



# 2022 Annual Report





## Fellow Shareholders,

Following unprecedented fiscal stimulus and supply chain disruptions due to worker, energy, and parts shortages around the globe, inflation roared back to levels not seen since the late 1970s. In response, the Federal Reserve has implemented a rapid-fire series of rate hikes to cool consumption and bring down inflation with severe consequences for investors and businesses alike. The impact of this macro environment on our business creates both challenges and opportunities.

On one hand, the supply of newly manufactured consumer and capital goods, such as construction equipment and vehicles, has decreased. This has reduced the volume of used goods available for sale and is a near-term headwind. Pricing levels for used goods, which had been elevated in the early part of 2022, have come down as buyers, impacted by higher inflation and economic uncertainty, pull back on their spending. Additionally, the retail industry has experienced a downshift in the value and volume of goods being purchased both online and in stores, which presents another near-term headwind across the economy.

Yet even against this backdrop, opportunities abound. In a recession, large enterprises, small businesses, and government entities typically cut costs and monetize assets. Liquidity Services offers safe and effective strategies for maximizing the value of surplus assets to support our customers. As one of the most liquid marketplaces for converting any type of asset to cash, this will benefit our business. Moreover, we continue to lead the digital transformation of the \$100 billion circular economy in three large markets—retail, government, and industrial— which together offer ample opportunity to grow our business.

We entered FY22 with the stated goal of increasing our investments in sales, marketing, and technology to ensure market share expansion. These investments have been critical to countering the current macro headwinds. As the market recovers, we will emerge a stronger business.

We are most grateful for our team members who sustain our culture of mutual trust, respect, and accountability which enables us to achieve successful outcomes for our customers and shareholders. Let me share just a few highlights of all that we accomplished together in 2022:

- We achieved a record \$1.15 billion in GMV in FY22 eclipsing the \$1 billion GMV milestone for the first time, and we did so with an increasingly diversified business. This compares to \$640 million of GMV in FY19 prior to the pandemic.
- We generated a record number of auction participants and completed transactions on our platform, showcasing the strength of our buyer liquidity in a recessionary environment.

- We grew our GovDeals segment GMV to a record \$720 million up 44% YoY. During FY22 GovDeals increased the number of active sellers and listed assets by 7% and 10% YoY, respectively, to help offset a decline in vehicle volumes from the prior year. Additionally, we continue to make progress penetrating our GovDeals customers as their comprehensive solution for all asset sales, including their highest value assets. For example, since FY20, our GMV per seller and the number of assets sold per seller on GovDeals have grown 44% and 19%, respectively. As client vehicle replenishment cycles normalize, federal infrastructure spending takes hold and we continue our pace of account acquisition, we see the opportunity to significantly grow the size of our GovDeals business.
- In November 2021, we acquired Bid4Assets to accelerate our position as the leading online platform for the sale of government real estate, an estimated multi-billion-dollar market. Our acquisition of this asset-light, high-margin business has greatly expanded our real estate domain expertise. We have successfully integrated the Bid4Assets sales organization into GovDeals, and are cross-promoting assets to the approximately 625,000 acquired Bid4Assets real estate buyers.
- We grew our Retail Supply Chain Group (RSCG) segment GMV to \$236 million, up 3% YoY, as we continued to diversify our business and maintain industry momentum by signing new programs with important new omnichannel and ecommerce clients during the year. We also launched a new 100,000 sq. ft. distribution center facility in Hebron, Kentucky to support growth with existing and new retail clients in a centralized location, marking our third new facility since November 2021. Additionally, after evaluating our network efficiency, we converted our Phoenix AllSurplus Deals distribution center into a multichannel location enabling us to serve both B2C and B2B customers and reduce costs. All new facilities were fully utilized by the year's end reflecting the strong demand for our value-added services.
- We grew our Capital Assets Group (CAG) segment GMV to \$189 million up 19% YoY as we continued to play the role of a trusted global market maker for high-value equipment in the industrial supply chain with robust growth in many sectors such as energy, automotive, and biopharma this past year. Our ability to support cross-border transactions and financial settlements among counter parties has been increasingly valued given the broad application of the industrial assets we sell. For example, in a recent auction of biopharma assets in Europe from multiple Fortune 500 sellers, we had over 100 bidders from 27 countries, including 17 from China, and 60% of the assets were sold to China-based bidders. Our global reach was critical to giving our sellers the best execution during the year.

- In our CAG segment, Liquidity Services also identified the construction, fleet, and heavy equipment vertical as an attractive growth avenue in FY22 using our AllSurplus platform. We successfully grew GMV in this category by 36% YoY. We have consistently outperformed traditional auctioneers in the net recovery realized for individual items with faster cycle times and greater convenience for selling clients. We accordingly expect this vertical to steadily grow.
- Our Machinio segment continued to grow rapidly with revenue increasing 26% YoY to \$12.1 million. Our Machinio digital advertising and storefront solutions offer business customers high ROI, cost savings, and convenience that are well suited to a recessionary environment.
- We invested in the expansion of our corporate communications efforts in FY22 to elevate awareness of the Liquidity Services brand and mission among commercial decision makers, sustainability policy makers, investors, and potential recruits. This was very successful including a featured story by CNBC shot directly from our Garland, TX facility, and numerous trade press articles on our solutions. Liquidity Services was also selected as a finalist for the World Sustainability Awards 2022, Circular Economy category. Based in Munich, Germany, the sustainability leaders' global community network for CSOs and ESG executives was designed to accelerate sustainability initiatives. Each year, the group recognizes individuals, teams, and organizations leading the way to a more environmentally sound future, going above and beyond integrating sustainability into their core business practices. These branding efforts have aided our sales outreach with organizations in all the sectors we serve.
- In addition to supporting the scalability and reliability of our core business for customers, our technology and product teams accomplished a number of other special projects, including:
  - › Substantial progress developing our new GovDeals marketplace user experience. This includes a fully responsive, mobile first design, expanded navigation, enhanced site search powered by machine learning, and personalized recommendations. The beta version of our new GovDeals marketplace was shared with select bidders in Q4 and was extremely well received, resulting in a 2x increase in our customer Net Promoter Score. This bodes well for the future, and we expect our modernized GovDeals platform and introduction of more data-driven features will increase our recovery rates and lift GovDeals' GMV materially over time.
  - › Implementing a unified navigation header and footer across our transactional marketplaces to highlight our

brands, which has led to improved awareness of the scale of our business and increased internal referral traffic among our marketplaces

- › Initiating a project to improve the buyer registration and login experience. This new service will be leveraged across our marketplaces.
- We continued to generate strong free cash flow in FY22 ending the year with approximately \$98 million in cash after expending approximately \$18.2 million to acquire Bid4Assets and \$25.4 million in share repurchases (1,567,277 shares retired at an average price of \$16.24). We continue to have zero long-term debt.
- In February 2022, we entered into a new credit facility agreement with Wells Fargo Bank providing up to \$25 million in borrowing capacity with a \$10 million sublimit for standby letters of credit. This new credit facility provides us with added financial flexibility to support our growth strategy.
- We continued to make a positive impact in the communities we serve by supporting the Big Brothers Big Sisters mentoring organization, raising funds and awareness for the victims of Hurricane Ian and the conflict in Ukraine, and by diverting millions of pounds of waste through our circular economy platform.

We are proud of what we have accomplished together in 2022. We are grateful for the opportunity to build a better future for customers and the environment through our leading circular economy marketplace platform. We are hungry for the opportunities ahead of us and ready for the challenge regardless of market conditions. Thanks again for your support.

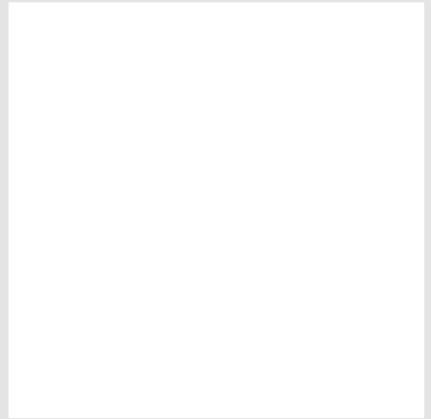
Sincerely,



William P. Angrick, III

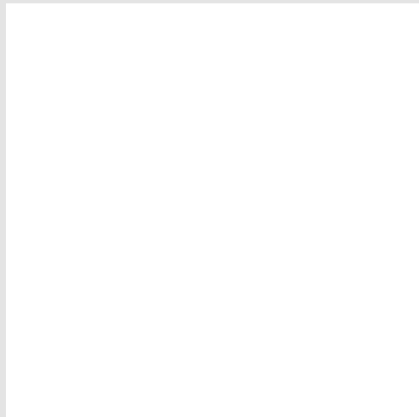
## **GovDeals Case Study: Sale of Ship-to-Shore Cranes Generates \$200K, Saves \$100K in Dismantling and Removal Costs**

When container operations were moved from the Portsmouth Marine Terminal to the Virginia International Gateway and Norfolk International Terminals, the Virginia Port Authority turned to GovDeals to sell three ZPMC Post Panamax ship-to-shore cranes. As part of the deal, the client required the prospective buyer to dismantle and ship the 92-foot cranes. The successful four-week sale garnered almost 6,000 visitors and generated \$200,000 in revenue, including \$50,000 worth of replacement parts, and saved the Port Authority \$100,000 in dismantling and removal costs. The buyer, Haina International Terminals, was thrilled to find the equipment at an affordable price which helped them meet the increased demand from larger container ships.



## **Retail Supply Chain Group Case Study: Virtual Auction Software Integration Optimizes Pallets Automatically**

Liquidity Services had been working with one of the world's largest online retailers for over a decade when we offered our new Automated Sell in Place solution to increase recovery, improve efficiencies, and reduce their carbon footprint. The program's API software integration allows us to sell "virtual" returns and excess inventory from seller locations on Liquidation.com. This reduces operating expenses for Liquidity Services and eliminates unnecessary touches for the client. Tested for over a year, the program continues to boost client recovery by more than 20% with an average success rate above 90%. The net impact is greater profitability for Liquidity Services and higher customer satisfaction.



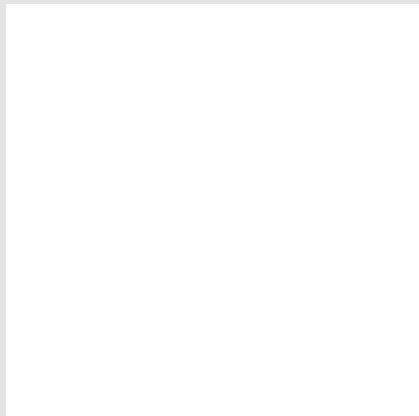
## **Capital Assets Group Case Study: Liquidity Services Generates \$1.6M+ for Delta's Ground Support Equipment Transition to Electric Vehicles**

When Delta Air Lines committed to becoming the world's first carbon-neutral airline with plans to transition 50% of its ground support fleet to electric vehicles by 2025, it turned to Liquidity Services to help it extend the lives of thousands of pieces of equipment. By transitioning its ground support equipment (GSE) from internal combustion engines (ICEs) to electric vehicles (EVs), Delta not only reduces its carbon footprint across the globe, it also improves the working conditions of ground crews who will no longer be exposed to harmful air and noise pollution. Additionally, the ICE equipment sold through Liquidity Services is kept in use longer, avoiding emissions that would be produced in the manufacturing of new ICE-based ground support equipment and parts.



## **Machinio Case Study: Machinio System Brings Global Marketplace to Small, Family-Owned, California Business**

Smith Food Machinery is a small family business that sells food processing and packaging equipment. It needed help managing its inventory and simplifying systems to save time and money. Machinio increased Smith Food Machinery's exposure by reaching new customers outside its home state of California, increasing leads and ultimately generating more business from customers around the globe. The customer says it is looking forward to using Machinio's invoicing and tracking tools to help streamline its business even further.





**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended **September 30, 2022**

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**



*A Better Future for Surplus*

**LIQUIDITY SERVICES, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)  
**6931 Arlington Road, Suite 200, Bethesda, MD.**  
(Address of principal executive offices)

**52-2209244**  
(I.R.S. Employer  
Identification No.)

**20814**  
(Zip Code)

**(202) 467-6868**

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
<b>Common Stock, \$0.001 par value</b>	<b>LQDT</b>	<b>Nasdaq</b>

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

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

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Emerging growth company

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

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

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

Aggregate market value of the Common Stock held by non-affiliates computed by reference to the Nasdaq closing price on March 31, 2022, the last business day of the most recently completed second fiscal quarter, was \$405.9 million.

The number of shares of Common Stock outstanding as of December 5, 2022 was 35,798,131.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement relating to its 2023 Annual Stockholders' Meeting, to be filed subsequently, are incorporated by reference into Part III (Items 10, 11, 12, 13 and 14) of this Form 10-K.



**INDEX**  
**TABLE OF CONTENTS**

<b>Item</b>	<b>Description</b>	<b>Page</b>
	<b>PART I</b>	
1	<a href="#">Business</a>	<a href="#">4</a>
1A.	<a href="#">Risk Factors</a>	<a href="#">19</a>
1B.	<a href="#">Unresolved Staff Comments</a>	<a href="#">32</a>
2	<a href="#">Properties</a>	<a href="#">32</a>
3	<a href="#">Legal Proceedings</a>	<a href="#">32</a>
4	<a href="#">Mine Safety Disclosures</a>	<a href="#">32</a>
	<b>PART II</b>	
5	<a href="#">Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a>	<a href="#">32</a>
6	<a href="#">[Reserved]</a>	
7	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">34</a>
7A.	<a href="#">Quantitative and Qualitative Disclosures about Market Risk</a>	<a href="#">49</a>
8	<a href="#">Financial Statements and Supplementary Data</a>	<a href="#">49</a>
9	<a href="#">Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</a>	<a href="#">49</a>
9A.	<a href="#">Controls and Procedures</a>	<a href="#">49</a>
9B.	<a href="#">Other Information</a>	<a href="#">53</a>
9C.	<a href="#">Disclosure Regarding Foreign Jurisdictions that Prevent Inspections</a>	<a href="#">53</a>
	<b>PART III</b>	
10	<a href="#">Directors, Executive Officers and Corporate Governance</a>	<a href="#">53</a>
11	<a href="#">Executive Compensation</a>	<a href="#">53</a>
12	<a href="#">Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</a>	<a href="#">53</a>
13	<a href="#">Certain Relationships and Related Transactions, and Director Independence</a>	<a href="#">53</a>
14	<a href="#">Principal Accountant Fees and Services</a>	<a href="#">53</a>
	<b>PART IV</b>	
15	<a href="#">Exhibits and Financial Statement Schedules</a>	<a href="#">54</a>
16	<a href="#">Form 10-K Summary</a>	<a href="#">97</a>
	<a href="#">Signatures</a>	<a href="#">98</a>

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

## PART I

### Item 1. Business.

#### Overview

Liquidity Services, Inc. (Liquidity Services, the Company) is a leading global commerce company providing trusted marketplace platforms that power the circular economy. We create a better future for organizations, individuals, and the planet by capturing and unleashing the intrinsic value of surplus. We connect millions of buyers and thousands of sellers through our leading auction marketplaces, search engines, asset management software, and related services. Our comprehensive solutions enable the transparent, efficient, sustainable recovery of value from excess items owned by business and government sellers.

Our business strives to deliver value to shareholders by unleashing the intrinsic value of surplus through our marketplace platforms. These platforms ignite and enable a self-reinforcing cycle of value creation where buyers and sellers attract one another in greater numbers. The result of this cycle is a continuous flow of goods that becomes increasingly valuable as more participants join the platforms, thereby creating positive network effects that benefit sellers, buyers, and shareholders. During the past three fiscal years, we have conducted over 2.2 million online transactions generating \$2.7 billion in gross merchandise volume or GMV. GMV is the total sales value of all merchandise sold by us or our sellers through our marketplaces or by us through other channels during a given period of time.

During the year ended September 30, 2022, the number of registered buyers grew from 4.0 million to 4.9 million, or 22%. We generated GMV of \$1,145 million and revenue of \$280.1 million through multiple sources, including transaction fees from sellers and buyers, proceeds from the sale of products we purchased from sellers, and value-added service charges during the year ended September 30, 2022. Our GMV has grown at a compound annual growth rate of 12.5% since 2006.

Results from our operations are organized into four reportable segments: GovDeals, Retail Supply Chain Group (RSCG), Capital Assets Group (CAG) and Machinio. See Note 16 - *Segment Information* for more information regarding our segments.

Liquidity Services was incorporated in Delaware in November 1999 as Liquidation.com, Inc. and commenced operations in early 2000.

On November 1, 2021, we acquired Bid4Assets, Inc. (Bid4Assets), a Maryland corporation based in Silver Spring, MD. Bid4Assets is a leading online marketplace focused on conducting real property auctions for the government, including tax foreclosure sales and sheriff's sales. See Note 3 - *Bid4Assets Acquisition* for more information regarding this transaction.

#### Industry Overview

While a well-established forward supply chain exists for the procurement of assets, many manufacturers, retailers, corporations and government agencies have recognized the growing need for strategic reverse supply chain solutions. For example, according to Allied Market Research (*Reverse Logistics Market by Return Type: Global Opportunity and Industry Forecast 2021-2028 (July 2021)*), the global reverse logistics market is expected to reach \$958 billion by 2028, growing at a CAGR of 5.6% from 2021 to 2028.

The retail industry, as per an Appriss Retail and National Retail Federation Q4 2021 returns survey (*Customer Returns in the Retail Industry 2021*), estimates that approximately \$761 billion of merchandise is returned on an annual basis, representing almost 17% of total sales. Liquidity Services estimates that at least \$100 billion of these returns are moved through secondary markets, with the remaining volume returning to retailer shelves or being sold through discount retailers.

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

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

- *Increasing focus by corporate and government agencies to seek green solutions for surplus assets.* Many organizations appreciate the growing need to be environmentally friendly by improving their management of end-of-life or surplus goods, including the need to repurpose or efficiently redistribute surplus and capital assets to minimize waste and maximize value for themselves and the communities they serve.
- *Supply chain inefficiencies.* Forecasting inaccuracies, manufacturer overruns, canceled orders, evolving market preferences, discontinued product lines, merchandise packaging changes and seasonal fluctuations result in the growth of surplus assets. Organizations that manufacture, distribute, sell or use finished goods regularly dispose of excess inventory or returned merchandise.
- *Growth of e-commerce.* According to Digital Commerce 360 (*US Ecommerce Grows 10.8% in Q3 2022*), over 20% of all retail purchases come from online orders. Furthermore, online purchases have a higher return rate at almost 21%, greater than that of 17% for total retail sales overall (*CNBC: A more than \$761 billion dilemma: Retailers' returns jump as online sales grow (January 2022)*). As e-commerce growth accelerates, the flow of assets in the retail reverse supply chain is likely to grow.
- *Product innovation.* Continuous innovation in technology products, such as computer and office equipment, consumer electronics, and personal communication and entertainment devices, results in a continuous flow of surplus assets. Innovation also results in manufacturing equipment and tooling being upgraded and replaced which generates a separate flow of surplus capital assets.
- *Return policies of large national and online retailers.* The flexible return practices of many large national retailers and online shopping sites result in a continuous supply of returned merchandise, a significant portion of which must be liquidated.
- *Compliance with government regulations.* An increasingly stringent regulatory environment necessitates verifiable recycling and remarketing of surplus assets that would otherwise be disposed of as waste.
- *Changing budgetary trends in corporate and governmental entities.* As corporate and governmental entities are increasingly pressured to enhance efficiencies while also using fewer resources, they are looking to the liquidation of surplus and salvage capital assets as a source of funds.

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

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

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

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

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

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

## **Our Solutions**

Our solutions include e-commerce marketplaces, self-directed auction listing tools, and value-added services. Our marketplaces and services provide sellers a comprehensive solution to quickly bring surplus assets to market and enhance the financial value realized from the sale of their surplus assets while providing buyers with confidence in the reliable flow of goods they purchase. We provide our sellers access to a network of liquid marketplaces with over 4.9 million buyers and a suite of services including consultative surplus asset management, valuation, sales solutions, logistics capabilities, and self-directed service tools to efficiently manage our sellers' reverse supply chain and maximize total supply chain value. We also seek the optimal methods to maximize our sellers' net recovery using channel strategies and dedicated programs to deliver transparent, sustained value.

Through our relationships with our sellers, we provide our buyers with convenient access to a substantial and continuous flow of surplus and salvage assets. Buyers can find products in over 600 categories in lot sizes ranging from full truckloads to pallets, packages and individual items. Our solution combines leading e-commerce marketplaces with integrated sales, marketing, merchandising, fulfillment, payment collection, customer support, dispute mediation and logistics services. We provide our buyers with a convenient method for sourcing surplus consumer goods and electronics, commercial capital assets, industrial equipment, energy equipment, biopharma assets and real estate. We continually look for new categories in which we can expand our presence. For any given asset, our buyers have access to a detailed product description, product manifest, digital images, relevant transaction history regarding the seller, and, where appropriate, the shipping weights, product dimensions and estimated shipping costs to the buyer's location. This enables our solutions to become an important source for surplus and salvage assets for many of our professional buyers and end-users.

We believe our marketplaces benefit over time from greater scale and adoption by our constituents creating a continuous flow of goods benefiting our buyers and sellers. As of September 30, 2022, we had 4.9 million registered buyers in our marketplaces. We had access to millions of additional end-users through a range of external consumer marketplaces. Aggregating this level of buyer demand and market data enables us to generate a continuous flow of goods from corporate and government sellers, which in turn attracts an increasing number of buyers. During the year ended September 30, 2022, we had approximately 3.1 million auction participants in our online auctions. During fiscal 2022, we grew our registered buyer base by 21.6% or 871,000. Of the increase, approximately 16% is attributable to the Bid4Assets register buyer base acquired during the three months ended December 31, 2021. As buyers continue to discover and use our e-commerce marketplaces as an effective method to source assets, we believe our solutions become an increasingly attractive sales channel for corporate and government agency sellers. We believe this self-reinforcing cycle results in greater transaction volume and enhances the value of our marketplaces.

## **Competitive Factors**

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

### *Aggregation of supply and demand for surplus and salvage assets*

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

### *Integrated and comprehensive solution*

Our marketplaces provide sellers and buyers with a comprehensive solution for the online sale and purchase of surplus and salvage assets. We offer marketplaces with full-service and self-directed solutions. Our self-directed solutions provide transaction settlement and marketing support while allowing sellers to undertake the work of photographing, cataloging, and building their auctions.

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

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

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

#### *Flexible and aligned transaction model*

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

#### *Faster transaction cycle times for our sellers and buyers*

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

#### *Solutions that promote sustainability for improved corporate/government stewardship*

Our e-commerce marketplace solutions power the circular economy and provide benefits to businesses, communities, and the environment. We achieve this through our safe and effective resale and redeployment of surplus assets; our reduction of waste; and by creating markets for items that might otherwise have been landfilled. Some of the world's largest forward-thinking corporations and government agencies have enhanced their stewardship of communities and the environment by utilizing our services and selling their surplus assets through our marketplaces.

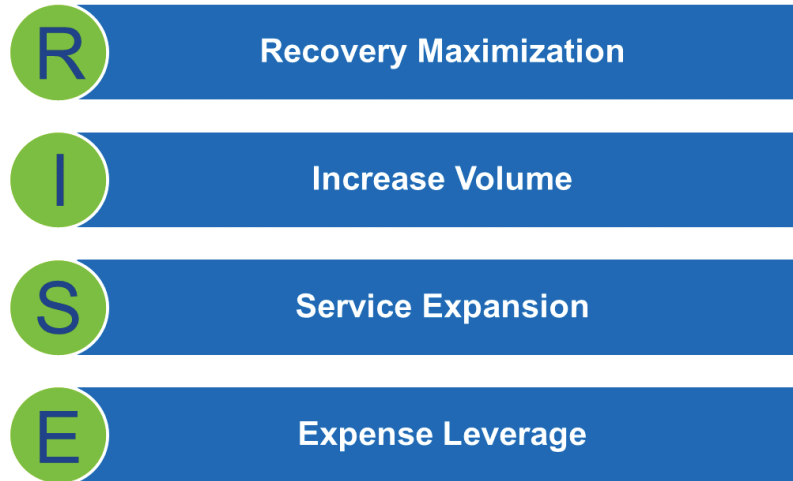
#### *Technology, data & analytics enhance our services and solutions for buyers and sellers*

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

Our data infrastructure and analytics continue to provide near real-time operational insights. By coupling our click-stream data and bid activity with our campaign activity, the marketing organization leverages a feedback loop that increases campaign effectiveness and optimizes spend.

## Our Strategy

The focus of our growth strategy is to build the world's leading marketplace for surplus assets to benefit buyers, sellers, and the planet. Our strategic plan rests on four pillars, that we refer to by the acronym RISE, which pillars are as follows:



### *Recovery Maximization*

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

### *Increase Volume*

We intend to grow the volume of transacted surplus on our marketplaces with flexible service offerings and pricing models to meet the needs of existing and new sellers. We have expanded our self-directed service model to allow commercial sellers that do not require a full-service solution to leverage the power of our marketing and online marketplaces to drive buyer demand for their assets. This approach allows us to more completely penetrate the total addressable market by better meeting the needs of small and mid-sized organizations, equipment dealers, and organizations with lower volume needs. We also anticipate increasing volume by placing a greater focus on certain categories, including real estate, construction, and heavy equipment. We intend to grow our volume within the retail supply chain by leveraging the self-directed service model, continuing to expand our distribution network, and the launching of AllSurplus Deals in fiscal year 2020 as a new marketplace offering consumers deals for curbside pickup. We will continue to provide flexible pricing models that allow our sellers to use either a consignment or a Purchase-based model.

### *Service Expansion*

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

### *Expense Leverage*

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

## Our Marketplaces

Our network of marketplace brands serves buyers and sellers in numerous industries across hundreds of product categories.

Segment	Marketplace Brands	Primary Offering
Consolidated		Aggregated items from our entire network of marketplaces in a single destination.
		Surplus items from local, state, and federal government entities.
GovDeals		Distressed real estate and personal property from government entities and financial institutions.
		Consumer goods and excess retail inventory in pallet or truckload quantities from retailers and manufacturers.
Retail Supply Chain Group (RSCG)		Consumer goods and excess retail inventory in individual quantities available for local pickup in select regions.
		Consumer goods and excess retail inventory in individual quantities available for immediate purchase.
	Multiple third-party storefronts	Consumer goods and excess retail inventory in individual quantities sold via storefronts on third-party marketplaces.
		Manufacturing surplus and idle capital assets or equipment from enterprise corporations spanning numerous industrial and biopharma categories.
Capital Assets Group (CAG)		Search, advertising, and management platform for machinery and used equipment.
		Listings, advertisements, and promotions for machinery and used equipment.
		Software as a service for machinery and used equipment businesses.



Our e-commerce marketplaces are efficient and convenient methods for the sale of surplus and salvage consumer goods and capital assets in over 600 product categories including consumer electronics, general merchandise, apparel, scientific equipment, aerospace parts and equipment, technology hardware, real estate, energy equipment, industrial capital assets, heavy equipment, fleet and transportation equipment and specialty equipment. They are designed to address the particular requirements and needs of buyers and sellers. We operate and enable several marketplaces, including the following:

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

We also provide a global search, advertising, and inventory management platform that connects dealers and sellers of used machinery and equipment in the construction, machine tool, transportation, printing, and agriculture sectors with interested buyers through our Machinio segment.

Besides these leading business-to-business marketplaces, we recognize the need to reach end users for some assets our sellers have entrusted to us. We have developed the capability to sell products on our sellers' behalf directly to end-users and/or consumers using a range of existing marketplaces. During fiscal year 2020, AllSurplus Deals was born as an expansion of the core platform enabling a hyper-localized direct to consumer experience. AllSurplus Deals provides a convenient, local pickup solution connecting our retail supply directly to consumers in our target markets.

In addition to our e-commerce marketplaces, we have dedicated sales teams supporting the needs of our established global buyer base that seeks items in larger quantities than are offered through our standard auction platforms. These range from a single truckload to ongoing flows of goods for export anywhere in the world, where we market, handle, and support the full transaction on behalf of our buyers. We expect to continue to meet the needs of our sellers and to access a growing range of products for all buyers by enhancing our multi-channel strategy to ensure we create value for assets at the end of their initial product life cycle.

#### **Our Value-Added Services for Buyers and Sellers**

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

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

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

- *Logistics.* We provide logistics services designed to support the receipt, handling, transportation and tracking of merchandise offered through our marketplaces, including the following:
  - Distribution centers—we provide sellers with the flexibility of either having us manage the sales process at their location or delivering merchandise to one of our distribution centers.
  - Inventory management—sellers benefit from our management and inventory tracking system designed so merchandise is received, processed and delivered promptly.
  - Cataloguing merchandise—we catalogue all merchandise, which enables us to provide useful product information to buyers and sellers. In certain circumstances, we inspect the merchandise and provide condition descriptions to improve quality and the financial recovery to the seller.
  - Testing, data wiping, de-labeling and refurbishment—we test products, wipe electronic data, refurbish and remove labels and product markings from merchandise prior to sale in order to add value to the asset and protect sellers' brand equity and distribution relationships.
  - Return to vendor or product disposition to non-sales channels—we manage the end-to-end processes for our sellers ensuring that returned merchandise is disposed of in compliance with a variety of disposition requirements. We provide end-to-end management of returning products to vendors, charities, or channels outside of our leading marketplace solutions.
  - Outbound fulfillment—we can arrange for domestic or international shipping for all merchandise, whether it is a small item or container load for export located in one of our distribution centers or at a seller's facility.
  
- *Settlement and seller support.* Settlement and seller support services are designed for successful and reliable completion of transactions and include:
  - Buyer qualification—we qualify buyers to ensure their compliance with government or seller mandated terms of sale, as well as to confirm their ability to complete a transaction.
  - Collection and settlement—we collect payments on behalf of sellers prior to delivery of any merchandise and disburse the proceeds to the seller after the satisfaction of all conditions of a sale.
  - Transaction tracking and reporting—we enable sellers and buyers to track and monitor the status of their transactions throughout the sales process. We support the successful completion of each transaction on behalf of the buyer and seller. We provide a range of comprehensive reporting services to sellers upon the completion of a transaction. Our invoicing and reporting tools can be integrated with the seller's information system, providing a more efficient flow of data.
  - Seller support and dispute resolution—we provide full support throughout the transaction process and dispute resolution for our buyers and sellers if needed.

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

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

## Sales and Marketing

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

### *Sales*

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

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

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

Our sales personnel receive salary and performance-based commissions.

### *Marketing*

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

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

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

## Technology and IT Infrastructure

As digital transformation accelerates globally, sellers are searching for partner solutions that enable them to move faster and generate maximum recovery with minimal investment. Buyers search for marketplaces that are efficient, trustworthy, secure, and always-on, regardless of device. Our marketplaces are web-enabled, and cloud backed, accessible from Internet-enabled devices using a standard web browser. Our technology systems enable us to automate and streamline many of the manual processes associated with finding, evaluating, bidding on, paying for, and shipping surplus and salvage assets, retail overstocks and returns, and government owned real-estate. The technology and content behind our marketplaces and integrated value-added services were developed by us, providing us with flexibility and control over the marketplaces. This enables the ability to make enhancements quickly to better fit the specific needs of our buyers and sellers. Our infrastructure provides:

- efficient channels to sell online through a variety of pricing mechanisms (standard auction, sealed bid, make an offer, fixed price, and a combination of fixed price and auction);
- a scalable back office that enables buyers and sellers to efficiently manage transactions among remote business users by utilizing account management tools, including payment collection, invoicing management, shipping, and transaction settlement; and
- an input/output agnostic platform, including Application Programming Interface or other conduits that enable us to scale and integrate seamlessly with partners of all sizes, from single asset sellers to Fortune 500 enterprises and third-party service providers.

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

Our applications support multiple layers of security, including password-protected logins, encryption technology to safeguard information transmitted in web sessions and firewalls to help prevent unauthorized access to our network and servers. We continue to invest in our security infrastructure to ensure it meets or exceeds industry standards for cybersecurity and employ dedicated resources to protect our systems.

Further, we devote substantial resources to the continuous improvement of our technology and IT infrastructure which allows us to deliver value rapidly to our buyers, sellers, and internal employees. In fiscal year 2022, we continued to expand the capabilities of our flagship e-commerce platform, AllSurplus, enabling multiple user experience and back-office improvements. Customers now receive onsite alerts to notify them of event and invoice activity. These will provide a visual reminder of required actions to complete their auction purchase. We have also automated the invoice generation process, reducing the time between when an auction is concluded, and the buyer is prompted to pay. Additional product categories were added to the marketplaces' taxonomy to accommodate an ever-expanding field of assets.

For our existing marketplaces and services, we continue to deploy new capabilities to improve the customer experience, including a new unified header navigation that spans all marketplace properties. This new navigation element enables our customers to quickly switch between sites, aiding in the viewing of our comprehensive range of assets, and thereby maximizing the traffic benefits of our customer acquisition marketing.

Our core back-office infrastructure is flexible by design. Following the onset of the COVID-19 pandemic, we shifted to a remote work model. The cloud-based, flexible infrastructure has enabled our operations to continue, uninterrupted, in a variety of working models, including fully remote, on-site, and hybrid. This flexibility affords us the ability to recruit and retain outstanding talent and to service our customers' needs regardless of location.

Our customers are increasingly looking to our solutions to facilitate robust recovery for their assets, regardless of industry or location. We continue to develop intelligent solutions for our customers that facilitate rapid and secure transactions between buyer and seller, whether they are in the same town or across the globe. Our goal is to lead the industry in several distinct areas over the long term, which we expect will translate to sustained growth. We are investing significant resources in:

- Our marketplace user experiences
- Our seller tools - optimizing the interface for key industry verticals
- Expanding our use of and Machine Learning to drive asset search and recommendations

Our future growth depends on our continued ability to execute against these priorities.

## **Operations**

Supporting large organizations that have a recurring need to sell surplus and salvage assets requires systematic processes to enhance the financial value and convenience received by our sellers. We believe we have integrated the required operational processes into our solution to efficiently and to effectively support our buyers and sellers. Our operations group comprises three functions as follows:

### *Buyer relations*

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

### *Shipping logistics*

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

### *Distribution center and field service operations*

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

## **Competition**

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

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

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

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

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

### **Our Vendor Contracts with Amazon.com, Inc.**

Our RSCG segment has multiple vendor contracts with Amazon.com, Inc., under which we acquire commercial merchandise to sell under the purchase model. The commercial merchandise we purchased under these contracts represented 55%, 61% and 55% of consolidated cost of goods sold for the years ended September 30, 2022, 2021 and 2020, respectively.

## **Government Regulation**

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

## **Intellectual Property**

We regard our intellectual property, particularly domain names, copyrights and buyer database trade secrets, as critical to our success. We rely on contractual restrictions and copyright and trade secret laws to protect our proprietary rights, know-how, information and technology. We currently are the registered owners of several Internet domain names, including [www.liquidation.com](http://www.liquidation.com), [www.govdeals.com](http://www.govdeals.com), [www.allsurplus.com](http://www.allsurplus.com), [www.secondipity.com](http://www.secondipity.com), [www.go-dove.com](http://www.go-dove.com), [www.machinio.com](http://www.machinio.com), [www.machineryhost.com](http://www.machineryhost.com) and [www.bid4assets.com](http://www.bid4assets.com). We pursue the registration of our domain names in the U.S. and internationally. We have no patents or registered copyrights. Effective patent, copyright, trademark, service mark, trade secret and domain name protection are expensive to maintain and may require litigation to enforce.

## **Human Capital Management**

In order to achieve our goal to build the world's leading marketplace for surplus assets to benefit buyers, sellers, and the planet, it is crucial that we attract, develop and retain employees who deliver outstanding performance. To do so, we strive to make Liquidity Services a rewarding place to work and an environment where we promote diversity, equity, and inclusion. As of September 30, 2022, we had 735 employees worldwide, of which 91% were located in North America, 6% in the EMEA region, and 3% in the Asia-Pacific region. We also utilize temporary workers to augment staffing during peak business cycles and to fill certain open positions on a temporary basis.

### *Diversity, Equity, and Inclusion*

We believe our employees are key to achieving our business goals and growth strategy. Our human capital objective is to attract, retain, develop, and motivate talented employees. We use online search tools, specialized recruiting firms, employee referral programs, job postings in various media platforms, and university recruiting to identify and attract talented candidates. By doing so, we aim to leverage the variety of skills and perspectives inherent in a diverse workforce, improve our problem-solving abilities, and bring innovative solutions to a wider range of clients and customers.

### *Health and Well-Being*

We value the health and well-being of our employees and provide generous benefit options to our employees and their families. Our plans are designed to enhance employee wellness by focusing on health, financial security, life, and learning. Our health benefits include multiple medical plans, dental and vision coverage, and paid parental leave. In the US, we pay a significant portion of the benefit premiums related to our health benefits. Employees are offered certain benefits at no charge to them or their families, e.g., Life and AD&D insurance, short- and long-term disability insurance, and Health Savings Account contributions. The financial security benefits program includes a 401(k) plan with discretionary employer match and access to health savings accounts and health and dependent care flexible spending accounts. We provide a range of insurance products and employee assistance programs. Internationally, we also offer a variety of benefit plans customized to reflect local conditions. Our learning and development programs include tuition support for employees and a global training and development program that focuses on leadership development, as well as training in various topics including diversity, anti-harassment, ethics, and regulatory compliance.

### *Culture and Community*

The Company's culture is rooted in our core values and aligned to the Company's strategic framework. Our culture expresses our expansive vision and fervor for community and collaboration and is honed by the following core values:

- *Integrity.* Our partners and colleagues know they can trust us to always keep our promises, be transparent, and adhere to the highest ethical standards.
- *Customer Focus.* Buyer and seller satisfaction are key to our continued success. We seek to exceed our customers' expectations every day.

- *Continuous Improvement.* We embrace change and are motivated to constantly improve our individual and collective performance.
- *Innovation.* We continually seek out, develop, and implement new ideas to enhance our position as industry leader.
- *Mutual Trust and Accountability.* Our collaborative environment values open communication, mutual respect, teamwork, and acknowledging our successes and failures.
- *Shared Success.* Everyone in our organization acts as leaders with a shared sense of pride in our accomplishments.
- *Doing Well and Doing Good.* By continuing to positively impact our clients and the environment, we make Liquidity Services a rewarding place to work. We make a difference by our words and actions in our company, our community, and our world.

We reinforce, monitor, and assess our culture through a variety of programs which include performance management, succession planning, and employee engagement surveys, all of which serve to further our human capital objectives. Each of our team members is part of our global initiative to make a difference in the communities where we live and work. We engage with our local communities across the globe. Supporting community outreach, disaster relief, zero-waste initiatives, youth mentoring, military families and veterans, and access to higher education.

#### *Flexible Workspace*

The COVID-19 pandemic has changed the way we work. Roles that were able to work remotely continued to do so throughout 2022. We are committed to allowing flexibility in our workplace to promote high performance, retention, diversity, equity, and inclusion while also continuing to meet customer and business needs.

#### *Sustainability Efforts*

At our core, Liquidity Services strives to benefit businesses, communities, and the environment through our marketplaces which enable the continued use of surplus and salvage assets that may otherwise wind up in landfills. These efforts extend to our employees as well, where our remote work structure for applicable employees has enabled lower expended energy and emissions from both transportation-related activities and operations across our real estate portfolio.

#### **Available Information**

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

#### **Cautionary Note Regarding Forward-Looking Statements**

This document contains forward-looking statements made pursuant to the Private Securities Litigation Reform Act of 1995. These statements are only predictions. The outcome of the events described in these forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks and other factors include but are not limited to, statements regarding the Company's business outlook; anticipated economic and operational impacts of the COVID-19 global pandemic, especially if there is a rise in COVID-19 deaths that precipitates re-closures or extended restrictions on international travel; the migration of our retail marketplace to our core e-commerce technology platform; expected future effective tax rates; and trends and assumptions about future periods, the numerous factors that influence the supply of and demand for used equipment; economic and other conditions in local, regional and global sectors; and those listed in Part I, Item 1A ("Risk Factors") and in our other filings with the SEC from time to time. You can identify forward-looking statements by terminology such as "may," "will," "should," "could," "would," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continues" or the negative of these terms or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. There may be other factors of which we are currently unaware or deem immaterial that may cause our actual results to differ materially from the forward-looking statements.

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



### **Use of Market and Industry Data**

Unless otherwise indicated, information contained in this Annual Report on Form 10-K concerning our industry and the markets in which we operate, including our general expectations about our industry, market position, market opportunity and market size, is based on data from various sources including internal data and estimates as well as third party sources widely available to the public such as independent industry publications, government publications, reports by market research firms or other published independent sources and on our assumptions based on that data and other similar sources. Industry publications and other published sources generally state that the information contained therein has been obtained from third-party sources believed to be reliable. Internal data and estimates are based upon information obtained from trade and business organizations and other contacts in the markets in which we operate and management's understanding of industry conditions, and such information has not been verified by any independent sources. This data involves several assumptions and limitations, and you are cautioned not to give undue weight to such estimates. While we believe the market, industry and other information included in this Annual Report on Form 10-K to be the most recently available and to be generally reliable, such information is inherently imprecise and we have not independently verified any third-party information or verified that more recent information is not available. The information in any such publication, report, survey or article is not incorporated by reference in this Annual Report on Form 10-K.



## **Item 1A. Risk Factors.**

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

### **Business and Operating Risks**

**The success of our business depends on our ability to source a sufficient supply of assets from sellers to attract and retain active professional buyers, who in turn attract more sellers.**

Our ability to increase our revenue and earn profits depends on whether we can successfully retain existing sellers, attract new sellers, expand the supply of assets available for sale on our e-commerce marketplaces and, at the same time, attract and retain active professional buyers to purchase the assets in the categories we sell. Our ability to attract enough quantities of suitable assets and buyers with suitable interests in those assets will depend on various factors, some of which are out of our control. These factors include our ability to: offer sellers liquid marketplaces for their assets; offer buyers desirable assets; develop and implement effective seller and buyer marketing strategies; comply with regulatory and corporate seller requirements affecting marketing and disposition of certain assets; efficiently catalogue, handle, store, ship, and track delivery of assets; and achieve high levels of seller and buyer satisfaction.

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

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

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

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

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

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

We continue to decommission non-scalable legacy IT platform technology with modular technology including key modules for unified management of sellers and buyers, property handling, transaction processing and finance functions across our entire company. Our AllSurplus marketplace launched during fiscal year 2020 and has continued to receive regular capability updates as we leverage customer feedback and data analytics to optimize the user experience. Our AllSurplus marketplace is designed to provide our buyers with access to all the property available in our CAG and GovDeals marketplaces, provides a common account experience for sellers and simplifies our operations. We expanded our AllSurplus marketplace to include an online, direct-to-consumer channel for returned and overstock inventory from retailers and manufacturers. This expansion of our AllSurplus marketplace capabilities places significant strain on our management, personnel, operations, systems, technical performance and financial resources and internal financial control and reporting function. Iterative information technology and digital marketing improvements require management time and resources to educate employees, redesign internal processes and implement new ways of conducting business with our sellers and buyers. If we do not effectively manage improvements to our marketplaces, including digital marketing and data driven improvements or the timing, costs, and adoption by sellers and buyers, it could negatively affect our business and our operating results, as well as damage our reputation and our prospects. In addition, the dedication of resources to sustain and enhance our existing sites constrains the ability to undertake transformation initiatives focused on growth opportunities. The continuous improvement of our new aggregated marketplace initiative limits the resources we have available to devote to other initiatives or growth opportunities, or to invest in the maintenance of our internal systems.

**We have vendor contracts with Amazon.com, Inc. in our RSCG segment under which we acquire a significant portion of our purchased inventory, and if our relationship with Amazon is disrupted, there could be a material adverse effect on our revenues and operating results.**

We have multiple vendor contracts with Amazon.com, Inc., under which we acquire and then resell assets. The property we purchased under these contracts represented 55%, 61%, and 55% of cost of goods sold for the years ended September 30, 2022, 2021, and 2020, respectively. If Amazon stopped selling inventory to us on acceptable terms or adversely changed the mix and quantity of the inventory that they make available to us for purchase, we likely could not procure alternative inventory from other vendors in a timely and efficient manner and on acceptable terms, or at all, which could have a material adverse effect on our revenues and operating results.

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

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

We must also attract, train and retain a large and growing number of qualified employees in our RSCG warehouses while controlling related labor costs and maintaining our core values. Our ability to control labor and benefit costs is subject to numerous internal and external factors, regulatory changes, prevailing wage rates, and healthcare and other insurance costs. We compete with other retail and non-retail businesses for these employees and invest significant resources in training and motivating them. There is no assurance that we will be able to attract or retain highly qualified employees in the future, which could have a material adverse effect on our business, financial condition and results of operations.

**We face intense competition.**

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

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

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

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

In addition, we may face competition from certain of our retail clients. For example, a retail client may invest in its warehouse operational capacity to handle higher volumes of online returns which may cause such retailer to send us a reduced volume of returned merchandise or a product mix that is lower in value due to the removal of high value returns.

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

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

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

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

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

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

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

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

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

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

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

Additionally, our marketing technology relies heavily on our ability to track our promotional campaign performance across marketing channels (i.e., email, search engines, social media and third-party banner ads). If industry leading software browsers, such as Google Chrome, Microsoft Edge, or Apple Safari, disable user analytics tracking or other similar capabilities, our ability to track our promotional campaign performance could be affected, which could in turn prevent us from fully optimizing the marketing spend associated with our promotional campaigns. Like many other e-commerce marketplaces, Apple's recent upgrades to provide greater transparency as to Identifier for Advertisers (IDFA) has, with respect to some categories of assets, made it harder and more expensive for us to target customers with the interest in purchasing those categories of assets.

**We are required to maintain the privacy and security of personal and business information amidst multiplying threat landscapes and in compliance with privacy and data protection regulations globally. Failure to do so could damage our business, including our reputation with sellers, buyers and employees, cause us to incur substantial additional costs, and make us subject to litigation and regulatory action.**

Increased security threats and more sophisticated cyber misconduct pose a risk to our e-commerce marketplaces, information technology systems, networks, and services. We rely upon IT systems and networks, some of which are managed by third parties, in connection with virtually all of our business activities. Additionally, we collect, store and process information relating to our business, sellers, buyers and employees. Operating these IT systems and networks, and processing and maintaining this data, in a secure manner, is critical to our business operations and strategy. Losing confidential seller or buyer information could also expose us to the risk of liability and costly litigation. In addition, if there is any perception that we cannot protect our users' confidential information, we may lose the ability to retain existing, and attract new, sellers and buyers, and therefore our revenue could decline. Increased remote work due to the COVID-19 pandemic has also increased the possible attack surfaces. Threats designed to gain unauthorized access to systems, networks and data, both ours and third parties with whom we work, are increasing in frequency and sophistication. Cybersecurity attacks may range from random attempts to coordinated and targeted attacks, including sophisticated computer crimes and advanced persistent threats. Phishing attacks have emerged as particularly prominent, including as vectors for ransomware attacks, which have increased in breadth and frequency for the Company. While we train our employees as part of our security efforts, that training cannot be completely effective. These threats pose a risk to the security of our systems and networks and the confidentiality, integrity, and availability of our data. It is possible that our IT systems and networks, or those managed by third parties such as cloud providers or suppliers that otherwise host confidential information, could have vulnerabilities, which could go unnoticed for a period of time. While our cybersecurity and compliance efforts seek to mitigate such risks, there can be no guarantee that the actions and controls we and our third-party service providers have implemented and are implementing, will be sufficient to protect our systems, information or other property. We currently expend, and we may be required to expend, significant additional capital and other resources to protect against such security breaches or to alleviate problems caused by such breaches. Our insurance coverage may be inadequate to compensate us for any related losses we incur.

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

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

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

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

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

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

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

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

- our ability to increase sales to existing buyers, attract and retain new buyers and satisfy buyer demands;
- our ability to retain and expand our base of sellers;
- entry into, or the modification, termination or expiration of, contracts;
- the volume, size, timing and completion rate of transactions in our marketplaces, including variability due to the timing of large, project-based activities;
- changes in the supply and demand for and the volume, price, mix and quality of our supply of surplus and salvage assets;
- introduction of new or enhanced websites, services or product offerings by us or our competitors, which may affect our margins;
- implementation costs of new contracts, particularly those requiring custom integrations and value-added services;
- changes in our pricing policies or the pricing policies of our competitors;
- changes in the conditions and economic prospects of the e-commerce industry or the economy generally, which could alter current or prospective buyers' and sellers' priorities;
- the extent to which use of our services is affected by spyware, viruses, phishing and other spam emails, denial of service attacks, data theft, computer intrusions, outages and similar events;
- event-driven disruptions such as war, terrorism, armed hostilities, disease and natural disasters;

- changes in energy and commodities prices, including the timing and speed of recovery in energy sector macro conditions;
- seasonal patterns in selling and purchasing activity; and
- costs related to acquisitions of technology or equipment.

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

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

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

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

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

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

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

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

We have expanded our business in part through acquisitions such as the acquisition of Bid4Assets, Inc in November 2021. We may continue to do so. The success of any future growth strategy involving acquisitions will depend on our ability to identify, and the availability of, suitable acquisition candidates. We may incur costs in connection with a potential acquisition but may ultimately be unable or unwilling to consummate the proposed transaction for various reasons. In addition, acquisitions involve numerous risks, including our ability to successfully integrate the acquired businesses and operations with our other businesses and realize the anticipated benefits of the acquisitions. If we cannot achieve these objectives in a cost-effective and timely manner, we may not realize the anticipated benefits of the acquisition or it may take us longer to realize the benefits of the acquisition than we expect. Acquired operations outside the U.S. may present unique challenges or increase our exposure to risks associated with foreign operations, including foreign currency risks and risks associated with local regulatory regimes.

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

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

**Our international operations expose us to several risks.**

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

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

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



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

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

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

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

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

**Global economic conditions, including those from macro-trends, global events and the COVID-19 pandemic, may harm our business and results of operations.**

Our overall performance depends in part on worldwide economic conditions. Global financial developments, downturns and global health crises or pandemics may harm us, including due to disruptions or restrictions on our employees' ability to work and travel. The United States and other key international economies have been affected from time to time by falling demand for a variety of goods and services, restricted credit, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, bankruptcies, outbreaks of COVID-19 and the resulting impact on business continuity and travel, supply chain disruptions, inflation and overall uncertainty with respect to the economy, including with respect to tariff and trade issues.

For example, inflation rates, particularly in the United States, have increased recently to levels not seen in years, and increased inflation may result in increases in our operating costs (including our labor costs). In addition, the Federal Reserve has raised, and may again raise, interest rates in response to concerns about inflation, which coupled with reduced government spending and volatility in financial markets may have the effect of further increasing economic uncertainty and heightening these risks.



Additionally, financial markets around the world experienced volatility following the invasion of Ukraine by Russia in February 2022, a conflict which continues to contribute to uncertainty and financial market volatility. In response to the invasion, the United States, the United Kingdom and the European Union, along with others, imposed significant new sanctions and export controls against Russia, Russian banks and certain Russian individuals and may implement additional sanctions or take further punitive actions in the future. The full economic and social impact of the sanctions imposed on Russia (as well as possible future punitive measures that may be implemented), as well as the counter measures imposed by Russia, in addition to the ongoing military conflict between Ukraine and Russia, which could conceivably expand into the surrounding region, remains uncertain; however, both the conflict and related sanctions have resulted and could continue to result in disruptions to trade, commerce, pricing stability and/or supply chain continuity, in both Europe and globally, and has introduced significant uncertainty into global markets. Our business and results of operations may be adversely affected by the ongoing conflict between Ukraine and Russia, particularly to the extent it escalates to involve additional countries, further economic sanctions or wider military conflict. If global economic conditions remain uncertain or deteriorate further, including as a result of the Russia-Ukraine conflict, COVID-19 or other disruptions, we could see a reduction in the ability of international buyers and sellers to conduct business due to travel restrictions impacting the ability of: sellers and their agents to travel to prepare assets for sale; buyers travelling to inspect assets; sellers and buyers completing international transactions requiring assets to cross export and import border control points; and the overall willingness of sellers and buyers to decommission capital assets and engage in cross-border transactions. These potential scenarios could have a material adverse effect on our business. Separately, any factors that reduce cross border trade or make such trade more difficult could harm our business. Increasing costs, such as increasing tariffs and trade wars between nations, may make international trade less profitable and adversely affect our global business.

**Decreases in the supply of, demand for, or market values of surplus and salvage assets, could harm our business.**

Our revenues could decrease if there was significant erosion in the supply of, demand for, or market values of surplus and salvage assets, which could adversely affect our financial condition and results of operations. We have no control over any of the factors that affect the supply of, and demand for, surplus and salvage assets, and the circumstances that cause market values to fluctuate - including, among other things, economic uncertainty, global geopolitical climate, disruptions to credit and financial markets, lower commodity prices, and our buyers' restricted access to capital - are beyond our control. Recent economic conditions have caused fluctuations in the supply, mix and market values of surplus and salvage assets available for sale, which has a direct impact on our revenues. In addition, price competition and the availability of surplus and salvage assets directly affect the supply of, demand for, and market value of such assets. For example, when the demand for used vehicles increases, the prices are also likely to increase, making it more costly for potential buyers to find suitable replacements for their existing vehicles. As a result, potential buyers may retain their existing vehicles for longer periods of time, further decreasing supply. These factors could impact the overall profitability of used vehicle sales on our marketplaces because although used vehicles are selling for higher prices, fewer vehicles are being sold. Climate change initiatives, including significant changes to engine emission standards applicable to certain types of assets, may also adversely affect the supply of, demand for and the market values of such assets.

**Legal and Regulatory Risks**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Some provisions of our charter, bylaws and Delaware law inhibit potential acquisition bids.**

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

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

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

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

We currently are the registered owners of several Internet domain names, including [www.liquidation.com](http://www.liquidation.com), [www.govdeals.com](http://www.govdeals.com), [www.allsurplus.com](http://www.allsurplus.com), [www.secondipity.com](http://www.secondipity.com), [www.go-dove.com](http://www.go-dove.com), [www.machinio.com](http://www.machinio.com), [www.machineryhost.com](http://www.machineryhost.com) and [www.bid4assets.com](http://www.bid4assets.com). We pursue the registration of our domain names in the U.S. and internationally. We have no patents or registered copyrights. Effective patent, copyright, trademark, service mark, trade secret and domain name protection are expensive to maintain and may require litigation to enforce. We have licensed in the past, and expect to license in the future, certain of our proprietary rights, such as trademarks or copyrighted material, to others. These licensees may take actions that diminish the value of our proprietary rights or harm our reputation. Our competitors may adopt trade names or domain names similar to ours, impeding our ability to promote our marketplaces and possibly leading to buyer or seller confusion. In addition, we could face trade name, trademark or service mark infringement claims brought by owners of other registered or unregistered trademarks or service marks, including trademarks or service marks that may incorporate variations of our marketplace names. Any claims related to our intellectual property or confusion related to our marketplaces could damage our reputation and negatively affect the growth of our business.

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

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

## **General Business Risks**

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

Section 404 of the Sarbanes-Oxley Act of 2002 requires that we include in our annual report a report containing management's assessment of the effectiveness of our internal controls over financial reporting as of the end of our fiscal year and a statement as to whether or not such internal controls are effective. Compliance with these requirements has resulted in, and is likely to continue to result in, significant costs and the commitment of time and operational resources. Recently completed initiatives, as well as other changes in our business (including initiatives to invest in information systems, transition particular functions to third party providers, and acquire new businesses such as Bid4Assets and Machinio) have and will necessitate modifications to our internal controls. We cannot be certain that our design for internal control over financial reporting, or any changes to be made, will enable management to determine that our internal controls are effective for any period. If we cannot conclude that our internal controls over financial reporting are effective, market perception of our financial condition and the trading price of our stock may be adversely affected, and seller and buyer perception of our business may suffer.

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

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

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

### **Damage to our reputation could harm our business.**

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

### **We carry a significant amount of goodwill on our balance sheet.**

As of September 30, 2022, we had goodwill of \$88.9 million. The future occurrence of a potential indicator of impairment, such as a significant adverse change in business climate, an adverse action or assessment by a regulator, unanticipated competition, a material negative change in relationships with significant customers, strategic decisions made in response to economic or competitive conditions, loss of key personnel, or a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or disposed of, could result in goodwill impairment charges. We have recorded goodwill impairment charges in the past, and such charges materially affected our historical results of operations. For additional information, see Note 7 - *Goodwill*, to the accompanying consolidated financial statements.

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

We lease the following properties as of September 30, 2022:

Purpose	Location	Segment	Square Feet	Lease Expiration Date
Corporate Headquarters	Bethesda, Maryland, USA	Corporate & Other	7,774	April 30, 2023
Warehouse	Atlanta, Georgia, USA	GovDeals	47,636	May 31, 2024
Warehouse	Brampton, Canada	RSCG	53,621	August 31, 2025
Warehouse	E. Brunswick, NJ, USA	CAG	4,800	December 31, 2025
Warehouse	Garland, Texas, USA	RSCG	127,144	January 31, 2026
Warehouse	Hebron, Kentucky, USA	RSCG	101,614	July 31, 2025
Warehouse	Kenilworth, NJ, USA	CAG	10,507	December 31, 2022
Warehouse	Las Vegas, Nevada, USA	RSCG	32,000	November 30, 2022
Warehouse	Lithia Springs, Georgia, USA	GovDeals	13,000	December 31, 2022
Warehouse	North Las Vegas, Nevada, USA	RSCG	102,400	June 30, 2026
Warehouse	Phoenix, Arizona, USA	RSCG	84,690	January 31, 2027
Warehouse	Pittston, Pennsylvania, USA	RSCG	108,536	January 7, 2027
Warehouse	Plainfield, Indiana, USA	RSCG	187,704	April 30, 2024
Administrative	Montgomery, Alabama, USA	GovDeals	19,762	December 31, 2023
Administrative	Plano, Texas USA	Corporate & Other	2,280	November 30, 2025

In addition, we lease various administrative spaces in North America totaling 7,864 square feet and in Asia, 3,747 square feet. We also own a 420,000 square foot warehouse located in North Wilkesboro, North Carolina, USA.

**Item 3. Legal Proceedings.**

From time to time, we may become involved in litigation relating to claims arising in the ordinary course of the business. Information regarding the Company's legal proceedings can be found in Note 15 - *Legal Proceedings*, of the accompanying Notes to the Consolidated Financial Statements.

**Item 4. Mine Safety Disclosures.**

Not applicable.

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

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

**Holders**

As of November 15, 2022, there were approximately 10,748 beneficial holders of our common stock and 26 holders of record of our common stock.

**Dividends**

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

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***  
**Among Liquidity Services, Inc, the Russell 2000 Index, the S&P Smallcap 600 Index, Peer**  
**Group of Business Services Companies**



**Stock Performance Graph**

\*\$100 invested on 9/30/17 in stock or index, including reinvestment of dividends. Fiscal year ending September 30.

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## Issuer Purchases of Equity Securities

The following table presents information about our repurchases of common stock that were made during the three months ended September 30, 2022 (in millions, except share and per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as a Part of a Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program <sup>(1)</sup>
July 1 to July 31, 2022	—	\$ —	—	\$ 6.6
August 1 to August 31, 2022	19,161	19.76	—	6.6
September 1 to September 30, 2022	—	—	—	6.6
<b>Total</b>	<b>19,161</b>		<b>—</b>	

<sup>(1)</sup>Separate from the share repurchase program, our stock incentive plans allow for participants to exercise stock options by surrendering shares of common stock equivalent in value to the exercise price due. During the three months ended September 30, 2022, participants surrendered 19,161 shares of common stock in the exercise of stock options, respectively. Any shares surrendered to the Company in this manner are not available for future grant.

From time to time, we have been authorized to repurchase issued and outstanding shares of our common stock under a share repurchase program approved by our Board of Directors. Share repurchases may be made through open market purchases, privately negotiated transactions or otherwise, at times and in such amounts as management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements and other market conditions. The repurchase program may be discontinued or suspended at any time and will be funded using our available cash.

On May 13, 2022, our Board of Directors authorized a new stock repurchase plan of up to \$12 million of our outstanding shares of common stock through June 30, 2024 (the May 2022 Repurchase Plan). As of September 30, 2022, the Company had \$6.6 million of remaining authorization to repurchase shares under the May 2022 Stock Repurchase Plan. On December 6, 2022, the Company's Board of Directors authorized the repurchase of up to an additional \$8.4 million of the Company's outstanding shares of common stock through December 31, 2024.

### Item 6. [Reserved]

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

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

#### Overview

*About us.* Liquidity Services is a leading global commerce company providing trusted marketplace platforms that power the circular economy. We create a better future for organizations, individuals, and the planet by capturing and unleashing the intrinsic value of surplus. We connect millions of buyers and thousands of sellers through our leading auction marketplaces, search engines, asset management software, and related services. Our comprehensive solutions enable the transparent, efficient, sustainable recovery of value from excess items owned by business and government sellers.

Our business delivers value to shareholders by unleashing the intrinsic value of surplus through our marketplace platforms. These platforms ignite and enable a self-reinforcing cycle of value creation where buyers and sellers continue to attract one another in ever-increasing numbers. The result is a continuous flow of goods that becomes increasingly valuable as more participants join the platform, thereby creating positive network effects that benefit sellers, buyers, and shareholders. During the past three fiscal years, we have conducted over 2.2 million online transactions generating \$2.7 billion in gross merchandise volume or GMV. GMV is the total sales value of all merchandise sold by us or our sellers through our marketplaces or by us through other channels during a given period of time.



During the year ended September 30, 2022, the number of registered buyers grew from 4.0 million to 4.9 million. We believe the continuous flow of goods in our marketplaces attracts a growing buyer base which creates a self-sustaining cycle for our buyers and sellers. We generated GMV of \$1,145.4 million and revenue of \$280.1 million through multiple sources, including transaction fees from sellers and buyers, proceeds from the sale of products we purchased from sellers, and value-added service charges. Our GMV has grown at a compound annual growth rate of 12.5% since 2006.

Results from our operations are organized into four reportable segments: GovDeals, Retail Supply Chain Group (RSCG), Capital Assets Group (CAG), and Machinio. See Note 16 - *Segment Information* to the consolidated financial statements for more information regarding our segments.

On November 1, 2021, we acquired Bid4Assets, Inc. (Bid4Assets), a Maryland corporation based in Silver Spring, MD. Bid4Assets is a leading online marketplace focused on conducting real property auctions for the government, including tax foreclosure sales and sheriff's sales. The results of Bid4Assets' operations are included within our GovDeals reportable segment. See Note 3 - *Bid4Assets Acquisition* for more information regarding this transaction.

## Macroeconomic Conditions

*COVID-19 Pandemic.* The Company has been closely monitoring the COVID-19 pandemic. In April 2020, the Company experienced the largest impacts on its operations thus far stemming from the initial actions taken by governments and the private sector to limit the spread of COVID-19. The restrictions on economic activity were caused, in part, by business closures, limitations on the operations of business activity and significant prioritization of essential business functions. Since May 2020, we have seen subsequent increases in GMV and revenues as businesses and governments re-opened from government ordered closures which, combined with cost control measures, generated positive net income since the third quarter of fiscal 2020. However, COVID-19 and its variants continue to impact the global economy, supply chains, and the ability to conduct commerce due to ongoing travel restrictions in various countries, and lockdowns reintroduced within regions of China. Additionally, the COVID-19 pandemic in combination with various macroeconomic factors, has impacted the supply chain of new vehicles, and construction and heavy equipment production, which in turn negatively affected the supply of used vehicles and construction and heavy equipment being sold in North America.

At this time, the likelihood, magnitude and timing of business developments across our reportable segments are difficult to predict given the current economic uncertainty, unknown duration and overall impact of the global pandemic. As a result, prior trends in the Company's results of operations may not be applicable throughout the duration of the COVID-19 pandemic. Throughout the COVID-19 pandemic, the Company has actively monitored its liquidity position and working capital needs. The Company believes that its liquidity position and working capital are more than sufficient to meet its projected needs.

*Effects of Inflation.* Rising inflation in both the U.S. and internationally has weighed on the global economy, increasing prices for energy, shipping, and labor, among other areas of the macroeconomic environment. These events have caused a rise in borrowing costs as well, partly driven by actions taken by central banks to curb rising inflation. Currently, the Company is unable to predict the likelihood, magnitude and timing of inflationary risk to our business, if any. However, the Company does not believe inflation has had a material effect on our operating expenses. As a marketplace operator, the GMV, revenues and costs of revenues that result from our primarily auction-based sales may be influenced by macroeconomic factors, including but not limited to inflation, whose impacts may vary across each of our individual asset classes.

*Russia-Ukraine Conflict.* The global financial markets have experienced volatility subsequent to the invasion of Ukraine by Russia in February 2022, a conflict which remains ongoing. In response to the invasion, numerous countries, including the United States, imposed significant new sanctions and export controls against Russia, Russian banks and certain Russian individuals. The conflict has further heightened global supply chain disruptions and impacted the international trade and energy markets. For the year ended September 30, 2022, the Company's total revenues directly associated with Russia and Ukraine were not material to our consolidated financial results. We will continue monitoring the events in Ukraine and any potential future impacts on our business.

See Part I, Item 1A, Risk Factors, for an additional discussion of risks related to global economic conditions including those discussed above.

## Industry Trends

We believe there are several industry trends positively impacting the long-term growth of our business including:

- the increase in volume of returned merchandise handled both online and in stores as online and omni-channel retail grow as a percentage of overall retail sales;
- the increase in government regulations and the need for corporations to have sustainability solutions with verifiable recycling and remarketing of surplus assets;

- the increase in outsourcing surplus disposition and end-of-life assets by corporations and government entities as they focus on reducing costs, improving transparency, compliance and working capital, and increasingly prefer service providers with proven track records, innovative scalable solutions and the ability to make a strategic impact in the reverse supply chain;
- an increase in buyer demand for surplus merchandise as consumers trade down by purchasing less expensive goods and seek greater value from their purchases, which could impact our long term growth;
- the increase in demand from sellers and buyers to transact in a low touch, online solution as compared to live, in-person auctions or public sale events; and
- in the long-term we expect innovation in the retail supply chain will increase the pace of product obsolescence and, therefore, increase the supply of surplus assets.

## Revenues

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

*Purchase model.* Under our purchase transaction model, we recognize revenue within the Purchase revenues line item on the Consolidated Statements of Operations from the resale of inventory that we purchased from sellers. We consider these sellers to be our vendors. We pay our sellers either a fixed amount or a portion of the net or gross proceeds received from our completed sales based on the value we receive from the sale, in some cases, after deducting a required return to us that we have negotiated with the seller. Because we are the principal in purchase transaction model sales, we recognize as revenue the sale price paid by the buyer upon completion of a transaction. The proceeds paid by buyers also include transaction fees, referred to as buyer premiums. Revenue from our purchase transaction model accounted for 54%, 57% and 62%, of our total revenue for the years ended September 30, 2022, 2021 and 2020, respectively. These amounts included sales of commercial merchandise sourced from multiple vendor contracts with Amazon.com, Inc. by our RSCG segment. The commercial merchandise we purchased under these contracts represented 55%, 61% and 55%, of Cost of goods sold for the years ended September 30, 2022, 2021 and 2020, respectively. The merchandise sold under our purchase transaction model accounted for 14%, 16% and 21%, of our GMV for the years ended September 30, 2022, 2021 and 2020.

*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 upon auction close or upon collection of auction proceeds, depending upon the settlement service level selected by the seller. Revenue under the consignment model is recorded within the Consignment and other fee revenues line item on the Consolidated Statements of Operations. Because we are the agent in consignment model sales, our commission fee revenue, which we refer to as seller commissions, represents a percentage of the sales price the buyer pays upon completion of a transaction. We vary the percentage amount of the seller commission depending on the various value-added services we provide to the seller to facilitate the transaction. For example, we generally increase the percentage amount of the commission if we take possession, handle, ship, or provide enhanced product information for the merchandise. In most cases we collect the seller commission by deducting the appropriate amount from the sales proceeds prior to the distribution to the seller after completion of the transaction. In addition to seller commissions, we also collect buyer premiums. Revenue from our consignment model accounted for 38%, 36% and 32%, of our total revenue for the years ended September 30, 2022, 2021 and 2020, respectively, and 86%, 84% and 79%, of our GMV for the years ended September 30, 2022, 2021 and 2020, respectively.

*Other — fee revenue.* We also earn non-consignment fee revenue from Machinio's Advertising and System subscription services, as well as other services including returns management, refurbishment of assets, and asset valuation services. Non-consignment fee revenue is recorded within the Consignment and other fee revenues line item on the Consolidated Statements of Operations. Other fee revenues accounted for 8%, 7% and 6% of our Total revenues for the years ended September 30, 2022, 2021 and 2020, respectively.

## Our Vendor Agreements

*Commercial agreements.* We have multiple vendor contracts with Amazon.com, Inc. under which we acquire and sell commercial merchandise. While purchase model transactions account for less than 20% of our total GMV, the cost of inventory for purchase model transactions is the most significant component of our consolidated Costs of goods sold. The property we purchased under these contracts represented 55%, 61% and 55%, of cost of goods sold for the years ended September 30, 2022, 2021 and 2020, respectively. This contract is included within our RSCG segment. Our agreements with our other sellers are generally terminable at will by either party.

## Key Business Metrics

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

*Gross merchandise volume (GMV).* GMV is the total sales value of all merchandise sold by us or our sellers through our marketplaces or by us through other channels during a given period of time. We review GMV because it provides a measure of the volume of goods being sold in our marketplaces and thus the activity of those marketplaces. GMV also provides a means to evaluate the effectiveness of investments that we have made and continue to make, including in the areas of buyer and seller support, value-added services, product development, sales and marketing, and operations. Our GMV for the year ended September 30, 2022, was \$1.1 billion.

*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 buyers who have voluntarily removed themselves from our registration database. In addition, if we become aware of registered buyers that are no longer in business, we remove them from our database. As of September 30, 2022, 2021, and 2020, we had 4.9 million, 4.0 million, and 3.8 million, registered buyers, respectively. Of the increase, approximately 16% is attributable to the Bid4Assets registered buyer base acquired during the three months ended December 31, 2021. None of our buyers represented more than 10% of our revenue during the year ended September 30, 2022.

*Total auction participants.* For each auction we manage, the number of auction participants represents the total number of registered buyers who have bid one or more times in that auction. As a result, a registered buyer who bids, or participates, in more than one auction is counted as an auction participant in each auction in which he or she participates. Thus, total auction participants for a given period is the sum of the auction participants in each auction conducted during that period. We use this metric to allow us to compare our online auction marketplaces to our competitors, including other online auction sites and traditional on-site auctioneers. In addition, we measure total auction participants on a periodic basis to evaluate the activity level of our base of registered buyers and to measure the performance of our marketing and promotional efforts. During the years ended September 30, 2022, 2021, and 2020, 3.1 million, 2.3 million, and 1.9 million participants participated in auctions on our marketplaces, respectively.

*Completed transactions.* Completed transactions represents the number of auctions in a given period from which we have recorded revenue. Similar to GMV, we believe that completed transactions is a key business metric because it provides an additional measurement of the volume of activity flowing through our marketplaces. During the years ended September 30, 2022, 2021, and 2020, we completed 933,000, 703,000 and 553,000 transactions, respectively.

## Critical Accounting Policies and Estimates

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

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

We consider the following accounting estimates to be critical: valuation of goodwill and intangible assets (Notes 7 and 8, respectively), and income taxes (Note 10). Refer to these individually referenced notes and Note 2 - *Summary of Significant Accounting Policies* to the Company's consolidated financial statements for further details on these accounting estimates. The following discussion is a supplement to the disclosures referenced.

*Intangible assets.* Intangible assets consist of contract intangibles, brand and technology, and patent and trademarks. Intangible assets are amortized using the straight-line method over their estimated useful lives. The preliminary fair value of acquired intangible assets, excluding goodwill, arising from the Bid4Assets acquisition was \$16.5 million. This balance consisted of the following identified intangible assets, each with their own significant assumptions used, as follows:

- *Contract Intangibles* - We valued the contract intangibles using the multi-period excess earnings method, an income approach valuation model. The significant assumptions used in the income approach includes estimates about future expected cash flows from supplier contracts, the attrition rate, and the discount rate.
- *Developed Software* - We valued the developed software by applying the relief-from-royalty method, an income approach valuation model. The significant assumptions used in the relief-from-royalty method include estimates about future expected cash flows from the developed software, the royalty rate, the obsolescence factor and the discount rate.
- *Trade Name* - We valued the trade name acquired using a relief-from-royalty method. The significant assumptions used in the relief-from-royalty method include future expected cash flows from the trade name, the royalty rate, and the discount rate.

*Earn-out liability.* Shareholders of Bid4Assets are eligible to receive up to \$37.5 million in cash, payable based on Bid4Assets' achievement of trailing twelve-month EBITDA targets measured at the end of each calendar quarter until the quarter ended December 31, 2022. The earn-out consideration was preliminarily fair valued at approximately \$28.0 million as of the acquisition date. As of September 30, 2022, \$3.5 million in earn out payments have been made, and the remaining earn-out fair value has been measured to be \$0 based upon the expected performance through the final earn-out period ending December 31, 2022. The significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy included estimated results of operations over the earn-out period, a high level of volatility of operating results given the nature of the business model and its economic environment create a wider range of potential outcomes over the earn-out period, and the discount rate.

*Goodwill.* Goodwill represents the costs in excess of the fair value of net assets acquired through acquisitions by the Company. Pursuant to our preliminary purchase price allocation, goodwill arising from the acquisition was determined to be \$30.1 million. See Note 3 - *Bid4Assets Acquisition*, for further information. As discussed in Note 13 - *Fair Value Measurement*, the fair value of the Bid4Assets earn-out liability declined by \$24.5 million during the fiscal year ended September 30, 2022, due to timing changes, which were not known nor knowable as of the acquisition date, impacting the level of auction events and transactions that are expected to occur during the earn-out period ending December 31, 2022. These timing changes have not reflected substantive changes to the long-term outlook for real estate sales within the GovDeals segment and were not considered a triggering event for testing goodwill or long-lived assets for impairment as of September 30, 2022. The Company will continue to monitor for changes that could impact the recoverability of its goodwill.

### **Components of Revenue and Expenses**

*Revenue.* Refer to the discussion in the *Our revenue* section above, and to Note 2 - *Summary of Significant Accounting Policies* to the Company's consolidated financial statements in Part IV, Item 15(a)(1) of this Annual Report on Form 10-K for discussion of the Company's related accounting policies.

*Cost of goods sold.* Refer to Note 2 - *Summary of Significant Accounting Policies*, to the Company's consolidated financial statements in Part IV, Item 15(a)(1) of this Annual Report on Form 10-K for discussion of the Company's Costs of goods sold and related accounting policies.

*Technology and operations.* Technology expenses primarily consist of the cost of technical staff (including stock compensation), third party services, licenses, and infrastructure, all as required to develop, configure, deploy, maintain, and secure our marketplace platforms, business operational systems, and facilities. Technology expenses are net of the required capitalization of costs associated with enhancing our marketplace platforms and other software development activities. Depreciation and amortization of capitalized software development costs, purchased software, acquired developed software intangible assets, and computer hardware are included within Depreciation and amortization in the accompanying Consolidated Statements of Operations. Technology expenses are presented separately from Costs of goods sold (excluding depreciation and amortization) in the Consolidated Statements of Operations, as these expenses provide for the general availability of our

marketplace platforms and other business operational systems and are not attributable to specific revenue generating transaction activity occurring on our marketplaces.

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

Operations expenses consist primarily of costs to operate our distribution centers, including shipping logistics, inventory management, refurbishment, and administrative functions; costs to enhance our online auctions listings and provide customer support; and costs associated with field support and preparation and transfer of goods from sellers to buyers. Operations expenses include both internal and external labor costs, as well as other third-party charges. These costs are expensed as incurred.

*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, including buyer and seller acquisition, as well as general brand marketing. These activities include online marketing campaigns such as paid search advertising, as well as offline marketing efforts, trade shows, and marketing analytics.

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

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

*Fair value adjustment of acquisition earn-outs.* Fair value adjustment of acquisition earn-outs consists of the change in fair value of earn-out consideration following a business combination.

*Other operating expenses, net.* Other operating expenses, net includes impairment of long-lived and other assets, impacts of lease terminations, as well as business realignment expenses, including those associated with restructuring initiatives and the exit of certain business operations.

*Interest and other income, net.* Interest and other income, net consists of interest income on interest bearing checking accounts, money market funds, the prior promissory note issued to JTC, interest and unused commitment fees in connection with the Company's Credit Agreement, the components of net periodic pension (benefit) other than the service component, and impacts of foreign currency fluctuations.

*Income taxes.* During the years ended September 30, 2022, 2021 and 2020, the Company had an effective income tax rate of 15.4%, (84.7)% and (26.9)%, respectively, which included federal, state and foreign income taxes.

## Results of Operations

The following table presents reportable segment GMV, revenue, segment gross profit (which is calculated as total revenue less cost of goods sold (exclusive of depreciation and amortization)), and segment gross profit as a percentage of total revenue for the periods indicated (\$ in thousands):

	Year Ended September 30,		
	2022	2021	2020
<b>GovDeals:</b>			
GMV	\$ 720,323	\$ 498,742	\$ 325,993
Total revenue	59,352	49,579	32,806
Segment gross profit	56,408	47,030	30,721
Segment gross profit as a percentage of total revenue	95.0 %	94.9 %	93.6 %
<b>RSCG:</b>			
GMV	236,236	229,290	181,473
Total revenue	166,100	158,806	136,491
Segment gross profit	63,704	64,564	49,727
Segment gross profit as a percentage of total revenue	38.4 %	40.7 %	36.4 %
<b>CAG:</b>			
GMV	188,813	158,736	112,384
Total revenue	42,575	39,645	29,481
Segment gross profit	29,120	29,324	22,714
Segment gross profit as a percentage of total revenue	68.4 %	74.0 %	77.0 %
<b>Machinio:</b>			
GMV	—	—	—
Total revenue	12,083	9,559	7,213
Segment gross profit	11,471	8,992	6,813
Segment gross profit as a percentage of total revenue	94.9 %	94.1 %	94.4 %
<b>Corporate &amp; Other, including elimination adjustments:</b>			
GMV	—	—	—
Total revenue	(60)	(57)	(51)
Segment gross profit	(60)	(57)	(51)
Segment gross profit as a percentage of total revenue	NM	NM	NM
<b>Consolidated:</b>			
GMV	1,145,372	886,768	619,850
Total revenue	280,050	257,531	205,940

NM = not meaningful

## *Year Ended September 30, 2022 Compared to Year Ended September 30, 2021*

### *Segment Results*

*GovDeals.* Total revenues from our GovDeals reportable segment increased 19.7%, or \$9.8 million, due to a 44.4%, or \$221.6 million, increase in GMV from adding new sellers and increasing volumes with existing sellers across several key categories, including transportation and real estate. In addition, increased recovery rates on assets sold were driven by our growing buyer base, automated asset promotion tools, and favorable macroeconomic factors in certain asset categories, such as transportation assets. However, this has been partially offset by lower volumes of used vehicles made available for sale, as new vehicle production disruptions impact government agency vehicle fleet retirement timelines. As GovDeals real estate sales increase through the integration with Bid4Assets, GovDeals revenue as a percent of GMV is expected to decline, as these higher value real estate sales are generally conducted at a lower take-rate than our traditional GovDeals asset categories. For that reason, revenue as a percentage of GMV decreased to 8.2% from 9.9% last year. As a result of the increase in revenues, segment gross profit increased 19.9%, or \$9.4 million. Segment gross profit as a percentage of total revenue remained relatively consistent between the periods.

*RSCG.* Revenue from our RSCG reportable segment increased 4.6%, or \$7.3 million due to a 3.0%, or \$6.9 million, increase in GMV as it continues to diversify its client programs, sales channels, and its distribution network. Segment gross profit decreased by 1.3%, or \$0.9 million, impacted by certain client returns management programs which provided fewer higher value products than in prior years, including for some of our low touch services. As a result, segment gross profit as a percentage of total revenue decreased by 2.3%.

*CAG.* Revenue from the CAG reportable segment increased by 7.4%, or \$2.9 million due to a 18.9%, or \$30.1 million, increase in GMV driven by increasing opportunities to obtain and sell inventory under our purchase model, and strong consignment sales in the energy and heavy equipment categories, partially offset by strong prior year consignment sales in the industrial category. Revenues did not increase at the same rate as GMV due to increases in the mix of transactions conducted with partner organizations. Segment gross profit decreased 0.7%, or \$0.2 million. Segment gross profit as a percentage of total revenue decreased 5.6% due to inherent variations in the mix of assets sourced and sold by the CAG segment in any given period, including increased international purchase transaction activity, some of which had lower than average margins due to incremental costs from COVID-19 related delays in conducting cross-border transactions. Further, challenged global supply chains are experiencing heightened disruptions from the Russian invasion of Ukraine and its impacts on international trade and energy markets, COVID-19 and other disruptions, which could limit the volume of assets made available for sale in any period.

*Machinio.* Revenue from our Machinio reportable segment increased 26.4%, or \$2.5 million, due to an increase in subscription activity through a greater number of subscribers and increased pricing. As a result of the increase in revenues, segment gross profit increased 27.6%, or \$2.5 million.



## Consolidated Results

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

	Year Ended September 30,		\$ Change	% Change
	2022	2021		
Purchase revenues	\$ 151,271	\$ 146,151	\$ 5,120	3.5 %
Consignment and other fee revenues	128,779	111,380	17,399	15.6 %
Total revenues	280,050	257,531	22,519	8.7 %
Costs and expenses from operations:				
Cost of goods sold (excludes depreciation and amortization)	119,407	107,678	11,729	10.9 %
Technology and operations	55,522	47,673	7,849	16.5 %
Sales and marketing	43,224	37,635	5,589	14.9 %
General and administrative	28,282	28,938	(656)	(2.3)%
Depreciation and amortization	10,322	6,969	3,353	48.1 %
Fair value adjustment of acquisition earn-outs	(24,500)	—	(24,500)	NM
Other operating expenses, net	388	1,470	(1,082)	(73.6)%
Total costs and expenses	232,645	230,363	2,282	1.0 %
Income (loss) from operations	47,405	27,168	20,237	74.5 %
Interest and other income, net	(248)	(411)	163	(39.7)%
Income (loss) before income taxes	47,653	27,579	20,074	72.8 %
Provision (benefit) for income taxes	7,329	(23,370)	30,699	NM
Net income (loss)	\$ 40,324	\$ 50,949	\$ (10,625)	(20.9)%

NM = not meaningful

*Total revenues.* Total consolidated revenue increased \$22.5 million, or 8.7%. Refer to the discussion of Segment Results above for discussion of the decrease in revenue.

*Cost of goods sold (excludes depreciation and amortization).* Cost of goods sold increased \$11.7 million, or 10.9%, which changed at a higher rate than Revenue primarily due to an increase in purchase transactions at CAG and RSCG, which also contained a more favorable mix of higher value returned products in the prior year.

*Technology and operations expenses.* Technology and operations expenses increased \$7.8 million, or 16.5%, as we are increasing our technology and operations functions to continue our growth, including RSCG's expansion of its distribution network, and launching AllSurplus Deals as a new marketplace offering consumers deals for curbside pickup.

*Sales and marketing expenses.* Sales and marketing expenses increased \$5.6 million, or 14.9%, as we are increasing our sales and marketing functions to continue our growth, including promotional efforts to expand our market share in key verticals, and to promote new business initiatives including our AllSurplus Deals consumer marketplace.

*General and administrative expenses.* General and administrative expenses decreased \$0.7 million, or 2.3%, primarily due to changes in expected attainment of certain variable compensation targets, and partially offset by increased corporate support costs to support the anticipated growth resulting from the increases in our technology, operations, sales and marketing functions.

*Depreciation and amortization.* Depreciation and amortization expense increased \$3.4 million, or 48.1%, primarily due to the increase in intangible assets following our acquisition of Bid4Assets on November 1, 2021.

*Fair value adjustment of acquisition earn-outs.* Fair value adjustment of acquisition earn-outs reflects a \$24.5 million non-cash gain due to a reduction in the fair value of the Bid4Assets earn-out liability during the year ended September 30, 2022. See Note 13 - *Fair Value Measurement* for further information.

*Interest and other income, net.* Interest and other income, net increased \$0.2 million, due to the effect of rising interest rates on our cash, cash equivalent and short-term investment holdings.



*Provision (benefit) for income taxes.* Provision (benefit) for income taxes increased \$30.7 million to an expense of \$7.3 million from a benefit of \$23.4 million due to the \$27.9 million release of our valuation allowance on U.S. deferred tax assets during the fiscal year ended September 30, 2021, and \$2.8 million of state and foreign income tax expense. The Company's effective tax was 15.4% for the twelve months ended September 30, 2022. The 2022 effective tax rate differed from the statutory federal rate of 21.0% primarily as a result of the impact of foreign, state, and local income taxes and permanent adjustments, the most significant of which was the exclusion of the \$24.5 million non-cash gain from the fair-market value adjustment of the Bid4Assets acquisition earn-out liability.

#### ***Year Ended September 30, 2021 Compared to Year Ended September 30, 2020***

##### ***Segment Results***

*GovDeals.* Revenue from our GovDeals segment increased 51.1%, or \$16.8 million, due to a 53.0%, or \$172.7 million, increase in GMV from adding new sellers and increasing volumes with existing sellers across several key categories, including transportation and real estate, and an increase in recovery rates on assets sold, driven by our growing buyer base, automated asset promotion tools, and favorable macroeconomic factors in certain asset categories, such as transportation assets. The fiscal year ended September 30, 2020 also contained the negative impact of the economic restrictions put in place at the onset of the COVID-19 pandemic. As a result of the increase in revenues, segment gross profit increased 53.1%, or \$16.3 million, and segment gross profit margin increased from 93.6% to 94.9%.

*RSCG.* Revenue from our RSCG segment increased 16.3%, or \$22.3 million due to a 26.3%, or \$47.8 million, increase in GMV driven by growing volumes within existing seller accounts and launching new programs with large and mid-sized and large retailers looking to capitalize on the secular growth in online retail. Revenues did not increase at the same rate as GMV due to an increase in the mix of transactions conducted under the consignment model. As a result of the increase in revenues, segment gross profit increased 29.8%, or \$14.8 million. Segment gross profit margin increased from 36.4% to 40.7% due to an increase in the mix of transactions conducted under the consignment model and improved recovery rates on assets sold.

*CAG.* Revenue from the CAG segment increased by 34.5%, or \$10.2 million due to a 41.2%, or \$46.4 million increase in GMV due to continued growth of our industrial and heavy equipment categories, increases in purchase transactions across the EMEA and Asia-Pacific regions, and increased use of the consignment model internationally. Revenues did not increase at the same rate as GMV due to increases in transactions using partner organizations and in the mix of transactions conducted under the consignment model. As a result of the increase in revenues, segment gross profit increased 29.1%, or \$6.6 million. Segment gross profit margin decreased from 77.0% to 74.0%.

*Machinio.* Revenue from our Machinio segment increased 32.5%, or \$2.3 million, due to an increase in subscription activity. As a result of the increase in revenues, segment gross profit increased 32.0%, or \$2.2 million.

## Consolidated Results

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

	Year Ended September 30,		\$ Change	% Change
	2021	2020		
Purchase revenues	\$ 146,151	\$ 127,580	\$ 18,571	14.6 %
Consignment and other fee revenues	111,380	78,360	33,020	42.1
Total revenues	257,531	205,940	51,591	25.1
Costs and expenses from operations:				
Cost of goods sold (excludes depreciation and amortization)	107,678	96,016	11,662	12.1
Technology and operations	47,673	42,158	5,515	13.1
Sales and marketing	37,635	35,629	2,006	5.6
General and administrative	28,938	29,166	(228)	(0.8)
Depreciation and amortization	6,969	6,290	679	10.8
Fair value adjustment of acquisition earn-outs	—	200	(200)	NM
Other operating expenses, net	1,470	378	1,092	288.9
Total costs and expenses	230,363	209,837	20,526	9.8
Income (loss) from operations	27,168	(3,897)	31,065	NM
Interest and other income, net	(411)	(924)	513	(55.5)
Income (loss) before income taxes	27,579	(2,973)	30,552	NM
(Benefit) provision for income taxes	(23,370)	801	(24,171)	NM
Net income (loss)	\$ 50,949	\$ (3,774)	\$ 54,723	NM

NM = not meaningful

*Revenue.* Total consolidated revenue increased \$51.6 million, or 25.1%. Refer to the discussion of Segment Results above for discussion of the decrease in revenue.

*Cost of goods sold (excludes depreciation and amortization).* Cost of goods sold increased \$11.7 million, or 12.1%, which changed at a lower rate than revenue primarily due to lower cost of sales associated with purchase transactions, which benefited from higher recovery rates during the period, and an increase in the mix of transactions conducted under the consignment model.

*Technology and operations.* Technology and operations expenses increased \$5.5 million, or 13.1%, to support the increased transaction volumes in the RSCG and CAG segments.

*Sales and marketing.* Sales and marketing expenses increased \$2.0 million, or 5.6%, primarily due to increase in marketing expenses to promote our consolidated marketplace and expand market share in key verticals.

*General and administrative.* General and administrative expenses were consistent between the year ended September 30, 2021 and 2020.

*Depreciation and amortization.* Depreciation and amortization expense increased \$0.7 million, or 10.8%, due to an increase in amortization of capitalized software related to the continued development and enhancement of our marketplace platform and tools.

*Interest and other income, net.* Interest and other income, net increased \$0.5 million due the effect of changes in foreign exchange rates.

*(Benefit) provision for income taxes.* (Benefit) provision for income taxes decreased \$24.2 million to a benefit of \$23.4 million from an expense of \$0.8 million due to a release of \$27.9 million of valuation allowance netted against \$3.3 million deferred tax expense and \$1.2 million state and foreign income taxes. The Company's effective income tax rate was (84.7%) for the twelve months ended September 30, 2021. The 2021 effective tax rate differed from the statutory federal rate of 21.0% primarily as a result of the release of the valuation allowance on deferred tax assets and the impact of foreign, state, and local taxes and permanent tax adjustments.

## Non-GAAP Financial Measures

*Non-GAAP EBITDA and Non-GAAP Adjusted EBITDA.* Non-GAAP EBITDA is a supplemental non-GAAP financial measure and is equal to Net income (loss) plus Interest and other expense (income), net excluding the non-service components of net periodic pension (benefit); Provision (benefit) for income taxes; and Depreciation and amortization. Interest and other expense (income), net, can include non-operating gains and losses, such as from foreign currency fluctuations. Our definition of Non-GAAP Adjusted EBITDA differs from Non-GAAP EBITDA because we further adjust Non-GAAP 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 Non-GAAP EBITDA and Non-GAAP Adjusted EBITDA are useful to an investor in evaluating our performance for the following reasons:

- Depreciation and amortization expense primarily relates to property and equipment and the amortization of intangible assets. These expenses are non-cash charges that have fluctuated significantly in the past. As a result, we believe that adding back these non-cash charges is useful in evaluating the operating performance of our business on a consistent basis from year-to-year.
- As a result of varying federal and state income tax rates, we believe that presenting a financial measure that adjusts for provision for income taxes is useful to investors when evaluating the operating performance of our business on a consistent basis from year to year.
- The authoritative guidance for stock-based compensation requires all share-based payments to employees, including grants of employee stock options, restricted stock and stock appreciation rights to be recognized in the income statement based on their estimated fair values over the requisite vesting period. 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 Consolidated 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 Non-GAAP EBITDA and Non-GAAP 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 Non-GAAP EBITDA and Non-GAAP Adjusted EBITDA as supplemental measures to evaluate the overall operating performance of companies in our industry.

Our management uses Non-GAAP EBITDA and Non-GAAP 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.

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

We prepare Non-GAAP Adjusted EBITDA by eliminating from Non-GAAP EBITDA 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, Non-GAAP Adjusted EBITDA is subject to all of the limitations applicable to Non-GAAP EBITDA. Our presentation of Non-GAAP Adjusted EBITDA should not be construed as an implication that our future results will be unaffected by unusual or non-recurring items.

The table below reconciles Net income (loss) to Non-GAAP EBITDA and Non-GAAP Adjusted EBITDA for the periods presented.

	Year ended September 30,		
	2022	2021	2020
Net income (loss)	\$ 40,324	\$ 50,949	\$ (3,774)
Interest and other expense (income), net <sup>(1)</sup>	126	(76)	(577)
Provision (benefit) for income taxes	7,329	(23,370)	801
Depreciation and amortization	10,322	6,969	6,290
Non-GAAP EBITDA	<u>\$ 58,101</u>	<u>\$ 34,472</u>	<u>\$ 2,740</u>
Stock compensation expense	8,482	6,947	5,660
Acquisition costs and impairment of goodwill and long-lived assets <sup>(2)</sup>	473	1,464	5
Business realignment expenses <sup>(2,3)</sup>	191	5	405
Fair value adjustments to acquisition earn-outs	(24,500)	—	200
Deferred revenue purchase accounting adjustment	—	—	3
Non-GAAP Adjusted EBITDA	<u>\$ 42,747</u>	<u>\$ 42,888</u>	<u>\$ 9,013</u>

<sup>(1)</sup> Interest and other expense (income), net excludes non-services pension and other postretirement benefit expense.

<sup>(2)</sup> Acquisition costs and impairment of goodwill and long-lived assets, as well as Business realignment expenses, are components of Other operating expenses, net on the Consolidated Statements of Operations.

<sup>(3)</sup> Business realignment expense includes the amounts accounted for as exit costs under ASC 420, Exit or Disposal Cost Obligations, and the related impacts of business realignment actions subject to other accounting guidance.

## Liquidity and Capital Resources

Our operational cash needs primarily relate to working capital, including staffing costs, technology expenses, leases of real estate and equipment used in our operations, and capital used for inventory purchases, which we have funded through existing cash balances and cash generated from operations. From time to time, we may use our capital resources for other activities, such as contract start-up costs, joint ventures, share repurchases and acquisitions. As of September 30, 2022, we had \$96.1 million in cash and cash equivalents, which we believe is sufficient to meet the Company's anticipated cash needs one year from issuance of these financial statements.

### Capital Expenditures

Our capital expenditures consist primarily of capitalized software, warehouse equipment, computers and purchased software, office equipment, furniture and fixtures, and leasehold improvements. The timing and volume of such capital expenditures in the future will be affected by the addition of new sellers or buyers or expansion of existing seller or buyer relationships. We intend to fund those expenditures primarily from our existing cash balances and operating cash flows. Our capital expenditures for the year ended September 30, 2022 were \$8.1 million. As of September 30, 2022, we had no significant outstanding commitments for capital expenditures.

Our future capital requirements will depend on many factors including our rate of revenue growth, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, the development and deployment of new marketplaces, the introduction of new value-added services and the costs to establish additional distribution centers. We may seek to enter agreements with respect to potential investments in, or acquisitions of, complementary businesses, products or technologies, 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.

### *Credit Agreement*

The Company maintains a \$25.0 million Credit Agreement due March 31, 2024 (Credit Agreement). The Company may draw upon the Credit Agreement for general corporate purposes. Repayments of any borrowings under the Credit Agreement shall become available for redraw at any time by the Company. The interest rate on borrowings under the Credit Agreement is a variable rate per annum equal to the Daily Simple Secured Overnight Financing Rate (SOFR) in effect plus a margin ranging from 1.25% to 1.75%. Interest is payable monthly. During the year ended September 30, 2022, the Company did not make any draws under the Credit Agreement. As of September 30, 2022, the Company had no outstanding indebtedness under the Credit Agreement and our borrowing availability was \$25.0 million.

The obligations under the Credit Agreement are unconditionally guaranteed by us and each of our existing and subsequently acquired or organized domestic subsidiaries and secured on a first priority basis by a security interest (subject to permitted liens) in substantially all assets owned by us, and each of our other domestic subsidiaries, subject to limited exceptions. The Credit Agreement contains certain financial and non-financial restrictive covenants including, among others, the requirement to maintain a minimum level of earnings before interest, income taxes, depreciation and amortization (EBITDA). The Credit Agreement contains a number of affirmative and restrictive covenants including limitations on mergers, consolidations and dissolutions, investments and acquisitions, indebtedness and liens, and dividends and other restricted payments. As of September 30, 2022, the Company was in full compliance with the terms and conditions of the Credit Agreement.

### *Working Capital Management*

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.

The COVID-19 pandemic has caused the Company's GMV and revenues to fluctuate, and the Company initially implemented cost control measures to protect against the uncertainties created by the severe economic restrictions in its initial phases. From a cash flow perspective, the Company employed working capital management practices, primarily in the form of temporary extensions to vendor payment terms, and also experienced accumulation in its payables to sellers balance due to COVID-19 restrictions, which continue to be a factor in certain countries, causing some buyer delays in their ability to pick up purchased assets. The Company is prepared to reimplement these measures should it face conditions consistent with the initial phases of the COVID-19 pandemic.

We expect to continue to invest in enhancements to our e-commerce technology platform, marketplace capabilities and tools for data-driven product recommendations, omni-channel behavioral marketing, expanded analytics, and buyer/seller payment optimization.

We intend to indefinitely reinvest the earnings of our foreign subsidiaries outside the United States. As a result, we did not record a provision for deferred U.S. tax expense on the \$8.6 million of undistributed foreign earnings as of September 30, 2022. As of September 30, 2022, and September 30, 2021, \$20.3 million and \$22.4 million, respectively, of cash and cash equivalents was held outside of the U.S.

### *Other Uses of Capital Resources*

*Bid4Assets, Inc. Acquisition.* On November 1, 2021, the Company purchased all of the issued and outstanding shares of stock of Bid4Assets. Bid4Assets is a leading online marketplace focused on conducting real property auctions for the government, including tax foreclosure sales and sheriff's sales. Our investment through the acquisition of Bid4Assets will support continued growth in the GovDeals reportable segment, particularly in our real estate vertical.

The preliminary acquisition date fair value of the consideration transferred to the former shareholders of Bid4Assets was approximately \$42.7 million consisting of \$14.7 million in cash (net of working capital adjustments totaling \$0.3 million) and earn-out consideration with a preliminary fair value of approximately \$28.0 million. As part of the acquisition of Bid4Assets, former shareholders of Bid4Assets are eligible to receive earn-out consideration of up to \$37.5 million in cash. See Note 3 - *Bid4Assets Acquisition* for further information.

During the twelve months ended September 30, 2022, the fair value of the earn-out liability was reduced by \$24.5 million to \$0.0 million, due to a decline in the auction events and transactions that are expected to be completed during the earn-out period ending December 31, 2022, which included extended timelines to advance legislation that allows for online auctions of foreclosed real estate in certain target markets, and other client specific delays in bringing foreclosed real estate to auction. These changes resulted from events occurring subsequent to the November 1, 2021, acquisition date and therefore, were not known nor knowable at that time.

*Share Repurchases.* From time to time, we have been authorized to repurchase issued and outstanding shares of our common stock under a share repurchase program approved by our Board of Directors. Share repurchases may be made through open market purchases, privately negotiated transactions or otherwise, at times and in such amounts as management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements and other market conditions. The repurchase program may be discontinued or suspended at any time and will be funded using our available cash.

The Company had no remaining share repurchase authorization as of September 30, 2021. On December 6, 2021, the Company's Board of Directors authorized a new stock repurchase plan of up to \$20 million of the Company's outstanding shares of common stock through December 31, 2023. The Company repurchased 1,159,066 shares for \$20.0 million during the six months ended March 31, 2022.

On May 13, 2022, the Company's Board of Directors authorized the May 2022 Repurchase Plan. The Company repurchased 408,211 shares for \$5.4 million during the three months ended June 30, 2022. As of September 30, 2022, the Company may repurchase an additional \$6.6 million of shares under the May 2022 Repurchase Plan.

On December 6, 2022, the Company's Board of Directors authorized the repurchase of up to an additional \$8.4 million of the Company's outstanding shares of common stock through December 31, 2024.

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

#### ***Changes in Cash Flows: 2022 Compared to 2021***

Net cash provided by operating activities was \$44.8 million and \$65.4 million for the years ended September 30, 2022 and 2021, respectively. The \$20.6 million decrease in cash provided by operating activities between periods was attributable to cash flows associated with a higher Accounts receivables balance of \$5.4 million driven by the completion of a significant international industrial partner purchase transaction during the year ended September 30, 2022, as well as Accounts payable and Payables to sellers which together had a net decrease of \$11.5 million due to reduced rates of change in the underlying transaction volumes during the current period. Our working capital accounts are subject to natural variations depending on the rate of change of our transaction volumes, the timing of cash receipts and payments, and variations in our transaction volumes related to settlements between our buyers and sellers. As GovDeals real estate sales with settlement services increase through the integration with Bid4Assets, operating cash flow fluctuations from accounts payable and payables to sellers are expected to become more variable. The amount of cash received and settled will be substantially higher than our take rate on such transactions, and the timing of auction events, cash collection period, and payment of settlements relative to period end dates can potentially drive substantial cash movements to the extent the timing of such activities cross fiscal periods. There have been no other significant changes to the working capital requirements for the Company.

Net cash used in investing activities was \$21.1 million for the year ended September 30, 2022, and \$1.0 million for the year ended September 30, 2021. The \$20.1 million increase in cash used in investing activities was driven by \$11.2 million in cash paid at closing to acquire Bid4Assets on November 1, 2021, net of cash acquired (see Note 3 - *Bid4Assets Acquisition* for further information), a non-recurring collection of note receivable principal payments during the year ended September 30, 2021, totaling \$4.3 million in connection with the JTC promissory note (see Note 2 - *Summary of Significant Accounting Policies* for further information), a \$2.7 million increase in new property and equipment purchases from expansion of our distribution network, and \$1.8 million in purchases of short-term investments.

Net cash used in financing activities was \$31.9 million for the year ended September 30, 2022, and \$34.7 million for the year ended September 30, 2021. The \$2.7 million decrease in cash used by financing activities was primarily driven by \$5.7 million of lower common stock repurchases in the current year and a \$1.1 million decrease in taxes paid associated with net settlement of stock compensation awards. These were offset by an earn-out payment of \$3.5 million in connect with the Bid4Assets acquisition.

#### ***Changes in Cash Flows: 2021 Compared to 2020***

Net cash provided by operating activities was \$65.4 million and \$16.5 million for the year ended September 30, 2021 and 2020, respectively. The \$48.9 million increase in cash provided by operations between periods was attributable to \$33.2 million of higher net income as adjusted for non-cash items; changes in payables to sellers, driven by increasing transaction volumes; changes to accounts payable, accrued expenses and other liabilities driven by increasing transaction volumes and management of working capital; and partially offset by a \$7.0 million increase in inventory driven by the continued growth in our RSCG and CAG segments. Our working capital accounts are subject to natural variations depending on the rate of change of our transaction volumes, the timing of cash receipts and payments, and variations in our transaction volumes related to settlements between our buyers and sellers. However, there have been no significant changes to the working capital requirements for the Company.

Net cash provided by (used in) investing activities was \$(1.0) million for the year ended September 30, 2021, and \$28.6 million for the year ended September 30, 2020. The \$29.7 million decrease in cash provided by investing activities was driven by a \$30.0 million net impact of maturities of Short-term investments as the Company transitioned to using cash equivalent money market funds in its treasury strategy. This activity was partially offset by a \$1.5 million increase in proceeds of principal payments from the JTC promissory note during the year ended September 30, 2021 due to receipt of \$3.5 million from the First Amendment to the Forbearance Agreement with JTC as discussed in Note 2 - Summary of Significant Accounting Policies.

Net cash used in financing activities was \$34.7 million for the year ended September 30, 2021, and \$5.7 million for the year ended September 30, 2020. The \$29.0 million increase in cash used by financing activities primarily driven by \$27.2 million to repurchase common stock and a \$3.3 million increase in taxes paid associated with net settlement of stock compensation awards, primarily from the vesting of awards with market conditions due to the achievement of increases in the Company's share price.

#### **New Accounting Pronouncements**

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

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

*Interest rate sensitivity.* 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. As of September 30, 2022, we hold cash and cash equivalents and short-term investments that are subject to varying interest rates based upon their maturities. A hypothetical 100 basis point decline in interest rates would impact our pre-tax earnings by less than \$1.0 million on an annualized basis.

As of September 30, 2022, we do not have any debt, however, should the Company draw on our Letter of Credit in the future, such draw would incur interest as determined by the Daily Simple Secured Overnight Financing Rate (SOFR) in effect plus a margin ranging from 1.25% to 1.75%.

*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 generate revenues and incur expenses in both U.S. dollars and local currencies. Our primary foreign exchange exposures include British Pounds, Canadian Dollars, Chinese Yuan, Euros, and Hong Kong Dollars. When we translate the results and net assets of our international operations into U.S. dollars for financial reporting purposes, movements in exchange rates will affect our reported results. Volatile market conditions arising from ongoing macroeconomic conditions such as rising interest rates at federal banks and the Russian-Ukraine conflict, may result in significant changes in exchange rates, which could affect our results of operations expressed in U.S. dollars. A hypothetical 10% decrease in foreign exchange rates reduce our total expected revenues by approximately 1%. The potential impact on pre-tax earnings would be less as total expected expenses would also decrease.

#### **Item 8. Financial Statements and Supplementary Data.**

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

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

None.

#### **Item 9A. Controls and Procedures.**

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



## **Evaluation of Disclosure Controls and Procedures**

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

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

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

## **Management Report on Internal Control over Financial Reporting**

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

Management assessed our internal control over financial reporting as of September 30, 2022, the end of our fiscal year. Management based its assessment on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Management's assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies and our overall control environment. This assessment is supported by testing and monitoring performed by our finance organization.

As permitted by SEC guidance with respect to newly acquired entities, management excluded Bid4Assets, which was acquired on November 1, 2022, from its assessment of internal control over financial reporting. The financial statements of Bid4Assets, Inc., constitute less than 2.5% of revenues and total assets (excluding goodwill and intangible assets which were integrated into the Company's systems and control environment), in the consolidated financial statement amounts as of and for the year ended September 30, 2022. We are in the process of evaluating Bid4Assets' existing controls and procedures and integrating Bid4Assets into our internal control over financial reporting. See Note 3 - *Bid4Assets Acquisition*, in the Notes to the Consolidated Financial Statements for further discussion of the Bid4Assets acquisition and its impact on our consolidated financial statements.



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

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

#### **Inherent Limitations on Effectiveness of Controls**

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

#### **Changes in Internal Control over Financial Reporting**

During the three months ended September 30, 2022, 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.

## Report of Independent Registered Public Accounting Firm

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

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Liquidity Services, Inc. and subsidiaries (the “Company”) as of September 30, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the fiscal year ended September 30, 2022, of the Company and our report dated December 8, 2022, expressed an unqualified opinion on those financial statements.

As described in Management Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Bid4Assets, Inc., which was acquired on November 1, 2021. The financial statements of Bid4Assets, Inc., constitute less than 2.5% of revenues and total assets (excluding goodwill and intangible assets which were integrated into the Company’s systems and control environment), in the consolidated financial statement amounts as of and for the year ended September 30, 2022. Accordingly, our audit did not include the internal control over financial reporting at Bid4Assets, Inc.

### Basis for Opinion

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ Deloitte and Touche LLP

McLean, Virginia  
December 8, 2022

**Item 9B. Other Information.**

On December 6, 2022, the Company's Board of Directors authorized the repurchase of up to \$8.4 million of the Company's outstanding shares of common stock through December 31, 2024. This authorization is in addition to the \$6.6 million remaining under the May 13, 2022 authorization to repurchase up to \$12.0 million in shares through June 30, 2024. The timing and actual number of shares repurchased will depend on a variety of factors, including price, general business and market conditions, and the existence of alternative investment opportunities. The repurchase program will be executed consistent with the Company's capital allocation strategy of prioritizing investment to grow the business over the long term.

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

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

**Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.**

Not applicable.

**PART III****Item 10. Directors, Executive Officers and Corporate Governance.**

Incorporated by reference from the Company's Proxy Statement relating to its 2023 Annual Meeting of Stockholders to be filed with the SEC with 120 days after September 30, 2022.

**Code of Ethics, Governance Guidelines and Committee Charters**

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

**Item 11. Executive Compensation.**

Incorporated by reference from the Company's Proxy Statement relating to its 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days after September 30, 2022.

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

Incorporated by reference from the Company's Proxy Statement relating to its 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days after September 30, 2022.

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

Incorporated by reference from the Company's Proxy Statement relating to its 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days after September 30, 2022.

**Item 14. Principal Accountant Fees and Services.**

Incorporated by reference from the Company's Proxy Statement relating to its 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days after September 30, 2022.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

	<u>Page</u>
(a)	
(1)	
The following documents related to the financial statements are filed as part of this report:	
<a href="#">Reports of Independent Registered Public Accounting Firms (PCAOB ID No.'s 34 and 42, respectively)</a>	<a href="#">55</a>
<a href="#">Consolidated Balance Sheets as of September 30, 2022 and 2021</a>	<a href="#">59</a>
<a href="#">Consolidated Statements of Operations for the years ended September 30, 2022, 2021 and 2020</a>	<a href="#">60</a>
<a href="#">Consolidated Statements of Comprehensive Income (Loss) for the years ended September 30, 2022, 2021 and 2020</a>	<a href="#">61</a>
<a href="#">Consolidated Statements of Stockholders' Equity for the years ended September 30, 2022, 2021 and 2020</a>	<a href="#">62</a>
<a href="#">Consolidated Statements of Cash Flows for the years ended September 30, 2022, 2021 and 2020</a>	<a href="#">63</a>
<a href="#">Notes to the Consolidated Financial Statements</a>	<a href="#">65</a>
(2)	
The following financial statement schedule is filed as part of this report:	
Schedules for the three years ended September 30, 2022, 2021 and 2020:	
<a href="#">II—Valuation and Qualifying Accounts</a>	<a href="#">94</a>
All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required or are inapplicable and therefore have been omitted.	
(3)	
The documents required to be filed as exhibits to this report under Item 601 of Regulation S-K are listed in the Exhibit Index included elsewhere in this report, which list is incorporated herein by reference.	

## Report of Independent Registered Public Accounting Firm

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

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Liquidity Services, Inc. and subsidiaries (the Company) as of September 30, 2022, the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for the year ended September 30, 2022, and the related notes and schedule listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2022, and the results of its operations and its cash flows for the year ended September 30, 2022, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of September 30, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 8, 2022 expressed an unqualified opinion on the Company's internal control over financial reporting.

### Basis for Opinion

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

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

### Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

### Earn-Out Obligation - Refer to Notes 3 and 13 to the Consolidated Financial Statements

#### *Critical Audit Matter Description*

On November 1, 2021, the Company purchased all of the issued and outstanding shares of stock of Bid4Assets, Inc. ("Bid4Assets"). The preliminary acquisition date fair value of the consideration transferred to the former shareholders of Bid4Assets was approximately \$42.7 million consisting of \$14.7 million in cash and earn-out consideration with a preliminary fair value of approximately \$28.0 million. As part of the acquisition of Bid4Assets, former shareholders of Bid4Assets are eligible to receive earn-out consideration of up to \$37.5 million in cash.

During the year ended September 30, 2022, the fair value of the earn-out liability was reduced by \$28.0 million to \$0 million, primarily due to a decline in the auction events and transactions that were expected to be completed during the earn-out period ending December 31, 2022. These changes resulted from events occurring subsequent to the November 1, 2021, acquisition date and therefore, were not known nor knowable at that time. Of the total change in the earn-out liability, \$24.5 million was recorded as a fair value gain within the consolidated statements of operations.

We identified the earn-out obligation as a critical audit matter because of the increased auditor judgment and extent of effort required to audit the initial fair value of the earn-out liability and to evaluate whether an adjustment is required in periods after the acquisition. Adjustments made during the measurement period pertaining to facts and circumstances that existed as of the acquisition date are recognized as adjustments to goodwill, while adjustments resulting from events that occurred after the acquisition date are recognized in earnings. There was a high degree of auditor judgment and an increased extent of effort to audit the reasonableness of the inputs used in the fair value measurement including the estimated results of operations over the earn-out period, volatility of operating results and the discount rate.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the initial fair value of the earn-out liability and subsequent adjustments made to it included the following, among others:

- We tested the effectiveness of controls over the valuation of the earn-out obligation, including management’s controls over the development of key judgments including the estimated results of operations over the earn-out period, volatility of operating results, and the discount rate.
- We read the executed purchase agreement, to understand the provisions of the earn-out obligation, including evaluating the substance and classification of the contingent payment.
- We evaluated the reasonableness of projections of future earnings for the earn-out obligation models by comparing the projections to (1) historical results, (2) industry data, and (3) peer companies.
- With the assistance of our fair value specialists, we evaluated the reasonableness of the (1) valuation methodology; (2) key valuation assumptions, including the discount rates; and (3) testing the mathematic accuracy of the valuations.
- Evaluated subsequent changes to estimated results of operations used in the fair value measurement to determine if such changes represent facts that were known and knowable at the time of the acquisition.

**Revenue - Refer to Note 2 to the Consolidated Financial Statements**

*Critical Audit Matter Description*

The Company earns revenue on transactions where (1) they resell inventory that they purchase from sellers, (2) from the sale of inventory that is sold on a consignment basis, and (3) from other non-consignment fee transactions. When acting as a principal, the Company purchases an asset or assets from a seller and then seeks to sell the asset or assets to a buyer. The Company then recognizes as purchase revenue the gross proceeds from the sale, including buyer's premiums. When the Company is acting as an agent, its performance obligation is to arrange for the seller to sell an asset or assets to the buyer directly. The Company recognizes consignment and other fee revenues based on the sales commissions that are paid to the Company by the sellers for utilizing the Company's services. 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.

We identified a critical audit matter related to revenue transactions recorded, which required an increased extent of effort, including the need for us to involve professionals with expertise in information technology (IT), to identify, test, and evaluate the Company’s systems, applications and automated controls.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the Company’s revenue transactions included the following, among others:

- With the assistance of our IT specialists, we:
  - Identified the significant systems used to process revenue transactions and tested the general IT controls over each of these systems, including testing of user access controls, change management controls, and IT operations controls.
  - Performed testing of system interface controls and automated controls relevant to revenue processes.
- We tested internal controls within the relevant revenue processes, including those in place to reconcile the various systems to the Company’s general ledger.
- For certain components of revenue, we developed an independent expectation of revenue and compared such expectation to the amounts recorded by the Company.
- For certain components of revenue, we performed detailed transaction testing for a sample of revenue transactions, which included the following:
  - Agreed the selected revenue transaction amounts recognized to underlying source documents.

- Tested the classification of each transaction as either purchase revenue, where the Company acts as a principal and records revenue based on the gross value of the asset sale, or commission and other fee revenue, where the Company acts as an agent and records only the fee earned net of the sale transaction value.

/s/ Deloitte and Touche LLP

McLean, Virginia

December 8, 2022

We have served as the Company's auditor since 2021.

## Report of Independent Registered Public Accounting Firm

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

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Liquidity Services, Inc. and Subsidiaries (the Company) as of September 30, 2021, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the two years in the period ended September 30, 2021, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at September 30, 2021, and the results of its operations and its cash flows for each of the two years in the period ended September 30, 2021, in conformity with U.S. generally accepted accounting principles.

### Basis for Opinion

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

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

/s/ Ernst & Young LLP

We served as the Company's auditor from 2001 to 2021.

Tysons, Virginia

December 9, 2021



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

	September 30,	
	2022	2021
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 96,122	\$ 106,335
Short-term investments	1,819	—
Accounts receivable, net of allowance for doubtful accounts of \$449 and \$490	11,792	5,866
Inventory, net	11,679	12,468
Prepaid taxes and tax refund receivable	1,631	1,713
Prepaid expenses and other current assets	6,551	5,460
Total current assets	129,594	131,842
Property and equipment, net	19,094	17,634
Operating lease assets	13,207	13,478
Intangible assets, net	16,234	3,453
Goodwill	88,910	59,872
Deferred tax assets	13,628	23,822
Other assets	7,437	5,475
Total assets	\$ 288,104	\$ 255,576
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 41,982	\$ 40,611
Accrued expenses and other current liabilities	23,304	25,975
Current portion of operating lease liabilities	4,540	4,250
Deferred revenue	4,439	4,624
Payables to sellers	49,238	33,713
Total current liabilities	123,503	109,173
Operating lease liabilities	9,687	10,098
Other long-term liabilities	378	1,290
Total liabilities	133,568	120,561
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Common stock, \$0.001 par value; 120,000,000 shares authorized; 35,724,057 shares issued and outstanding at September 30, 2022; 35,457,095 shares issued and outstanding at September 30, 2021	36	35
Additional paid-in capital	258,275	252,017
Treasury stock, at cost; 3,813,199 shares at September 30, 2022, and 2,222,083 shares at September 30, 2021	(62,554)	(36,628)
Accumulated other comprehensive loss	(10,285)	(9,011)
Accumulated deficit	(30,936)	(71,398)
Total stockholders' equity	154,536	135,015
Total liabilities and stockholders' equity	\$ 288,104	\$ 255,576

*See accompanying notes to the consolidated financial statements.*

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

	Year Ended September 30,		
	2022	2021	2020
Purchase revenues	\$ 151,271	\$ 146,151	\$ 127,580
Consignment and other fee revenues	128,779	111,380	78,360
Total revenues	280,050	257,531	205,940
Costs and expenses from operations:			
Cost of goods sold (excludes depreciation and amortization)	119,407	107,678	96,016
Technology and operations	55,522	47,673	42,158
Sales and marketing	43,224	37,635	35,629
General and administrative	28,282	28,938	29,166
Depreciation and amortization	10,322	6,969	6,290
Fair value adjustment of acquisition earn-outs	(24,500)	—	200
Other operating expenses, net	388	1,470	378
Total costs and expenses	232,645	230,363	209,837
Income (loss) from operations	47,405	27,168	(3,897)
Interest and other income, net	(248)	(411)	(924)
Income (loss) before income taxes	47,653	27,579	(2,973)
Provision (benefit) for income taxes	7,329	(23,370)	801
Net income (loss)	\$ 40,324	\$ 50,949	\$ (3,774)
Basic income (loss) per common share	\$ 1.25	\$ 1.53	\$ (0.11)
Diluted income (loss) per common share	\$ 1.20	\$ 1.45	\$ (0.11)
Basic weighted average shares outstanding	32,292,978	33,333,557	33,612,263
Diluted weighted average shares outstanding	33,719,424	35,024,108	33,612,263

*See accompanying notes to the consolidated financial statements.*

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

	Year Ended September 30,		
	2022	2021	2020
Net income (loss)	\$ 40,324	\$ 50,949	\$ (3,774)
Other comprehensive (loss) income:			
Defined benefit pension plan—unrecognized amounts	1,836	170	(2,293)
Foreign currency translation	(3,110)	601	484
Other comprehensive (loss) income	(1,274)	771	(1,809)
Comprehensive income (loss)	\$ 39,050	\$ 51,720	\$ (5,583)

*See accompanying notes to the consolidated financial statements.*

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

	Common Stock			Treasury Stock		Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Shares	Amount	Additional Paid-in Capital	Shares	Amount			
Balance at September 30, 2019	33,687,115	\$ 34	\$ 242,686	—	—	\$ (7,973)	\$ (118,572)	\$ 116,175
Net Loss	—	—	—	—	—	—	(3,774)	(3,774)
Exercise of common stock options and vesting of restricted stock	494,683	—	111	—	—	—	—	111
Tax settlements associated with stock compensation expense	(84,392)	—	(594)	—	—	—	—	(594)
Forfeiture of restricted stock awards	(15,000)	—	—	—	—	—	—	—
Common stock repurchases	—	—	—	(547,508)	(3,983)	—	—	(3,983)
Stock compensation expense	—	—	5,689	—	—	—	—	5,689
Cumulative adjustment related to adoption of ASC 606	—	—	—	—	—	—	—	—
Defined benefit pension plan—unrecognized amounts, net of taxes	—	—	—	—	—	(2,293)	—	(2,293)
Foreign currency translation and other	—	—	—	—	—	484	—	484
Balance at September 30, 2020	34,082,406	\$ 34	\$ 247,892	(547,508)	(3,983)	\$ (9,782)	\$ (122,346)	\$ 111,815
Net income	—	—	—	—	—	—	50,949	50,949
Exercise of common stock options and vesting of restricted stock	1,605,618	1	444	—	—	—	—	445
Tax settlements associated with stock compensation expense	(217,196)	—	(3,915)	—	—	—	—	(3,915)
Forfeiture of restricted stock awards	(13,733)	—	—	—	—	—	—	—
Common stock repurchases	—	—	—	(1,591,963)	(31,143)	—	—	(31,143)
Common stock surrendered in the exercise of stock options	—	—	1,502	(82,612)	(1,502)	—	—	—
Stock compensation expense	—	—	6,094	—	—	—	—	6,094
Defined benefit pension plan—unrecognized amounts, net of taxes	—	—	—	—	—	170	—	170
Foreign currency translation and other	—	—	—	—	—	601	(1)	600
Balance at September 30, 2021	35,457,095	\$ 35	\$ 252,017	(2,222,083)	\$ (36,628)	\$ (9,011)	\$ (71,398)	\$ 135,015
Net income	—	—	—	—	—	—	40,324	40,324
Exercise of common stock options, grants of restricted stock awards, and vesting of restricted stock units	664,921	1	(1)	—	—	—	—	—
Taxes paid associated with net settlement of stock compensation awards	(140,202)	—	(2,805)	—	—	—	—	(2,805)
Common stock repurchases	—	—	—	(1,567,277)	(25,447)	—	—	(25,447)
Common stock surrendered in the exercise of stock options	—	—	478	(23,839)	(479)	—	—	(1)
Forfeiture of restricted stock awards	(257,757)	—	—	—	—	—	—	—
Stock compensation expense	—	—	8,586	—	—	—	—	8,586
Defined benefit pension plan—unrecognized amounts, net of taxes	—	—	—	—	—	1,836	—	1,836
Foreign currency translation	—	—	—	—	—	(3,110)	138	(2,972)
Balance at September 30, 2022	35,724,057	\$ 36	\$ 258,275	(3,813,199)	\$ (62,554)	\$ (10,285)	\$ (30,936)	\$ 154,536

*See accompanying notes to the consolidated financial statements.*

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

	Year Ended September 30,		
	2022	2021	2020
<b>Operating activities</b>			
Net income (loss)	\$ 40,324	\$ 50,949	\$ (3,774)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	10,322	6,969	6,290
Change in fair value of earn-out liability	(24,500)	—	200
Stock compensation expense	8,482	6,947	5,660
Inventory adjustment to net realizable value	194	174	300
Provision for doubtful accounts	136	297	200
Deferred tax expense (benefit)	6,287	(24,510)	106
Impairment of long-lived and other non-current assets	31	1,338	—
(Gain) loss on disposal of property and equipment	(14)	80	(29)
Gain on disposal of lease assets	(240)	(23)	—
Changes in operating assets and liabilities:			
Accounts receivable	(6,290)	(843)	1,182
Inventory	441	(7,035)	(64)
Prepaid taxes and tax refund receivable	82	(61)	878
Prepaid expenses and other assets	(1,805)	(2,022)	1,375
Operating lease assets and liabilities	396	(79)	(187)
Accounts payable	1,548	18,554	6,907
Accrued expenses and other current liabilities	(2,653)	6,060	(8,198)
Distributions payable	—	—	(1,675)
Deferred revenue	(185)	1,369	207
Payables to sellers	13,000	7,543	5,917
Other liabilities	(723)	(290)	1,183
Net cash provided by operating activities	44,833	65,417	16,478
<b>Investing activities</b>			
Purchases of property and equipment, including capitalized software	(8,121)	(5,419)	(4,186)
Proceeds from note receivable	—	4,343	2,824
Purchase of short-term investments	(1,820)	—	(25,000)
Maturities of short-term investments	—	—	55,000
Cash paid for business acquisition, net of cash acquired	(11,164)	—	—
Other investing activities, net	21	72	9
Net cash (used in) provided by investing activities	(21,084)	(1,004)	28,647
<b>Financing activities</b>			
Payments of the principal portion of finance lease liabilities	(99)	(42)	(34)
Payments of debt issuance costs	(91)	—	—
Proceeds from exercise of common stock options, net of tax	—	445	111
Taxes paid associated with net settlement of stock compensation awards	(2,806)	(3,915)	(594)
Payment of earn-out liability related to business acquisition	(3,500)	—	(1,200)
Common stock repurchases	(25,447)	(31,143)	(3,983)
Net cash (used in) provided by financing activities	(31,943)	(34,655)	(5,700)
Effect of exchange rate differences on cash and cash equivalents	(2,019)	541	114
Net increase (decrease) in cash and cash equivalents	(10,213)	30,299	39,539
Cash and cash equivalents at beginning of year	106,335	76,036	36,497
Cash and cash equivalents at end of year	\$ 96,122	\$ 106,335	\$ 76,036

**Supplemental disclosure of cash flow information**

Cash paid (received) for income taxes, net	\$	885	\$	1,442	\$	(1,519)
Non-cash: Common stock surrendered in the exercise of stock options	\$	479	\$	1,502	\$	—

*See accompanying notes to the consolidated financial statements.*

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

**1. Organization**

Liquidity Services, Inc. (Liquidity Services, the Company) is a leading global commerce company providing trusted marketplace platforms that power the circular economy. We create a better future for organizations, individuals, and the planet by capturing and unleashing the intrinsic value of surplus. We connect millions of buyers and thousands of sellers through our leading auction marketplaces, search engines, asset management software, and related services. Our comprehensive solutions enable the transparent, efficient, sustainable recovery of value from excess items owned by business and government sellers.

Our business delivers value to shareholders by unleashing the intrinsic value of surplus through our marketplace platforms. These platforms ignite and enable a self-reinforcing cycle of value creation where buyers and sellers attract one another in growing numbers. The result of this cycle is a continuous flow of goods that becomes increasingly valuable as more participants join the platforms, thereby creating positive network effects that benefit sellers, buyers, and shareholders.

Results from our operations are organized into four reportable segments: GovDeals, Retail Supply Chain Group (RSCG), Capital Assets Group (CAG) and Machinio. See Note 16 - *Segment Information* for more information regarding our segments.

Liquidity Services was incorporated in Delaware in November 1999 as Liquidation.com, Inc. and commenced operations in early 2000.

On November 1, 2021, we acquired Bid4Assets, Inc. (Bid4Assets), a Maryland corporation based in Silver Spring, MD. Bid4Assets is a leading online marketplace focused on conducting real property auctions for the government, including tax foreclosure sales and sheriff's sales. See Note 3 - *Bid4Assets Acquisition* for more information regarding this transaction.

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

**2. Summary of Significant Accounting Policies**

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect amounts in the consolidated financial statements and accompanying notes. For the year ended September 30, 2022, these estimates required the Company to make assumptions about the extent and duration of continued restrictions on cross-border transactions and the impact of the COVID-19 pandemic and other disruptions on macroeconomic conditions and, in turn, the Company's results of operations. As there remains uncertainty associated with the Pandemic, the Company will continue to update its assumptions as conditions change. Actual results could differ significantly from those estimates.

**Principles of Consolidation and Basis of Presentation**

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

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). In addition, in the opinion of management, all adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation of the results for the periods presented have been included.

### **Business Combinations**

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

### **Cash and Cash Equivalents**

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

### **Short-term Investments**

The Company's short-term investments are designated as held-to-maturity investment securities, recorded at amortized cost, and are included as a current asset in the line-item Short-term investments within our Consolidated Balance Sheets as their maturity is less than one-year from the balance sheet date. Interest income earned through our short-term investments are recorded to Interest and other income, net within the Consolidated Statements of Operations.

### **Accounts Receivable**

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

### **Inventory**

Inventory consists of property obtained for resale, generally through the online auction process, and is stated at the lower of cost or net realizable value. Cost is generally determined using the specific identification method. Costs associated with our warehouse operations are expensed as incurred and included within Technology and operations expenses in the Statements of Operations. Charges for unsellable inventory, as well as for inventory written down to net realizable value, are included in Cost of goods sold in the period in which they have been determined to occur. Write-downs reflected in the inventory balances as of September 30, 2022, were immaterial. As of September 30, 2021, the Company's inventory reflects write-downs of \$0.2 million.

### **Prepaid expenses and other current assets**

Prepaid expenses and other current assets include the short-term portion of contract assets (described in "Contract Assets and Liabilities"), capitalized sales commissions paid (described in "Contract Costs"), as well as other miscellaneous prepaid expenses.

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

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

On October 10, 2019, the Company entered into a Forbearance Agreement and Amendment to Note, Security Agreement and Guaranty Agreement (the Forbearance Agreement) with Tanager (now known as Jacobs Trading, LLC) and certain of its affiliates (collectively, JTC). In exchange for additional collateral, security, and a higher interest rate, the Company granted JTC a new repayment schedule that requires quarterly payments to be made from August 2020 to August 2023. Upon execution of the Forbearance Agreement, JTC repaid \$2.5 million in principal, plus \$0.4 million of accrued interest. As of March 31, 2021, JTC had repaid \$7.7 million of the \$12.3 million owed to the Company and had an outstanding principal balance of \$4.6 million.



On May 12, 2021, the Company entered into the First Amendment to the Forbearance Agreement with JTC, providing JTC with full satisfaction and discharge from its indebtedness upon receipt of a \$3.5 million payment made on May 17, 2021. As a result, the Company recorded a \$1.1 million loss as component of Other operating expenses in its Consolidated Statements of Operations during the year ended September 30, 2021, representing the difference between the \$4.6 million outstanding balance of principal and accrued interest and the \$3.5 million payment received. There was no impact on the consolidated financial statements from the Forbearance Agreement as of and during the fiscal year ended September 30, 2022.

### **Property and Equipment**

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

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

### **Leases**

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

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

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

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

Balances related to the Company's operating leases are included within Operating lease assets, Current portion of operating lease liabilities, and Operating lease liabilities (non-current portion of operating lease liabilities).

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

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

### **Intangible Assets**

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

### **Impairment of Long-Lived Assets**

Long-lived assets, including definite-lived intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. If an impairment indicator is present, the Company evaluates recoverability by comparing the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If the assets are impaired, the impairment recognized is measured by the amount by which the carrying amount exceeds the estimated fair value of the assets. The Company did not record impairment charges on material long-lived assets during the years ended September 30, 2022, 2021 and 2020.

### **Goodwill**

Goodwill represents the costs in excess of the fair value of net assets acquired through acquisitions by the Company. The Company reviews goodwill for impairment annually on July 1, or more frequently if events or circumstances indicate impairment may exist. Examples of such events or circumstances could include a significant change in business climate or the loss of a significant contract.

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

In applying a fair value-based test, the Company determines the fair value of each of its reporting units and compares that amount to the carrying amount of the respective reporting units, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, no impairment loss is recognized. If, instead, the carrying value of the reporting unit exceeds its fair value, an impairment loss is recognized in the amount of the excess carrying value.

### **Deferred Revenue**

Deferred revenue is primarily derived from Machinio Advertising and System subscriptions that range primarily from one to twenty-four months. Subscription fees are recognized ratably over the term of the agreements.

### **Revenue Recognition**

In the Consolidated Statements of Operations, revenue from the resale of inventory that the Company purchases from sellers is recognized within Purchase revenues. Revenue from the sale of inventory that the Company sells on a consignment basis, and other non-consignment fee revenue, which includes Machinio's subscription services, is recognized within Consignment and other fee revenues.

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

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

The Company enters into contracts with buyers and sellers. The Company has master agreements with some sellers pertaining to the sale of a flow of surplus assets over the term of the master agreement; however, a revenue contract for accounting purposes exists when the Company agrees to sell a specific asset or assets. When acting as a principal (a "purchase" arrangement), the Company purchases an asset or assets from a seller and then the Company seeks to sell the asset or assets to a buyer. The Company recognizes as Purchase revenues the gross proceeds from the sale, including buyer's premiums. In purchase arrangements, the contract with the seller is not a revenue contract in the scope of the revenue recognition guidance; rather, it is a purchase of inventory.

When the Company is acting as an agent (a "consignment" arrangement), its performance obligation is to arrange for the seller to sell an asset or assets to the buyer directly. The Company recognizes Consignment revenues, which are composed of buyers premium's and/or sales commissions, based on the amounts that are paid to the Company by the buyers and sellers for utilizing the Company's services, which represent a percentage of the gross transaction proceeds.

For the Company's CAG segment, certain transactions may involve cooperation with third parties to satisfy the performance obligation of arranging for the sale of assets to a buyer, with proceeds shared among the parties. When the Company controls whether to use third parties to fulfill its performance obligation, it is considered the principal and revenue is recognized based on the gross purchase or consignment proceeds, with amounts due to third parties recognized as an expense. When the seller requests multiple parties to fulfill its performance obligation, the Company is considered the agent and revenue is recognized based on the net purchase or consignment proceeds to be retained by the Company.

In both purchase and consignment arrangements, the Company sometimes provides varying levels of services to the seller, such as returns management, refurbishment of assets, or valuation services. These services are considered integrated with the broader performance obligation to sell the seller's assets to a buyer. Other services provided to sellers are not capable of being distinct, like providing access to the Company's e-commerce marketplaces or promoting the asset or assets for sale, because they could not benefit the seller separately from the sale of their assets.

The consideration received from buyers and sellers includes (1) buyer's premiums, (2) seller's commissions, and (3) fees for services, including reimbursed expenses. Consideration is variable based on units, final auction prices, or other factors, until the buyer's purchase of the asset or assets is complete, or the service has been provided. Recognition of variable consideration that is based on the results of auctions or purchases by buyers is constrained until those transactions have been finalized. The Company estimates and recognizes amounts related to sales returns, discounts or rebates promised to customers, and reimbursed expenses, however, those estimates are not significant relative to the Company's consolidated revenues. 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. The Company's revenue is generally recorded subsequent to receipt of payment authorization, utilizing credit cards, wire transfers and other 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 segments.

The Company collects and remits sales taxes on merchandise that it purchases and sells and has elected the practical expedient to exclude such sales tax amounts from the transaction price. The Company also provides shipping and handling services in some arrangements and has elected the practical expedient to treat those activities as a fulfillment costs and will recognize the costs of these services at the time revenue is recognized for the related assets sold. 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 purchase and consignment performance obligations are satisfied at the point in time when control of the asset is transferred to the buyer or when the service is completed. The Company determines when control has transferred by evaluating the following five indicators: (1) whether the Company has a present right to payment for the asset or assets; (2) whether the buyer has legal title to the asset; (3) whether the buyer has physical possession of the asset or assets; (4) whether the buyer has the significant risks and rewards of ownership; and (5) whether the buyer has accepted the asset or assets.

For the Company's Machinio segment, the performance obligation has been identified as the stand ready obligation to provide access to the Machinio subscription services, which it satisfies over time and recognizes as other fee revenues. As of September 30, 2022, the Machinio segment had a remaining performance obligation of \$4.4 million; the Company expects to recognize the substantial majority of that amount as Fee Revenue over the next 12 months.

#### **Cost of Goods Sold**

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

#### **Contract Assets and Liabilities**

Contract assets reflect an estimate of expenses that will be reimbursed upon settlement with a seller. The contract asset balance was \$0.6 million as of September 30, 2021 and \$0.9 million as of September 30, 2022 and is included in the line item Prepaid expenses and other current assets on the consolidated balance sheets.

Contract liabilities reflect obligations to provide services for which the Company has already received consideration, and generally arise from up-front payments received in connection with Machinio's subscription services. The contract liability balance was \$4.6 million as of September 30, 2021, and \$4.4 million as of September 30, 2022 and is included in the line item Deferred revenue on the consolidated balance sheets. Of the September 30, 2021 contract liability balance, \$4.6 million was earned as Fee Revenue during the year ended September 30, 2022.

### **Contract Costs**

Contract costs relate to sales commissions paid on subscription contracts that are capitalized within our Machinio segment. Contract costs are amortized over the expected life of the customer contract. The contract cost balance was \$1.8 million as of September 30, 2022 and \$1.6 million as of September 30, 2021 and is included in the line item Prepaid expenses and other current assets and Other assets on the consolidated balance sheet. Amortization expense was \$1.1 million during the year ended September 30, 2022 and was \$0.7 million during the year ended September 30, 2021.

### **Risk Associated with Certain Concentrations**

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

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

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash in banks within interest bearing and earnings allowance checking accounts, as well as cash equivalent money market funds, all of which may at times exceed federally insured limits (FDIC and/or SIPC), and Accounts receivable. The Company deposits its cash in interest bearing checking accounts, or acquires cash equivalent money market funds, each with financial institutions that the Company considers to be of high credit quality.

Additionally, the Company has multiple vendor contracts with Amazon.com, Inc. under which it acquires and sells commercial merchandise. The property purchased under these contracts represented 55%, 61%, and 55% of cost of goods sold for the years ended September 30, 2022, 2021, and 2020, respectively. This contract is included within the RSCG segment.

### **Income Taxes**

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

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

### **Stock-Based Compensation**

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

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

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

The Company recognizes the impact of forfeitures in the period they occur.

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

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

#### **Advertising Costs**

Advertising expenditures are expensed as incurred. Advertising costs charged to expense were \$4.6 million, \$3.2 million and \$2.6 million for the years ended September 30, 2022, 2021, and 2020, respectively.

#### **Treasury Stock**

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

### Foreign Currency Translation

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

### Accumulated Other Comprehensive Loss

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

	Foreign Currency Translation Adjustments	Net Change Pension and Other Postretirement Benefit Plans	Accumulated Other Comprehensive Loss
Balance at September 30, 2019	\$ (8,569)	\$ 596	\$ (7,973)
Current-period other comprehensive (loss) income	484	(2,293)	(1,809)
Balance at September 30, 2020	(8,085)	(1,697)	(9,782)
Current-period other comprehensive (loss) income	601	170	771
Balance at September 30, 2021	(7,484)	(1,527)	(9,011)
Current-period other comprehensive (loss) income	(3,110)	1,836	(1,274)
Balance at September 30, 2022	<u>\$ (10,594)</u>	<u>\$ 309</u>	<u>\$ (10,285)</u>

### Recent Accounting Pronouncements

#### *Accounting Standards Adopted*

In December 2019, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The Company adopted the new standard on a prospective basis effective October 1, 2021. This accounting standard has not had a material impact on the Company's consolidated financial statements.

#### *Accounting Standards Not Yet Adopted*

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

### 3. Bid4Assets Acquisition

On November 1, 2021, the Company purchased all of the issued and outstanding shares of stock of Bid4Assets, Inc. (Bid4Assets), a Maryland corporation. Bid4Assets is a leading online marketplace focused on conducting real property auctions for the government, including tax foreclosure sales and sheriff's sales. The results of Bid4Assets' operations are included within our GovDeals reportable segment and reporting unit.

As of September 30, 2022, the Company's purchase price allocation related to this acquisition is preliminary and subject to revisions as additional information is obtained about the facts and circumstances that existed as of the acquisition date. The revisions may have a significant impact on our consolidated financial statements. The allocation of the purchase price will be finalized once all information that was known and knowable as of the acquisition date is obtained and analyzed, but not to exceed one year from the acquisition date.

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

The primary areas of the purchase price allocation that are not yet finalized relate to income and non-income taxes, the valuation of intangible assets acquired and earn-out liability, and the residual goodwill. The preliminary amounts assigned to intangible assets by type for this acquisition were based upon our valuation model and historical experiences with entities with similar business characteristics. During the three months ended March 31, 2022, we recorded a measurement period adjustment of \$1.1 million for the earn-out consideration fair value with a corresponding increase to Goodwill, based on facts and circumstances in existence as of the effective date of the acquisition related to the discount rates associated with the expected earn-out payments. This resulted in a change to the total consideration transferred and goodwill balance seen below as compared to our previously reported preliminary purchase accounting results as of December 31, 2021.

The preliminary acquisition date fair value of the consideration transferred to the former shareholders of Bid4Assets was approximately \$42.7 million consisting of \$14.7 million in cash (net of working capital adjustments totaling \$0.3 million) and earn-out consideration with a preliminary fair value of \$28.0 million. Former shareholders of Bid4Assets are eligible to receive earn-out consideration of up to \$37.5 million in cash, payable based on Bid4Assets' achievement of trailing twelve-month EBITDA targets measured at the end of each calendar quarter until the quarter ended December 31, 2022.

The Company's preliminary allocation of the purchase price to the assets acquired and liabilities assumed as of the Bid4Assets acquisition date of November 1, 2021, is as follows:

(in thousands)	Fair Value
Cash and cash equivalents	\$ 3,576
Intangible assets	16,500
Other assets	346
Total assets acquired	20,422
Payables to sellers	3,715
Operating lease liabilities	204
Deferred tax liabilities	3,847
Total liabilities assumed	7,766
Net identifiable assets acquired	\$ 12,656
Goodwill	30,083
Total consideration transferred	\$ 42,739

The excess of purchase consideration over the fair value of assets acquired and liabilities assumed was recorded as Goodwill. The Goodwill associated with our acquisition includes the acquired assembled work force, and the value associated with the opportunity to leverage the workforce to continue to grow by adding additional customer relationships or new solutions in the future. Based on management's preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed, Goodwill of approximately \$30.1 million was recorded. The total Goodwill arising from the acquisition is included in the GovDeals reportable segment and reporting unit and is not deductible for tax purposes.

The known intangible assets acquired were determined to consist of, and preliminarily fair valued at, the following:

(in thousands)	Useful Life (in years)	Fair Value
Contract intangibles	8	\$ 13,900
Developed software	3	2,200
Trade name	3	400
Total identifiable intangible assets		\$ 16,500

*Contract Intangibles*

We recorded contract intangibles separately from goodwill based upon determination of the length, strength, and contractual nature of the relationship that Bid4Assets shared with its suppliers. We valued the contract intangibles using the multi-period excess earnings method, an income approach valuation model. The significant assumptions used in the income approach includes estimates about future expected cash flows from supplier contracts, the attrition rate, and the discount rate. We are amortizing the contract intangibles, preliminarily valued at \$13.9 million, on a straight-line basis over a useful life of eight years, which is materially consistent with the expected pattern of economic benefit.

*Developed Software*

Developed software primarily consists of intellectual property of the Bid4Assets e-commerce marketplace and associated mailing lists. We valued the developed software by applying the relief-from-royalty method, an income approach valuation model. The significant assumptions used in the relief-from-royalty method include estimates about future expected cash flows from the developed software, the royalty rate, the obsolescence factor and the discount rate. We are amortizing the acquired developed technology, preliminarily valued at \$2.2 million, on a straight-line basis over a useful life of three years, which is materially consistent with the expected pattern of economic benefit.

*Trade Name*

We valued the trade name acquired using a relief-from-royalty method. The significant assumptions used in the relief-from-royalty method include future expected cash flows from the trade name, the royalty rate, and the discount rate. We are amortizing the trade name, preliminarily valued at \$0.4 million, on a straight-line basis over a useful life of three years, which is materially consistent with the expected pattern of economic benefit.

*Contingent Consideration*

During the year ended September 30, 2022, and as a result of the acquisition of Bid4Assets, the Company recorded preliminary contingent consideration in the amount of \$28.0 million on its Consolidated Balance Sheets. See further discussion of this matter within Note 13 - *Fair Value Measurement*.

*Other Information*

Revenue, net income (loss), and pro forma information related to the Bid4Assets acquisition was immaterial to the consolidated financial statements and its related notes for the year ended September 30, 2022.



#### 4. Earnings Per Share

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

The Company calculates diluted net income (loss) per share by dividing net income (loss) by the weighted-average number of common shares and potentially dilutive common shares outstanding during the reporting period using the treasury stock method.

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

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

	Year Ended September 30,		
	2022	2021	2020
Numerator:			
Net income (loss)	\$ 40,324	\$ 50,949	\$ (3,774)
Denominator:			
Basic weighted average shares outstanding	32,292,978	33,333,557	33,612,263
Dilutive impact of stock options, RSUs and RSAs	1,426,446	1,690,551	—
Diluted weighted average shares outstanding	33,719,424	35,024,108	33,612,263
Basic income (loss) per common share	\$ 1.25	\$ 1.53	\$ (0.11)
Diluted income (loss) per common share	\$ 1.20	\$ 1.45	\$ (0.11)
Stock options, RSUs and RSAs excluded from income (loss) per diluted share because their effect would have been anti-dilutive	1,009,288	420,454	3,526,055

**5. Property and Equipment**

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

	September 30,	
	2022	2021
	(in thousands)	
Computers and purchased software	\$ 2,058	\$ 1,981
Developed software for internal-use	22,168	18,942
Equipment	8,536	6,373
Leasehold improvements	3,256	3,244
Building	2,158	2,158
Furniture and fixtures	527	655
Vehicles	1,406	1,129
Land	754	754
Construction in progress	1,812	956
Total property and equipment	42,675	36,192
Less: Accumulated depreciation and amortization	(23,581)	(18,558)
Total property and equipment, net	<u>\$ 19,094</u>	<u>\$ 17,634</u>

Depreciation and amortization expense related to property and equipment for the years ended September 30, 2022, 2021 and 2020, was \$6.5 million, \$5.6 million and \$4.9 million, respectively. Included in those amounts is amortization of internally developed software for internal-use of \$4.7 million, \$3.9 million and \$2.9 million, respectively.

The Company did not record impairment charges on material property and equipment during the years ended September 30, 2022, 2021 and 2020.

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

**6. Leases**

The Company has operating leases for its corporate offices, warehouses, vehicles and equipment. The operating leases have remaining terms of up to 4.3 years. Some of the leases have options to extend or terminate the leases. The exercise of such options is generally at the Company's discretion. The lease agreements do not contain any significant residual value guarantees or restrictive covenants. The Company also subleases excess corporate office space. The Company's finance leases and related balances are not significant.

The components of lease expense are:

	September 30,	
	2022	2021
	(in thousands)	
Finance lease – lease asset amortization	\$ 80	\$ 54
Finance lease – interest on lease liabilities	21	22
Operating lease cost	5,695	5,139
Operating lease impairment expense	—	172
Short-term lease cost	337	242
Variable lease cost <sup>(1)</sup>	1,368	1,532
Sublease income	(111)	(184)
<b>Total net lease cost</b>	<b>\$ 7,390</b>	<b>\$ 6,977</b>

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

Maturities of lease liabilities are:

(in thousands)	September 30, 2022	
	Operating Leases	Finance Leases
2023	\$ 5,267	\$ 116
2024	4,366	97
2025	3,576	68
2026	2,139	65
2027	396	12
Thereafter	—	—
<b>Total lease payments <sup>(1)</sup></b>	<b>\$ 15,744</b>	<b>\$ 358</b>
Less: imputed interest <sup>(2)</sup>	(1,516)	(33)
<b>Total lease liabilities</b>	<b>\$ 14,228</b>	<b>\$ 325</b>

<sup>(1)</sup> The weighted average remaining lease term is 3.3 years for operating leases and 3.6 years for finance leases.

<sup>(2)</sup> The weighted average discount rate is 6.2% for operating leases and 5.6% for finance leases.

Supplemental disclosures of cash flow information related to leases are:

(in thousands)	Year Ended September 30,	
	2022	2021
Cash paid for amounts included in operating lease liabilities	\$ 4,368	\$ 4,319
Cash paid for amounts included in finance lease liabilities	99	42
Non-cash: lease liabilities arising from new operating lease assets obtained	4,664	3,349
Non-cash: lease liabilities arising from new finance lease assets obtained	175	137
Non-cash: adjustments to lease assets and liabilities <sup>1</sup>	(196)	3,756

<sup>(1)</sup> These include adjustments due to lease modifications, renewals, and other related adjustments.

## 7. Goodwill

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

Goodwill (in thousands)	GovDeals		CAG		Machinio		Total	
Balance at September 30, 2019	\$	23,731	\$	21,178	\$	14,558	\$	59,467
Translation adjustments		—		372		—		372
Balance at September 30, 2020	\$	23,731	\$	21,550	\$	14,558	\$	59,839
Translation adjustments		—		33		—		33
Balance at September 30, 2021	\$	23,731	\$	21,583	\$	14,558	\$	59,872
Bid4Assets acquisition (see Note 3)		30,083		—		—		30,083
Translation adjustments		—		(1,045)		—		(1,045)
Balance at September 30, 2022	\$	53,814	\$	20,538	\$	14,558	\$	88,910

Accumulated goodwill impairment losses as of September 30, 2022, and 2021 were \$168.6 million.

### Impairment Analysis

Goodwill is tested for impairment at the beginning of the fourth quarter and during interim periods whenever events or circumstances indicate that the carrying value may not be recoverable. As discussed in Note 13 – *Fair Value Measurement*, the fair value of the Bid4Assets earn-out liability declined by \$24.5 million during the fiscal year ended September 30, 2022, due to timing changes impacting the level of auction events and transactions that are expected to occur during the earn-out period ending December 31, 2022. These timing changes have not reflected substantive changes to the long-term outlook for real estate sales within the GovDeals segment and were not considered a triggering event for testing goodwill or long-lived assets for impairment as of September 30, 2022. The Company has also continued to evaluate the impact of the COVID-19 pandemic and other ongoing macroeconomic disruptions on the recoverability of its Goodwill. The Company did not identify any indicators of impairment that required an interim goodwill impairment test during the three months ended September 30, 2022.

As of July 1, 2022, the Company performed its annual impairment test using the optional qualitative assessment for each of our reporting units. For each of our reporting units, based upon the significance of positive indicators identified through our assessment of qualitative evidence, we concluded that it was more likely than not that the fair value of each reporting unit exceeded their carrying amounts. The Company did not record impairment charges on goodwill during the years ended September 30, 2022, 2021 and 2020.

## 8. Intangible Assets

Intangible assets consist of the following:

	Useful Life (in years)	Weighted average useful Life (in years)	Balance as of September 30, 2022			Balance as of September 30, 2021		
			Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
			(in thousands)			(in thousands)		
Contract intangibles	6 - 8	7.5	\$ 17,000	\$ (3,789)	\$ 13,211	\$ 3,100	\$ (1,679)	\$ 1,421
Brand and technology	3 - 5	4.2	5,300	(3,089)	2,211	2,700	(1,755)	945
Patent and trademarks	7 - 10	9.0	2,381	(1,569)	812	2,360	(1,273)	1,087
Total intangible assets, net			\$ 24,681	\$ (8,447)	\$ 16,234	\$ 8,160	\$ (4,707)	\$ 3,453

The gross carrying amount of total intangible assets increased by \$16.5 million during the year ended September 30, 2022, primarily due to the Bid4Assets acquisition. The acquired developed software and trade name are included in the above line items of Technology and Patent and trademarks, respectively. See Note 3 - *Bid4Assets Acquisition* for further information.

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

Future expected amortization of intangible assets at September 30, 2022, is as follows:

Year Ending September 30,	Amortization (in thousands)
2023	\$ 3,790
2024	3,252
2025	2,012
2026	1,767
2027	1,759
Thereafter	3,654
<b>Total</b>	<b>\$ 16,234</b>

Amortization expense related to intangible assets for the years ended September 30, 2022, 2021 and 2020 was \$3.7 million, \$1.3 million and \$1.3 million, respectively. The increase in intangible amortization expense was primarily due to the Bid4Assets acquisition.

The Company did not record impairment charges on any intangible assets during the years ended September 30, 2022, 2021 and 2020. The Company has continued to evaluate the impact of the COVID-19 pandemic, ongoing macroeconomic disruptions, and the subsequent financial performance of Bid4Assets, on the recoverability of its long-lived assets. The Company did not identify any indicators of impairment requiring an interim impairment test on material long-lived assets during the year ended September 30, 2022.

**9. 401(k) Benefit Plan**

The Company has a retirement plan (the Plan), which is intended to be a qualified plan under Section 401(k) of the Internal Revenue Code. The Plan is a defined contribution plan available to all eligible employees and allows participants to contribute up to the legal maximum of their eligible compensation, not to exceed the maximum tax-deferred amount allowed by the Internal Revenue Service. The Plan also allows the Company to make discretionary matching contributions. During the year ended September 30, 2020, the Company changed its employer contributions from a safe harbor matching program to be fully discretionary where employer contributions may be provided to participants based upon the Company's financial performance and metrics at the end of its fiscal and calendar years. For the years ended September 30, 2022, 2021, and 2020, the Company recorded expenses of \$1.0 million, \$1.1 million and \$0.9 million, respectively, related to its contributions to the Plan.

**10. Income Taxes**

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

	Year Ended September 30,		
	2022	2021	2020
(in thousands)			
Current tax provision (benefit):			
U.S. Federal	\$ —	\$ —	\$ —
State	487	293	382
Foreign	555	847	313
	<u>1,042</u>	<u>1,140</u>	<u>695</u>
Deferred tax provision (benefit):			
U.S. Federal	4,962	(23,315)	74
State	1,275	(1,252)	(27)
Foreign	50	57	59
	<u>6,287</u>	<u>(24,510)</u>	<u>106</u>
Total (benefit) provision	<u>\$ 7,329</u>	<u>\$ (23,370)</u>	<u>\$ 801</u>

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

	September 30,	
	2022	2021
(in thousands)		
Deferred tax assets:		
Net operating losses—Foreign	\$ 12,409	\$ 13,593
Net operating losses—U.S.	24,054	31,456
Accrued vacation and bonus	701	678
Inventory capitalization	683	219
Inventory reserves	24	—
Allowance for doubtful accounts	113	96
Stock compensation expense	2,198	1,415
Operating lease liabilities	3,565	3,605
Depreciation	—	2,339
Other	845	897
Total deferred tax assets before valuation allowance	<u>44,592</u>	<u>54,298</u>
Less: valuation allowance	<u>(12,259)</u>	<u>(13,813)</u>
Net deferred tax assets	32,333	40,485
Deferred tax liabilities:		
Amortization of intangibles	3,453	107
Amortization of goodwill	7,595	7,322
Depreciation	938	—
Capitalized costs	2,786	5,602
Operating/right of use assets	3,325	3,394
Pension liability	608	238
Total deferred tax liabilities	<u>\$ 18,705</u>	<u>\$ 16,663</u>
Net deferred taxes	<u>\$ 13,628</u>	<u>\$ 23,822</u>

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

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

	Year Ended September 30,		
	2022	2021	2020
U.S. statutory rate	21.0 %	21.0 %	21.0 %
Stock-based stock compensation expense	(2.0)%	(14.1)%	(14.9)%
Nondeductible compensation expense	2.0 %	5.5 %	(6.0)%
Fair value adjustments of acquisition earn-outs	(10.8)%	— %	— %
Other permanent items	(0.4)%	0.1 %	(1.1)%
State taxes	3.3 %	3.0 %	(13.2)%
Net foreign rate differential	0.1 %	0.5 %	(0.8)%
Unrecognized tax benefits	— %	0.1 %	5.1 %
Change in valuation allowance	(3.3)%	(98.9)%	9.9 %
Write-down of deferred tax assets on share-based stock compensation	0.5 %	0.7 %	(12.3)%
Write-down of deferred tax assets on net operating loss	4.2 %	(2.8)%	(15.9)%
Other	0.8 %	0.2 %	1.3 %
Effective rate	<u>15.4 %</u>	<u>(84.7)%</u>	<u>(26.9)%</u>

As of September 30, 2022 and 2021, the Company had federal and state deferred tax assets of \$13.4 million and \$23.5 million, respectively, related to available federal and state net operating loss (NOL) carryforwards, foreign tax credit carryforwards, and other U.S. deductible temporary differences. The federal and state NOL carryforwards expire beginning in 2037 and 2023, respectively. The Company's ability to use these various carryforwards to offset any taxable income generated in future taxable periods may be limited under Section 382 and other federal tax provisions. The foreign tax credit carryforwards expire beginning in 2023. At September 30, 2022 and 2021, the Company had deferred tax assets related to available foreign NOL carryforwards of \$12.4 million and \$13.6 million, respectively. All but \$0.5 million of our foreign NOLs maintain an indefinite carry forward life. The NOLs with limited carryforward periods will expire beginning in 2023.

The Company evaluates the recoverability of its deferred tax assets on a jurisdictional basis by considering whether deferred tax assets will be realized on a more likely than not basis. To the extent a portion or all of the applicable deferred tax assets do not meet the more likely than not threshold, a valuation allowance is recorded. Consideration was given to the tax planning strategies and, when applicable, future taxable income as to how much of the relevant deferred tax asset could be realized on a more likely than not basis. The Company has recorded a valuation allowance of \$12.3 million and \$13.8 million against its gross deferred tax asset balance at September 30, 2022 and 2021, respectively. At each reporting date, the Company considers new evidence, both positive and negative, that could affect its view of the future realization of deferred tax assets. As of September 30, 2022, the Company determined that there was sufficient positive evidence to conclude that it is more likely than not that all of its U.S. deferred tax assets are realizable, except for \$0.5 million of foreign tax credit carry forwards that expire beginning in 2023.

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

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

On November 1, 2021, the Company acquired 100% of the stock of Bid4Assets, Inc. for \$42.7 million. Under the acquisition method of accounting, the Company recorded a net deferred tax liability of \$3.8 million comprised primarily of acquired intangibles netted against NOLs and other deferred assets. The total amount of NOLs, which are subject to limitations under Section 382, were \$1.2 million.

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

The Company has not recorded a provision for deferred U.S. tax expense on the undistributed earnings of foreign subsidiaries since the Company intends to indefinitely reinvest the earnings of these foreign subsidiaries outside the U.S. The amount of such undistributed foreign earnings was \$8.6 million as of September 30, 2022. As of September 30, 2022, and 2021, \$20.3 million and \$22.4 million, respectively, of cash and cash equivalents was held overseas and not available to fund domestic operations without incurring taxes upon repatriation.

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

	Year Ended September 30,		
	2022	2021	2020
Beginning balance at October 1	\$ 143	\$ 123	\$ 273
Additions based on positions related to the current year	—	—	—
Additions for tax positions of prior years	—	20	—
Reductions for tax positions of prior years	—	—	(150)
Settlements	—	—	—
Balance at September 30	<u>\$ 143</u>	<u>\$ 143</u>	<u>\$ 123</u>

The Company applies the authoritative guidance related to uncertainty in income taxes. ASC 740 states that a benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits. During 2022, the Company did not identify any new uncertain tax positions.

The Company recognizes interest and penalties in the period in which they occur in the income tax provision. The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, various state and local jurisdictions and in foreign jurisdictions, primarily Canada and the U.K. The Company has no open income tax examinations in the U.S. and the statute of limitations for years prior to 2019 is now closed. However, certain tax attribute carryforwards that were generated prior to fiscal year 2019 may be adjusted upon examination by tax authorities if they are utilized.

### 11. Debt

On February 10, 2022, the Company entered into a credit facility agreement (Credit Agreement) with Wells Fargo Bank, N.A. Terms of the Credit Agreement provide for revolving loans (Line of Credit) up to a maximum aggregate principal amount of \$25.0 million with a \$10.0 million sublimit for standby letters of credit. The Credit Agreement ends on March 31, 2024, at which time any remaining amounts outstanding are due immediately.

The applicable interest rate on any draws under the Line of Credit is a variable rate per annum equal to the Daily Simple Secured Overnight Financing Rate (SOFR) in effect plus a margin ranging from 1.25% to 1.75%. Interest is payable monthly. The Company pays an Unused Commitment Fee (as fined in the Credit Agreement), on a quarterly basis, equal to 0.05% per annum on the daily amount of the available, but unused, balance on the Line of Credit. The Company also pays a Letter of Credit Fee (as defined in the Credit Agreement), on a quarterly basis, equal to 1.25% on the daily amount available to be drawn for standby letters of credit. Interest incurred on any draws under the Line of Credit, as well as the Unused Commitment Fee and Letter of Credit Fee, are included within Interest and other income, net in the Consolidated Statements of Operations.

The Company may draw upon the Line of Credit for general corporate purposes. Repayments of any borrowings under the Line of Credit shall become available for redraw at any time by the Company.

The Credit Agreement contains certain financial and non-financial restrictive covenants including, among others, the requirement to maintain a minimum level of earnings before interest, income taxes, depreciation and amortization (EBITDA). The Credit Agreement contains a number of affirmative and restrictive covenants including limitations on mergers, consolidations and dissolutions, investments and acquisitions, indebtedness and liens, and dividends and other restricted payments. As of September 30, 2022, the Company was in full compliance with the terms and conditions of the Credit Agreement.

During the year ended September 30, 2022, the Company did not make any draws under the Credit Agreement. As of September 30, 2022, the Company had no outstanding borrowings under the Credit Agreement.

During the year ended September 30, 2022, interest expense incurred by the Company under the Credit Agreement was immaterial to the consolidated financial statements.



## 12. Equity Transactions

### Stock Compensation Incentive Plans

The Company has several incentive plans under which stock options, restricted stock units (RSUs), restricted stock awards (RSAs), and cash-settled stock appreciation rights (SARs) have been issued, including the Third Amended and Restated 2006 Omnibus Long-Term Incentive Plan, as amended, and a plan and private placement issuances related to the Company's acquisition of Machinio. During the year ended September 30, 2022, the Company's shareholders approved an amendment to the LTIP to increase the number of shares of common stock reserved for issuance from \$19.1 million to \$20.3 million. Accordingly, as of September 30, 2022, the Company has reserved at total of \$20.3 million shares of its common stock for exercises of stock options, vesting of RSUs, and grants of RSAs under these plans. Vesting of RSUs and grants of RSAs count as 1.5x shares against the plan reserves. As of September 30, 2022, 2.3 million shares of common stock remained available for use.

### Stock Compensation Expense

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

	Year Ended September 30,		
	2022	2021	2020
<b>Equity-classified awards:</b>			
Stock options	\$ 2,673	\$ 3,117	\$ 2,054
RSUs & RSAs	5,912	2,977	3,635
<b>Liability-classified awards:</b>			
SARs	\$ (104)	\$ 853	\$ (29)
<b>Total stock compensation expense:</b>	<u>\$ 8,481</u>	<u>\$ 6,947</u>	<u>\$ 5,660</u>

The Company's total liabilities for liability-classified stock compensation awards was \$0.2 million and \$0.5 million as of September 30, 2022 and 2021, the current portion of which was \$0.2 million and \$0.3 million, respectively.

The table below presents the components of share-based compensation expense by line item within our Consolidated Statements of Operations (in thousands):

	Year Ended September 30,		
	2022	2021	2020
<b>Stock Compensation Expense by Line Item</b>			
Technology and operations	\$ 1,307	\$ 1,016	\$ 385
Sales and marketing	2,148	1,541	1,502
General and administrative	5,026	4,390	3,773
<b>Total stock compensation expense:</b>	<u>\$ 8,481</u>	<u>\$ 6,947</u>	<u>\$ 5,660</u>

**Share-Based Award Activity**

**Stock Options**

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

	Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of September 30, 2021	2,844,285	\$ 10.04	6.14	\$ 34,877
Granted	281,657	\$ 22.60		\$ —
Exercised	(316,964)	\$ 7.82		\$ 3,817
Forfeited	(31,924)	\$ 27.67		\$ 150
Expired	(71,618)	\$ 34.37		\$ 71
Outstanding as of September 30, 2022	<u>2,705,436</u>	\$ 10.76	5.58	\$ 18,397
Vested and expected to vest as of September 30, 2022	<u>2,645,436</u>	\$ 10.61	5.54	\$ 18,397
Exercisable as of September 30, 2022	<u>1,961,900</u>	\$ 9.29	4.88	\$ 15,224

Of the 743,536 stock options not yet exercisable as of September 30, 2022, 582,441 can become exercisable by satisfying service conditions only, and 161,095 can become exercisable by satisfying service and performance or market conditions.

Stock options containing only service conditions generally vest over periods of one to four years and expire five to ten years from the date of grant. Stock compensation cost is expensed ratably over the entire service period. As of September 30, 2022, there was \$2.8 million of unrecognized compensation cost related to stock options containing only service conditions, which is expected to be recognized over a weighted-average period of 2.4 years.

The range of assumptions used to determine the fair value of stock options using the Black-Scholes option-pricing model during the years ended September 30, 2022, 2021 and 2020 were as follows:

	Year ended September 30		
	2022	2021	2020
Dividend yield	—	—	—
Expected volatility	57.0% - 62.2%	51.0% - 55.9%	46.5% - 51.0%
Risk-free interest rate	1.1% - 3.5%	0.4% - 0.8%	0.5% - 1.5%
Expected term	4.5- 7.4 years	4.6 - 7.6 years	4.6 - 7.4 years

The weighted-average grant date fair value of options granted during the year-ended September 30, 2022, 2021 and 2020 was \$10.70, \$4.81 and \$2.66, respectively. The total intrinsic value of options exercised during 2022, 2021 and 2020 was \$3.8 million, \$15.0 million and \$0.1 million, respectively. Stock options containing performance conditions are discussed separately in the section below.

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

**RSUs & RSAs**

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

	RSU & RSA	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (years)	Aggregate Fair Value
Outstanding as of September 30, 2021	917,381	\$ 9.15	1.98	\$ 19,825
Granted	845,419	\$ 21.25		\$ 17,961
Vested	(362,233)	\$ 9.39		\$ 7,344
Forfeited	(298,528)	\$ 8.02		\$ 6,448
Outstanding as of September 30, 2022	<u>1,102,039</u>	\$ 18.66	2.94	\$ 17,919
Expected to vest as of September 30, 2022	<u>959,349</u>	\$ 18.46	2.98	\$ 15,599

Of the outstanding RSUs & RSAs as of September 30, 2022, 647,674 can vest by satisfying service conditions only, and 454,365 can vest by satisfying service and performance or market conditions.

RSUs containing only service conditions vest ratably each year over periods of one to four years. Stock compensation cost is expensed ratably over the entire service period. As of September 30, 2022, there was \$8.3 million of unrecognized compensation cost related to RSUs containing only service conditions, which is expected to be recognized over a weighted-average period of 2.9 years. RSUs and RSAs containing performance conditions and market conditions are discussed separately in the section below.

**SARs**

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

	SARs	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of September 30, 2021	42,045	\$ 6.11	1.25	\$ 652
Exercised	(13,645)	\$ 6.11		\$ 170
Forfeited	(4,250)	\$ 6.11		\$ 58
Outstanding as of September 30, 2022	<u>24,150</u>	\$ 6.11	0.25	\$ 245
Vested and expected to vest as of September 30, 2022	<u>24,150</u>	\$ 6.11	0.25	\$ 245
Exercisable as of September 30, 2022	<u>12,150</u>	\$ 6.11	0.25	\$ 123

The 12,000 SARs not yet exercisable as of September 30, 2022 can become exercisable by satisfying service conditions only.

As of September 30, 2022, there was approximately \$0.1 million of unrecognized compensation cost related to SARs containing service conditions, which is expected to be recognized over a weighted-average period of 0.25 years. The Company made cash payments of \$0.2 million, \$0.4 million and \$0.6 million to settle SARs exercised during the years ended September 30, 2022, 2021 and 2020, respectively.

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

The fair value of outstanding SARs containing only service conditions is estimated using the Black-Scholes option-pricing model. The range of assumptions used to determine the fair value of outstanding SARs as of September 30, 2022, 2021 and 2020 were as follows:

	Year ended September 30		
	2022	2021	2020
Dividend yield	—	—	—
Expected volatility	71.7 %	78.3 %	55.0% - 68.8%
Risk-free interest rate	4.0 %	0.1 %	0.1% - 0.1%
Expected term	0.25	1.25	0.0-2.3 years

As of September 30, 2022, 2021, and 2020, the weighted-average fair value of SARs outstanding was \$9.82, \$18.86, and \$0.63 per award, respectively. SARs containing performance conditions and market conditions are discussed separately in the section below.

**Stock Awards Containing Performance and Market Conditions**

Stock awards containing performance conditions vest upon the achievement of specified financial targets of the Company or its business units. Vesting is generally measured on the first day of each fiscal quarter over the four-year terms of the awards, starting with the first fiscal quarter after the first anniversary of the grant date, based upon the trailing twelve months performance of the Company or its business units. When it is probable that the performance targets will be achieved, stock compensation expense is recognized ratably over the derived service period. If the Company determines that achievement of the performance targets is no longer probable, the Company no longer records expense and reverses all previously recognized expense. As of September 30, 2022, there was \$0.7 million of unrecognized compensation costs related to stock options and RSUs & RSAs, containing performance conditions that are considered probable of being met, which is expected to be recognized over a weighted-average period of 2.3 years.

Stock awards containing market conditions vest upon the achievement of specified increases in the Company's share price. Vesting is measured the first day of each fiscal quarter over the four-year terms of the award, starting with the first fiscal quarter after the first anniversary of the grant date, based upon the trailing 20-days average of the Company's share price. Stock compensation cost is expensed on a straight-line basis over the derived service period for each stock price target within the award. The Company accelerates expense when a stock price target is achieved prior to the derived service period. For equity-classified awards, the Company does not reverse expense recognized if the stock price target(s) are not ultimately achieved, but expense is reversed when such situations occur for liability classified awards. As of September 30, 2022, there was \$3.4 million of unrecognized compensation costs related to stock options, RSUs and SARs, containing market conditions, which is expected to be recognized over a weighted-average period of 2.1 years.

The fair value of stock options, RSUs and SARs containing market conditions is estimated using Monte Carlo simulations. The range of assumptions used to determine the fair value of these awards during the years ended September 30, 2022, 2021 and 2020 were as follows:

	Year ended September 30		
	2022	2021	2020
Dividend yield	—	—	—
Expected volatility	57.2% - 62.9%	51.6% - 54.6%	45.2% - 54.9%
Risk-free interest rate	1.1% - 1.5%	0.3% - 0.9%	0.1% - 1.7%
Expected holding period (% of remaining term)	29.4% - 100.0%	31.7% - 100.0%	30.7% - 100.0%

**Share Repurchase Program**

We are authorized to repurchase issued and outstanding shares of our common stock under a share repurchase program approved by our Board of Directors. Share repurchases may be made through open market purchases, privately negotiated transactions or otherwise, at times and in such amounts as management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements and other market conditions. The repurchase program may be discontinued or suspended at any time and will be funded using our available cash.

The Company had no remaining share repurchase authorization as of September 30, 2021. On December 6, 2021, the Company's Board of Directors authorized a new stock repurchase plan of up to \$20 million of the Company's outstanding shares of common stock through December 31, 2023. The Company repurchased 1,159,066 shares for \$20.0 million during the six months ended March 31, 2022.

On May 13, 2022, the Company's Board of Directors authorized a new stock repurchase plan of up to \$12 million of our outstanding shares of common stock through June 30, 2024. The Company repurchased 408,211 shares for \$5.4 million during the year ended September 30, 2022 under the May 2022 Repurchase Plan. As of September 30, 2022, the Company may repurchase an additional \$6.6 million of shares under the May 2022 Repurchase Plan. On December 6, 2022, the Company's Board of Directors authorized the repurchase of up to an additional \$8.4 million of the Company's outstanding shares of common stock through December 31, 2024.

### **Other Share Repurchases**

Separate from the share repurchase program, our stock incentive plans allow for participants to exercise stock options by surrendering shares of common stock equivalent in value to the exercise price due.

During the year ended September 30, 2022 and September 30, 2021, participants surrendered 23,839 and 82,612 shares of common stock in the exercise of stock options, respectively. Any shares surrendered to the Company in this manner are not available for future grant.

### **13. Fair Value Measurement**

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

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

*Cash and cash equivalents.* The Company had \$22.0 million and \$40.0 million of money market funds considered cash equivalents at September 30, 2022, and 2021, respectively. These assets were measured at fair value at September 30, 2022, and 2021, and were classified as Level 1 assets within the fair value hierarchy. There were no transfers between levels during the periods presented.

*Contingent consideration.* During the year ended September 30, 2022, and as a result of the acquisition of Bid4Assets, the Company recorded preliminary fair value of contingent consideration in the amount of \$28.0 million on its Consolidated Balance Sheets as of the acquisition date. The contingent consideration is based on Bid4Assets' achievement of trailing twelve-month EBITDA targets measured at the end of each calendar quarter until the quarter ended December 31, 2022. The liability for this consideration is included in Accrued expenses and other current liabilities within the Consolidated Balance Sheets.

The Company's initial estimate of the fair value of the earn-out consideration was informed by the Monte Carlo valuation method and considered potential outcomes based upon the terms and conditions of the merger agreement. The fair value measurements utilized were classified as Level 3 assets within the fair value hierarchy under the provisions of ASC 820, *Fair Value Measurements*, and ASC 805, *Business Combinations*. The significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy included estimated results of operations over the earn-out period, volatility of operating results (expense components ranged from 20% to 55%), and the discount rate (13%). The earn-out consideration was preliminarily valued at approximately \$28.0 million as of the acquisition date. Fair value of the earn-out consideration will be remeasured at the end of each calendar quarter until December 31, 2022.

The changes in earn-out liability measured at fair value for which the Company has used Level 3 inputs to determine fair value during the year ended September 30, 2022, is as follows (in thousands):

	<b>Contingent Consideration</b>
Balance at September 30, 2021	\$ —
Earn-out from business acquisition	26,900
Measurement period adjustment	1,100
Payment of achieved earn-out threshold	(3,500)
Change in fair value	(24,500)
Balance at September 30, 2022	\$ —

During the year ended September 30, 2022, the Company recorded a measurement period adjustment of \$1.1 million for the preliminary earn-out consideration fair value with a corresponding increase to goodwill, based on facts and circumstances in existence as of the effective date of the acquisition related to the discount rates associated with the expected earn-out payments. Based on results as of March 31, 2022, Bid4Assets achieved a trailing twelve-month EBITDA threshold resulting in a \$3.5 million payment made by the Company to the former shareholders of Bid4Assets.

During the twelve months ended September 30, 2022, the fair value of the earn-out liability was reduced by \$24.5 million, such that no amount of fair value was determined present as of September 30, 2022. This reduction was due to a decline in the auction events and transactions that are expected to be completed during the earn-out period ending December 31, 2022, which included extended timelines to advance legislation that allows for online auctions of foreclosed real estate in certain target markets, and other client specific delays in bringing foreclosed real estate to auction. These changes resulted from events occurring subsequent to the November 1, 2021, acquisition date and therefore, were not known nor knowable at that time. These changes in fair value were recorded as a gain within Fair value adjustment of acquisition earn-outs in the Consolidated Statements of Operations.

*Other Information.* 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.

The Company's financial assets and liabilities not measured at fair value are cash, short-term investments, accounts receivable, and accounts payable. The Company believes the carrying values of these instruments approximate fair value.

As of September 30, 2022, the Company had no non-financial instruments measured at fair value on a non-recurring basis other than fair value measurements associated with the preliminary purchase accounting for Bid4Assets. See Note 3 - *Bid4Assets Acquisition* for more information. As of September 30, 2022 and 2021, the Company did not have any material assets or liabilities measured at fair value on a non-recurring basis.

#### **14. Defined Benefit Pension Plan**

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

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

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

The net periodic benefit cost is recognized within Interest and other income, net in the Consolidated Statements of Operations, and for the years ended September 30, 2022, 2021 and 2020, included the following components:

	Year Ended September 30,		
	2022	2021	2020
(in thousands)			
Interest cost	\$ 446	\$ 438	\$ 431
Expected return on plan assets	(775)	(793)	(797)
Amortization of prior service cost	19	21	19
Settlement loss recognized	61	—	—
<b>Total net periodic benefit</b>	<b>\$ (249)</b>	<b>\$ (334)</b>	<b>\$ (347)</b>

The following table provides a reconciliation of benefit obligations, plan assets, and funded status related to the Company's qualified defined benefit pension plan for the years ended September 30, 2022 and 2021:

	Year Ended September 30,	
	2022	2021
(in thousands)		
<b>Change in benefit obligation</b>		
Beginning balance	\$ 26,955	\$ 26,047
Interest cost	446	438
Benefits paid	(634)	(781)
Actuarial loss/(gain)	(7,613)	152
Foreign currency exchange rate changes	(5,825)	1,099
<b>Ending balance</b>	<b>\$ 13,329</b>	<b>\$ 26,955</b>

	Year Ended September 30,	
	2022	2021
(in thousands)		
<b>Change in plan assets</b>		
Beginning balance at fair value	\$ 28,208	\$ 26,771
Actual return on plan assets	(5,056)	1,077
Benefits paid	(634)	(781)
Employer's contributions	134	—
Plan Settlements	(1,182)	—
Foreign currency exchange rate changes	(4,916)	1,141
<b>Ending balance at fair value</b>	<b>\$ 16,554</b>	<b>\$ 28,208</b>
<b>Overfunded status of the Scheme</b>	<b>\$ 3,225</b>	<b>\$ 1,253</b>

The pension asset of \$3.2 million is recorded in Other long-term assets in the Consolidated Balance Sheet. Because the Scheme is closed to new participants, the accumulated benefit obligation is equal to the projected benefit obligation, which was \$13.3 million and \$27.0 million at September 30, 2022 and 2021, respectively.

During the year ended September 30, 2022, the Company extended early settlement offers to all members of the Scheme. There was no material impact to the consolidated financial statements as a result of the early settlement offers.

The amounts recognized in Other comprehensive (loss) income related to the Company's qualified defined benefit pension plan, net of taxes, and the related foreign currency translation adjustments, for the years ended September 30, 2022 and 2021, is shown in the following table:

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

	Year Ended September 30,	
	2022	2021
(in thousands)		
Accumulated other comprehensive (loss) income at beginning of year	\$ (1,885)	\$ (1,971)
Net actuarial gain (loss)	(328)	170
Foreign currency translation adjustments	2,491	(84)
Accumulated other comprehensive loss at end of year	<u>\$ 278</u>	<u>\$ (1,885)</u>

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

**Actuarial Assumptions**

The actuarial assumptions used to determine the benefit obligations at September 30, 2022 and 2021, and to determine the net periodic (benefit) cost for the year were as follows:

	September 30, 2022	September 30, 2021
Discount rate to determine net periodic (benefit) cost	2.00 %	1.60 %
Expected return on plan assets	4.82 %	2.82 %
Discount rate to determine benefit obligations	5.50 %	2.00 %
Rate of increases to deferred CPI linked benefits	3.40 %	3.10 %
Rate of increases to deferred RPI linked benefits	3.80 %	3.60 %

Mortality—105% for males and females of S2PxA mortality tables, projected in line with the 2020 Continuous Mortality Investigation projection model and a 1.3% per annum long-term rate of improvement.

**Estimated Future Benefit Payments**

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

	Pension Benefits (in thousands)
Year ending September 30,	
2022	\$ 610
2023	1,027
2024	849
2025	782
2026	810
2027 through 2032	4,398
Total	<u>\$ 8,476</u>

**Fair Value Measurements**

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

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



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

The assets are allocated among equity securities, corporate bonds, and diversified funds. The assets are not rebalanced, but the allocation is reviewed on a periodic basis to ensure that the investments are appropriate to the Scheme's circumstances. The Trustees review the investment policy on an ongoing basis, to determine whether a change in the policy or asset allocation targets is necessary. The Company has elected to use a bid value of Scheme assets to calculate the expected return on assets in the net periodic benefit cost. The assets consisted of the following as of September 30, 2022 and 2021:

	September 30, 2022	September 30, 2021
Equity securities	21.6 %	21.0 %
Corporate bonds	51.1 %	53.0 %
Diversified fund	27.0 %	26.0 %
Cash	0.3 %	— %
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>

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

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

Balance as of September 30, 2022	Level 1	Level 2	Level 3	Total
	(in thousands)			
Equity securities	\$ —	\$ 3,582	\$ —	\$ 3,582
Corporate bonds	—	8,462	—	8,462
Diversified fund	—	4,467	—	4,467
Cash	43	—	—	43
<b>Total</b>	<b>\$ 43</b>	<b>\$ 16,511</b>	<b>\$ —</b>	<b>\$ 16,554</b>

Balance as of September 30, 2021	Level 1	Level 2	Level 3	Total
	(in thousands)			
Equity securities	\$ —	\$ 5,860	\$ —	\$ 5,860
Corporate bonds	—	14,878	—	14,878
Diversified fund	—	7,279	—	7,279
Cash	191	—	—	191
<b>Total</b>	<b>\$ 191</b>	<b>\$ 28,017</b>	<b>\$ —</b>	<b>\$ 28,208</b>

**Valuation Techniques**

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

**15. 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. However, unless otherwise noted, there are no claims or actions pending or threatened against the Company that, if adversely determined, would in the Company's management's judgment have a material adverse effect on the Company.

*Former Employee Matters*

In May 2021, the Company's former Vice President, Human Resources filed a complaint against the Company in federal court in Montgomery County, Maryland, alleging wrongful termination on the basis of gender, race, and age. The parties have completed the discovery phase of this case. On April 4, 2022, the Company filed a motion for summary judgment. As of the date hereof, the court has not issued its ruling on the motion. The Company believes this claim is without merit and cannot estimate a range of potential liability, if any, at this time. The Company's employment practices liability insurance carrier, CNA, has accepted tender of this claim.

In October 2021, the Company's former Chief Marketing Officer filed a claim with the Equal Employment Opportunity Commission (the "EEOC"), alleging wrongful termination on the basis of race and age and that the Company retaliated against him. The Company submitted its position statement to the EEOC on February 8, 2022. As of the date hereof, the EEOC has not communicated the results of its investigation to the Company. The Company believes these claims are without merit and cannot estimate a range of potential liability, if any, at this time. CNA has accepted tender of these claims as well.

**16. Segment Information**

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

- The GovDeals reportable segment provides self-directed service solutions that enable local and state government entities including city, county and state agencies located in the United States and Canada, to sell surplus, salvage and real estate assets through the GovDeals and Bid4Assets marketplaces (see Note 3 - *Bid4Assets Acquisition*).
- The RSCG reportable segment consists of marketplaces that enable corporations located in the United States and Canada to sell surplus and salvage consumer goods. RSCG also offers a suite of services that includes returns management, asset recovery, and e-commerce services. This segment uses the Liquidation.com, Secondipity and AllSurplus marketplaces. Through the end of third quarter fiscal 2021, RSCG operated the Liquidation.com DIRECT marketplace for truckload quantities of retail surplus. Those assets are now sold on the Liquidation.com marketplace.
- The CAG reportable segment provides managed and self-directed service solutions to sellers and consists of marketplaces that enable commercial businesses to sell surplus and idle assets. CAG also offers a suite of services that includes surplus management, asset valuation, asset sales and marketing. Commercial seller assets are located across the Americas, Europe, Australia, Asia, and Africa. This segment uses the GoIndustry DoveBid and AllSurplus marketplaces.
- The Machinio reportable segment operates a global search engine platform for listing used equipment for sale in the construction, machine tool, transportation, printing and agriculture sectors.

We also report results of Corporate & Other, including elimination adjustments.

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

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

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

(in thousands)	Year Ended September 30,		
	2022	2021	2020
<b>GovDeals:</b>			
Purchase revenue	\$ —	\$ —	\$ —
Consignment and other fee revenues	59,352	49,579	32,806
Total revenue	59,352	49,579	32,806
Segment gross profit	56,408	47,030	30,721
<b>RSCG:</b>			
Purchase revenue	134,092	130,790	118,398
Consignment and other fee revenues	32,007	28,016	18,093
Total revenue	166,100	158,806	136,491
Segment gross profit	63,704	64,564	49,727
<b>CAG:</b>			
Purchase revenue	17,179	15,361	9,182
Consignment and other fee revenues	25,396	24,284	20,299
Total revenue	42,575	39,645	29,481
Segment gross profit	29,120	29,324	22,714
<b>Machinio:</b>			
Purchase revenue	—	—	—
Consignment and other fee revenues	12,083	9,559	7,213
Total revenue	12,083	9,559	7,213
Segment gross profit	11,471	8,992	6,813
<b>Corporate &amp; Other, including elimination adjustments:</b>			
Purchase revenue	—	—	—
Consignment and other fee revenues	(60)	(57)	(51)
Total revenue	(60)	(57)	(51)
Segment gross profit	(60)	(57)	(51)
<b>Consolidated:</b>			
Purchase revenue	151,271	146,151	127,580
Consignment and other fee revenues	128,779	111,380	78,360
Total revenue	280,050	257,531	205,940
Total segment gross profit	160,643	149,853	109,924

The following table reconciles segment gross profit used in the reportable segments to the Company's consolidated results:

(in thousands)	Year Ended September 30,		
	2022	2021	2020
<b>Reconciliation:</b>			
Total segment gross profit	160,643	149,853	109,924
Total operating expenses	113,238	122,685	113,821
Interest and other income, net	(248)	(411)	(924)
Income (loss) before income taxes	47,653	27,579	(2,973)

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

Total segment assets reconciled to consolidated amounts are as follows:

(in thousands)	September 30,	
	2022	2021
GovDeals	\$ 237,697	\$ 148,111
RSCG	99,430	84,971
CAG	96,393	94,884
Machinio	32,771	29,806
Corporate & Other, including elimination adjustments	(178,188)	(102,196)
Total Assets:	<u>\$ 288,104</u>	<u>\$ 255,576</u>

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

(in thousands)	Year Ended September 30,		
	2022	2021	2020
United States	\$ 237,720	\$ 214,162	\$ 180,887
Rest of the world	42,330	43,369	25,053
Total Revenue	<u>\$ 280,050</u>	<u>\$ 257,531</u>	<u>\$ 205,940</u>

Total long-lived assets by geographic areas are as follows:

(in thousands)	September 30,	
	2022	2021
United States	\$ 18,867	\$ 17,261
Rest of the world	227	373
Total Long-lived Assets	<u>\$ 19,094</u>	<u>\$ 17,634</u>

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

	Balance at beginning of period	Charged (credited) to expense	Reductions	Balance at end of period
Deferred tax valuation allowance (deducted from net deferred tax assets)				
Year ended September 30, 2020	\$ 41,909	(121)	—	\$ 41,788
Year ended September 30, 2021	41,788	(27,975)	—	13,813
Year ended September 30, 2022	\$ 13,813	(1,554)	—	\$ 12,259
Allowance for doubtful accounts (deducted from accounts receivable)				
Year ended September 30, 2020	\$ 291	200	(102)	\$ 389
Year ended September 30, 2021	389	297	(196)	490
Year ended September 30, 2022	\$ 490	136	(177)	\$ 449
Provision for inventory allowance (deducted from inventory)				
Year ended September 30, 2020	\$ 331	328	(359)	\$ 300
Year ended September 30, 2021	300	174	(300)	174
Year ended September 30, 2022	\$ 174	96	(174)	\$ 96

## EXHIBIT INDEX

Exhibit No.	Description
2.1	<a href="#"><u>Stock Purchase Agreement, dated July 10, 2018, by and between the Company, Machinio Corp., the stockholders of Machinio Corp., and Shareholder Representative Services, LLC, incorporated herein by reference to Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q, filed with the SEC on August 2, 2018.</u></a>
2.2	<a href="#"><u>Purchase and Sale Agreement, dated September 22, 2015, by and between Jacobs Trading, LLC and Tanager Acquisitions, LLC, incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the SEC on October 6, 2015.</u></a>
2.3	<a href="#"><u>First Amendment to Purchase and Sale Agreement dated September 30, 2015 by and between Jacobs Trading, LLC and Tanager Acquisitions, LLC.</u></a>
2.4	<a href="#"><u>Agreement and Plan of Merger, dated November 1, 2021, by and among the Company, Liquidity Services RE Ventures, Inc., Bid4Assets, Inc. ("Bid4Assets"), USA B4A Sellers Rep LLC, and certain holders of the outstanding stock of Bid4Assets, incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the SEC on November 1, 2021.</u></a>
3.1	<a href="#"><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></a>
3.2	<a href="#"><u>Amended and Restated Bylaws, incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on August 5, 2022.</u></a>
4.1	<a href="#"><u>Form of Certificate of Common Stock of the Company, incorporated herein by reference to Exhibit 4.1 to Amendment No. 5 to the Company's Registration Statement on Form S-1 (Registration No. 333-129656), filed with the SEC on February 21, 2006.</u></a>
4.2	<a href="#"><u>Description of Securities</u></a>
10.1	<a href="#"><u>Credit Agreement, dated February 10, 2022, by and between Liquidity Services, Inc., and Wells Fargo Bank, National Association, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on February 10, 2022.</u></a>
10.2#	<a href="#"><u>Executive Employment Agreement, dated June 13, 2016, by and between the Company and William P. Angrick, III, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on June 17, 2016.</u></a>
10.3#	<a href="#"><u>Executive Employment Agreement dated July 20, 2015, by and between the Company and Jorge A. Celaya, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on July 23, 2015.</u></a>
10.4#	<a href="#"><u>Executive Employment Agreement, dated November 5, 2019, by and between the Company and John P. Daunt, incorporated herein by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K, filed with the SEC on December 10, 2019.</u></a>
10.5#	<a href="#"><u>Executive Employment Agreement, dated June 13, 2019, by and between the Company and Steven J. Weiskircher, incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q, filed with the SEC on August 1, 2019.</u></a>
10.6#	<a href="#"><u>Executive Employment Agreement, dated July 13, 2016, by and between the Company and Mark A. Shaffer, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on July 13, 2016.</u></a>
10.7#	<a href="#"><u>Executive Employment Agreement, dated October 1, 2020, by and between the Company and Novelette Murray, incorporated herein by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K, filed with the SEC on December 8, 2020.</u></a>
10.8#	<a href="#"><u>Executive Employment Agreement, dated March 15, 2012, by and between the Company and Michael Lutz, incorporated herein by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K, filed with the SEC on December 10, 2019.</u></a>
10.8.1#	<a href="#"><u>Second Amendment to Executive Employment Agreement, dated January 18, 2016, by and between the Company and Michael Lutz, incorporated herein by reference to Exhibit 10.8.1 to the Company's Annual Report on Form 10-K, filed with the SEC on December 10, 2019.</u></a>
10.9#	<a href="#"><u>Executive Employment Agreement, dated November 5, 2019, by and between the Company and Nicholas Rozdilsky, incorporated herein by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K, filed with the SEC on December 10, 2019.</u></a>

- 10.10# [Form of Indemnification Agreement for directors and officers, incorporated herein by reference to Exhibit 10.11 to Amendment No. 3 to the Company's Registration Statement on Form S-1 \(Registration No. 333-129656\), filed with the SEC on February 1, 2006.](#)
- 10.11# [Liquidity Services, Inc. Third Amended and Restated 2006 Omnibus Long-Term Incentive Plan, incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A, filed with the SEC on January 28, 2020.](#)
- 10.11.1# [2022 Amendment to the Liquidity Services, Inc. Third Amended and Restated 2006 Omnibus Long-Term Incentive Plan, incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A, filed with the SEC on January 24, 2022.](#)
- 10.12# [Machinio Corp. 2014 Stock Incentive Plan, incorporated herein by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-8, filed with the SEC on July 10, 2018.](#)
- 10.13# [Form of Notice of Time-Based Stock Option Grant, filed with the SEC on December 10, 2019.](#)
- 10.14# [Form of Notice of Time-Based Restricted Stock Units Grant, filed with the SEC on December 10, 2019.](#)
- 10.15# [Form of Notice of Performance Based Stock Option Grant, filed with the SEC on December 10, 2019.](#)
- 10.16# [Form of Notice of Performance-Based Restricted Stock Units Grant, filed with the SEC on December 10, 2019.](#)
- 10.17# [Liquidity Services Inc. Annual Incentive Plan, adopted on December 2, 2020, incorporated herein by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K, filed with the SEC on December 11, 2020.](#)
- 16.1 [Letter of Ernst & Young LLP, dated December 27, 2021](#)
- 21.1 [List of Subsidiaries.](#)
- 23.1 [Consent of Deloitte & Touche LLP.](#)
- 23.2 [Consent of Ernst & Young LLP.](#)
- 24.1 [Power of Attorney \(included on signature page\).](#)
- 31.1 [Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 [Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1 [Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2 [Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101 The following materials from the Registrant's Annual Report on Form 10-K for the year ended September 30, 2022, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets as of September 30, 2022 and 2021, (ii) Consolidated Statements of Operations for each of the three years in the period ended September 30, 2022, (iii) Consolidated Statements of Comprehensive Income (Loss) for each of the three years in the period ended September 30, 2022, (iv) Consolidated Statements of Stockholders' Equity for each of the three years in the period ended September 30, 2022, (v) Consolidated Statements of Cash Flows for each of the three years in the period ended September 30, 2022, and (vi) Notes to Consolidated Financial Statements.
- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

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# Indicates management contract or compensatory plan.

**Item 16. Form 10-K Summary.**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on December 8, 2022.

LIQUIDITY SERVICES, INC.

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

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on December 8, 2022.

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



# Corporate information

## Leadership

Meet the executive team driving the world's leading marketplace for surplus assets to benefit buyers, sellers, and the planet.



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



**Jorge A. Celaya**  
Chief Financial  
Officer



**John P. Daunt**  
Chief Commercial  
Officer



**Steven J. Weiskircher**  
Chief Technology  
Officer



**Anthony D. Long**  
Vice President,  
Marketing



**Mark A. Shaffer**  
Chief Legal Officer and  
Corporate Secretary



**Novelette E. Murray**  
Chief Human Resources  
Officer

## Board of Directors

**William P. Angrick, III**  
Chairman of the Board

**Phillip A. Clough**  
Director

**Katharin S. Dyer**  
Director

**George H. Ellis**  
Director

**Patrick W. Gross**  
Lead Independent Director

**Beatriz V. Infante**  
Director

**Edward J. Kolodzieski**  
Director

**Jaime Mateus-Tique**  
Director

## Additional Information

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investorrelations@liquidity  
servicesinc.com

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Company, N.A.  
P.O. Box 505000  
Louisville, KY 40233-5000  
Phone: 781.575.2879  
www.computershare.com

**Corporate Secretary**  
Mark Shaffer  
Chief Legal Officer and  
Corporate Secretary

**Independent  
Registered Public  
Accounting Firm**

**Deloitte & Touche LLP**  
7900 Tysons One Place  
Suite 800  
McLean, VA 22102  
Phone: 703.251.1000

## About Liquidity Services

Liquidity Services (NASDAQ:LQDT) operates the world's largest B2B ecommerce marketplace platform for surplus assets with over \$10 billion of completed transactions to more than 4.9 million qualified buyers and 15,000 corporate and government sellers worldwide. The company supports its clients' sustainability efforts by helping them extend the lives of assets, prevent unnecessary waste and carbon emissions, and reduce the number of products headed to landfills.

Visit us at [LiquidityServices.com](https://LiquidityServices.com)



*A Better Future for Surplus*

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