaid expenses and other assets   | (1,358)                    | 2,337      |
| Operating lease assets and liabilities                                      | (52)                       | (174)      |
| Accounts payable  | 14,947                     | 4,116      |
| Accrued expenses and other current liabilities                              | 2,003                      | (10,060)   |
| Distributions payable   | —                          | (1,675)    |
| Deferred revenue  | 916                        | (88)       |
| Payables to sellers   | 5,383                      | 1,113      |
| Other liabilities   | (262)                      | (1,443)    |
| Net cash provided by (used in) operating activities                         | 31,315                     | (12,137)   |
| <b>Investing activities</b>   |                            |            |
| Increase in intangibles   | (21)                       | (48)       |
| Purchases of property and equipment, including capitalized software         | (2,418)                    | (2,834)    |
| Proceeds from sales of property and equipment                               | 35                         | 36         |
| Proceeds from promissory note   | 824                        | 2,554      |
| Purchases of short-term investments   | —                          | (25,000)   |
| Maturities of short-term investments  | —                          | 45,000     |
| Net cash (used in) provided by investing activities                         | (1,580)                    | 19,708     |
| <b>Financing activities</b>   |                            |            |
| Payments of the principal portion of finance lease liabilities              | (17)                       | (17)       |
| Taxes paid associated with net settlement of stock compensation awards      | (3,202)                    | (558)      |
| Proceeds from exercise of stock options                                     | 351                        | 34         |
| Payment of earnout liability related to business acquisition                | —                          | (1,200)    |
| Common stock repurchased  | (16,143)                   | —          |
| Net cash used in financing activities                                       | (19,011)                   | (1,741)    |
| Effect of exchange rate differences on cash and cash equivalents            | 853                        | (511)      |
| Net increase in cash and cash equivalents                                   | 11,577                     | 5,319      |
| Cash and cash equivalents at beginning of period                            | 76,036                     | 36,497     |
| Cash and cash equivalents at end of period                                  | \$ 87,613                  | \$ 41,816  |
| <b>Supplemental disclosure of cash flow information</b>                     |                            |            |
| Cash paid for income taxes, net   | \$ 508                     | \$ 177     |
| Non-cash: Common stock surrendered in the exercise of stock options         | \$ 1,502                   | \$ —       |

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

**Liquidity Services, Inc. and Subsidiaries**  
**Notes to the Unaudited Consolidated Financial Statements**

## **1. Organization**

Liquidity Services, Inc. (the Company) operates a network of e-commerce marketplaces that power the circular economy which benefits businesses, society, and the environment through the safe and effective resale and redeployment of surplus assets; reducing waste, carbon emissions and transportation costs; and by creating markets for items that would otherwise be landfilled. The Company's marketplaces enable buyers and sellers to transact in an efficient, automated environment offering over 600 product categories and provide professional buyers access to a global, organized supply of new, surplus and idle assets presented with digital images and other relevant product information. The Company's marketplaces enable 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](http://www.allsurplus.com), [www.liquidation.com](http://www.liquidation.com), [www.govdeals.com](http://www.govdeals.com), [www.secondipity.com](http://www.secondipity.com), and [www.go-dove.com](http://www.go-dove.com). The Company also operates a global search engine for listing used machinery and equipment for sale at [www.machinio.com](http://www.machinio.com). The Company has four reportable segments: GovDeals, Retail Supply Chain Group (RSCG), Capital Assets Group (CAG), and Machinio. See Note 13 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 travel restrictions and the COVID-19 pandemic's impact on current and future macroeconomic conditions; the Company's susceptibility to rapid technological change; actual and potential competition by entities with greater financial and other resources; and the potential for the commercial sellers from which the Company derives a significant portion of its inventory to change the way they conduct their disposition of surplus assets or to otherwise terminate or not renew their contracts with the Company.

## **2. Summary of Significant Accounting Policies**

### **Unaudited Interim Financial Information**

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal, recurring adjustments considered necessary for a fair presentation, have been included, and intercompany transactions and accounts have been eliminated in consolidation. The information disclosed in the notes to the consolidated financial statements for these periods is unaudited. Operating results for the three and six months ended March 31, 2021 are not necessarily indicative of the results that may be expected for the year ending September 30, 2021 or for any future period.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect amounts in the consolidated financial statements and accompanying notes. For the three and six months ended March 31, 2021, these estimates required the Company to make assumptions about the extent and duration of travel restrictions and the impact of the COVID-19 pandemic on macroeconomic conditions and, in turn, the Company's results of operations. As there remains uncertainty associated with the COVID-19 pandemic, the Company will continue to update its assumptions as conditions change. Actual results could differ significantly from those estimates.

### **Contract Assets and Liabilities**

Contract assets reflect an estimate of expenses that will be reimbursed upon settlement with a seller. The contract asset balance was \$0.5 million as of March 31, 2021 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.

**Liquidity Services, Inc. and Subsidiaries**  
**Notes to the Unaudited Consolidated Financial Statements - (Continued)**

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 \$4.2 million as of March 31, 2021 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, 2020 contract liability balance, \$2.4 million was earned as Fee revenue during the six months ended March 31, 2021.

For the Company's Machinio business segment, performance obligations are satisfied over time as the Company provides the services over the term of the subscription. At March 31, 2021, the Machinio business segment had a remaining performance obligation of \$4.2 million; the Company expects to recognize the substantial majority of that amount as Fee Revenue over the next 12 months.

#### **Contract Costs**

Contract costs relate to sales commissions paid on subscription contracts that are capitalized. Contract costs are amortized over the expected life of the customer contract. The contract cost balance was \$1.3 million as of March 31, 2021 and \$0.7 million as of September 30, 2020 and is included in the line item Prepaid expenses and other current assets and Other assets on the Consolidated Balance Sheet. Amortization expense was \$0.2 million and \$0.3 million during the three and six months ended March 31, 2021 and was \$0.1 million and \$0.2 million during the three and six months ended March 31, 2020.

#### **Other Assets - Promissory Note**

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

On October 10, 2019, the Company entered into a Forbearance Agreement and Amendment to Note, Security Agreement and Guaranty Agreement (the "Forbearance Agreement") with Tanager (now known as Jacobs Trading, LLC) and certain of its affiliates (collectively, "JTC"). In exchange for additional collateral, security, and a higher interest rate, the Company granted JTC a new repayment schedule that requires quarterly payments to be made from August 2020 to August 2023. Upon execution of the Forbearance Agreement, JTC repaid \$2.5 million in principal, plus \$0.4 million in accrued interest. Of the \$12.3 million owed to the Company, \$7.7 million has been repaid as of March 31, 2021. Of the \$4.6 million in principal outstanding at March 31, 2021, \$2.9 million was recorded in Other assets, and \$1.7 million in Prepaid expenses and other current assets based on the scheduled repayment dates.

#### **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 on the Consolidated Balance Sheets. The Company releases the funds to the seller, less the Company's commission and other fees due, to the seller through Accounts payable after the buyer has accepted the goods or within 30 days, depending on the state where the buyer and seller conduct business.

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of Cash in banks and cash equivalent money market funds in accounts which may at times exceed federally insured limits (FDIC and/or SIPC), and Accounts receivable. The Company deposits its Cash and acquires cash equivalent money market funds with 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 61.2% and 55.3% of consolidated Cost of goods sold for the three months ended March 31, 2021 and 2020, respectively, and 60.6% and 51.9% of consolidated Cost of goods sold for the six months ended March 31, 2021 and 2020, respectively. These contracts are included within the RSCG segment.

#### **Recent Accounting Pronouncements**

##### *Accounting Standards Adopted*

**Liquidity Services, Inc. and Subsidiaries**  
**Notes to the Unaudited Consolidated Financial Statements - (Continued)**

On October 1, 2020, the Company adopted ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. The Company has not identified any significant impacts as a result of adoption of this ASU, however, material impacts could be experienced if and when the Company implements cloud computing arrangements in the future.

*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, money market funds 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 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. Earnings per Share**

Basic net income per share is computed by dividing net income for the period by the weighted average number of shares outstanding during the period. Diluted net income per share is computed by dividing net income for the period by the weighted average number of shares of common stock and potentially dilutive common stock outstanding during the period. The calculation of diluted net income per share excludes all anti-dilutive common shares.

The computation of basic and diluted net income per share is as follows:

|   | <b>Three Months Ended March 31,</b> |             | <b>Six Months Ended March 31,</b> |             |
|---|-------------------------------------|-------------|-----------------------------------|-------------|
|   | <b>2021</b>                         | <b>2020</b> | <b>2021</b>                       | <b>2020</b> |
| Numerator:  |                                     |             |                                   |             |
| Net income (loss)   | \$ 5,260                            | \$ (4,238)  | \$ 9,775                          | \$ (9,434)  |
| Denominator:  |                                     |             |                                   |             |
| Basic weighted average shares outstanding   | 33,491,395                          | 33,624,889  | 33,332,417                        | 33,584,844  |
| Dilutive impact of stock options, RSUs and RSAs   | 2,068,352                           | —           | 1,582,132                         | —           |
| Diluted weighted average shares outstanding   | 35,559,747                          | 33,624,889  | 34,914,549                        | 33,584,844  |
| Basic income (loss) per common share  | \$ 0.16                             | \$ (0.13)   | \$ 0.29                           | \$ (0.28)   |
| Diluted income (loss) per common share  | \$ 0.15                             | \$ (0.13)   | \$ 0.28                           | \$ (0.28)   |
| Stock options, RSUs and RSAs excluded from income (loss) per diluted share because their effect would have been anti-dilutive | 367,539                             | 5,051,829   | 969,089                           | 5,051,829   |

**Liquidity Services, Inc. and Subsidiaries**  
**Notes to the Unaudited Consolidated Financial Statements - (Continued)**

**4. Leases**

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

The components of lease expense are:

| (in thousands)                                | Three Months Ended March 31, |                 | Six Months Ended March 31, |                 |
|---|------------------------------|-----------------|----------------------------|-----------------|
|   | 2021                         | 2020            | 2021                       | 2020            |
| Finance lease – lease asset amortization      | \$ 16                        | \$ 16           | \$ 32                      | \$ 37           |
| Finance lease – interest on lease liabilities | 5                            | 5               | 10                         | 12              |
| Operating lease cost                          | 1,249                        | 1,344           | 2,655                      | 2,680           |
| Operating lease impairment expense            | 172                          | —               | 172                        | —               |
| Short-term lease cost                         | 47                           | 23              | 121                        | 44              |
| Variable lease cost <sup>(1)</sup>            | 455                          | 420             | 818                        | 751             |
| Sublease income                               | (30)                         | (20)            | (106)                      | (139)           |
| <b>Total net lease cost</b>                   | <b>\$ 1,914</b>              | <b>\$ 1,788</b> | <b>\$ 3,702</b>            | <b>\$ 3,385</b> |

<sup>(1)</sup> 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:

| (in thousands)                             | March 31, 2021   |                |
|--|------------------|----------------|
|  | Operating Leases | Finance Leases |
| 2021                                       | \$ 2,511         | \$ 28          |
| 2022                                       | 4,318            | 55             |
| 2023                                       | 3,406            | 56             |
| 2024                                       | 2,366            | 56             |
| 2025                                       | 1,846            | 55             |
| Thereafter                                 | 822              | 50             |
| <b>Total lease payments <sup>(1)</sup></b> | <b>\$ 15,269</b> | <b>\$ 300</b>  |
| Less: imputed interest <sup>(2)</sup>      | (1,790)          | (52)           |
| <b>Total lease liabilities</b>             | <b>\$ 13,479</b> | <b>\$ 248</b>  |

<sup>(1)</sup> The weighted average remaining lease term is 3.8 years for operating leases and 5.3 years for finance leases.

<sup>(2)</sup> 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)  | Six Months Ended March 31, |          |
|---|----------------------------|----------|
|   | 2021                       | 2020     |
| Cash paid for amounts included in operating lease liabilities                               | \$ 2,251                   | \$ 2,506 |
| Cash paid for amounts included in finance lease liabilities                                 | 17                         | 17       |
| Non-cash: lease liabilities arising from new operating lease assets obtained <sup>(1)</sup> | 885                        | 12,188   |
| Non-cash: lease liabilities arising from new finance lease assets obtained                  | —                          | 10       |
| Non-cash: adjustments to lease assets and liabilities                                       | 3,286                      | 1,675    |

**Liquidity Services, Inc. and Subsidiaries**  
**Notes to the Unaudited Consolidated Financial Statements - (Continued)**

<sup>(1)</sup> Six months ended March 31, 2020 amount includes \$12.2 million of lease liabilities recognized upon the adoption of ASC 842 on October 1, 2019.

**5. Goodwill**

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

| (in thousands)                | CAG              | GovDeals         | Machinio         | Total            |
|-------------------------------|------------------|------------------|------------------|------------------|
| 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        |
| Translation adjustments       | 147              | —                | —                | 147              |
| Balance at March 31, 2021     | <u>\$ 21,697</u> | <u>\$ 23,731</u> | <u>\$ 14,558</u> | <u>\$ 59,986</u> |

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. The Company did not identify any indicators of impairment that required an interim impairment test during the three and six months ended March 31, 2021.

The Company has continued to evaluate the impact of the COVID-19 pandemic on the recoverability of its goodwill. As there have been favorable developments in the factors that previously indicated an interim goodwill impairment test was necessary during the prior fiscal year, the Company did not identify any indicators of impairment that required an interim goodwill impairment test during the three and six months ended March 31, 2021.

**6. Intangible Assets**

Intangible assets consist of the following:

| (dollars in thousands)  | Useful Life (in years) | March 31, 2021        |                          |                     | September 30, 2020    |                          |                     |
|-------------------------|------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
|                         |                        | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Contract intangibles    | 6                      | \$ 3,100              | \$ (1,421)               | \$ 1,679            | \$ 3,100              | \$ (1,162)               | \$ 1,938            |
| Technology              | 5                      | 2,700                 | (1,485)                  | 1,215               | 2,700                 | (1,215)                  | 1,485               |
| Patent and trademarks   | 7 - 10                 | 2,350                 | (1,134)                  | 1,216               | 2,329                 | (994)                    | 1,335               |
| Total intangible assets |                        | <u>\$ 8,150</u>       | <u>\$ (4,040)</u>        | <u>\$ 4,110</u>     | <u>\$ 8,129</u>       | <u>\$ (3,371)</u>        | <u>\$ 4,758</u>     |

Future expected amortization of intangible assets at March 31, 2021, is as follows:

| (in thousands)             | Expected Amortization Expense |
|----------------------------|-------------------------------|
| Years ending September 30, |                               |
| Remainder of 2021          | \$ 668                        |
| 2022                       | 1,330                         |
| 2023                       | 1,186                         |
| 2024                       | 647                           |
| 2025                       | 279                           |
| Total                      | <u>\$ 4,110</u>               |

Intangible asset amortization expense was \$0.3 million and \$0.3 million for the three months ended March 31, 2021 and 2020, respectively and \$0.7 million and \$0.7 million for the six months ended March 31, 2021 and 2020, respectively.

The Company has continued to evaluate the impact of the COVID-19 pandemic on the recoverability of its long-lived assets. The Company has not identified indicators of impairment requiring an interim impairment test on material long-lived assets during the three and six months ended March 31, 2021.

## 7. Income Taxes

The Company's interim effective income tax rate is based on management's best current estimate of the Company's expected annual effective income tax rate. The Company recorded pre-tax income in the first six months of fiscal year 2021 and its corresponding effective tax rate is 6.7% compared to (5.6%) for the first six months of fiscal year 2020. The change in the effective tax rate for the six months ended March 31, 2021 as compared to the same period in the prior year was primarily due to state and foreign taxes. Tax expense in the six months ended March 31, 2021 is due to state and foreign taxes paid. The effective tax rate differed from the U.S. statutory federal rate of 21% primarily as a result of the utilization of net operating losses and the impact of foreign, state, and local income taxes and permanent tax adjustments.

The Company applies the authoritative guidance related to uncertainty in income taxes. *ASC Topic 740, Income Taxes*, 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 resolution of any related appeals or litigation processes, on the basis of technical merits. The Company identified no new uncertain tax positions during the six months ended March 31, 2021. The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, various state and local jurisdictions and in foreign jurisdictions, primarily Canada and the United Kingdom. As of March 31, 2021, none of the Company's federal or state income tax returns are under examination, however, we remain subject to examination for certain of our foreign income tax returns. The 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.

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.

## 8. Stockholders' Equity

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

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

**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 March 31, 2021, 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 March 31, 2021, 1,865,347 shares of common stock remained available for use.

**Stock Compensation Expense**

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

|  | Three Months Ended March 31, |                 | Six Months Ended March 31, |                 |
|--|------------------------------|-----------------|----------------------------|-----------------|
|  | 2021                         | 2020            | 2021                       | 2020            |
| <b>Equity-classified awards:</b>         |                              |                 |                            |                 |
| Stock options                            | \$ 844                       | \$ 561          | \$ 1,729                   | \$ 977          |
| RSUs & RSAs                              | 678                          | 683             | 1,594                      | 1,389           |
| Total equity-classified awards           | \$ 1,522                     | \$ 1,244        | \$ 3,323                   | \$ 2,366        |
| <b>Liability-classified awards:</b>      |                              |                 |                            |                 |
| SARs                                     | 239                          | (13)            | 667                        | (96)            |
| <b>Total stock compensation expense:</b> | <u>\$ 1,761</u>              | <u>\$ 1,231</u> | <u>\$ 3,990</u>            | <u>\$ 2,270</u> |

**Stock Options and RSUs & RSAs**

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

|  | Six Months Ended<br>March 31, 2021 |
|--|------------------------------------|
| <b>Stock Options granted:</b>                            |                                    |
| Options containing only service conditions:              | 558,673                            |
| Weighted average exercise price                          | \$ 10.69                           |
| Weighted average grant date fair value                   | \$ 4.49                            |
| Options containing performance or market conditions:     | 549,600                            |
| Weighted average exercise price                          | \$ 10.51                           |
| Weighted average grant date fair value                   | \$ 4.35                            |
| <b>RSUs &amp; RSAs granted:</b>                          |                                    |
| RSUs & RSAs containing only service conditions:          | 139,945                            |
| Weighted average grant date fair value                   | \$ 13.48                           |
| RSUs & RSAs containing performance or market conditions: | 139,600                            |
| Weighted average grant date fair value                   | \$ 9.43                            |

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

**Liquidity Services, Inc. and Subsidiaries**  
**Notes to the Unaudited Consolidated Financial Statements - (Continued)**

The range of assumptions used to determine the fair value of stock options containing only service conditions using the Black-Scholes option-pricing model during the six months ended March 31, 2021 were as follows:

|                         | <b>Six Months Ended<br/>March 31, 2021</b> |
|-------------------------|--|
| Dividend yield          | —  |
| Expected volatility     | 51.0% - 55.9%                              |
| Risk-free interest rate | 0.4% - 0.8%                                |
| Expected term           | 4.6 - 7.6 years                            |

The range of assumptions used to determine the fair value of stock options and RSUs & RSAs containing market conditions using Monte Carlo simulations during the six months ended March 31, 2021 were as follows:

|   | <b>Six Months Ended<br/>March 31, 2021</b> |
|---|--|
| Dividend yield                                | —  |
| Expected volatility                           | 51.6% - 54.6%                              |
| Risk-free interest rate                       | 0.3% - 0.9%                                |
| Expected holding period (% of remaining term) | 31.7% - 100.0%                             |

### SARs

During the six months ended March 31, 2021, the Company did not issue any SARs, 38,434 SARs were exercised requiring the Company to make cash payments of \$0.3 million, and 73,681 SARs were canceled. As of March 31, 2021, 48,695 SARs were outstanding.

### Share Repurchase Program

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.

As of the fiscal year ended September 30, 2020, we had \$6.1 million of remaining share repurchase authorization. On March 8, 2021, our Board of Directors authorized an additional \$10 million of share repurchases of the Company's outstanding shares of common stock through March 31, 2023.

The Company repurchased 647,583 shares for \$12.0 million and 957,079 shares for \$16.1 million under this program during the three and six months ended March 31, 2021, respectively. As of March 31, 2021, the Company had no remaining authorization to repurchase shares under this program. On May 3, 2021, the Company's Board of Directors authorized the repurchase of up to \$15 million of the Company's outstanding shares of common stock through June 30, 2023.

### Other Share Repurchases

Separate from the share repurchase program, our stock incentive plans allow for participants to exercise stock options by surrendering shares of common stock equivalent in value to the exercise price due. During the three and six months ended March 31, 2021, participants surrendered 73,228 and 82,612 shares of common stock in the exercise of stock options, respectively. Any shares surrendered to the Company in this manner are not available for future grant.

**9. Fair Value Measurement**

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

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

The Company had \$40.0 million of money market funds considered cash equivalents at March 31, 2021 and September 30, 2020. These assets were measured at fair value at March 31, 2021 and September 30, 2020 and were classified as Level 1 assets within the fair value hierarchy. There were no transfers between levels during the periods presented.

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

As of March 31, 2021 and September 30, 2020, the Company did not have any material assets or liabilities measured at fair value on a non-recurring basis.

**10. Defined Benefit Pension Plan**

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

The net periodic (benefit) is recognized within Interest and other income, net in the Consolidated Statements of Operations, and for the three and six months ended March 31, 2021 and 2020 included the following components:

| (in thousands)                     | Three Months Ended March 31, |                | Six Months Ended March 31, |                 |
|------------------------------------|------------------------------|----------------|----------------------------|-----------------|
|                                    | 2021                         | 2020           | 2021                       | 2020            |
| Interest cost                      | \$ 94                        | \$ 109         | \$ 201                     | \$ 217          |
| Expected return on plan assets     | (198)                        | (204)          | (392)                      | (404)           |
| Amortization of prior service cost | 6                            | 5              | 11                         | 10              |
| Total net periodic (benefit)       | <u>\$ (98)</u>               | <u>\$ (90)</u> | <u>\$ (180)</u>            | <u>\$ (177)</u> |

**11. 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 employee positions in response to the COVID-19 pandemic.

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

| (in thousands)                             | Liability<br>Balance at<br>September 30,<br>2019 | Adoption of<br>ASC 842 | Business<br>Realignment<br>Expenses | Cash<br>Payments | Liability<br>Balance at<br>September 30,<br>2020 | Business<br>Realignment<br>Expenses | Cash<br>Payments | Liability<br>Balance at<br>March 31, 2021 |
|--|--|------------------------|-------------------------------------|------------------|--|-------------------------------------|------------------|---|
| Employee severance and benefit costs:      |  |                        |                                     |                  |  |                                     |                  |   |
| GovDeals                                   | \$ —   | \$ —                   | \$ 29                               | \$ (25)          | \$ 4   | \$ —                                | \$ (4)           | \$ —                                      |
| RCSG                                       | —  | —                      | 84                                  | (64)             | 20   | —                                   | (20)             | —   |
| CAG  | 414  | —                      | 120                                 | (481)            | 53   | 5                                   | (58)             | —   |
| Corporate & Other                          | 238  | —                      | 172                                 | (410)            | —  | —                                   | —                | —   |
| Total employee severance and benefit costs | <u>\$ 652</u>                                    | <u>\$ —</u>            | <u>\$ 405</u>                       | <u>\$ (980)</u>  | <u>\$ 77</u>                                     | <u>\$ 5</u>                         | <u>\$ (82)</u>   | <u>\$ —</u>                               |
| Occupancy and other costs:                 |  |                        |                                     |                  |  |                                     |                  |   |
| CAG  | 169  | (169)                  | —                                   | —                | —  | —                                   | —                | —   |
| Corporate & Other                          | —  | —                      | —                                   | —                | —  | —                                   | —                | —   |
| Total occupancy and other costs            | <u>\$ 169</u>                                    | <u>\$ (169)</u>        | <u>\$ —</u>                         | <u>\$ —</u>      | <u>\$ —</u>                                      | <u>\$ —</u>                         | <u>\$ —</u>      | <u>\$ —</u>                               |
| Total business realignment                 | <u>\$ 821</u>                                    | <u>\$ (169)</u>        | <u>\$ 405</u>                       | <u>\$ (980)</u>  | <u>\$ 77</u>                                     | <u>\$ 5</u>                         | <u>\$ (82)</u>   | <u>\$ —</u>                               |

## **12. Legal Proceedings and Other Contingencies**

The Company reserves for contingent liabilities based on ASC 450, *Contingencies*, when it determines that a liability is probable and reasonably estimable. From time to time, the Company may become involved in litigation relating to claims arising in the ordinary course of the business.

On December 22, 2020, the Company's former Vice President, Human Resources filed a claim with the Equal Employment Opportunity Commission for wrongful termination on the basis of gender, race, and age. The Company believes this claim is without merit and cannot estimate a range of potential liability, if any, at this time. The Company's employment practices liability insurance carrier, CNA, has accepted tender of this claim. The same former executive also has alleged wage and hour violations under Maryland law for failure to pay his fiscal year 2020 performance bonus. The parties have reached a settlement in principle of the wage and hour claims and the Company expects that the amount of such settlement will be immaterial.

Unless otherwise noted, 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.

## **13. Segment Information**

The Company provides operating results in four reportable segments: GovDeals, Retail Supply Chain Group (RSCG), Capital Asset Group (CAG), and Machinio. Descriptions of our reportable segments are as follows:

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

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. Segment gross profit is calculated as total revenue less cost of goods sold (excludes depreciation and amortization).

**Liquidity Services, Inc. and Subsidiaries**  
**Notes to the Unaudited Consolidated Financial Statements - (Continued)**

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

| (in thousands)   | Three Months Ended March 31, |           | Six Months Ended March 31, |           |
|--|------------------------------|-----------|----------------------------|-----------|
|  | 2021                         | 2020      | 2021                       | 2020      |
| <b>GovDeals:</b>   |                              |           |                            |           |
| Revenue  | \$ —                         | \$ —      | \$ —                       | \$ —      |
| Fee revenue  | 10,972                       | 7,822     | 21,790                     | 15,837    |
| Total revenue  | 10,972                       | 7,822     | 21,790                     | 15,837    |
| Gross profit   | \$ 10,376                    | \$ 7,278  | \$ 20,579                  | \$ 14,724 |
| <b>RSCG:</b>   |                              |           |                            |           |
| Revenue  | \$ 31,912                    | \$ 32,577 | \$ 60,074                  | \$ 60,403 |
| Fee revenue  | 7,170                        | 3,680     | 13,915                     | 7,551     |
| Total revenue  | 39,082                       | 36,257    | 73,989                     | 67,954    |
| Gross profit   | \$ 15,933                    | \$ 12,394 | \$ 30,560                  | \$ 22,699 |
| <b>CAG:</b>  |                              |           |                            |           |
| Revenue  | \$ 4,056                     | \$ 2,626  | \$ 6,966                   | \$ 5,149  |
| Fee revenue  | 5,436                        | 4,413     | 10,439                     | 9,832     |
| Total revenue  | 9,492                        | 7,039     | 17,405                     | 14,981    |
| Gross profit   | \$ 6,988                     | \$ 4,922  | \$ 13,346                  | \$ 10,736 |
| <b>Machinio:</b>   |                              |           |                            |           |
| Revenue  | \$ —                         | \$ —      | \$ —                       | \$ —      |
| Fee revenue  | 2,240                        | 1,706     | 4,354                      | 3,556     |
| Total revenue  | 2,240                        | 1,706     | 4,354                      | 3,556     |
| Gross Profit   | \$ 2,104                     | \$ 1,611  | \$ 4,095                   | \$ 3,374  |
| <b>Corporate &amp; Other, including elimination adjustments:</b> |                              |           |                            |           |
| Revenue  | \$ —                         | \$ —      | \$ —                       | \$ —      |
| Fee revenue  | —                            | —         | —                          | —         |
| Total revenue  | —                            | —         | —                          | —         |
| Gross profit   | \$ —                         | \$ —      | \$ —                       | \$ —      |
| <b>Consolidated:</b>   |                              |           |                            |           |
| Revenue  | \$ 35,968                    | \$ 35,203 | \$ 67,040                  | \$ 65,552 |
| Fee revenue  | 25,818                       | 17,621    | 50,498                     | 36,776    |
| Total revenue  | 61,786                       | 52,824    | 117,538                    | 102,328   |
| Gross profit   | \$ 35,401                    | \$ 26,205 | \$ 68,580                  | \$ 51,533 |

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

| (in thousands)                                  | Three Months Ended March 31, |            | Six Months Ended March 31, |            |
|---|------------------------------|------------|----------------------------|------------|
|   | 2021                         | 2020       | 2021                       | 2020       |
| <b>Reconciliation:</b>                          |                              |            |                            |            |
| Gross profit                                    | \$ 35,401                    | \$ 26,205  | \$ 68,580                  | \$ 51,533  |
| Operating expenses                              | 29,557                       | 30,669     | 58,105                     | 60,794     |
| Other operating expenses (income)               | 206                          | (12)       | 210                        | 181        |
| Interest and other income, net                  | (29)                         | (257)      | (214)                      | (509)      |
| Income (loss) before provision for income taxes | \$ 5,667                     | \$ (4,195) | \$ 10,479                  | \$ (8,933) |

**Liquidity Services, Inc. and Subsidiaries**  
**Notes to the Unaudited Consolidated Financial Statements - (Continued)**

The percent of our revenues that came from transactions conducted outside of the United States for the three months ended March 31, 2021 and 2020 was 18.4% and 10.9%, respectively, and the percent of our revenues that came from transactions conducted outside the United States for the six months ended March 31, 2021 and 2020 was 17.2% and 13.1%, respectively.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### FORWARD-LOOKING STATEMENTS

*This document contains forward-looking statements. These statements are only predictions. The outcome of the events described in these forward-looking statements is subject to known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks and other factors include but are not limited to the factors set forth in our Annual Report on Form 10-K for the fiscal year ended September 30, 2020 and subsequent filings with the Securities and Exchange Commission (SEC). You can identify forward-looking statements by terminology such as "may," "will," "should," "could," "would," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continues" or the negative of these terms or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. There may be other factors of which we are currently unaware or deem immaterial that may cause our actual results to differ materially from the forward-looking statements.*

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

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

#### Overview

The Company operates a network of e-commerce marketplaces that power the circular economy which benefits businesses, society, and the environment through the safe and effective resale and redeployment of surplus assets; reducing waste, carbon emissions and transportation costs; and by creating markets for items that would otherwise be landfilled. Our marketplaces enable buyers and sellers to transact in an efficient, automated environment offering over 600 product categories and provide professional buyers access to a global, organized supply of new, surplus, and scrap assets presented with digital images and other relevant product information. Our marketplaces enable corporate and government sellers to enhance their financial return on offered assets by providing a liquid marketplace and value-added services that encompass the consultative management, valuation, and sale of surplus assets. The Company's services include program management, valuation, asset management, reconciliation, refurbishment and recycling, fulfillment, marketing and sales, warehousing and transportation, buyer support, compliance and risk mitigation, as well as self-directed service tools for its sellers. The Company organizes the products on its marketplaces into categories across major industry verticals such as consumer electronics, general merchandise, apparel, scientific equipment, aerospace parts and equipment, technology hardware, energy equipment, industrial capital assets, fleet and transportation equipment and specialty equipment. The Company's marketplaces are: [www.liquidation.com](http://www.liquidation.com), [www.govdeals.com](http://www.govdeals.com), [www.secondipity.com](http://www.secondipity.com), and [www.go-dove.com](http://www.go-dove.com). We also operate a global search engine for listing used machinery and equipment for sale at [www.machinio.com](http://www.machinio.com). The Company has over 15,000 sellers, including Fortune 1000 and Global 500 organizations as well as federal, state, and local government agencies.

#### Impacts of the COVID-19 Pandemic

The Company has been closely monitoring the COVID-19 pandemic. In April 2020, the Company experienced the largest impacts on its operations thus far stemming from the initial 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 2020, we have seen subsequent increases in Gross Merchandise Volume (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, and continued into the first and second quarters of fiscal 2021. 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 first and second quarters of fiscal 2021, the Company determined that its liquidity position and working capital was more

than sufficient to meet its projected needs and commenced share repurchases, acquiring 647,583 shares for \$12.0 million and 957,079 shares for \$16.1 million during the three and six months ended March 31, 2021, respectively.

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 business-to-business (B2B), we believe that our online platform and cloud-based solutions should become even more relevant and necessary for the evolving global economy.

### **Our Marketplace Transactions**

We believe our ability to create liquid marketplaces for surplus and salvage assets generates a continuous flow of goods from our corporate and government sellers. This flow of goods in turn attracts an increasing number of professional buyers to our marketplaces. During the twelve months ended March 31, 2021, the approximate number of registered buyers increased from 3,675,000 to 3,888,000, or 5.8%.

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

*Purchase model.* Under our purchase transaction model, we recognize revenue within the Revenue line item on the Consolidated Statements of Operations from the resale of inventory that we purchased from sellers. We consider these sellers to be our vendors. We pay our sellers either a fixed amount or a portion of the net or gross proceeds received from our completed sales based on the value we receive from the sale, in some cases, after deducting a required return to us that we have negotiated with the seller. Because we are the principal in purchase transaction model sales, we recognize as revenue the sale price paid by the buyer upon completion of a transaction. The proceeds paid by buyers also include transaction fees, referred to as buyer premiums. For the three and six months ended March 31, 2021, our purchase transaction model accounted for 18.2% and 17.2% of our GMV, and 58.2% and 57.0% of our total revenues, respectively. For the three and six months ended March 31, 2020, our purchase transaction model accounted for 24.7% and 22.6% of our GMV, and 66.6% and 64.1% of our total revenues, respectively. These amounts included sales of commercial merchandise sourced from vendor contracts with Amazon.com, Inc. by our RSCG segment. The commercial merchandise we purchased under these contracts with Amazon.com, Inc. represented 61.2% and 60.6% of consolidated Costs of goods sold for the three and six months ended March 31, 2021, respectively, and 55.3% and 51.9% of consolidated Cost of goods sold for the three and six months ended March 31, 2020, respectively.

*Consignment model — fee revenue.* Under our consignment transaction model, we enable our sellers to sell goods they own in our marketplaces and we charge them a commission fee based on the gross or net proceeds received from such sales. The revenue from our consignment transaction model is recognized within the Fee revenue line item on the Consolidated Statements of Operations. Because we are the agent in consignment model sales, our commission fee revenue, which we refer to as seller commissions, represents a percentage of the sales price the buyer pays upon completion of a transaction. We vary the percentage amount of the seller commission depending on the various value-added services we provide to the seller to facilitate the transaction. For example, we generally increase the percentage amount of the commission if we take possession, handle, ship, or provide enhanced product information for the merchandise. In most cases we collect the seller commission by deducting the appropriate amount from the sales proceeds prior to the distribution to the seller after completion of the transaction. In addition to seller commissions, we also collect buyer premiums. For the three and six months ended March 31, 2021, our consignment model accounted for 81.8% and 82.8% of our GMV, and 34.4% and 35.5% of our total revenues, respectively. For the three and six months ended March 31, 2020, our consignment model accounted for 75.3% and 77.4% of our GMV, and 27.6% and 29.7% of our total revenues, 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. Other revenues accounted for 7.4% and 7.5% of our total revenues for the three and six months ended March 31, 2021, respectively, and 5.8% and 6.2% of our total revenues for the three and six months ended March 31, 2020, respectively.

*Industry trends.* While we continue to review and assess the COVID-19 pandemic's impact on our customers, our suppliers, and our business, we believe there are several industry trends positively impacting the long-term growth of our Company 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) the 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.

## **Our Vendor Agreements**

*Our commercial agreements.* We have multiple vendor contracts with Amazon.com, Inc. under which we acquire and sell commercial merchandise. The property purchased under this contract represented 61.2% and 55.3% of consolidated Cost of goods sold for the three months ended March 31, 2021 and 2020, respectively, and 60.6% and 51.9% of consolidated Cost of goods sold for the six months ended March 31, 2021 and 2020, respectively. These contracts are included within our RSCG segment. Our agreements with our other sellers are generally terminable at will by either party.

## **Key Business Metrics**

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

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

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

Total registered buyers, as of a given date, represent the aggregate number of persons or entities who have registered on one of our marketplaces. We use this metric to evaluate how well our marketing and promotional efforts are performing. Total registered buyers exclude duplicate registrations, buyers who are suspended from utilizing our marketplaces and those buyers who have voluntarily removed themselves from our registration database. In addition, if we become aware of registered buyers that are no longer in business, we remove them from our database. As of March 31, 2021 and 2020, we had approximately 3,888,000 and 3,675,000 registered buyers, respectively.

*Total auction participants.* For each auction we manage, the number of auction participants represents the total number of registered buyers who have bid one or more times in that auction. As a result, a registered buyer who bids, or participates, in more than one auction is counted as an auction participant in each auction in which he or she participates. Thus, total auction participants for a given period is the sum of the auction participants in each auction conducted during that period. We use this metric to allow us to compare our online auction marketplaces to our competitors, including other online auction sites and traditional on-site auctioneers. In addition, we measure total auction participants on a periodic basis to evaluate the activity level of our base of registered buyers and to measure the performance of our marketing and promotional efforts. During the three months ended March 31, 2021 and 2020, approximately 561,000 and 490,000, respectively, total auction participants participated in auctions on our marketplaces. During the six months ended March 31, 2021 and 2020, approximately 1,078,000 and 945,000, respectively, total auction participants participated in auctions on our marketplaces.

*Completed transactions.* Completed transactions represents the number of auctions in a given period from which we have recorded revenue. Similar to GMV, we believe that completed transactions is a key business metric because it provides an additional measurement of the volume of activity flowing through our marketplaces. During the three months ended March 31,

2021 and 2020, we completed approximately 174,000 and 150,000 transactions, respectively. During the six months ended March 31, 2021 and 2020, we completed approximately 326,000 and 286,000 transactions, respectively.

## Non-GAAP Financial Measures

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

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

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

Our management uses EBITDA and Adjusted EBITDA:

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

EBITDA and Adjusted EBITDA as calculated by us are not necessarily comparable to similarly titled measures used by other companies. In addition, EBITDA and Adjusted EBITDA: (a) do not represent net income (loss) 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 income (loss), income (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 net income (loss) to EBITDA and Adjusted EBITDA for the periods presented.

| (in thousands)   | Three Months Ended March 31, |            | Six Months Ended March 31, |            |
|--|------------------------------|------------|----------------------------|------------|
|  | 2021                         | 2020       | 2021                       | 2020       |
|  | (Unaudited)                  |            |                            |            |
| Net income (loss)  | \$ 5,260                     | \$ (4,238) | \$ 9,775                   | \$ (9,434) |
| Interest and other income, net <sup>1</sup>                        | 69                           | (167)      | (34)                       | (332)      |
| Provision for income taxes   | 407                          | 43         | 704                        | 501        |
| Depreciation and amortization                                      | 1,670                        | 1,577      | 3,541                      | 3,149      |
| EBITDA   | \$ 7,406                     | \$ (2,785) | \$ 13,986                  | \$ (6,116) |
| Stock compensation expense   | 1,761                        | 1,231      | 3,990                      | 2,270      |
| Acquisition costs and impairment of long-lived assets <sup>2</sup> | 203                          | —          | 203                        | 5          |
| Business realignment expenses <sup>2, 3</sup>                      | —                            | —          | 5                          | —          |
| Fair value adjustments to acquisition earn-outs <sup>2</sup>       | —                            | —          | —                          | 200        |
| Deferred revenue purchase accounting adjustment                    | —                            | —          | —                          | 3          |
| Adjusted EBITDA  | \$ 9,370                     | \$ (1,554) | \$ 18,184                  | \$ (3,638) |

<sup>1</sup> Represents Interest and other income, net, per the Statement of Operations, excluding the non-service components of net periodic pension (benefit).

<sup>2</sup> Acquisition costs, impairment of long-lived assets, fair value adjustments to acquisition earn-outs, and business realignment expenses are components of Other operating expenses (income) on the Statements of Operations.

<sup>3</sup> Business realignment expense includes the amounts accounted for as exit costs under ASC 420 as described in Note 11 to the Consolidated Financial Statements, and the related impacts of business realignment actions subject to other accounting guidance. There were no related impacts for the three and six months ended March 31, 2021 and 2020.

### Critical Accounting Policies and Estimates

The Company's critical accounting policies and estimates are described in our Annual Report on Form 10-K for the year ended September 30, 2020, and in Note 2 — Summary of Significant Accounting Policies to the consolidated financial statements.

### Components of Revenue and Expenses

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

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

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

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

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

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

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

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

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

*Interest and other income, net.* Interest and other income, net consists of interest income on money market funds and the promissory note issued to JTC, the components of net periodic pension (benefit) other than the service component, and impacts of foreign currency fluctuations.

*Income taxes.* For interim income tax reporting, we estimate our annual effective tax rate and apply this effective tax rate to our year-to-date pre-tax income (loss). Our effective income tax rate before discrete items was 6.7% for the six months ended March 31, 2021. The effective tax rate differed from the statutory federal rate of 21% primarily as a result of the utilization of net operating losses and the impact of foreign, state, and local income taxes and permanent tax adjustments.

## Results of Operations

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

| (dollars in thousands)                                      | Three Months Ended March 31, |            |           |          | Six Months Ended March 31, |            |           |          |
|---|------------------------------|------------|-----------|----------|----------------------------|------------|-----------|----------|
|   | 2021                         | 2020       | \$ Change | % Change | 2021                       | 2020       | \$ Change | % Change |
| Revenue   | \$ 35,968                    | \$ 35,203  | \$ 765    | 2.2 %    | \$ 67,040                  | \$ 65,552  | \$ 1,488  | 2.3 %    |
| Fee revenue   | 25,818                       | 17,621     | 8,197     | 46.5     | 50,498                     | 36,776     | 13,722    | 37.3     |
| Total revenue   | 61,786                       | 52,824     | 8,962     | 17.0     | 117,538                    | 102,328    | 15,210    | 14.9     |
| Costs and expenses from operations:                         |                              |            |           |          |                            |            |           |          |
| Cost of goods sold (excludes depreciation and amortization) | 26,385                       | 26,619     | (234)     | (0.9)    | 48,958                     | 50,795     | (1,837)   | (3.6)    |
| Technology and operations                                   | 12,085                       | 11,586     | 499       | 4.3      | 22,644                     | 22,827     | (183)     | (0.8)    |
| Sales and marketing   | 8,910                        | 10,109     | (1,199)   | (11.9)   | 18,018                     | 19,714     | (1,696)   | (8.6)    |
| General and administrative                                  | 6,892                        | 7,397      | (505)     | (6.8)    | 13,902                     | 15,104     | (1,202)   | (8.0)    |
| Depreciation and amortization                               | 1,670                        | 1,577      | 93        | 5.9      | 3,541                      | 3,149      | 392       | 12.4     |
| Other operating expenses (income)                           | 206                          | (12)       | 218       | NM       | 210                        | 181        | 29        | 16.0     |
| Total costs and expenses                                    | 56,148                       | 57,276     | (1,128)   | (2.0)    | 107,273                    | 111,770    | (4,497)   | (4.0)    |
| Income (loss) from operations                               | 5,638                        | (4,452)    | 10,090    | NM       | 10,265                     | (9,442)    | 19,707    | NM       |
| Interest and other income, net                              | (29)                         | (257)      | 228       | 88.7     | (214)                      | (509)      | 295       | 58.0     |
| Income (loss) before provision for income taxes             | 5,667                        | (4,195)    | 9,862     | NM       | 10,479                     | (8,933)    | 19,412    | NM       |
| Provision for income taxes                                  | 407                          | 43         | 364       | 846.5    | 704                        | 501        | 203       | 40.5     |
| Net income (loss)   | \$ 5,260                     | \$ (4,238) | \$ 9,498  | NM       | \$ 9,775                   | \$ (9,434) | \$ 19,209 | NM       |

NM = not meaningful

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

| (dollars in thousands) | Three Months Ended March 31, |            | Six Months Ended March 31, |            |
|------------------------|------------------------------|------------|----------------------------|------------|
|                        | 2021                         | 2020       | 2021                       | 2020       |
| <b>GovDeals:</b>       |                              |            |                            |            |
| GMV                    | \$ 110,939                   | \$ 77,158  | \$ 218,543                 | \$ 156,349 |
| Total revenue          | \$ 10,972                    | \$ 7,822   | \$ 21,790                  | \$ 15,837  |
| Gross profit           | \$ 10,376                    | \$ 7,278   | \$ 20,579                  | \$ 14,724  |
| Gross profit margin    | 94.6 %                       | 93.0 %     | 94.4 %                     | 93.0 %     |
| <b>RSCG:</b>           |                              |            |                            |            |
| GMV                    | \$ 58,609                    | \$ 44,320  | \$ 110,326                 | \$ 84,190  |
| Total revenue          | \$ 39,082                    | \$ 36,257  | \$ 73,989                  | \$ 67,954  |
| Gross profit           | \$ 15,933                    | \$ 12,394  | \$ 30,560                  | \$ 22,699  |
| Gross profit margin    | 40.8 %                       | 34.2 %     | 41.3 %                     | 33.4 %     |
| <b>CAG:</b>            |                              |            |                            |            |
| GMV                    | \$ 37,763                    | \$ 22,822  | \$ 68,843                  | \$ 52,355  |
| Total revenue          | \$ 9,492                     | \$ 7,039   | \$ 17,405                  | \$ 14,981  |
| Gross profit           | \$ 6,988                     | \$ 4,922   | \$ 13,346                  | \$ 10,736  |
| Gross profit margin    | 73.6 %                       | 69.9 %     | 76.7 %                     | 71.7 %     |
| <b>Machinio:</b>       |                              |            |                            |            |
| GMV                    | \$ —                         | \$ —       | \$ —                       | \$ —       |
| Total revenue          | \$ 2,240                     | \$ 1,706   | \$ 4,354                   | \$ 3,556   |
| Gross profit           | \$ 2,104                     | \$ 1,611   | \$ 4,095                   | \$ 3,374   |
| Gross profit margin    | 93.9 %                       | 94.4 %     | 94.1 %                     | 94.9 %     |
| <b>Consolidated:</b>   |                              |            |                            |            |
| GMV                    | \$ 207,311                   | \$ 144,300 | \$ 397,712                 | \$ 292,894 |
| Total revenue          | \$ 61,786                    | \$ 52,824  | \$ 117,538                 | \$ 102,328 |
| Gross profit           | \$ 35,401                    | \$ 26,205  | \$ 68,580                  | \$ 51,533  |
| Gross profit margin    | 57.3 %                       | 49.6 %     | 58.3 %                     | 50.4 %     |

### *Three Months Ended March 31, 2021 Compared to the Three Months Ended March 31, 2020*

#### **Segment Results**

**GovDeals.** Revenue from our GovDeals segment increased 40.3%, or \$3.2 million, due to a 43.8%, or \$33.8 million, increase in GMV from adding new sellers and increasing volumes with existing sellers across several key categories, including transportation and real estate, and an increase in recovery rates on assets sold, driven by our growing buyer base, automated asset promotion tools, and favorable macroeconomic factors in certain asset categories. As a result of the increase in revenues, gross profit increased 42.6%, or \$3.1 million. Gross profit margin remained relatively consistent between the periods.

**RSCG.** Revenue from our RSCG segment increased 7.8%, or \$2.8 million, due to a 32.2%, or \$14.3 million, increase in GMV driven by growing volumes within existing seller accounts and launching new programs with mid-sized and large retailers looking to capitalize on the secular growth in online retail. Revenues did not increase at the same rate as GMV due to an increase in the mix of transactions conducted under the consignment model. As a result of the increase in revenues, gross profit increased 28.6%, or \$3.5 million. Gross profit margin increased 6.6% due to an increase in the mix of transactions conducted under the consignment model and improved recovery rates on assets sold.

*CAG.* Revenue from the CAG segment increased by 34.8%, or \$2.5 million, due to a 65.5%, or \$14.9 million, increase in GMV from continued growth of our industrial and heavy equipment categories, increases in principal transactions across the EMEA and Asia-Pacific regions, and increased use of the consignment model internationally. Revenues did not increase at the same rate as GMV due to increases in transactions using partner organizations and in the mix of transactions conducted under the consignment model. As a result of the increase in revenues, gross profit increased 42.0%, or \$2.1 million. Gross profit margin increased 3.7% due to increases in the mix of transactions conducted under the consignment model and in the recovery rates on principal transactions.

*Machinio.* Revenue from our Machinio segment increased 31.3%, or \$0.5 million, due to an increase in subscription activity. As a result of the increase in revenues, gross profit increased 30.6%, or \$0.5 million.

### **Consolidated Results**

*Revenue -* Total consolidated revenue increased \$9.0 million, or 17.0%. Refer to the discussion of Segment Results above for discussion of the increase in revenue.

*Cost of goods sold (excludes depreciation and amortization).* Cost of goods sold decreased \$0.2 million, or 0.9%, which changed at a lower rate than Revenue primarily due to an increase in the mix of transactions conducted under the consignment model.

*Technology and operations expenses.* Technology and operations expenses increased \$0.5 million, or 4.3% to support the increased transaction volumes in the RSCG and CAG segments.

*Sales and marketing expenses.* Sales and marketing expenses decreased \$1.2 million, or 11.9%, due to actions taken to reduce operating expenses in response to the COVID-19 pandemic. The impact of these actions on our operating expense levels will lessen as business conditions continue to recover. These decreases were partially offset by an increase in marketing expenses to promote our consolidated marketplace and expand market share in key verticals.

*General and administrative expenses.* General and administrative expenses decreased \$0.5 million, or 6.8%, and was impacted by actions taken to reduce operating expenses in response to the COVID-19 pandemic. 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.* Depreciation and amortization expense were consistent between the three months ended March 31, 2021 and 2020.

*Other operating expenses (income).* Other operating expenses of \$0.2 million for the three months ended March 31, 2021 primarily related to a long-lived asset impairment charge. Other operating (income) was not significant for the three months ended March 31, 2020.

*Interest and other income, net.* Interest and other income, net decreased \$0.2 million due the effect of changes in foreign exchange rates.

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

### **Six Months Ended March 31, 2021 Compared to the Six Months Ended March 31, 2020**

#### **Segment Results**

*GovDeals.* Revenue from our GovDeals segment increased 37.6%, or \$6.0 million, due to a 39.8%, or \$62.2 million, increase in GMV from adding new sellers and increasing volumes with existing sellers across several key categories, including transportation and real estate, and an increase in recovery rates on assets sold, driven by our growing buyer base, automated asset promotion tools, and favorable macroeconomic factors in certain asset categories. As a result of the increase in revenues, gross profit increased 39.8%, or \$5.9 million. Gross profit margin remained relatively consistent between the periods.

*RSCG.* Revenue from our RSCG segment increased 8.9%, or \$6.0 million, due to an 31.0%, or \$26.1 million, increase in GMV driven by growing volumes within existing seller accounts and launching new programs with mid-sized and large retailers looking to capitalize on the secular growth in online retail. Revenues did not increase at the same rate as GMV due to an

increase in the mix of transactions conducted under the consignment model. As a result of the increase in revenues, gross profit increased 34.6%, or \$7.9 million. Gross profit margin increased 7.9% due to an increase in the mix of transactions conducted under the consignment model and improved recovery rates on assets sold.

*CAG.* Revenue from the CAG segment increased by 16.2%, or \$2.4 million due to a 31.5%, or \$16.5 million increase in GMV continued growth of our industrial and heavy equipment categories, increases in principal transactions across the EMEA and Asia-Pacific regions, and increased use of the consignment model internationally. Revenues did not increase at the same rate as GMV due to increases in transactions using partner organizations and in the mix of transactions conducted under the consignment model. As a result of the increase in revenues, gross profit increased 24.3% or \$2.6 million. Gross profit margin increased 5.0% due to increases in the mix of transactions conducted under the consignment model and in the recovery rates on principal transactions.

*Machinio.* Revenue from our Machinio segment increased 22.4%, or \$0.8 million, due to an increase in subscription activity. As a result of the increase in revenues, gross profit increased 21.4%, or \$0.7 million.

### **Consolidated Results**

*Revenue.* Total consolidated revenue increased \$15.2 million, or 14.9%. Refer to the discussion of Segment Results above for discussion of the increase in revenue.

*Cost of goods sold (excludes depreciation and amortization).* Cost of goods sold decreased \$1.8 million, or 3.6%, which changed at a lower rate than Revenue primarily due to lower cost of sales associated with the principal transactions, which benefited from higher recovery rates during the year, and an increase in the mix of transactions conducted under the consignment model.

*Technology and operations expenses.* Technology and operations expenses were consistent between the six months ended March 31, 2021 and 2020 as the actions taken to reduce operating expenses in response to the COVID-19 pandemic were offset by an increase in operations expenses to support the increased transaction volumes in the RSCG segment. The impact of the actions in response to the COVID-19 pandemic on our operating expense levels will lessen as business conditions continue to recover.

*Sales and marketing expenses.* Sales and marketing expenses decreased \$1.7 million, or 8.6%, due to actions taken to reduce operating expenses in response to the COVID-19 pandemic. The impact of these actions on our operating expense levels will lessen as business conditions continue to recover. These decreases were partially offset by an increase in marketing expenses to promote our consolidated marketplace and expand market share in key verticals.

*General and administrative expenses.* General and administrative expenses decreased \$1.2 million, or 8.0%, and was impacted by actions taken to reduce operating expenses in response to the COVID-19 pandemic. 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.* Depreciation and amortization expense increased \$0.4 million, or 12.4%, due to an increase in amortization of capitalized software related to the continued development and enhancement of our e-commerce platform and tools.

*Other operating expenses (income).* Other operating expenses were consistent between the six months ended March 31, 2021 and 2020.

*Interest and other income, net.* Interest and other income, net decreased \$0.3 million due the effect of changes in foreign exchange rates.

*Provision for income taxes.* Provision for income taxes increased \$0.2 million due to the impact of foreign, state, and local taxes and permanent tax adjustments.

### **Liquidity and Capital Resources**

Our operational cash needs primarily relate to working capital, including staffing costs, technology expenses and capital used for inventory purchases, which we have funded through existing cash balances and cash generated from operations. From time to time, we may use our capital resources for other activities, such as contract start-up costs, joint ventures, share repurchases and acquisitions. As of March 31, 2021, we had \$87.6 million in cash and cash equivalents.

The COVID-19 pandemic has caused the Company's GMV and revenues to fluctuate, and the Company implemented cost control measures to protect against those fluctuations. 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 their ability to pick up purchased assets.

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

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 \$6.0 million as of March 31, 2021. As of March 31, 2021 and September 30, 2020, \$19.9 million and \$19.5 million, respectively, of cash and cash equivalents was held outside of the U.S.

We have been 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.

As of the fiscal year ended September 30, 2020, we had \$6.1 million of remaining share repurchase authorization. On March 8, 2021, our Board of Directors authorized an additional \$10 million of share repurchases of the Company's outstanding shares of common stock through March 31, 2023.

The Company repurchased 647,583 shares for \$12.0 million and 957,079 shares for \$16.1 million under this program during the three and six months ended March 31, 2021, respectively. As of March 31, 2021, the Company had no remaining authorization to repurchase shares under this program. On May 3, 2021, the Company's Board of Directors authorized the repurchase of up to \$15 million of the Company's outstanding shares of common stock through June 30, 2023.

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: Six Months Ended March 31, 2021 Compared to the Six Months Ended March 31, 2020***

*Net cash provided by (used in) operating activities* was \$31.3 million and \$(12.1) million for the six months ended March 31, 2021 and 2020, respectively. The \$43.5 million increase in cash provided by operations between periods was attributable to \$21.2 million of higher net income as adjusted for non-cash items; changes in payables to sellers, driven by increasing transactions volumes; changes to accounts payable, accrued expenses and other liabilities driven by the management of working capital; and partially offset by a \$4.9 million increase in inventory driven by our RSCG and CAG segments. Our working capital accounts are subject to natural variations depending on the rate of change of our transaction volumes, the timing of cash receipts and payments, and our variations in our transaction volumes are related to settlements between our buyers and sellers. However, there have been no significant changes to the working capital requirements for the Company.

*Net cash (used in) provided by investing activities* was \$(1.6) million for the six months ended March 31, 2021, and \$19.7 million for the six months ended March 31, 2020. The \$(21.3) million increase in cash used in investing activities was driven by \$(20.0) million net impact of maturities of Short-term investments during the six months ended March 31, 2020 as the Company transitioned to using Cash equivalent money market funds in its treasury strategy. A further increase in the cash used in investing activities was a result of proceeds from the JTC promissory note being \$2.6 million during the six months ended March 31, 2020 compared to \$0.8 million during the six months ended March 31, 2021. The Company continues to monitor for changes that could impact the recoverability of the promissory note, which will depend on JTC's subsequent operating performance and ability to make the payments required by the new repayment schedule.

*Net cash used in financing activities* was \$19.0 million for the six months ended March 31, 2021, and \$1.7 million for the six months ended March 31, 2020. The \$17.3 million increase in cash used by financing activities was primarily driven by \$16.1 million in common stock repurchases and a \$2.6 million increase in taxes paid associated with net settlement of stock

compensation awards from vesting of awards with market conditions due to the achievement of increases in the Company's share price.

*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 and operating cash flows. Our capital expenditures for the six months ended March 31, 2021 were \$2.4 million. As of March 31, 2021, we had no significant outstanding commitments for capital expenditures.

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

#### **Off-Balance Sheet Arrangements**

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

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

*Interest rate sensitivity.* As of March 31, 2021, we do not have any debt, and we are not holding any short-term investments, but we do hold \$40.0 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 4. Controls and Procedures.**

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

During the three months ended March 31, 2021, 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.

As of March 31, 2021, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective and were operating to provide reasonable assurance that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

Information regarding the Company's legal proceedings may be found in Note 12 of the accompanying Notes to the Unaudited Consolidated Financial Statements.

### Item 1A. Risk Factors.

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

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

#### Unregistered Sales of Equity Securities

None during the period covered by this report.

#### Use of Proceeds

Not applicable.

#### Issuer Purchases of Equity Securities

The following table presents information about our repurchases of common stock during the three months ended March 31, 2021 (in thousands, 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 Programs |
|---------------------------------------|----------------------------------|------------------------------|--|---|
| January 1, 2021 to January 31, 2021   | 114,388                          | \$ 17.39                     | 41,160   | \$ 1,384  |
| February 1, 2021 to February 28, 2021 | —                                | \$ —                         | —  | \$ 1,384  |
| March 1, 2021 to March 31, 2021       | 606,423                          | \$ 18.77                     | 606,423  | \$ —  |
| <b>Total</b>                          | <b>720,811</b>                   |                              | <b>647,583</b>   |   |

We have been 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.

As of March 31, 2021, the Company has no remaining authorization to repurchase shares under this program. On May 3, 2021, the Company's Board of Directors authorized the repurchase of up to \$15 million of the Company's outstanding shares of common stock through June 30, 2023.

Separate from the share repurchase program, our stock incentive plans allow for participants to exercise stock options by surrendering shares of common stock equivalent in value to the exercise price due. During the three months ended March 31, 2021, participants surrendered 73,228 shares of common stock in the exercise of stock options. Any shares surrendered to the Company in this manner are not available for future grant.

## Item 5. Other Information.

On May 3, 2021, the Company's Board of Directors authorized the repurchase of up to \$15 million of the Company's outstanding shares of common stock through June 30, 2023. The timing and actual number of shares repurchased will depend on a variety of factors, including price, general business and market conditions, and the existence of alternative investment opportunities. The repurchase program will be executed consistent with the Company's capital allocation strategy of prioritizing investment to grow the business over the long term.

Under the repurchase program, repurchases can be made from time to time using a variety of methods, including open market purchases, all in compliance with the rules of the United States Securities and Exchange Commission (the "SEC") and other applicable legal and regulatory requirements.

The repurchase program does not obligate the Company to acquire any particular amount of common shares, and the repurchase program may be suspended or discontinued at any time at the Company's discretion.

## Item 6. Exhibits.

| Exhibit No. | Description   |
|-------------|---|
| 2.1         | <a href="#">Stock Purchase Agreement, dated July 10, 2018, by and among the Company, Machinio, Corp., the stockholders of Machinio, Corp., and Shareholder Representative Services, LLC., incorporated herein by reference to Exhibit 2.1 to the Company's Quarterly Report on 10-Q, filed with SEC on August 2, 2018.</a>  |
| 3.1         | <a href="#">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.</a>   |
| 3.2         | <a href="#">Amended and Restated Bylaws dated August 2, 2016, incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on 10-Q, filed with SEC on August 4, 2016.</a>  |
| 31.1        | <a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.</a>   |
| 31.2        | <a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.</a>   |
| 32.1        | <a href="#">Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>   |
| 32.2        | <a href="#">Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>   |
| 101         | The following materials from the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2021, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statement of Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to the Unaudited Consolidated Financial Statements. |
| 104         | Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)  |

**SIGNATURES**

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

LIQUIDITY SERVICES, INC.  
(Registrant)

May 6, 2021

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

May 6, 2021

By: /s/ Jorge A. Celaya  
Jorge A. Celaya  
*Chief Financial Officer*

**CERTIFICATION PURSUANT TO RULE 13a-14(a)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

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

1. I have reviewed this quarterly report on Form 10-Q of Liquidity Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 6, 2021

/s/ William P. Angrick, III

By: William P. Angrick, III

Title: *Chairman of the Board of Directors and  
Chief Executive Officer*

**CERTIFICATION PURSUANT TO RULE 13a-14(a)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**

I, Jorge A. Celaya, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Liquidity Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 6, 2021

/s/ Jorge A. Celaya

By: Jorge A. Celaya

Title: Chief Financial Officer



## CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

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

In connection with the quarterly report of Liquidity Services, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2021 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.

May 6, 2021

/s/ William P. Angrick, III

William P. Angrick, III

*Chairman of the Board of Directors and Chief Executive Officer*

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

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

## CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

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

In connection with the quarterly report of Liquidity Services, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2021 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.

May 6, 2021

/s/ Jorge A. Celaya

Jorge A. Celaya

*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-Q OR AS A SEPARATE DISCLOSURE DOCUMENT.

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