

**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, 2019

OR

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

For the transition period from _____ to _____

Commission file number 0-51813

LIQUIDITY SERVICES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

52-2209244

(I.R.S. Employer
Identification No.)

6931 Arlington Road, Suite 200, Bethesda, MD

(Address of Principal Executive Offices)

20814

(Zip Code)

(202) 467-6868

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

The number of shares outstanding of the issuer's common stock, par value \$0.001 per share, as of May 6, 2019 was 33,496,398.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	March 31, 2019 (Unaudited)	September 30, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 33,922	\$ 58,448
Short-term investments	30,000	20,000
Accounts receivable, net of allowance for doubtful accounts of \$300 and \$337 at March 31, 2019 and September 30, 2018, respectively	6,175	4,870
Inventory, net	13,050	10,122
Prepaid taxes and tax refund receivable	1,774	1,727
Prepaid expenses and other current assets	8,574	7,816
Total current assets	93,495	102,983
Property and equipment, net of accumulated depreciation of \$12,447 and \$11,078 at March 31, 2019 and September 30, 2018, respectively	17,876	16,610
Intangible assets, net	6,708	7,366
Goodwill	59,690	59,819
Deferred tax assets	889	930
Other assets	14,451	14,124
Total assets	\$ 193,109	\$ 201,832
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 11,126	\$ 13,859
Accrued expenses and other current liabilities	22,839	21,373
Distributions payable	1,607	2,128
Deferred revenue	3,098	2,142
Payables to sellers	25,131	28,969
Total current liabilities	63,801	68,471
Deferred taxes and other long-term liabilities	4,843	3,707
Total liabilities	68,644	72,178
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock, \$0.001 par value; 120,000,000 shares authorized; 33,347,657 shares issued and outstanding at March 31, 2019; 32,774,118 shares issued and outstanding at September 30, 2018	33	33
Additional paid-in capital	239,806	236,115
Accumulated other comprehensive loss	(6,678)	(6,449)
Accumulated deficit	(108,696)	(100,045)
Total stockholders' equity	124,465	129,654
Total liabilities and stockholders' equity	\$ 193,109	\$ 201,832

See accompanying notes to the unaudited consolidated financial statements.

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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,	
	2019	2018	2019	2018
	(Unaudited)			
Revenue	\$ 37,355	\$ 43,104	\$ 73,090	\$ 83,384
Fee revenue	19,445	16,993	37,763	37,856
Total revenue	56,800	60,097	110,853	121,240
Costs and expenses from operations:				
Cost of goods sold (exclusive of depreciation and amortization)	24,807	28,727	49,763	56,358
Seller distributions	2,775	3,859	5,399	7,171
Technology and operations	13,429	15,955	25,953	34,055
Sales and marketing	9,135	8,225	18,116	16,535
General and administrative	8,624	7,546	17,258	15,210
Depreciation and amortization	1,165	1,144	2,369	2,355
Other operating expenses	1,350	311	1,555	1,770
Total costs and expenses	61,285	65,767	120,413	133,454
Loss from operations	(4,485)	(5,670)	(9,560)	(12,214)
Interest and other income, net	(451)	(394)	(770)	(911)
Loss before provision (benefit) for income taxes	(4,034)	(5,276)	(8,790)	(11,303)
Provision (benefit) for income taxes	328	379	594	(4,436)
Net loss	\$ (4,362)	\$ (5,655)	\$ (9,384)	\$ (6,867)
Basic and diluted loss per common share	\$ (0.13)	\$ (0.18)	\$ (0.29)	\$ (0.22)
Basic and diluted weighted average shares outstanding	32,987,608	31,972,752	32,896,890	31,924,149

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
	(Unaudited)			
Net loss	\$ (4,362)	\$ (5,655)	\$ (9,384)	\$ (6,867)
Other comprehensive income (loss):				
Foreign currency translation	198	35	(229)	(16)
Other comprehensive income (loss)	198	35	(229)	(16)
Comprehensive loss	\$ (4,164)	\$ (5,620)	\$ (9,613)	\$ (6,883)

See accompanying notes to the unaudited consolidated financial statements.

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

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount				
	(Unaudited)					
Balance at September 30, 2018	32,774,118	\$ 33	\$ 236,115	\$ (6,449)	\$ (100,045)	\$ 129,654
Cumulative adjustment related to adoption of ASC 606	—	—	—	—	730	730
Net loss	—	—	—	—	(5,022)	(5,022)
Exercise of common stock options and vesting of restricted stock	409,060	—	8	—	—	8
Compensation expense from grants of common stock options and restricted stock	—	—	1,556	—	—	1,556
Foreign currency translation	—	—	—	(427)	—	(427)
Balance at December 31, 2018	33,183,178	\$ 33	\$ 237,679	\$ (6,876)	\$ (104,337)	\$ 126,499
Net loss	—	—	—	—	(4,362)	(4,362)
Exercise of common stock options, grants of restricted stock awards, and vesting of restricted stock units	197,642	—	116	—	—	116
Compensation expense from grants of common stock options and restricted stock	—	—	2,011	—	—	2,011
Forfeiture of restricted stock awards	(33,163)	—	—	—	—	—
Foreign currency translation and other	—	—	—	198	3	201
Balance at March 31, 2019	33,347,657	\$ 33	\$ 239,806	\$ (6,678)	\$ (108,696)	\$ 124,465

See accompanying notes to the unaudited consolidated financial statements.

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

	Six Months Ended March 31,	
	2019	2018
	(Unaudited)	
Operating activities		
Net loss	\$ (9,384)	\$ (6,867)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	2,369	2,355
Stock compensation expense	4,094	2,698
Provision for inventory allowance	—	1,841
Provision for doubtful accounts	126	181
Deferred tax provision (benefit)	81	(4,915)
Gain on disposal of property and equipment	(6)	(481)
Change in fair value of financial instruments	—	90
Change in fair value of earnout liability	1,400	—
Changes in operating assets and liabilities:		
Accounts receivable	(1,425)	5,272
Inventory	(2,937)	8,796
Prepaid and deferred taxes	(46)	(26)
Prepaid expenses and other assets	(352)	3,608
Accounts payable	(2,733)	5,875
Accrued expenses and other current liabilities	772	(11,171)
Distributions payable	(521)	(506)
Deferred revenue	955	—
Payables to sellers	(3,838)	144
Other liabilities	(143)	(372)
Net cash (used in) provided by operating activities	(11,588)	6,522
Investing activities		
Increase in intangibles	(14)	(19)
Purchases of property and equipment, including capitalized software	(2,989)	(1,580)
Proceeds from sales of property and equipment	24	662
Purchases of short-term investments	(30,000)	—
Maturities of short-term investments	20,000	—
Net cash used in investing activities	(12,979)	(937)
Financing activities		
Proceeds from exercise of common stock options (net of tax)	124	12
Net cash provided by financing activities	124	12
Effect of exchange rate differences on cash and cash equivalents	(83)	(268)
Net (decrease) increase in cash and cash equivalents	(24,526)	5,329
Cash and cash equivalents at beginning of period	58,448	94,348
Cash and cash equivalents at end of period	\$ 33,922	\$ 99,677
Supplemental disclosure of cash flow information		
Cash paid for income taxes, net	\$ 558	\$ 505

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 ecommerce marketplaces that enable buyers and sellers to transact in an efficient, automated environment. The Company's marketplaces provide professional buyers access to a global, organized supply of new, surplus, and scrap assets presented with digital images and other relevant product information. Additionally, the Company enables its corporate and government sellers to enhance their financial return on offered assets by providing a liquid marketplace and value-added services that encompass the consultative management, valuation, and sale of surplus assets. The Company provides fully-managed services that include program management, valuation, asset management, reconciliation, returns process management, refurbishment and recycling, fulfillment, marketing and sales, warehousing and transportation, buyer support, compliance and risk mitigation, as well as self-directed service offerings. 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, www.direct.liquidation.com, www.govdeals.com, www.networkintl.com, www.secondipity.com, www.go-dove.com, and www.auctiondeals.com. The Company also operates a global search engine for listing used machinery and equipment for sale at www.machinio.com. The Company has four reportable segments, Retail Supply Chain Group (RSCG), Capital Assets Group (CAG), GovDeals and Machinio. See Note 13 in the Notes to the Consolidated Financial Statements for Segment Information.

On July 10, 2018, the Company acquired 100% of Machinio Corp. ("Machinio"), a privately-owned company based in Chicago, Illinois, with a second office in Berlin, Germany. Machinio operates a global online platform for listing used equipment for sale in the construction, machine tool, transportation, printing and agriculture sectors. The consideration paid to the sellers was approximately \$16.7 million in net cash, equity consideration of approximately \$2.0 million, and contingent consideration payable in 2020 in an amount up to \$5.0 million.

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, the Company's susceptibility to rapid technological change, actual and potential competition by entities with greater financial and other resources, and the potential for the commercial sellers from which the Company derives a significant portion of its inventory to change the way they conduct their disposition of surplus assets or to otherwise terminate or not renew their contracts with the Company.

2. Summary of Significant Accounting Policies

Unaudited Interim Financial Information

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal, recurring adjustments considered necessary for a fair presentation have been included. The information disclosed in the notes to the consolidated financial statements for these periods is unaudited. Operating results for the three and six months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending September 30, 2019 or for any future period.

In the Consolidated Statements of Operations, revenue from the resale of inventory that the Company purchases from sellers is recognized within "Revenue". Commission fees from the sale of inventory that the Company sells on a consignment basis and other non-consignment fee revenue, which is made up of subscription fee and service revenue from the Surplus contract in the prior year, is recognized within "Fee Revenue".

Revenue Recognition

The Company adopted Accounting Standards Codification ("ASC") *Topic 606, Revenue from Contracts with Customers ("ASC 606")* effective October 1, 2018. As a result of adopting ASC 606, there have been significant changes to the Company's revenue recognition policy from the policy disclosed in Note 2-*Summary of Significant Accounting Policies* in the Company's Annual Report on Form 10-K for the year ended September 30, 2018. These changes are described below.

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

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

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

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

In both principal and consignment contracts, the Company sometimes provides distinct services to the Seller, such as returns management or refurbishment of assets. These services are distinct because the Seller could benefit from the services separately from the asset sale, and as such they are treated as separate performance obligations. Some services provided to Sellers are not distinct, like providing access to the Company's ecommerce marketplaces or promoting the asset or assets for sale, because they could not benefit the Seller separately from the sale of the asset or assets.

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

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

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

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

For the Company's Machinio business segment, the performance obligation is satisfied over time as the Company provides the promotional placement services over the term of the subscription. At March 31, 2019, the Machinio business segment had a remaining performance obligation of \$3.1 million that the Company expects the majority of this will be recognized as revenue over the next 12 months.

Cost of Goods Sold

Cost of goods sold includes the costs of purchasing and transporting property for auction, credit card transaction fees and shipping and handling costs. The Company purchases the majority of its inventory at a percentage of the vendor's last retail price under certain commercial contracts within its RSCG segment, and at specifically negotiated prices within its CAG segment. Title for the inventory passes to the Company at the time of purchase and the Company bears the risks and rewards of ownership. The Company does not have title to assets sold on behalf of its commercial or government sellers when it receives only sales commission revenue and, as such, recognizes no inventory or the corresponding cost of goods sold from inventory purchases associated with those sales.

Contract Assets

Contract assets reflect an estimate of expenses that will be reimbursed upon settlement with Seller. The contract asset balance was \$0.7 million as of October 1, 2018 and \$0.7 million as of March 31, 2019 and is included in the line item "Prepaid expenses and other current assets" on the consolidated balance sheet.

Contract Costs

Contract costs relate to sales commissions paid on consignment contracts that are capitalized. Contract costs are amortized over the expected life of the customer contract. The contract cost balance was approximately \$0.1 million as of October 1, 2018 and \$0.3 million as of March 31, 2019 and is included in the line item "Prepaid expenses and other current assets" and "Other assets" on the consolidated balance sheet. Amortization expense was immaterial during the three and six months ended March 31, 2019.

Promissory Note

On September 30, 2015, the Company sold certain assets related to its Jacobs Trading business to Tanager Acquisitions, LLC (the "Buyer"). In connection with the disposition, the Buyer assumed certain liabilities related to the Jacobs Trading business. The Buyer issued a \$12.3 million five-year interest bearing promissory note to the Company. Of the \$12.3 million, \$4.0 million has been repaid as of March 31, 2019. Of the remaining \$8.3 million, \$6.3 million is recorded on the consolidated balance sheet in Other assets, and \$2.0 million in Prepaid expenses and other current assets as of March 31, 2019 based on the scheduled repayment dates.

Risk Associated with Certain Concentrations

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

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

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

During the six months ended March 31, 2019, the Company had one material vendor contract with the Department of Defense (DoD) under which it acquired, managed and sold government property, the Scrap Contract. Revenue from the sale of property acquired under the Scrap Contract accounted for approximately 7.6% and 10.0% of the Company's consolidated revenue for the three months ended March 31, 2019 and 2018, respectively, and for approximately 7.6% and 9.2% of the Company's consolidated revenue for the six months ended March 31, 2019 and 2018, respectively. This contract is included

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

within the Company's CAG segment. See Note 3, Significant Contracts, for information related to the Company's prior significant Surplus contract with the DoD, which was completed in fiscal 2018.

Additionally, the Company has a vendor contract with Amazon.com, Inc. under which the Company acquires and sells commercial merchandise. Transactions under this contract represented approximately 49.4% and 28.7% of cost of goods sold for the three months ended March 31, 2019 and 2018, respectively, and 44.9% and 24.1% of cost of goods sold for the six months ended March 31, 2019 and 2018, respectively. This contract is included within the Company's RSCG segment.

Earnings per Share

The Company calculates net income (loss) per share in accordance with Financial Accounting Standards Board ("FASB") Topic 260 Earnings Per Share ("ASC 260"). Under ASC 260, basic net income (loss) per common share is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding during the reporting period. The weighted average number of shares of common stock outstanding includes vested restricted stock units. Diluted net income (loss) per share reflects the potential dilution that could occur assuming conversion or exercise of all dilutive unexercised stock options and unvested restricted stock units. The dilutive effect of unexercised stock options and unvested restricted stock units was determined using the treasury stock method. Under the treasury stock method, the proceeds received from the exercise of stock options, and the amount of compensation cost for future service not yet recognized by the Company are assumed to be used to repurchase shares of the Company's common stock. Stock options and restricted stock units are not included in the computation of diluted net income (loss) per share when they are antidilutive.

For the three and six months ended March 31, 2019 and 2018, the basic and diluted weighted average common shares were the same because the inclusion of dilutive securities in the computation of diluted net income would have been anti-dilutive. See Note 7 for the amounts of outstanding stock options, restricted stock awards and restricted stock units that could potentially dilute net income (loss) per share in the future.

Recent Accounting Pronouncements

Accounting Standards Adopted

On October 1, 2018, the Company adopted ASC 606 using the modified retrospective transition method. The Company applied the new revenue standard to all contracts that were not completed as of October 1, 2018 on a modified retrospective basis and recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. The comparative period information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The cumulative effect of the changes made to the consolidated October 1, 2018 balance sheet for the adoption of ASC 606 was as follows (in thousands):

	Balance at September 30, 2018	Adjustment due to adoption of ASC 606	Balance as adjusted at October 1, 2018
Prepaid expenses and other current assets	\$ 7,816	\$ 671	\$ 8,487
Other assets	\$ 14,124	\$ 59	\$ 14,183
Retained earnings	\$ (100,045)	\$ 730	\$ (99,315)

The impact of adopting ASC 606 on the Company's consolidated statement of operations and the consolidated balance sheet for the period ended March 31, 2019 was as follows (in thousands):

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

	Three months ended March 31, 2019			Six months ended March 31, 2019		
	As reported	Balance without adoption of ASC 606	Effect of change Higher/(lower)	As reported	Balance without adoption of ASC 606	Effect of change Higher/(lower)
Consolidated statement of operations:						
Fee revenue	\$ 19,445	\$ 19,293	\$ 152	\$ 37,763	\$ 37,757	\$ 6
Consolidated balance sheet:						
Prepaid expenses and other current assets	\$ 8,574	\$ 7,819	\$ 755	\$ 8,574	\$ 7,819	\$ 755
Other assets	\$ 14,451	\$ 14,248	\$ 203	\$ 14,451	\$ 14,248	\$ 203
Accumulated deficit	\$ (108,696)	\$ (107,738)	\$ (958)	\$ (108,696)	\$ (107,738)	\$ (958)

In May 2017, the FASB issued ASU 2017-09, *Scope of Modification Accounting*. ASU 2017-09 provides guidance about which changes to terms or conditions of share-based payment awards require the application of modification accounting in Topic 718, *Compensation - Stock Compensation*. The ASU was adopted on October 1, 2018 and the Company will apply the guidance in ASU 2017-09 on a prospective basis to its award modifications. No material impacts have been noted to date.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 changes how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the cost of the benefits in the income statement. Under this standard, employers will present the service cost component of net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. Employers will present the other components of the net periodic benefit cost separately from the line item(s) that includes the service cost and outside of any subtotal of operating income, if one is presented. The adoption of ASU 2017-07 on October 1, 2018, using the retrospective method, did not have a material impact on the Company's results of operations. As a result of adopting this standard \$90 thousand and \$182 thousand for three and six months ended March 31, 2018, respectively, were reclassified in the consolidated statement of operations from "General and administrative", a component of loss from operations, to "Interest and other income, net", which is included below loss from operations.

In January 2017, the FASB issued ASU 2017-01, *Clarifying the Definition of a Business*. ASU 2017-01 clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill and consolidation. The ASU was adopted on October 1, 2018 and the Company will apply the guidance in ASU 2017-01 on a prospective basis when entering into acquisitions of assets or businesses. No material impacts have been noted to date.

In October 2016, the FASB issued ASU 2016-16, *Intra-Entity Transfers of Assets Other Than Inventory*. The new standard requires companies to recognize the income tax effects of intercompany sales or transfers of assets, other than inventory, in the income statement as income tax expense (or benefit) in the period the sale or transfer occurs. The exception to recognizing the income tax effects of intercompany sales or transfers of assets remains in place for intercompany inventory sales and transfers. The adoption of ASU 2016-16 on October 1, 2018 did not have an impact on the Company's consolidated statement of operations.

During 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments* and ASU 2016-18, *Restricted Cash*. These ASUs clarify how entities should classify certain cash receipts and cash payments on the statement of cash flows and requires that the statement of cash flows explain the change during the period in the total cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. These standards were adopted on October 1, 2018 on a retrospective basis and there was no impact on the Company's consolidated statement of cash flows.

Accounting Standards Not Yet Adopted

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

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

In August 2018, the FASB issued ASU 2018-14, *Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans*. ASU 2018-14 amends the existing accounting standard for defined benefit plans by removing, modifying, and adding certain disclosures. This ASU will become effective for the Company beginning October 1, 2021 with early adoption permitted. The Company is currently evaluating the timing of adoption of the new guidance as well as the impact it may have on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurements*. ASU 2018-13 amends the existing accounting standard for fair value measurement by removing, modifying, and adding certain disclosures. This ASU will become effective for the Company beginning October 1, 2020 with early adoption permitted. The Company is currently evaluating the timing of adopting the new guidance as well as the impact it may have on the consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, *Improvements to Nonemployee Share-based Payment Accounting*. ASU 2018-07 amends the existing accounting standards for share-based payments to nonemployees. ASU 2018-07 applies to all share based payment transactions in which a grantor acquires goods or services to be used or consumed in its own operation by issuing share-based payment awards. Additionally, this guidance clarifies that Topic 718 does not apply to share based payments used to effectively provide financing to the issuer or awards granted in conjunction with selling goods or services to customers as part of a contract accounted under ASC 606. ASU 2018-07 will become effective for the Company beginning October 1, 2019. The Company is currently evaluating the effect the adoption of the standard is expected to have on its consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. ASU 2018-02 allows entities to elect to classify from accumulated other comprehensive income (loss) to retained earnings stranded tax effects resulting from the Tax Cuts and Jobs Act (the "Tax Act") enacted on December 22, 2017. An entity that does not elect to reclassify the income tax effects of the Tax Act shall disclose in the period of adoption a statement that the election was not made. This guidance will become effective for the Company beginning on October 1, 2019. The Company is currently evaluating whether it will make an election to reclassify the income tax effects of the Tax Act from accumulated other comprehensive income to retained earnings.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*. Under ASU 2017-04 the entity is required to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity is required to recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity is required to consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. This guidance will become effective for the Company beginning on October 1, 2020. The Company is currently evaluating the methods of adoption allowed by the new standard and the effect the adoption of the standard is expected to have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, or ASC 842. ASC 842, including all the amendments and guidance, will change the way the Company recognizes its leased assets. It will require organizations that lease assets—referred to as "lessees"—to recognize on the balance sheet the assets and liabilities representing the rights and obligations created by those leases. ASC 842 will also require disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. The guidance will be effective for the Company beginning on October 1, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into, after either the adoption date or the beginning of the earliest comparative period presented in the financial statements. The Company is in the process of aggregating its worldwide lease portfolio and is evaluating the potential to use software solutions in its adoption of ASC 842 and for its subsequent lease accounting requirements. Once completed, the Company will elect a transition method for adoption and conclude on whether to make use of the available practical expedients. The adoption of ASC 842 will result in the recognition of right-of-use assets and lease liabilities on its Consolidated Balance Sheets, and will require that the Company make quantitative and qualitative disclosures about its leases. Additional impacts, which may be material, may be identified as the Company completes its adoption process.

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

3. Significant Contracts

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

Under the Scrap Contract, the Company is the remarketer of all DoD non-electronic scrap turned into the Defense Logistics Agency (DLA) available for sale within the United States, Puerto Rico, and Guam.

The current Scrap Contract was awarded to the Company in April 2016. The Scrap Contract has a 36-month base term that commenced in the first quarter of fiscal year 2017, with two 12-month extension options exercisable by the DLA. The base term of the Scrap Contract will expire on September 30, 2019. The Company pays a revenue-sharing payment to the DLA under this contract equal to 64.5% of the gross resale proceeds of the scrap property, and the Company bears all of the costs for the sorting, merchandising and sale of the property. The contract contains a provision permitting the DLA to terminate the contract for convenience upon written notice to the Company.

Revenue from the Scrap Contract accounted for approximately 7.6% and 10.0% of the Company's consolidated revenue for the three months ended March 31, 2019 and 2018, respectively, and 7.6% and 9.2% of the Company's consolidated revenue for the six months ended March 31, 2019 and 2018, respectively.

The Surplus Contract was a competitive-bid contract under which the Company acquired, managed and sold usable DoD surplus personal property turned into the DLA. Surplus property generally consisted of items determined by the DoD to be no longer needed, and not claimed for reuse by any federal agency, such as electronics, industrial equipment, office supplies, scientific and medical equipment, aircraft parts, clothing and textiles. The Surplus Contract required the Company to purchase all usable surplus property offered to the Company by the DoD at 4.35% of the DoD's original acquisition value.

On October 11, 2017, the DLA published a Request for Technical Proposal ("RFTP") and draft Invitation for Bid (IFB) for the sale of surplus, useable non-rolling stock property. The RFTP and IFB related to the DLA's award of two new term surplus contracts. On December 5, 2017, the DLA determined that the Company was not the high bidder for either of the two contracts. The Company made its final inventory purchase under the Surplus Contract during December 2017, and as of June 30, 2018, had completed its wind-down of operations under the Surplus Contract.

Revenue from the Surplus Contract accounted for approximately zero and 19.3% of the Company's consolidated revenue for the three months ended March 31, 2019 and 2018, respectively, and zero and 22.9% of the Company's consolidated revenue for the six months ended March 31, 2019 and 2018, respectively.

4. Goodwill

The goodwill of acquired companies is primarily related to the acquisition of an experienced and knowledgeable workforce. The following table presents changes in the carrying amount of goodwill by reportable segment:

Goodwill (in thousands)	CAG	GovDeals	Machinio	Total
Balance at September 30, 2017	\$ 21,657	\$ 23,731	\$ —	\$ 45,388
Business acquisition	—	—	14,558	14,558
Translation adjustments	(127)	—	—	(127)
Balance at September 30, 2018	\$ 21,530	\$ 23,731	\$ 14,558	\$ 59,819
Translation adjustments	(129)	—	—	(129)
Balance at March 31, 2019	\$ 21,401	\$ 23,731	\$ 14,558	\$ 59,690

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 performing a step one evaluation during the six months ended March 31, 2019.

5. Intangible Assets

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

The components of identifiable intangible assets as of March 31, 2019 and September 30, 2018 are as follows:

Useful Life (in years)	March 31, 2019			September 30, 2018			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
(dollars in thousands)							
Contract intangibles	6	\$ 3,100	\$ (388)	\$ 2,712	\$ 3,100	\$ (129)	\$ 2,971
Technology	5	2,700	(405)	2,295	2,700	(135)	2,565
Patent and trademarks	3 - 10	2,341	(640)	1,701	2,269	(439)	1,830
Total intangible assets		\$ 8,141	\$ (1,433)	\$ 6,708	\$ 8,069	\$ (703)	\$ 7,366

Future expected amortization of intangible assets at March 31, 2019 is as follows:

Years ending September 30,	Future Amortization (in thousands)
2019 Remaining six months	\$ 672
2020	1,343
2021	1,332
2022	1,320
2023	1,176
2024 and thereafter	865
Total	\$ 6,708

Intangible assets amortization expense was approximately \$0.34 million and \$0.02 million for the three months ended March 31, 2019 and 2018, and \$0.67 million and \$0.04 million for the six months ended March 31, 2019 and 2018, respectively.

6. Income Taxes

On December 22, 2017, the Tax Act was signed into law. The Tax Act reduces the corporate tax rate from 35% to 21%. During the three months ending December 31, 2017, the Company revised its estimated annual effective tax rate to reflect this change in the statutory rate. The rate change was administratively effective at the beginning of the Company's 2018 fiscal year, using a blended rate of 24.5%. At September 30, 2018, the Company had not yet completed its accounting for the tax effects of the Tax Act; however, the Company recorded a provisional benefit of \$10.7 million in 2018 for the remeasurement of its deferred tax balance and recognition of the realizability of the deferred tax assets. During the three months ended December 31, 2018, the Company completed its accounting for the tax effects of the Tax Act and determined no change to the amount recorded in fiscal year 2018 was required.

The international provisions of the Tax Act establish a territorial tax system and subject certain foreign earnings on which U.S. tax is currently deferred to a one-time transition tax. During the three months ended December 31, 2018, the Company completed its analysis of foreign earnings and profits and determined that no one-time transition tax was due. As a result, the Company has not recorded any amount in its financial statements for fiscal year 2018 or the six months ended March 31, 2019 for such transition tax.

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

The Company's interim effective income tax rate is based on management's best current estimate of the Company's expected annual effective income tax rate. The Company recorded a pre-tax loss in the first six months of fiscal year 2019 and its corresponding effective tax rate is approximately - 6.8%. Tax expense in the current period is due to state and foreign taxes paid. The effective tax rate differed from the statutory federal rate of 21% primarily as a result of the valuation allowance charge on current year losses and the impact of foreign, state, and local income taxes and permanent tax adjustments.

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

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 records unrecognized tax benefits as a reduction to its deferred tax asset for its net operating loss carryforward. The Company identified no new uncertain tax positions during the six months ended March 31, 2019. The Company's policy is to recognize interest and penalties in the period in which they occur in the income tax provision. The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, various state and local jurisdictions and in foreign jurisdictions, primarily Canada and the United Kingdom. As of March 31, 2019, none of the Company's federal or state income tax returns are under examination. The statute of limitations for U.S. federal income tax returns for years prior to fiscal 2015 is now closed. However, certain tax attribute carryforwards that were generated prior to fiscal 2015 may be adjusted upon examination by tax authorities if they are utilized.

7. Stockholders' Equity

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

	<u>Common Stock</u>		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount				
Balance at September 30, 2017	31,503,349	\$ 29	\$ 227,264	\$ (6,431)	\$ (88,226)	\$ 132,636
Cumulative adjustment related to adoption of ASU 2016-09	—	—	100	—	(207)	(107)
Net loss	—	—	—	—	(1,212)	(1,212)
Exercise of common stock options and vesting of restricted stock	386,330	—	—	—	—	—
Compensation expense and incremental tax benefit from grants of common stock options and restricted stock	—	—	1,262	—	—	1,262
Foreign currency translation	—	—	—	(51)	(6)	(57)
Balance at December 31, 2017	31,889,679	\$ 29	\$ 228,626	\$ (6,482)	\$ (89,651)	\$ 132,522
Net loss	—	—	—	—	(5,655)	(5,655)
Exercise of common stock options and vesting of restricted stock	103,398	—	12	—	—	12
Compensation expense and incremental tax benefit from grants of common stock options and restricted stock	—	—	1,212	—	—	1,212
Foreign currency translation	—	—	—	34	12	46
Balance at March 31, 2018	31,993,077	\$ 29	\$ 229,850	\$ (6,448)	\$ (95,294)	\$ 128,137

2006 Omnibus Long-Term Incentive Plan

Under the 2006 Omnibus Long-Term Incentive Plan, as amended (the 2006 Plan), 13,000,000 shares of common stock were available for issuance as of September 30, 2016. On February 23, 2017, at the Company's annual meeting of stockholders, the stockholders approved amendments to the 2006 Plan to increase the number of shares available for issuance under the 2006 Plan by 3,300,000, to a total of 16,300,000 shares. The 2006 Plan has a fungible share pool so that awards other than options or stock appreciation rights granted would be counted as 1.5 shares from the shares reserved for issuance.

The maximum number of shares subject to options or stock appreciation rights that can be awarded under the 2006 Plan to any person is 1,000,000 per year. The maximum number of shares that can be awarded under the 2006 Plan to any person, other than pursuant to an option or stock appreciation right, is 700,000 per year.

The following table presents the number of stock options and shares of restricted stock granted to employees under the Company's 2006 Plan and the grant date fair value of those stock awards for the periods presented:

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Stock options:				
Time-based	11,816	20,826	492,966	233,346
Weighted average grant date fair value	\$ 4.82	\$ 4.26	\$ 2.69	\$ 2.00
Market-based and performance-based				
Weighted average grant date fair value	\$ —	\$ —	\$ 2.66	\$ 1.59
Restricted stock:				
Time-based	66,528	220,181	201,728	251,221
Weighted average grant date fair value	\$ 8.50	\$ 6.95	\$ 6.75	\$ 6.65
Market-based and performance-based				
Weighted average grant date fair value	\$ 7.40	\$ 7.33	\$ 5.66	\$ 6.53

Stock options and restricted stock generally vest over four years. The fiscal year 2019 market-based options and restricted stock units will vest in installments based on the total shareholder return of the Company's common stock over a four-year performance period. The performance based restricted stock awards will vest in installments based on achievement of certain annual revenue and adjusted EBITDA targets through calendar year 2021, in each case, subject to each recipient's continued employment with the Company.

In determining the fair value for stock options, volatility rates over the last three years have ranged from 49.71% to 54.93%, the dividend rate has been 0% and the risk free interest rates have ranged from 1.65% to 2.78%.

Cash-Settled Stock Appreciation Rights

The Company issues cash-settled stock appreciation rights to non-executives with restrictions that lapse upon either the passage of time (service vesting), achievement of performance targets (performance vesting), achievement of market conditions (market vesting) or some combination of these conditions. The stock appreciation rights that include only service vesting conditions generally vest over a period of one to four years conditioned on continued employment for the incentive period. For performance vesting, stock appreciation rights generally vest and pay out on the achievement of financial metrics over a four year period conditioned on continued employment for the incentive period. Cash-settled stock appreciation rights are recorded as liability awards.

The Company did not issue any cash-settled stock appreciation rights during the three months ended March 31, 2019. During the six months ended March 31, 2019, the Company issued 95,000 cash-settled stock appreciation rights at an exercise price of \$6.11. During the three months ended March 31, 2019, 51,614 cash-settled stock appreciation rights were exercised and 21,868 cash-settled stock appreciation rights were canceled. During the six months ended March 31, 2019, 101,170 cash-settled stock appreciation rights were exercised and 388,048 cash-settled stock appreciation rights were canceled. As of March 31, 2019, 539,987 cash-settled stock appreciation rights were outstanding.

During the comparable period in fiscal year 2018, the Company did not issue any cash-settled stock appreciation rights. During the three months ended March 31, 2018, 33,520 cash-settled stock appreciation rights were exercised and 177,947 cash-settled stock appreciation rights were canceled. During the six months ended March 31, 2018, 83,002 cash-settled stock appreciation rights were exercised and 272,904 cash-settled stock appreciation rights were canceled. As of March 31, 2018, 1,097,727 cash-settled stock appreciation rights were outstanding.

Share Repurchase Program

The Company is authorized to repurchase issued and outstanding shares of its common stock under a share repurchase program approved by the Company's 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

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

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 available cash. The Company's Board of Directors reviews the share repurchase program from time to time, the last such review having occurred in May 2016. The Company did not repurchase shares under this program during the six months ended March 31, 2019 or 2018. As of March 31, 2019, the Company may repurchase an additional \$10.1 million in shares under this program.

8. Fair Value Measurement

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

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

During the year ended September 30, 2018, as a result of the acquisition of Machinio, the Company recorded contingent consideration which is measured at fair value (Level 3) at March 31, 2019 and September 30, 2018. The Company estimated the fair value of the contingent consideration using a Monte Carlo simulation. The simulation estimated Machinio's EBITDA over the earn out period using a market-based volatility factor and market interest rates resulting in an average EBITDA, which then a present value factor was applied based on the expected settlement date of the contingent consideration. The liability for this consideration is included in Deferred taxes and other long-term liabilities in the Consolidated Balance Sheets. During the six months ended March 31, 2018, the Company had financial assets measured at fair value (Level 3) that represented the value of rights the Company held from its participation in certain principal transactions in the Company's commercial business. The Company no longer held these assets at September 30, 2018.

The Company has investments of \$30 million and \$20 million at March 31, 2019 and September 30, 2018, respectively, in certificates of deposit with maturities of six months or less, and interest rates between 2.2% and 2.8%. These assets were measured at fair value at March 31, 2019 and September 30, 2018 and were classified as Level 1 assets within the fair value hierarchy.

The changes in the earn-out liability and financial assets measured at fair value using Level 3 inputs to determine fair value for the six months ended March 31, 2019 and 2018, respectively, are as follows (in thousands):

	<u>Contingent Consideration</u>	
Balance at September 30, 2018	\$	1,300
Settlements		—
Change in fair value		1,400
Balance at March 31, 2019	\$	<u>2,700</u>

The increase in the fair value is primarily due to an increase in Machinio's estimated EBITDA over the earn out period, which was the result of realized EBITDA for the three months ended March 31, 2019 exceeding the previous estimate. Secondary factors for the increase in fair value relate to the present value factor, which was impacted by a shorter period until the earn out payment date, as well as a change in market conditions that reduced interest rates and the weighted average cost of capital.

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

	Financial Instruments	
Balance at September 30, 2017	\$	491
Settlements		(401)
Change in fair value		(90)
Balance at March 31, 2018	\$	—

When valuing its Level 3 liability, management's estimation of fair value is based on the best information available in the circumstances and may incorporate management's own assumptions around market demand which could involve a level of judgment, taking into consideration a combination of internal and external factors. Changes in the fair value of the Company's Level 3 asset and liability are recorded in Other operating expenses in the Consolidated Statements of Operations.

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

At March 31, 2019 and September 30, 2018, the Company did not have any assets or liabilities measured at fair value on a non-recurring basis.

9. Defined Benefit Pension Plan

Certain employees of Liquidity Services UK Limited ("GoIndustry"), which the Company acquired in July 2012, are covered by the Henry Butcher Pension Fund and Life Assurance Scheme (the "HB Pension Fund"), a qualified defined benefit pension plan.

The net periodic benefit recognized for the three and six months ended March 31, 2019 and 2018 included the following components:

Qualified Defined Benefit Pension Plan	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
	(dollars in thousands)			
Service cost	\$ —	\$ —	\$ —	\$ —
Interest cost	154	165	311	335
Expected return on plan assets	(229)	(251)	(473)	(509)
Settlement cost	—	(4)	—	(8)
Total net periodic (benefit)	\$ (75)	\$ (90)	\$ (162)	\$ (182)

As a result of the adoption of ASU 2017-07, the components of net periodic benefit other than the service cost component are recorded in Interest and other income, net in the Consolidated Statements of Operations.

10. Guarantees

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

During the second quarter of 2015, the Company issued a guarantee to GoIndustry (the "Subsidiary") and the Trustees (the "Trustees") of the HB Pension Fund. Under the arrangement, the Company irrevocably and unconditionally (a) guarantees to the Trustees punctual performance by the Subsidiary of all its Guaranteed Obligations, defined as all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally in any capacity whatsoever) of the Company to make payments to the HB Pension Fund up to a maximum of 10 million British pounds, (b) undertakes with the Trustees that, whenever the Subsidiary does not pay any amount when due in respect of its Guaranteed Obligations, it must immediately on demand by the Trustees pay that amount as if it were the principal obligor; and (c) indemnifies the Trustees as an independent and primary obligation immediately on demand against any cost, charge, expense, loss or liability suffered or incurred by the Trustees if any payment obligation guaranteed by it is or becomes unenforceable, invalid or illegal; the amount of the cost, charge, expense, loss or liability under this indemnity will be equal to the amount the Trustees would otherwise have been entitled to recover on the basis of a guarantee. The guarantee is a continuing guarantee that will extend to the ultimate balance of all sums payable by the Company in respect of its Guaranteed Obligations. As of March 31, 2019 and September 30, 2018, the Company's plan was in an overfunded status as the plan's assets exceeded the plan liabilities. The funded status of the HB Pension Fund as of September 30, 2018, was disclosed in Note 13, Defined Benefit Pension Plan, to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2018.

11. Business Realignment Expenses

During the fourth quarter of fiscal year 2017 the Company began to restructure its CAG business, resulting in severance costs incurred and the closure of several offices and legal entities in Europe and Asia for total restructuring costs of approximately \$1.0 million. The Company continued to implement its CAG cost cutting initiatives during the year ended September 30, 2018. As discussed in Note 3, Significant Contracts, the Company was not the high bidder for the new surplus contracts, and completed winding down its operations under the Surplus Contract during the year ended September 30, 2018. As a result, the Company recognized an additional \$1.7 million of restructuring costs in fiscal 2018. During the six months ended March 31, 2018 the Company recorded \$1.3 million in restructuring costs, \$0.8 million of which related to severance and occupancy costs for the Surplus Contract. The remaining restructuring balance at March 31, 2019 of \$0.3 million in occupancy related charges is expected to be paid by fiscal 2020.

During fiscal year 2017, the Company reorganized its IronDirect business. As a result, the Company recorded approximately \$1.1 million of restructuring charges in the aggregate through the year ended September 30, 2018 related to this restructuring. The Company continued its reorganization of the IronDirect business during the six months ended March 31, 2019 and decided to exit the business, resulting in severance costs recorded of approximately \$0.2 million. The Company fully exited the IronDirect business and wound down its operations during January 2019. The balance was paid out as of March 31, 2019.

In June 2017, the Company entered into an agreement to sub-lease office space at 6931 Arlington Road, Bethesda, Maryland. On the sub-lease commencement date, the Company relocated its headquarters from 1920 L Street NW, Washington DC, to its current Bethesda location and recognized a \$2.0 million cease-use charge in its consolidated statements of operations at September 30, 2017. At September 30, 2018, the remaining cease-use accrual was approximately \$0.8 million. During the six months ended March 31, 2019, the Company paid down the cease-use charge by approximately \$0.6 million. The remaining balance of approximately \$0.2 million is expected to be paid during fiscal 2019. This activity is presented under occupancy cost in the table below.

During the six months ended March 31, 2018, the Company recognized \$0.5 million in severance cost primarily related to the restructuring of its Corporate Information Technology department. This cost is recorded within the Corporate & Other line item below.

Business realignment expenses were as follows for the periods presented (in thousands):

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Employee severance and benefit costs:				
CAG	\$ —	\$ 130	\$ —	\$ 881
Corporate & Other	—	—	170	474
Total employee severance and benefit costs	—	130	170	1,355
Occupancy and other costs:				
CAG	5	340	51	434
Corporate & Other	—	7	134	35
Total occupancy and other costs	5	347	185	469
Total business realignment expenses	\$ 5	\$ 477	\$ 355	\$ 1,824

Business realignment expenses per the table above are recorded in Other operating expenses in the Consolidated Statements of Operations.

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

(in thousands)	Liability Balance at September 30, 2017	Business Realignment Expenses	Cash Payments	Liability Balance at September 30, 2018	Business Realignment Expenses	Cash Payments	Liability Balance at March 31, 2019
Employee severance and benefit costs:							
CAG	\$ 793	\$ 979	\$ (1,683)	\$ 89	\$ —	\$ (89)	\$ —
Corporate & Other	399	472	(850)	21	170	(191)	—
Total employee severance and benefit costs	\$ 1,192	\$ 1,451	\$ (2,533)	\$ 110	\$ 170	\$ (280)	\$ —
Occupancy and other costs:							
CAG	—	739	(280)	459	51	(254)	\$ 256
Corporate & Other	1,988	(248)	(933)	807	134	(747)	\$ 194
Total occupancy and other costs	\$ 1,988	\$ 491	\$ (1,213)	\$ 1,266	\$ 185	\$ (1,001)	\$ 450
Total business realignment	\$ 3,180	\$ 1,942	\$ (3,746)	\$ 1,376	\$ 355	\$ (1,281)	\$ 450

12. Legal Proceedings

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

13. Segment Information

The Company provides results in four reportable operating segments: GovDeals, Capital Assets Group (CAG), Retail Supply Chain Group (RSCG) and Machinio. The GovDeals, CAG, RSCG and Machinio segments constitute approximately 99.6% of the Company's revenue during the six months ended March 31, 2019. Each reportable segment offers separately branded marketplaces to enable sellers to achieve their respective channel marketing objectives to reach buyers. Across its segments, the Company offers its sellers two primary transaction models, as well as a suite of services, and its revenues vary depending upon the models employed and the level of service required. A description of the reportable segments is provided below:

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

- The GovDeals reportable segment provides self-directed service offerings 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 commercial businesses located in the United States and Canada, to sell surplus and salvage assets. GovDeals also offers a suite of marketing services to sellers. This segment includes the Company's GovDeals.com and AuctionDeals.com marketplaces.
- The CAG reportable segment provides fully-managed offerings to sellers and consists of marketplaces that enable federal government agencies, as well as commercial businesses, to sell surplus, salvage, and scrap assets. Sales of assets procured through our Surplus Contract, which wound down during 2018, and our Scrap Contract, are conducted through the Government Liquidation marketplace included in this segment. CAG also offers a suite of services that includes marketing services, surplus management and asset valuation. Commercial sellers are located in the United States, Europe, Australia and Asia. This segment includes the Company's Network International, GoIndustry DoveBid, and Government Liquidation marketplaces.
- 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 ecommerce services. This segment includes the Company's Liquidation.com, Liquidation.com DIRECT, and Secondipity marketplaces.
- 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. Machinio was acquired by the Company in July 2018.

Corporate & Other primarily consists of the Company's IronDirect operating segment that was not individually significant as a reportable operating segment as well as elimination adjustments. During January 2019, the Company exited out of the IronDirect business and fully wound down its operations. Iron Direct offered buyers access to construction equipment, parts and services through a single ecommerce marketplace.

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 (exclusive of depreciation and amortization) and seller distributions.

The amount of our revenue that came from sales outside of the United States for the three months ended March 31, 2019 and 2018 was 14.6% and 11.1%, respectively, and 15.4% and 12.2% for the six months ended March 31, 2019 and 2018, respectively.

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 and Corporate & Other (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
GovDeals:				
Revenue	\$ —	\$ —	\$ —	\$ —
Fee revenue	7,697	7,092	15,355	14,133
Total revenue	<u>7,697</u>	<u>7,092</u>	<u>15,355</u>	<u>14,133</u>
Gross profit	<u>\$ 7,042</u>	<u>\$ 6,589</u>	<u>\$ 14,103</u>	<u>\$ 13,132</u>
CAG:				
Revenue	\$ 7,498	\$ 19,273	\$ 16,727	\$ 40,823
Fee revenue	6,186	5,884	12,438	16,396
Total revenue	<u>13,684</u>	<u>25,157</u>	<u>29,165</u>	<u>57,219</u>
Gross profit	<u>\$ 8,614</u>	<u>\$ 12,458</u>	<u>\$ 17,496</u>	<u>\$ 30,062</u>
RSCG:				
Revenue	\$ 29,823	\$ 22,898	\$ 55,894	\$ 40,075
Fee revenue	4,188	4,016	7,595	7,324
Total revenue	<u>34,011</u>	<u>26,914</u>	<u>63,489</u>	<u>47,399</u>
Gross profit	<u>\$ 12,287</u>	<u>\$ 8,616</u>	<u>\$ 21,836</u>	<u>\$ 15,344</u>
Machinio:				
Revenue	\$ —	\$ —	\$ —	\$ —
Fee revenue	1,374	—	2,366	—
Total revenue	<u>1,374</u>	<u>—</u>	<u>2,366</u>	<u>—</u>
Gross Profit	<u>\$ 1,265</u>	<u>\$ —</u>	<u>\$ 2,143</u>	<u>\$ —</u>
Corporate & Other:				
Revenue	\$ 34	\$ 933	\$ 469	\$ 2,486
Fee revenue	—	1	9	3
Total revenue	<u>34</u>	<u>934</u>	<u>478</u>	<u>2,489</u>
Gross profit	<u>\$ 10</u>	<u>\$ (152)</u>	<u>\$ 113</u>	<u>\$ (827)</u>
Consolidated:				
Revenue	\$ 37,355	\$ 43,104	\$ 73,090	\$ 83,384
Fee revenue	19,445	16,993	37,763	37,856
Total revenue	<u>56,800</u>	<u>60,097</u>	<u>110,853</u>	<u>121,240</u>
Gross profit	<u>\$ 29,218</u>	<u>\$ 27,511</u>	<u>\$ 55,691</u>	<u>\$ 57,711</u>

The following table presents a reconciliation between gross profit used in the reportable segments as well as Corporate & Other and the Company's consolidated results (in thousands):

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Reconciliation:				
Gross profit	\$ 29,218	\$ 27,511	\$ 55,691	\$ 57,711
Operating expenses	32,353	32,870	63,696	68,155
Other operating expenses	1,350	311	1,555	1,770
Interest and other income, net	(451)	(394)	(770)	(911)
Provision (benefit) for income taxes	328	379	594	(4,436)
Net loss	\$ (4,362)	\$ (5,655)	\$ (9,384)	\$ (6,867)

14. Subsequent Events

On April 23, 2019, the Company performed a strategic reorganization that consolidated its go-to-market for self-directed and fully-managed market place services to capitalize on growth opportunities. As a result, the Company will incur restructuring costs of approximately \$1.1 million for employee termination benefits. The termination costs relate to the GovDeals, CAG, and RSCG segments, as well as Corporate & Other, and will be recorded as Business realignment expenses within Other operating expenses in the Consolidated Statements of Operations during the three months ended June 30, 2019.

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, 2018 and subsequent filings with the Securities and Exchange Commission. 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

About us. We manage, value, and sell inventory and equipment for business and government clients by operating a network of ecommerce marketplaces that enable buyers and sellers to transact in an efficient, automated environment offering over 500 product categories. Our marketplaces provide professional buyers access to a global, organized supply of new, surplus, and scrap assets presented with digital images and other relevant product information. Additionally, we 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. Our broad range of fully-managed service offerings include program management, valuation, asset management, reconciliation, returns process management, refurbishment and recycling, fulfillment, marketing and sales, warehousing and transportation, buyer support, and compliance and risk mitigation, as well as self-directed service offerings. We organize the products on our marketplaces into categories across major industry verticals such as consumer electronics, general merchandise, apparel, scientific equipment, aerospace parts and equipment, technology hardware, energy equipment, industrial capital assets, fleet and transportation equipment and specialty equipment. Our network of marketplaces includes: www.liquidation.com, www.direct.liquidation.com, www.govdeals.com, www.networkintl.com, www.secondipity.com, www.go-dove.com, and www.auctiondeals.com. We also operate a global search engine for listing used machinery and equipment for sale at www.machinio.com. We have over 12,000 sellers, including Fortune 1000 and Global 500 organizations as well as federal, state, and local government agencies.

We believe our ability to create liquid marketplaces for surplus and 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, 2019, the number of registered buyers increased from 3,249,000 to 3,580,000, or approximately 10.2%.

On July 10, 2018, we acquired 100% of Machinio, a privately-owned company based in Chicago, Illinois, with a second office in Berlin, Germany. Machinio operates a global online platform for listing used equipment for sale in the construction, machine tool, transportation, printing and agriculture sectors.

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 vendors 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 primary obligor and

take general and physical inventory risks and credit risk under this transaction model, we recognize as revenue the sale price paid by the buyer upon completion of a transaction. The proceeds paid by buyers also include transaction fees, referred to as buyer premiums. Revenue from our purchase transaction model accounted for approximately 65.8% and 65.9% of our total revenue for the three and six months ended March 31, 2019, respectively. These amounts include revenue earned from the sale of property obtained under the Scrap Contract, which accounted for approximately 7.6% of our total revenue for both the three and six months ended March 31, 2019. The price we paid the DLA for the property purchased under the Scrap Contract is based on a revenue share model. One of our key operating metrics is gross merchandise volume ("GMV") an operating measure which we define as the total sales value of all merchandise sold by us or our sellers through our marketplaces and other channels during a given period of time. The merchandise sold under our purchase transaction model accounted for approximately 24.0% and 22.9% of our GMV for the three and six months ended March 31, 2019, 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. Our commission fee revenue, which we refer to as seller commissions, represents a percentage of the sales price the buyer pays upon completion of a transaction. We vary the percentage amount of the seller commission depending on the various value-added services we provide to the seller to facilitate the transaction. For example, we generally increase the percentage amount of the commission if we take possession, handle, ship, or provide enhanced product information for the merchandise. In most cases, we collect the seller commission by deducting the appropriate amount from the sales proceeds prior to the distribution to the seller after completion of the transaction. In addition to seller commissions, we also collect buyer premiums. Revenue from our consignment model accounted for approximately 29.4% and 29.6% of our total revenue for the three and six months ended March 31, 2019, respectively. The merchandise sold under our consignment model accounted for approximately 76.0% and 77.1% of our total GMV for the three and six months ended March 31, 2019, respectively.

We also earn non-consignment fee revenue, which is made up of subscription fee and other services. In the prior year, the non-consignment fee revenue also included service revenue from the Surplus contract. This revenue is included within the Fee revenue line item on our Consolidated Statements of Operations.

We collect a buyer premium on most of the transactions under both of the transaction models we offer to sellers. Buyer premiums are calculated as a percentage of the sale price of the merchandise sold and are paid to us by the buyer. Buyer premiums are in addition to the price of the merchandise.

Industry trends. We believe there are several industry trends positively impacting the growth of our business including: (1) the ability for businesses to conduct ecommerce via the Internet both in the United States and abroad, which continues to mature; (2) 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; (3) the increase in government regulations and the need for corporations to have sustainability solutions necessitating verifiable recycling and remarketing of surplus assets; (4) the increase in outsourcing by corporate and government organizations of disposition activities for surplus and end-of-life assets as they focus on reducing costs, improving transparency, compliance and working capital flows, and increasingly prefer service providers with a proven track record, innovative scalable solutions and the ability to make a strategic impact in the reverse supply chain, which we expect to increase our seller base; and (5) innovation in the retail supply chain, which we expect will increase the pace of product obsolescence in the long-term and, therefore, the supply of surplus assets.

Our Vendor Agreements

Our DoD agreements. Historically, we had two material vendor contracts with the DoD: the Scrap Contract and the Surplus Contract.

- *Scrap Contract.* On April 8, 2016, the DLA awarded us the second Scrap Contract. Under the second Scrap Contract, we acquire all non-electronic scrap property from the DLA and pay the DLA a revenue-sharing payment equal to 64.5% of the gross resale proceeds. We bear all of the costs for the sorting, merchandising and sale of the property. The second Scrap Contract has a 36-month base term, commencing in the first quarter of fiscal year 2017, with two 12-month extension options exercisable by the DLA. Transactions under this contract follow the purchase transaction model described above. The contract contains a provision permitting the DLA to terminate the contract for convenience upon written notice to us.

Resale of scrap property that we purchased under the Scrap Contract accounted for approximately 7.6% and 10.0% of our revenue for the three months ended March 31, 2019 and 2018, respectively, and approximately 7.6% and 9.2% of our revenue for the six months ended March 31, 2019 and 2018, respectively. The property sold under the Scrap Contract accounted for approximately 2.8% and 3.9% of our GMV for the three months ended March 31, 2019 and 2018, respectively, and approximately 2.7% and 3.6% of our GMV for the six months ended March 31, 2019 and 2018, respectively. This contract is included within our CAG segment.

- *Surplus Contract.* The Surplus Contract was a competitive-bid contract under which we acquired, managed and sold usable DoD surplus personal property turned into the DLA. Surplus property generally consisted of items determined by the DoD to be no longer needed, and not claimed for reuse by any federal agency, such as electronics, industrial equipment, office supplies, scientific and medical equipment, aircraft parts, clothing and textiles. In October 2017, the DLA put out for bid two new term surplus contracts, and in December 2017, the DLA determined that we were not the high bidder for either of the two contracts. As a result, we made our final inventory purchase under the Surplus Contract during December 2017, and as of June 30, 2018, we had wound down all operations under the Surplus Contract. The Surplus Contract accounted for \$27.8 million, or 22.9%, of revenue in the six months ended March 31, 2018. The property sold under the Surplus Contract accounted for approximately 7.6% and 8.3% of our GMV for the three and six months ended March 31, 2018, respectively. Transactions under the Surplus Contract followed the purchase transaction model described above. This contract was included within our CAG segment.

We recorded approximately \$0.8 million of severance and occupancy cost during the six months ended March 31, 2018 as a result of the restructuring and realignment efforts undertaken due to the loss of the Surplus Contract.

Our commercial agreements. We have a vendor contract with Amazon.com, Inc. under which we acquire and sell commercial merchandise. The inventory we purchased under this contract represented approximately 49.4%, and 28.7% of cost of goods sold for the three months ended March 31, 2019 and 2018, respectively, and approximately 44.9% and 24.1% of cost of goods sold for the six months ended March 31, 2019 and 2018, respectively. This contract is included within the Company's RSCG segment.

Key Business Metrics

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

GMV. GMV, an operating measure, is the total sales value of all merchandise sold by us or our sellers through our marketplaces and 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, product development, sales and marketing, and operations. See Results of Operations for further information on GMV.

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, 2019, and September 30, 2018, we had approximately 3,580,000 and 3,357,000 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, 2019 and 2018, approximately 540,000 and 549,000, respectively, total auction participants participated in auctions on our marketplaces. During the six months ended March 31, 2019 and 2018, approximately 1,033,200 and 1,068,000, respectively, total auction participants participated in auctions on our marketplaces. Largely as a result of the wind-down of the Surplus Contract, there was a decrease in auction participants during fiscal 2019.

Completed transactions. Completed transactions represents the number of auctions in a given period from which we have recorded revenue. Similar to GMV, we believe that completed transactions is a key business metric because it provides an additional measurement of the volume of activity flowing through our marketplaces. During the three months ended March 31, 2019 and 2018, we completed approximately 153,000 and 118,000 transactions, respectively. During the six months ended March 31, 2019 and 2018, we completed approximately 297,500 and 240,000 transactions, respectively.

Non-GAAP Financial Measures

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

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

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

Our management uses EBITDA and Adjusted EBITDA:

- as measurements of operating performance because they assist us in comparing our operating performance on a consistent basis as they remove the impact of items not directly resulting from our core operations;
- for planning purposes, including the preparation of our internal annual operating budget;
- to allocate resources to enhance the financial performance of our business;

- to evaluate the effectiveness of our operational strategies; and
- to evaluate our capacity to fund capital expenditures and expand our business.

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

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

The table below reconciles net loss to EBITDA and Adjusted EBITDA from continuing operations for the periods presented.

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
	(In thousands) (Unaudited)			
Net loss	\$ (4,362)	\$ (5,655)	\$ (9,384)	\$ (6,867)
Interest and other income, net**	(376)	(304)	(608)	(729)
Provision (benefit) for income taxes	328	379	594	(4,436)
Depreciation and amortization	1,165	1,144	2,369	2,355
EBITDA	(3,245)	(4,436)	(7,029)	(9,677)
Stock compensation expense	2,581	1,767	4,094	2,698
Acquisition costs and impairment of long-lived assets*	38	—	119	—
Business realignment expenses*	5	475	39	1,824
Fair value adjustments to acquisition earn-outs*	1,300	—	1,400	—
Deferred revenue purchase accounting adjustment	258	—	690	—
Adjusted EBITDA	\$ 937	\$ (2,194)	\$ (687)	\$ (5,155)

*Acquisition costs and impairment of long-lived assets, business realignment expenses, and fair value adjustments to acquisition earn-outs, which are excluded from Adjusted EBITDA, are included in Other operating expenses on the Statements of Operations. See Note 11 to Notes to Consolidated Financial Statements for further detail on business realignment expenses.

**Interest and other income, net excludes non-services pension and other postretirement benefit expense.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. A “critical accounting estimate” is one which is both important to the portrayal of our financial condition and results and requires management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We continuously evaluate our critical accounting estimates. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Our significant accounting policies are described in our Annual Report on Form 10-K for the year ended September 30, 2018, Note 2- Summary of Significant Accounting Policies to the consolidated financial statements. The same accounting policies are used in preparing our interim consolidated financial statements. As a result of adopting ASC 606, there were significant changes to our revenue recognition policy from the policy disclosed in the Form 10-K. See Note 1 to the unaudited consolidated financial statements in Item 1 of Part I, “Financial Statements,” of this Form 10-Q for a description of the revisions to our revenue recognition policy.

Components of Revenue and Expenses

Revenue. We generate a large portion of our revenue from the proceeds of sales of merchandise held in inventory. We also generate fee revenue from commissions on sales in our marketplaces of merchandise that is owned by others.

Cost of goods sold. Cost of goods sold includes the costs of purchasing and transporting property for auction, credit card transaction fees and shipping and handling costs.

Seller distributions. Under the current Scrap Contract, we acquire scrap property from the DLA for resale and pay the DLA a revenue-sharing payment equal to 64.5% of the gross resale proceeds. We bear all of the costs for the sorting, merchandising and sale of the property.

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 LiquidityOne platform. We are implementing a new ecommerce marketplace and back-office solution as part of our LiquidityOne Transformation initiative which is designed to deliver an improved online marketplace platform and related software tools to enhance our customer experience, operations and ability to scale to a much larger business.

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 *Topic 350, Intangibles-Goodwill and Other*. As such, we are capitalizing certain development costs associated with our LiquidityOne platform. During the first quarter of fiscal 2018, we completed development of our new Return to Vendor module of the LiquidityOne platform and began amortizing the associated capitalized costs during that quarter.

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

Sales and marketing. Sales and marketing expenses include the cost of our sales and marketing personnel as well as the cost of marketing and promotional activities. These activities include online marketing campaigns such as paid search advertising.

General and administrative. General and administrative expenses include all corporate and administrative functions that support our operations and provide an infrastructure to facilitate our future growth. Components of these expenses include executive management and staff salaries, bonuses and related taxes and employee benefits; travel; headquarters rent and related occupancy costs; and legal and accounting fees. The salaries, bonus and employee benefits costs included as general and administrative expenses are generally more fixed in nature than our operating expenses and do not vary directly with the volume of merchandise sold through our marketplaces.

Depreciation and amortization. Depreciation and amortization expenses consist primarily of the depreciation and amortization of amounts recorded in connection with the purchase of furniture, fixtures and equipment, amortization of internally developed software, and amortization of intangible assets from our acquisitions.

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

Interest and other (income) expense, net. Interest and other (income) expense, net, consists of interest income on the note receivable related to the sale of the Jacobs Trading business in 2015, interest income on short-term investments, the components of net periodic benefit other than the services cost component and impacts of foreign currency fluctuations.

Income taxes. For interim income tax reporting, we estimate our annual effective tax rate and apply this effective tax rate to our year to date pre-tax (loss) income. Our effective income tax rate before discrete items was -6.8% for the six months ended March 31, 2019. The effective tax rate differed from the statutory federal rate of 21% primarily as a result of the valuation allowance charge on current year losses and the impact of foreign, state, and local income taxes and permanent tax adjustments.

Results of Operations

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

	Three Months Ended March 31,				Six Months Ended March 31,			
	2019	2018	\$ Change	% Change	2019	2018	\$ Change	% Change
Revenue	\$ 37,355	\$ 43,104	\$ (5,749)	(13.3)%	\$ 73,090	\$ 83,384	\$ (10,294)	(12.3)%
Fee revenue	19,445	16,993	2,452	14.4	37,763	37,856	(93)	(0.2)%
Total revenue	56,800	60,097	(3,297)	(5.5)	110,853	121,240	(10,387)	(8.6)%
Costs and expenses from operations:								
Cost of goods sold (exclusive of depreciation and amortization)	24,807	28,727	(3,920)	(13.6)	49,763	56,358	(6,595)	(11.7)%
Seller distributions	2,775	3,859	(1,084)	(28.1)	5,399	7,171	(1,772)	(24.7)%
Technology and operations	13,429	15,955	(2,526)	(15.8)	25,953	34,055	(8,102)	(23.8)%
Sales and marketing	9,135	8,225	910	11.1	18,116	16,535	1,581	9.6 %
General and administrative	8,624	7,546	1,078	14.3	17,258	15,210	2,048	13.5 %
Depreciation and amortization	1,165	1,144	21	1.8	2,369	2,355	14	0.6 %
Other operating expenses	1,350	311	1,039	334.1	1,555	1,770	(215)	(12.1)%
Total costs and expenses	61,285	65,767	(4,482)	(6.8)	120,413	133,454	(13,041)	(9.8)%
Loss from operations	(4,485)	(5,670)	1,185	20.9	(9,560)	(12,214)	2,654	21.7 %
Interest and other income, net	(451)	(394)	(57)	(14.5)	(770)	(911)	141	15.5 %
Loss before provision (benefit) for income taxes	(4,034)	(5,276)	1,242	23.5	(8,790)	(11,303)	2,513	22.2 %
Provision (benefit) for income taxes	328	379	(51)	(13.5)	594	(4,436)	5,030	113.4 %
Net loss	\$ (4,362)	\$ (5,655)	\$ 1,293	22.9 %	\$ (9,384)	\$ (6,867)	\$ (2,517)	(36.7)%

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
GovDeals:				
GMV	\$ 77,390	\$ 69,462	\$ 153,698	\$ 140,580
Total revenue	7,697	7,092	15,355	14,133
Gross profit	7,042	6,589	14,103	13,132
Gross profit margin	91.5%	92.9 %	91.8%	92.9 %
CAG:				
GMV	36,070	46,214	82,429	100,161
Total revenue	13,684	25,157	29,165	57,219
Gross profit	8,614	12,458	17,496	30,062
Gross profit margin	62.9%	49.5 %	60.0%	52.5 %
RSCG:				
GMV	41,899	35,570	77,343	64,306
Total revenue	34,011	26,914	63,489	47,399
Gross profit	12,287	8,616	21,836	15,344
Gross profit margin	36.1%	32.0 %	34.4%	32.4 %
Machinio:				
GMV	—	—	—	—
Total revenue	1,374	—	2,366	—
Gross profit	1,265	—	2,143	—
Gross profit margin	92.1%	—	90.6%	—
Corporate & Other:				
GMV	34	934	469	2,486
Total revenue	34	934	478	2,489
Gross profit	10	(152)	113	(827)
Gross profit margin	29.4%	(16.3)%	23.6%	(33.2)%
Consolidated:				
GMV	155,393	152,180	313,939	307,533
Total revenue	56,800	60,097	110,853	121,240
Gross profit	29,218	27,511	55,691	57,711
Gross profit margin	51.4%	45.8 %	50.2%	47.6 %

Three Months Ended March 31, 2019 Compared to the Three Months Ended March 31, 2018

Segment Results

GovDeals. Revenue from our GovDeals segment increased 8.5%, or \$0.6 million, due to additional sales volume from existing sellers and an increase in the number of new sellers. GMV from this segment increased 11.4%, or \$7.9 million, due to additional sales volume from existing sellers and an increase in the number of new sellers. Gross profit within this segment increased 6.9%, or \$0.5 million, to \$7.0 million for the three months ended March 31, 2019, from \$6.6 million for the three

months ended March 31, 2018, due to additional sales volumes. As a percentage of revenue, gross profit decreased to 91.5% for the three months ended March 31, 2019, from 92.9% for the three months ended March 31, 2018.

CAG. Revenue from our CAG segment decreased 45.6%, or \$11.5 million. Approximately \$11.6 million of this change was due to the wind-down of the Surplus contract. Additionally, the Scrap Contract experienced a lower volume of goods sold, as well as lower commodity prices, partially offset by a change in mix to higher value commodities. The decrease in revenue due to Surplus and Scrap contracts was partially offset by a slight increase in overall sales volume within our CAG Commercial business. GMV from our CAG segment decreased 21.9%, or \$10.1 million. The wind-down of the Surplus contract resulted in a decrease of approximately \$11.6 million. Also, contributing to the decrease is the lower volume of goods sold, as well as a change to lower value commodities under the Scrap contract, partially offset by a change in mix to higher value commodities resulting in a net decrease of approximately \$1.7 million. These overall reductions were partially offset by an increase in GMV of \$3.1 million from our CAG Commercial business. Gross profit within the CAG segment decreased 30.9%, or \$3.8 million, to \$8.6 million for the three months ended March 31, 2019, from \$12.5 million for the three months ended March 31, 2018. This decrease can primarily be attributed to the wind-down of the Surplus Contract and lower sales volumes described above. As a percentage of revenue, gross profit increased to 63.0% for the three months ended March 31, 2019 from 49.5% for the three months ended March 31, 2018. The increase is primarily attributable to the wind-down of the Surplus Contract, which operated at a lower gross profit as a percentage of revenue than our CAG Commercial business.

RSCG. Revenue from our RSCG segment increased 26.4%, or \$7.1 million, due to increases in revenue from both the purchase and consignment transaction models. GMV from our RSCG segment increased 17.8%, or \$6.3 million, due to approximately \$6.2 million increases in GMV in purchase transaction model, and approximately \$0.1 million increase in GMV in consignment transaction models. Gross profit within the RSCG segment increased 42.6%, or \$3.7 million for the three months ended March 31, 2019, due to the increases in revenue described above. As a percentage of revenue, gross profit increased to 36.1% for the three months ended March 31, 2019 from 32.0% for the three months ended March 31, 2018.

Machinio. Machinio was acquired on July 10, 2018. Machinio earns revenue from subscription fees charged to customers for promotional placements on Machinio's search engine.

Corporate & Other. The decrease in revenue of \$0.9 million is attributable to a decrease in revenue from IronDirect, due to the decision to exit the business. Consequently, GMV from our Corporate & Other segment decreased 96.4%, or \$0.9 million. Gross profit within Corporate & Other increased \$0.2 million, attributable to lower cost of goods sold.

Consolidated Results

Cost of goods sold. Cost of goods sold decreased \$3.9 million, or 13.6%, to \$24.8 million for the three months ended March 31, 2019, from \$28.7 million for the three months ended March 31, 2018. Cost of goods sold decreased approximately \$7.3 million due to the wind-down of the Surplus Contract. In addition, cost of goods sold decreased \$1.1 million in our IronDirect business due to a lower volume of heavy equipment sales, partially offset by a \$0.8 million increase in our CAG Commercial business, and a \$3.4 million increase in our RSCG segment and a \$0.2 million increase in our GovDeals segment, primarily due to increased sales.

Seller distributions. Seller distributions decreased \$1.1 million, or 28.1%, to \$2.8 million for the three months ended March 31, 2019, from \$3.9 million for the three months ended March 31, 2018, due to lower sales under our Scrap Contract during the three months ended March 31, 2019.

Technology and operations expenses. Technology and operations expenses decreased \$2.6 million, or 15.8%, to \$13.4 million for the three months ended March 31, 2019, from \$16.0 million for the three months ended March 31, 2018, due to the loss of the Surplus Contract of approximately \$2.2 million, partially offset by approximately \$0.9 million increase, attributable to higher labor costs associated with additional sales volume in our RSCG and GovDeals segments. Also, contributing to the decrease is the \$0.7 million lower technology labor costs, external contractors' fees and travel costs as a result of completing a certain phase of development of the new LiquidityOne platform as well as lower license fees and other information technology service costs. During the three months ended March 31, 2019 the Company capitalized \$0.9 million of costs related to the LiquidityOne platform. These costs primarily consisted of technology labor costs.

Sales and marketing expenses. Sales and marketing expenses increased \$0.9 million, or 11.1%, to \$9.1 million for the three months ended March 31, 2019, from \$8.2 million for the three months ended March 31, 2018, due primarily to a \$0.5 million increase within our Machinio segment, which was acquired in July 2018, from a full quarter of sales and marketing

expense that did not occur in the prior year quarter. Also, contributing to the increase is the \$1.0 million higher costs in marketing labor costs, partially offset by a \$0.6 million decrease in marketing and promotion expenditures.

General and administrative expenses. General and administrative expenses increased \$1.1 million, or 14.3%, to \$8.6 million for the three months ended March 31, 2019, from \$7.5 million for the three months ended March 31, 2018. This is due to an increase in overall staff cost of approximately \$0.9 million and corporate overhead expense of \$0.2 million. The increase in overall staff cost is attributable to \$0.2 million staff cost in our Machinio segment, that did not occur in the prior year comparable quarter. In addition, staff cost increased \$0.7 million in the rest of the segments.

Other operating expenses. Other operating expenses reflected an expense of approximately \$1.4 million in the three months ended March 31, 2019, which consisted of a change in the fair value of our earn-out liability of \$1.3 million and approximately \$0.05 million primarily due to acquisition and restructuring costs. In the three months ended March 31, 2018, Other operating expense of \$0.3 million represented approximately \$0.5 million of restructuring cost (for further information, see Note 11 to the Consolidated Financial Statements included in this Report), partially offset by \$0.2 million of other miscellaneous items.

On April 23, 2019, the Company performed a strategic reorganization that consolidated its go-to-market for self-directed and fully-managed market place services to capitalize on growth opportunities. As a result, the Company will incur restructuring costs of approximately \$1.1 million for employee termination benefits. The termination costs relate to the GovDeals, CAG, and RSCG segments, as well as Corporate & Other, and will be recorded as Business realignment expenses within Other operating expenses in the Consolidated Statements of Operations during the three months ended June 30, 2019.

Interest and other income, net. Interest and other income, net, reflected income of approximately \$0.5 million in the three months ended March 31, 2019, which consisted of approximately \$0.4 million of interest income mainly from our short-term investments, and \$0.1 million of net periodic pension benefit for the non-service cost components of our UK entity's defined benefit pension plan. In the three months ended March 31, 2018, Interest and other income, net represented an income of \$0.4 million, which consisted of approximately \$0.1 million of interest income, \$0.1 million of net periodic pension benefit other than the service cost component, and \$0.2 million of other miscellaneous income.

Provision (benefit) for income taxes. Provision (benefit) for income taxes decreased \$0.1 million, to a provision of \$0.3 million for the three months ended March 31, 2019, from \$0.4 million for the three months ended March 31, 2018, due to the impact of foreign, state, and local taxes and permanent tax adjustments.

Six Months Ended March 31, 2019 Compared to the Six Months Ended March 31, 2018

Segment Results

GovDeals. Revenue from our GovDeals segment increased 8.6%, or \$1.2 million, due to additional sales volume from existing sellers and an increase in the number of new sellers. GMV from this segment increased 9.3%, or \$13.1 million, due to additional sales volume from existing sellers and an increase in the number of new sellers. Gross profit within this segment increased 7.4%, or \$1.0 million, to \$14.1 million for the six months ended March 31, 2019, from \$13.1 million for the six months ended March 31, 2018, due to additional sales volumes. As a percentage of revenue, gross profit decreased to 91.9% for the six months ended March 31, 2019, from 92.9% for the six months ended March 31, 2018.

CAG. Revenue from our CAG segment decreased 49.0%, or \$28.1 million. Approximately \$27.8 million of this change was due to the wind-down of the Surplus contract. Additionally, the Scrap Contract experienced a lower volume of goods sold, as well as lower commodity prices, partially offset by a change in mix to higher value commodities. The decrease in revenue due to Surplus and Scrap contracts was partially offset by a slight increase in overall sales volume within our CAG Commercial business. GMV from our CAG segment decreased 17.7%, or \$17.7 million. The wind-down of the Surplus contract resulted in a decrease of approximately \$25.5 million. Also, contributing to the decrease is the lower volume of goods sold, as well as a change to lower value commodities under the Scrap contract, partially offset by a change in mix to higher value commodities resulting in a net decrease of approximately \$2.7 million. These overall reductions were partially offset by an increase in GMV of \$10.5 million from our CAG Commercial business. Gross profit within the CAG segment decreased 41.8%, or \$12.6 million, to \$17.5 million for the six months ended March 31, 2019, from \$30.1 million for the six months ended March 31, 2018. This decrease can primarily be attributed to the wind-down of the Surplus Contract and lower sales volumes described above. As a percentage of revenue, gross profit increased to 60.0% for the six months ended March 31, 2019 from 52.5% for the six months ended March 31, 2018.

RSCG. Revenue from our RSCG segment increased 33.9%, or \$16.1 million, due to increases in revenue from both the purchase and consignment transaction models. GMV from our RSCG segment increased 20.3%, or \$13.0 million, due to approximately \$14.0 million increases in GMV in purchase transaction model, partially offset by approximately \$1.0 million decrease in GMV in consignment transaction models. Gross profit within the RSCG segment increased 42.3%, or \$6.5 million for the six months ended March 31, 2019, due to the increases in revenue described above. As a percentage of revenue, gross profit increased to 34.4%, from 32.4%.

Machinio. Machinio was acquired on July 10, 2018. Machinio earns revenue from subscription fees charged to customers for promotional placements on Machinio's search engine.

Corporate & Other. The decrease in revenue of \$2.0 million is attributable to a decrease in revenue from IronDirect, due to the decision to exit the business in January 2019. Consequently, GMV from our Corporate & Other segment decreased 81.1%, or \$2.0 million, due to lower heavy equipment sales and exit of the business. Gross profit within Corporate & Other increased \$0.9 million, attributable to lower cost of goods sold and a \$0.6 million inventory reserve recorded in the first quarter of fiscal 2018, which did not occur in the quarter ended March 31, 2019. During the six months ended March 31, 2019, sales were primarily drop ship parts resulting in higher margins and during the six months ended March 31, 2018 sales included equipment and inventory.

Consolidated Results

Cost of goods sold. Cost of goods sold decreased \$6.6 million, or 11.7%, to \$49.8 million for the six months ended March 31, 2019, from \$56.4 million for the six months ended March 31, 2018. Cost of goods sold decreased approximately \$16.1 million due to the wind-down of the Surplus Contract. In addition, cost of goods sold decreased \$2.9 million in our IronDirect business due to a lower volume of heavy equipment sales and a decision to exit the business, partially offset by a \$2.4 million increase in our CAG Commercial business, and a \$9.8 million increase in our RSCG and GovDeals segments, primarily due to increased sales. Also, contributing to the increase is a \$0.2 million cost of goods sold attributable to the Machinio segment, which was acquired in July 2018, resulting in a full six months of cost of goods sold that did not occur in the prior year comparable period.

Seller distributions. Seller distributions decreased \$1.8 million, or 25.0%, to \$5.4 million for the six months ended March 31, 2019, from \$7.2 million for the six months ended March 31, 2018, due to lower sales under our Scrap Contract during the six months ended March 31, 2018.

Technology and operations expenses. Technology and operations expenses decreased \$8.1 million, or 23.8%, to \$26.0 million for the six months ended March 31, 2019, from \$34.1 million for the six months ended March 31, 2018, due to the loss of the Surplus Contract of approximately \$5.4 million, partially offset by approximately \$1.1 million increase, attributable to higher labor costs associated with additional sales volume in our RSCG and GovDeals segments. Also, contributing to the decrease is the \$2.4 million lower technology labor costs, external contractors' fees and travel costs as a result of completing a certain phase of development of the new LiquidityOne platform as well as lower license fees and other information technology service costs. During the six months ended March 31, 2019 the Company capitalized \$1.9 million costs related to the LiquidityOne platform. These costs primarily consisted of technology labor costs.

Sales and marketing expenses. Sales and marketing expenses increased \$1.6 million, or 9.7%, to \$18.1 million for the six months ended March 31, 2019, from \$16.5 million for the six months ended March 31, 2018, due primarily to a \$1.1 million increase within our Machinio segment, which was acquired in July 2018, from a full quarter of sales and marketing expense that did not occur in the prior year quarter. Also contributing to the increase was an increase in marketing labor costs of \$1.2 million partially offset by a \$0.7 million decrease in marketing and promotion expenditure.

General and administrative expenses. General and administrative expenses increased \$2.1 million, or 13.8%, to \$17.3 million for the six months ended March 31, 2019, from \$15.2 million for the six months ended March 31, 2018. This is due to an increase in overall staff cost of approximately \$1.5 million and corporate overhead expense of \$0.6 million. The increase in overall staff cost is attributable to \$0.4 million staff cost in our Machinio segment, that did not occur in the prior year comparable six-month period. In addition staff cost increased \$1.5 million in our Corporate & Other and RSCG segments, partially offset by a \$0.3 million decrease in our CAG and GovDeals segments.

Other operating expenses. Other operating expenses reflected an expense of approximately \$1.6 million in the six months ended March 31, 2019, which consisted of a change in the fair value of our earn-out liability of \$1.4 million and approximately \$0.2 million primarily due to acquisition and restructuring costs. In the six months ended March 31, 2018, Other

operating expense of \$1.8 million represented approximately \$1.8 million of restructuring cost (for further information, see Note 11 to the Consolidated Financial Statements included in this Report), and a \$0.1 million loss on the value of a right we held from our participation in certain principal transactions in the CAG segment, partially offset by \$0.1 million of other miscellaneous items.

Interest and other income, net. Interest and other income, net, reflected income of approximately \$0.8 million in the six months ended March 31, 2019, which consisted of approximately \$0.8 million of interest income mainly from our short-term investments, and \$0.2 million of net periodic pension benefit other than the service cost component of our UK entity's defined benefit pension plan, partially offset by approximately \$0.2 million of other miscellaneous expenses. In the six months ended March 31, 2018, Interest and other income, net represented an income of \$0.9 million, which consisted of approximately \$0.2 million of interest income, \$0.2 million of net periodic pension benefit other than the service cost component of our UK entity's defined benefit pension plan, and \$0.5 million of other miscellaneous income.

Provision (benefit) for income taxes. Provision (benefit) for income taxes increased \$5.0 million, to a provision of \$0.6 million for the six months ended March 31, 2019, from a benefit of \$4.4 million for the six months ended March 31, 2018, due to benefits resulting from the new Tax Cut and Jobs Act enacted in fiscal year 2018 and the impact of foreign, state, and local taxes and permanent tax adjustments.

Liquidity and Capital Resources

Historically, our primary cash needs have been working capital (including capital used for inventory purchases), which we have funded through cash generated from operations. As of March 31, 2019, we had approximately \$33.9 million in cash as well as \$30.0 million in short-term investments.

We continue to advance the design and development of our LiquidityOne platform, services and analytical tools. We will continue to incur additional costs throughout the duration of this initiative to implement the new platform and educate our employees and our buyers and sellers about the initiative. We have also invested in new business ventures, such as Machinio in July 2018, which operates a global online platform for listing used equipment for sale in the construction, machine tool, transportation, printing and agriculture sectors. The consideration paid to the sellers was approximately \$16.7 million in net cash, equity consideration of approximately \$2.0 million, and contingent consideration payable in 2020 in an amount up to \$5.0 million.

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 approximately \$8.9 million as of March 31, 2019. As of March 31, 2019 and September 30, 2018, approximately \$11.7 million and \$14.4 million, respectively, of cash and cash equivalents was held overseas.

We are authorized to repurchase issued and outstanding shares of our common stock under a share repurchase program approved by our Board of Directors. Share repurchases may be made through open market purchases, privately negotiated transactions or otherwise, at times and in such amounts as management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements and other market conditions. The repurchase program may be discontinued or suspended at any time and will be funded using our available cash. We did not repurchase shares under this program during the six months ended March 31, 2019 or 2018. As of March 31, 2019, we may repurchase an additional \$10.1 million in shares under this program.

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

Changes in Cash Flows: Six Months Ended March 31, 2019 Compared to the Six Months Ended March 31, 2018

Net cash used in operating activities was \$11.6 million for the six months ended March 31, 2019, as compared to net cash provided by operating activities of \$6.5 million for the six months ended March 31, 2018. The \$18.1 million increase in cash used in operations between periods was attributable to changes in working capital primarily from change in accounts receivable, settlement of accounts payable, payables to sellers and purchase of inventory.

Net cash used in investing activities was \$13.0 million for the six months ended March 31, 2019, and \$0.9 million for the six months ended March 31, 2018. Net cash used in investing activities for the six months ended March 31, 2019 consisted

of the purchase of certificates of deposit in the amount of \$30 million, as well as expenditures for capitalized software, purchases of equipment, and leasehold improvements. Net cash used in investing activities for the six months ended March 31, 2018 consisted primarily of expenditures for capitalized software, purchases of equipment, and leasehold improvements.

Net cash provided by financing activities was \$0.12 million for the six months ended March 31, 2019 compared to \$0.01 million cash provided by financing activities for the six months ended March 31, 2018. Net cash provided by financing activities consisted primarily of proceeds from the exercise of common stock options.

Capital Expenditures. Our capital expenditures consist primarily of capitalized software, computers and purchased software, office equipment, furniture and fixtures, and leasehold improvements. Capitalized software includes costs associated with our LiquidityOne platform. The timing and volume of capital expenditures in the future will be affected by the addition of new customers or expansion of existing customer relationships, as well as our development of our LiquidityOne platform. We intend to fund those expenditures primarily with cash on hand. Our capital expenditures for the six months ended March 31, 2019 were \$3.0 million. As of March 31, 2019, we had no outstanding commitments for capital expenditures.

We believe that our existing cash and cash equivalents will be sufficient to meet our anticipated cash needs for at least the next 12 months. Our future capital requirements will depend on many factors including our rate of revenue growth, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, the development and deployment of new marketplaces, the introduction of new value-added services and the costs to establish additional distribution centers. Although we are currently not a party to any definitive agreement with respect to potential investments in, or acquisitions of, complementary businesses, products or technologies, we may enter into these types of arrangements in the future, which could also require us to seek additional equity or debt financing. The sale of additional equity securities or convertible debt securities would result in additional dilution to our stockholders. Additional debt would result in increased interest expense and could result in covenants that would restrict our operations. There is no assurance that such financing, if required, will be available in amounts or on terms acceptable to us, if at all.

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest rate sensitivity. We had no debt as of March 31, 2019, and thus do not have any related interest rate exposure. 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.

Item 4. Controls and Procedures.

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

During the six months ended March 31, 2019, 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, 2019, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer (Principal Financial Officer), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer (Principal Financial Officer) concluded that our disclosure controls and procedures were effective and were operating to provide reasonable assurance that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer, principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

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

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, 2018, 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 5. Other Information.

The Company and Mr. James M. Rallo, former President, RSCG and CAG, entered into a Severance Agreement and General Release (the “Rallo Agreement”), which agreement will become irrevocable by Mr. Rallo on May 14, 2019.

Pursuant to the terms of the Rallo Agreement, and contingent upon the Rallo Agreement becoming irrevocable, Mr. Rallo will receive a severance package including, among other things:

- (i) a lump-sum cash payment of \$485,118, which represents Mr. Rallo’s full base salary plus an amount equal to the average of the actual annual incentive bonuses paid to him during the previous two fiscal years, which lump-sum payment will be reduced for applicable taxes and withholdings;
- (ii) payment of \$50,815, representing the aggregate amount of paid time-off accrued through the Termination Date, which payment will be reduced for applicable taxes and withholdings;
- (iii) reimbursement for business expenses reasonably incurred prior to the Termination Date;
- (iv) future reimbursement of up to \$9,792, representing Executive’s cost for COBRA for the period from May 1, 2019 to the earlier of the date that Executive finds employment or December 31, 2019; and
- (v) comprehensive executive outplacement assistance through a third-party provider.

Mr. Rallo may exercise his unexercised and vested options to purchase Company common stock issued under the Company’s 2006 Omnibus Long-Term Incentive Plan (the “Plan”) for the twelve-month period following April 23, 2019, Mr. Rallo’s termination date. Mr. Rallo’s unvested equity grants terminated as of the termination date.

The Rallo Agreement also (i) reaffirms the effectiveness of the Employment Agreement Regarding Confidentiality, Intellectual Property, and Competitive Activities, made by and between Mr. Rallo and the Company, dated as of February 22, 2005 and (ii) includes Mr. Rallo’s agreement to release the Company from all liability in connection with his employment with and separation from the Company.

Item 6. Exhibits.

Exhibit No.	Description
2.1	<u>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.</u>
3.1	<u>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.</u>
3.2	<u>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.</u>
10.1	<u>Severance Agreement and General Release, dated May 6, 2019, by and between James M. Rallo and the Company</u>
31.1	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.</u>
32.1	<u>Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101	The following materials from the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Loss, (iv) Consolidated Statement of Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to the Unaudited Consolidated Financial Statements.

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 8, 2019

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

May 8, 2019

By: /s/ Jorge A. Celaya
Jorge A. Celaya
Executive Vice President and Chief Financial Officer

May 8, 2019

By: /s/ Samuel M. Guzman, Jr.
Samuel M. Guzman, Jr.
Vice President and Chief Accounting Officer

SEVERANCE AGREEMENT AND GENERAL RELEASE

BY AND BETWEEN

LIQUIDITY SERVICES, INC. AND

JAMES M. RALLO

This Severance Agreement and General Release (the “**Agreement**”) dated as of May 6, 2019 (the “**Effective Date**”), is entered into by and between **Liquidity Services, Inc.**, located at 6931 Arlington Road Suite 200, Bethesda, Maryland 20814 and its affiliates and subsidiaries (collectively, the “**Company**”), and **James M. Rallo** (the “**Executive**”).

WHEREAS, the Executive ceased to serve as the President, Retail Supply Chain Group, and President, Capital Assets Group on April 23, 2019 (the “**Termination Date**”);

WHEREAS, the Executive and the Company entered into that certain Executive Employment Agreement dated February 23, 2012 (the “**Employment Agreement**”);

WHEREAS, the Company terminated Executive’s employment effective as of the Termination Date without cause due to the elimination of his position;

WHEREAS, contingent upon the Executive executing this Agreement pursuant to Section 8.7 of his Employment Agreement, the Company shall pay to Executive the following: (1) his base salary through the Termination Date and all other unpaid amounts, if any, to which the Executive is entitled as of the Termination Date in connection with fringe benefits (e.g., accrued but unused paid time off) and reimburse business expenses in accordance with Company policies and procedures; (2) a lump-sum severance package of \$485,118 (the “**Severance Payment**”) payment equal to the sum of: (x) \$367,000, the executive’s base salary, (y) \$118,117, an amount equal to the average annual bonus earned in the previous two years, FY17 (\$118,636) and in FY18 (\$117,598); and (z) \$1.00 in additional consideration.

WHEREAS, the Severance Payment will be off-set for \$9,000 for the purchase by Executive of his Company vehicle and \$4,118.86 relating to personal charges incurred on Executive’s Company American Express card, resulting in Company making a gross severance payment to Executive of **\$471,999.14**.

WHEREAS, the Company and the Executive desire to set forth in writing the terms and conditions governing the Executive’s separation from employment, as set forth below:

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the undersigned parties agree as follows:

1. **Termination of Employment.**

(a) The Executive’s employment with the Company ceased effective as of the Termination Date. The Executive further agrees to execute and deliver to the Company such documents concerning such separation from employment (and any related service) as may be reasonably requested by the Company or its Affiliates. For purposes of this Agreement, “**Affiliate**” means any entity that directly or indirectly controls, is controlled by, or is under common control with the Company, including its current and former parents, subsidiaries and affiliated entities, from time to time.

(b) **Accrued Obligations.** On the first payroll date following the Termination Date, the Executive will receive payment for Two Hundred Eighty-Eight (288) hours of unused paid time off (“PTO”) accrued through the Termination Date.

(c) **Business Expenses.** Executive delivered a final business expense request for reimbursement in the amount of \$5,854.00 for April 2019, representing charges incurred on behalf of the Company. Executive also incurred personal charges in the amount of \$4,118.86 on his Company American Express card. The Company undertakes to close the American Express card and pay the outstanding balance of \$9,972.86 and an additional charge of \$289.10 relating to a vehicle inspection charge that is a pending transaction relating to an additional business expense undertaken in furtherance of Section 2(b) below. Executive’s severance will be offset by \$4,118.86, representing the personal charges outstanding on Executive’s Company American Express card.

(d) **Group Health Plan.** The Executive’s health care coverage with the Company as an active employee will continue until April 30, 2019. Starting on May 1, 2019 the Executive shall be eligible to continue participation in the Company group health plan pursuant to the health care continuation coverage available under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). Subject to the reimbursement requirement below, the Company shall not pay, nor be obligated to pay, any of the COBRA premiums with respect to Executive. The Executive shall be solely responsible for electing such coverage by properly returning the COBRA election form that Executive will receive. For the period from May 1, 2019 to the earlier of the date that Executive finds employment or December 31, 2019, the Company shall reimburse Executive for COBRA. Executive will provide an e-mail to the VP, Human Resources each month certifying that he has not yet found employment and, thereafter, the Company will promptly reimburse for COBRA expenses.

2. **Consideration.** In exchange for the Executive’s execution of this Agreement, which includes the waiver and release of claims set forth in Section 8 below, the parties agree to the following:

(a) **Severance Payments.** The Company will pay the Severance Payment to the Executive on the first payroll date following the date on which Executive’s right to revoke this Agreement under Section 10 below expires.

(b) **Vehicle.** The Executive acknowledges and agrees that he is purchasing his Company vehicle, a black 2011 Lexis LS 460 L Sedan 4D for \$9,000. Following receipt of an odometer reading, a Maryland vehicle inspection report and the execution of this Agreement, the Company will quitclaim the vehicle to Executive on an as-is, where-is and with all faults basis. The Company will prepare a bill of sale to transfer title to the vehicle. Payment for the vehicle will be off-set from Executive’s Severance Payment.

(c) **Outplacement.** The Company will provide the Executive comprehensive executive outplacement assistance through the firm of Right Management.

(d) **No Consideration Absent Execution of this Agreement.** The Executive understands and agrees that his entitlement to the payment specified in Section 2(a) and the benefits specified in Sections 2(b) and 2(c) are contingent on the execution of this Agreement and continued compliance with the terms and conditions of this Agreement and any agreement containing restrictive covenants to which the Executive is a party. The Executive understands that if he does not sign the Agreement, the Company has no obligation to provide the Executive with any of the consideration provided in this Agreement.

(e) **Withholding.** Any payments provided to the Executive pursuant to this Agreement shall be subject to withholding and reporting requirements under applicable law.

(f) **Compliance with Section 409A.** To the extent (i) any payments or benefits to which the Executive becomes entitled under this Agreement, or under any other agreement or Company plan, in connection with the Executive’s termination of employment with the Company constitute deferred compensation subject to Section 409A of the Internal Revenue Code and the regulations promulgated thereunder (“Section 409A”) and (ii) the Executive is deemed at the time of such termination of

employment to be a “specified employee” under Section 409A, then such payments shall not be made or commence until the earliest of (A) the expiration of the six (6) month period measured from the date of the Executive’s “separation from service” (as such term is defined in Section 409A) from the Company; or (B) the date of the Executive’s death following such separation from service. Upon the expiration of the applicable deferral period, any payments which would have otherwise been made during that period (whether in a single sum or in installments) in the absence of this paragraph shall be paid to the Executive or the Executive’s beneficiary in one lump sum (without interest). Any termination of the Executive’s employment is intended to constitute a “separation from service” and will be determined consistent with the rules relating to a “separation from service”. It is intended that payments hereunder satisfy, to the greatest extent possible, the exemptions from the application of Section 409A. To the extent that any provision of this Agreement is ambiguous as to its compliance with Section 409A, the provision will be read in such a manner so that payments hereunder are exempt from, or otherwise comply with, Section 409A. To the extent any expense reimbursement or the provision of any in-kind benefit under this Agreement is determined to be subject to Section 409A, the amount of any such expenses eligible for reimbursement, or the provision of any in-kind benefit, in one calendar year shall not affect the expenses eligible for reimbursement in any other taxable year (except for any lifetime or other aggregate limitation applicable to medical expenses), in no event shall any expenses be reimbursed after the last day of the calendar year following the calendar year in which such expenses were incurred, and in no event shall any right to reimbursement or the provision of any in-kind benefit be subject to liquidation or exchange for another benefit.

3. **Outstanding Equity Awards.** All outstanding equity awards shall be treated in accordance with the terms of applicable grant agreements and the Second Amended and Restated 2006 Omnibus Long-Term Incentive Plan. For the avoidance of doubt, the Executive has the right to exercise his remaining unexercised and currently vested stock options (the “**Vested Options**”) previously granted to him for twelve (12) months after the Termination Date, after which all such options shall be cancelled and no longer be exercisable. The vesting of any options or restricted stock, the vesting of which is wholly or partially tied to criteria other than the Executive’s continued employment with the Company, ceased as of the Termination Date and all unvested equity grants terminated as of the Termination Date. For the avoidance of doubt, no equity awards shall vest as a result of the Executive’s termination of employment.

4. **No Amounts Owing.** By signing below, Executive acknowledges and agrees that he has received all wages, bonuses and any other compensation already due to him from the Company, except any future payments as set forth in Section 2 and the payments to be made pursuant to Section 1.

5. **Publicity; Non-disparagement.**

(a) In the event that any person requests information regarding the Executive’s employment with the Company and its Affiliates, the Company shall respond simply by confirming Executive’s dates of employment, job titles and rates of pay. Notwithstanding the foregoing, William P. Angrick, III, the Company’s Chairman and Chief Executive Officer, will also provide a reference based on the mutual agreement of Mr. Angrick and the Executive.

(b) The Executive hereby agrees that he will not disparage or criticize the Company, its Affiliates, officers, directors or employees, or issue any communication, written or otherwise, that reflects adversely on or encourages any adverse action against the Company, its Affiliates, officers, directors or employees, except if testifying truthfully under oath pursuant to any lawful court order or subpoena or otherwise responding to or providing disclosures required by law. This includes any statement to or response to an inquiry by any member of the press or media, whether written, verbal, electronic or otherwise. However, nothing in this Agreement is intended to conflict with 18 U.S.C. § 1833(b) or create liability for disclosures of trade secrets that are expressly allowed by 18 U.S.C. § 1833(b). 18 U.S.C. § 1833(b) provides that “An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that-(A) is made-(i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the

purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.”

6. **Return of Property.** Except for the company car which shall be purchased or returned in accordance with Section 2(b), the Executive represents that Executive has returned to the Company any and all Company property in his possession or control, including but not limited to all keys, corporate credit cards and other equipment provided by the Company for use during employment, together with all materials, documents, files or papers, notes or records, and any copies thereof, relating to the Company or any of the Company’s customers.

7. **Cooperation with Company.** The Executive understands that the Company has agreed to the terms of this Agreement (including the Severance Payment) in exchange for, among other things, his agreement to cooperate with the Company on all matters for which the Company may reasonably request assistance following the Termination Date. In addition, the Executive agrees that he will, upon reasonable request, assist and cooperate with the Company and its Affiliates in connection with the defense or prosecution of any claim that may be made against or by the Company and its Affiliates or in connection with any ongoing or future investigation or dispute or claim of any kind involving the Company and its Affiliates including meeting with the Company and its Affiliates’ counsel, any proceeding before any arbitral, administrative, judicial, legislative, or other body or agency, including testifying in any proceeding to the extent such claims, investigations or proceedings relate to services performed or required to be performed by the Executive, pertinent knowledge possessed by the Executive, or any act or omission by the Executive. The Executive further agrees to perform all acts and execute and deliver any documents that may be reasonably necessary to carry out the provisions of this paragraph.

8. **General Release.**

(a) The Executive expressly acknowledges that this Agreement is worded in an understandable way.

(b) By executing this Agreement and accepting the consideration specified in Section 2 hereof, the Executive agrees to release and forever discharge the Company, its past and present shareholders, its past and present subsidiaries, affiliates and related companies (including any predecessors), its successors and assigns and all past and present directors, officers, employees, attorneys and agents of these entities, personally, and as directors, officers, employees, attorneys and agents and any person or entity acting for or on behalf of the Company (hereinafter the “**Company Releasees**”) from liability for any and all claims, damages, causes of action, both in law and in equity, which Executive or his estate, agents, attorneys, heirs, executors, successors and assigns now has or may have, whether known or unknown, suspected or unsuspected, and whether asserted or not, against the Company Releasees, or any of them, arising out of or related to Executive’s employment by the Company and Executive’s separation from the Company (hereinafter “**Claims**”), including, but not limited to, (i) any Claims under Title VII of the Civil Rights Act of 1964, as amended (42 U.S.C. § 2000 et seq.) (“**Title VII**”), the Equal Pay Act of 1963, the Age Discrimination in Employment Act of 1967, as amended (29 U.S.C. § 621 et seq.) (the “**ADEA**”), the Older Workers Benefit Protection Act of 1990 (“**OWBPA**”), except the right to challenge the enforceability of this Agreement under the OWBPA, the Americans with Disabilities Act of 1990 (42 U.S.C. § 12101 et seq.) (the “**ADA**”), the Executive Retirement Income Security Act of 1974, as amended (29 U.S.C. § 1001 et seq.), the Civil Rights Act of 1866 (42 U.S.C. § 1981), the Genetic Information Nondiscrimination Act of 2008, the Family and Medical Leave Act of 1993, the District of Columbia Human Rights Act (D.C. Code §§ 2-1401 to 2-1411 (2011)), the District of Columbia Family and Medical Leave Act (D.C. Code §§ 32-501 to 32-517 (2011)), the District of Columbia Accrued Sick and Safe Leave Act (D.C. Code §§ 32-131.01 to 32-131.16 (2011)), (ii) any Claims under any other Federal, state or local law (statutory, regulatory or otherwise) that may be legally waived and released; provided, however, that the Executive and his estate, agents, attorneys, heirs, executors, successors and assigns do not release any Claims arising from or relating to (A) the terms of this Agreement or any obligations preserved by this Agreement, (B) continued insurance, indemnification

and advances by the Company for actions taken while serving as an officer thereof (including coverage by any D&O or similar insurance policy generally applicable to current officers of the Company, and that certain Indemnification Agreement dated January 23, 2006) until the expiration of the applicable statute of limitations period; (C) the Executive's rights to COBRA coverage, (D) the Executive's accrued and unpaid wages as of the Termination Date or rights to vested benefits under Company benefit plans, or (E) any legal claims which the Executive may not waive or release by law.

(c) The Executive understands that the Company is agreeing to pay the consideration described in Section 2 of this Agreement in part because of, and in exchange for, this specific release of Claims (including Claims of discrimination under Title VII, the ADEA, the ADA and other applicable laws) and that a portion of these payments is in addition to any other payments or things of value to which the Executive may already be entitled, has received, or is receiving from the Company.

(d) The Executive understands that excluded from this Agreement and Release are any claims that cannot be waived by law, including but not limited to the right to file a charge with or participate in an investigation conducted by the EEOC or state agency, but that he is waiving his right to any monetary recovery should the EEOC or any other agency pursue any claims on his behalf.

9. **Voluntary Signature and Advice of Counsel; Review Period.** Without detracting in any respect from any other provision of this Agreement:

(a) The Executive, in consideration of the payment provided to him in Section 2(a) and the benefits to be provided pursuant to Sections 2(b) and 2(c), agrees and acknowledges that this Agreement constitutes a knowing and voluntary waiver of all rights or claims he has or may have against the Company Releasees as set forth herein, including, but not limited to, all rights or claims arising under ADEA, including, but not limited to, all claims of age discrimination in employment and all claims of retaliation in violation of the ADEA; and he has no physical or mental impairment of any kind that has interfered with his ability to read and understand the meaning of this Agreement or its terms, and that he is not acting under the influence of any medication or mind-altering chemical of any type in entering into this Agreement.

(b) The Executive understands that, by entering into this Agreement, he does not waive rights or claims that may arise after the date of his execution of this Agreement, including without limitation any rights or claims that he may have to secure enforcement of the terms and conditions of this Agreement.

(c) The Executive agrees and acknowledges that the consideration provided to him under Section 2 of this Agreement is in addition to anything of value to which he is already entitled.

(d) The Company hereby advises the Executive to consult with an attorney prior to executing this Agreement.

(e) The Executive acknowledges that he was informed that he has at least twenty-one (21) days in which to review and consider this Agreement and to consult with an attorney regarding the terms and effect of this Agreement.

(f) Nothing in this Agreement shall prevent the Executive (or his attorneys) from (a) commencing an action or proceeding to enforce this Agreement or (b) exercising his right under the Older Workers Benefit Protection Act of 1990 to challenge the validity of his waiver of ADEA claims set forth in Section 8.

10. **Revocation Period.** The Executive is advised that he may revoke this Agreement within seven (7) calendar days after the date he signs and returns this Agreement to the Company (the "**Revocation Period**"). The Executive agrees that if he wants to revoke this Agreement, he must notify the Company in writing as set forth in Section 11, and following revocation this Agreement shall be deemed *void ab initio*.

11. **Notice.** Any notice or other communication required or permitted hereunder shall be in writing and shall be delivered personally, or sent by registered mail, postage prepaid or by overnight courier. Any such notice shall be deemed given when so delivered personally, or, if mailed, five (5) days

after the date of deposit in the United States mail, or, if delivered by overnight courier, the day after such sending, as follows:

If to the Company, to:

Liquidity Services, Inc.
6931 Arlington Rd, Suite 200
Bethesda, MD 20814

Attention: Mark Shaffer, VP, General Counsel & Corporate Secretary

If to the Executive, to:

James M. Rallo
At the most recent address on file with the Company

Any party may, by notice given in accordance with this Section 11 to the other party, designate another address or person for receipt of notices hereunder.

12. **Successors; Binding Agreement.** This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, estate, trustees, administrators, successors, heirs, distributees, devisees and legatees. This Agreement is personal to the Executive and neither this Agreement nor any rights hereunder may be assigned by the Executive.

13. **Miscellaneous.** No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the Executive and a duly authorized officer of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions of this Agreement at the same or any prior or subsequent time.

14. **Counterparts.** This Agreement may be executed in several counterparts (including via facsimile), each of which shall be deemed to be an original but all of which together will constitute one and the same instrument. Signature copies delivered by facsimile or "PDF" shall also be sufficient.

15. **Severability.** The Company and the Executive agree that the agreements and provisions contained in this Agreement are severable and divisible, that each such agreement and provision does not depend upon any other provision or agreement for its enforceability, and that each such agreement and provision set forth herein constitutes an enforceable obligation between the parties hereto. Consequently, the parties hereto agree that neither the invalidity nor the unenforceability of any provision of this Agreement shall affect the other provisions, and this Agreement shall remain in full force and effect and be construed in all respects as if such invalid or unenforceable provision were omitted.

16. **Headings.** The inclusion of headings in this Agreement is for convenience of reference only and shall not affect the construction or interpretation hereof.

17. **Governing Law/Venue.** This Agreement shall be construed as a document under seal, and shall be governed by the laws of the State of Maryland, without giving effect to any principles of conflict of law or choice of law rules (whether of State of Maryland or any other jurisdiction) that would result in the application of the substantive or procedural laws or rules of any other jurisdiction. Venue for all disputes arising under or related to this Agreement of Executive's employment with the Company will be the Montgomery County in the State of Maryland.

18. **No Admission.** The making of this Agreement is not intended, and shall not be construed or deemed to be, an admission that the Company violated any Federal, state or local law (statutory or

decisional), ordinance or regulation, breached any contract, or committed any wrong whatsoever against you or anyone else, and the Company expressly denies any such violation, breach or wrong.

19. **Entire Agreement.** Except for that certain Employee Agreement Regarding Confidentiality, Intellectual Property, and Competitive Activities dated February 22, 2005 (which shall remain in effect in accordance with its terms), this is the entire agreement between Executive and the Company with respect to the subject matter hereof and supersedes all prior agreements with respect to the subject matter hereof, including any prior agreements with the Company respecting the Executive's employment by and between Liquidity Services, Inc. and the Executive. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by any party which are not expressly set forth in this Agreement. No reliance is placed on any representation, opinion, advice or assertion of fact made by the Company or its directors, officers and agents to the Executive, except to the extent that the same has been reduced to writing and included as a term of this Agreement. Accordingly, there shall be no liability, either in tort or contract, assessed in relation to any such representation, opinion, advice or assertion of fact. All references to any law shall be deemed also to refer to any successor provisions to such law.

IN WITNESS WHEREOF, the undersigned have hereunto set their hands as of the Effective Date.

LIQUIDITY SERVICES, INC.

EXECUTIVE

/s/ Michael Lutz

/s/ James M. Rallo

By: Michael Lutz

By: James M. Rallo

VP, Human Resources

**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.

Date: May 8, 2019

/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.
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Date: May 8, 2019

/s/ Jorge A. Celaya

By: Jorge A. Celaya

Title: *Executive Vice President and Chief Financial Officer*
(Principal 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, 2019 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 8, 2019

/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, 2019 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 8, 2019

/s/ Jorge A. Celaya

Jorge A. Celaya

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

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

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