

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2023

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)

52-2209244

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

6931 Arlington Road, Suite 460, Bethesda, MD

(Address of Principal Executive Offices)

20814

(Zip Code)

(202) 467-6868

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

The number of shares outstanding of the issuer's common stock, par value \$0.001 per share, as of August 1, 2023, was 30,691,148.

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Item 1. Financial Statements (Unaudited)

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

	June 30, 2023	September 30, 2022
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 98,147	\$ 96,122
Short-term investments	7,715	1,819
Accounts receivable, net of allowance for doubtful accounts of \$555 and \$449	6,257	11,792
Inventory, net	12,541	11,679
Prepaid taxes and tax refund receivable	1,766	1,631
Prepaid expenses and other current assets	8,476	6,551
Total current assets	134,902	129,594
Property and equipment, net	17,570	19,094
Operating lease assets	10,305	13,207
Intangible assets, net	13,298	16,234
Goodwill	89,616	88,910
Deferred tax assets	9,072	13,628
Other assets	8,264	7,437
Total assets	\$ 283,027	\$ 288,104
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 44,606	\$ 41,982
Accrued expenses and other current liabilities	20,538	23,304
Current portion of operating lease liabilities	4,279	4,540
Deferred revenue	4,700	4,439
Payables to sellers	46,071	49,238
Total current liabilities	120,194	123,503
Operating lease liabilities	6,843	9,687
Other long-term liabilities	181	378
Total liabilities	127,218	133,568
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Common stock, \$0.001 par value; 120,000,000 shares authorized; 36,115,562 shares issued and outstanding at June 30, 2023; 35,724,057 shares issued and outstanding at September 30, 2022	36	36
Additional paid-in capital	264,162	258,275
Treasury stock, at cost; 5,432,546 shares at June 30, 2023, and 3,813,199 shares at September 30, 2022	(84,027)	(62,554)
Accumulated other comprehensive loss	(8,124)	(10,285)
Accumulated deficit	(16,238)	(30,936)
Total stockholders' equity	155,809	154,536
Total liabilities and stockholders' equity	\$ 283,027	\$ 288,104

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2023	2022	2023	2022
Purchase revenues	\$ 42,809	\$ 35,507	\$ 128,715	\$ 109,109
Consignment and other fee revenues	37,961	34,359	105,790	95,739
Total revenue	80,770	69,866	234,505	204,848
Costs and expenses from operations:				
Cost of goods sold (excludes depreciation and amortization)	35,201	28,932	107,340	85,662
Technology and operations	13,927	13,782	43,423	41,573
Sales and marketing	13,068	10,900	35,712	32,217
General and administrative	7,454	6,389	21,243	21,672
Depreciation and amortization	2,866	2,641	8,433	7,546
Fair value adjustment of acquisition earn-outs	—	(11,500)	—	(20,000)
Other operating (income) expenses, net	(1)	27	128	18
Total costs and expenses	72,515	51,171	216,279	168,688
Income from operations	8,255	18,695	18,226	36,160
Interest and other (income) expense, net	(775)	104	(1,737)	(73)
Income before provision for income taxes	9,030	18,591	19,963	36,233
Provision for income taxes	2,543	2,183	5,265	4,254
Net income	\$ 6,487	\$ 16,408	\$ 14,698	\$ 31,979
Basic income per common share	\$ 0.21	\$ 0.51	\$ 0.47	\$ 0.98
Diluted income per common share	\$ 0.21	\$ 0.50	\$ 0.46	\$ 0.94
Basic weighted average shares outstanding	30,605,963	31,908,864	31,243,979	32,482,326
Diluted weighted average shares outstanding	31,513,488	33,078,568	32,193,239	34,013,233

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2023	2022	2023	2022
Net income	\$ 6,487	\$ 16,408	\$ 14,698	\$ 31,979
Other comprehensive income (loss):				
Foreign currency translation	645	(1,170)	\$ 2,161	(1,470)
Other comprehensive income (loss), net of taxes	645	(1,170)	2,161	(1,470)
Comprehensive income	<u>\$ 7,132</u>	<u>\$ 15,238</u>	<u>\$ 16,859</u>	<u>\$ 30,509</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Shares	Amount		Shares	Amount			
Balance at September 30, 2022	35,724,057	\$ 36	\$ 258,275	(3,813,199)	\$ (62,554)	\$ (10,285)	\$ (30,936)	\$ 154,536
Net Income	—	—	—	—	—	—	3,967	3,967
Exercise of common stock options, grants of restricted stock awards, and vesting of restricted stock units	190,119	—	495	—	—	—	—	495
Taxes paid associated with net settlement of stock compensation awards	(14,536)	—	(244)	—	—	—	—	(244)
Common stock repurchase	—	—	—	(531,819)	(7,199)	—	—	(7,199)
Stock compensation expense	—	—	2,126	—	—	—	—	2,126
Foreign currency translation	—	—	—	—	—	1,273	—	1,273
Balance at December 31, 2022	35,899,640	\$ 36	\$ 260,653	(4,345,018)	\$ (69,754)	\$ (9,012)	\$ (26,970)	\$ 154,953
Net income	—	—	—	—	—	—	4,245	4,245
Exercise of common stock options, grants of restricted stock awards, and vesting of restricted stock units	184,791	—	—	—	—	—	—	—
Taxes paid associated with net settlement of stock compensation awards	(34,713)	—	(492)	—	—	—	—	(492)
Common stock repurchase	—	—	—	(749,903)	(9,814)	—	—	(9,814)
Shares swapped to exercise stock options	—	—	18	(1,420)	(18)	—	—	—
Stock compensation expense	—	—	1,939	—	—	—	—	1,939
Foreign currency translation	—	—	—	—	—	243	—	243
Balance at March 31, 2023	36,049,718	\$ 36	\$ 262,118	(5,096,341)	\$ (79,586)	\$ (8,769)	\$ (22,725)	\$ 151,074
Net income	—	—	—	—	—	—	6,487	6,487
Exercise of common stock options, grants of restricted stock awards, and vesting of restricted stock units	87,515	—	—	—	—	—	—	—
Tax settlements associated with stock compensation expense	(21,671)	—	(324)	—	—	—	—	(324)
Common stock repurchased	—	—	—	(325,410)	(4,268)	—	—	(4,268)
Shares swapped to exercise stock options	—	—	173	(10,795)	(173)	—	—	—
Stock compensation expense	—	—	2,195	—	—	—	—	2,195
Foreign currency translation	—	—	—	—	—	645	—	645
Balance at June 30, 2023	36,115,562	\$ 36	\$ 264,162	(5,432,546)	\$ (84,027)	\$ (8,124)	\$ (16,238)	\$ 155,809

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Nine Months Ended June 30,	
	2023	2022
Operating activities		
Net income	\$ 14,698	\$ 31,979
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,433	7,546
Stock compensation expense	6,023	6,156
Inventory adjustment to net realizable value	859	98
Provision for doubtful accounts	519	68
Deferred tax expense	4,556	3,410
Impairment of long-lived and other non-current assets	—	31
Gain on disposal of property and equipment	(60)	(29)
Gain on termination of lease	—	(240)
Change in fair value of earn-out liability	—	(20,000)
Changes in operating assets and liabilities:		
Accounts receivable	5,209	(2,215)
Inventory	(1,636)	(1,985)
Prepaid taxes and tax refund receivable	(135)	224
Prepaid expenses and other assets	(2,117)	(2,788)
Operating lease assets and liabilities	(207)	451
Accounts payable	2,496	6,635
Accrued expenses and other current liabilities	(2,762)	(5,955)
Deferred revenue	261	296
Payables to sellers	(3,653)	8,233
Other liabilities	(128)	(778)
Net cash provided by operating activities	32,356	31,137
Investing activities		
Cash paid for business acquisitions, net of cash acquired	—	(11,164)
Purchases of property and equipment, including capitalized software	(3,905)	(6,292)
Purchase of short-term investments	(5,603)	—
Other investing activities, net	58	23
Net cash used in investing activities	(9,450)	(17,433)
Financing activities		
Common stock repurchases	(21,198)	(25,447)
Taxes paid associated with net settlement of stock compensation awards	(1,060)	(1,901)
Payments of the principal portion of finance lease liabilities	(75)	(75)
Payment for debt issuance cost	—	(91)
Proceeds from exercise of stock options, net of tax	496	—
Payment of earn-out liability related to business acquisition	—	(3,500)
Net cash used in financing activities	(21,837)	(31,014)
Effect of exchange rate differences on cash and cash equivalents	956	(739)
Net increase (decrease) in cash and cash equivalents	2,025	(18,049)
Cash and cash equivalents at beginning of period	96,122	106,335
Cash and cash equivalents at end of period	\$ 98,147	88,286
Supplemental disclosure of cash flow information		
Cash paid for income taxes, net	\$ 975	\$ 592
Non-cash: Common stock surrendered in the exercise of stock options	191	100
Non-cash: Earn-out liability for acquisition activity	—	4,500

See accompanying notes to the unaudited condensed consolidated financial statements.

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

1. Organization

Liquidity Services, Inc. (Liquidity Services or 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 14 - *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.

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 ongoing Russia-Ukraine conflict, increasing tensions between the United States and China, inflationary pressures, recent volatility in the financial services industry, 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

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal, recurring adjustments considered necessary for a fair presentation, have been included, and intercompany transactions and accounts have been eliminated in consolidation. The information disclosed in the notes to the condensed consolidated financial statements for these periods is unaudited. Operating results for the three and nine months ended June 30, 2023, are not necessarily indicative of the results that may be expected for the year ending September 30, 2023, or for any future period.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect amounts in the condensed consolidated financial statements and accompanying notes. For the three and nine months ended June 30, 2023, these estimates required the Company to make assumptions about the impact of the ongoing Russia-Ukraine conflict, increasing tensions between the United States and China, and other disruptions to macroeconomic conditions and, in turn, the Company's results of operations. The Company will continue to update its assumptions as conditions change. Actual results could differ significantly from those estimates.

Contract Assets and Liabilities

Contract assets reflect an estimate of expenses that will be reimbursed upon settlement with a seller. The contract asset balance was \$1.2 million as of June 30, 2023, and \$0.9 million as of September 30, 2022, and is included in the line item Prepaid expenses and other current assets on the Condensed 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 \$4.7 million as of June 30, 2023, and \$4.4 million as of September 30, 2022, and is included in the line item Deferred revenue on the Condensed Consolidated Balance Sheets. Of the September 30, 2022, contract liability balance, \$4.2 million was earned as other fee revenue during the nine months ended June 30, 2023.

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 in the line item Consignment and other fee revenues on the Condensed Consolidated Statements of Operations. As of June 30, 2023, the Machinio segment had a remaining performance obligation of \$4.7 million; the Company expects to recognize the substantial majority of that amount as other fee revenues over the next 12 months.

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 \$2.1 million as of June 30, 2023, and \$1.8 million as of September 30, 2022, and is included in the line item Prepaid expenses and other current assets, and Other assets on the Condensed Consolidated Balance Sheets. Amortization expense was \$0.3 million and \$0.9 million during the three and nine months ended June 30, 2023, and \$0.3 million and \$0.8 million during the three and nine months ended June 30, 2022.

Treasury Stock

Treasury stock is presented at cost, including any applicable excise taxes, commissions and fees, as a reduction of stockholders' equity in the Condensed Consolidated Balance Sheets and Condensed Consolidated Statement of Stockholders' Equity. Treasury stock held by us may be retired or reissued in the future.

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 Condensed 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 non-interest bearing, interest-bearing, and earnings allowance checking accounts, as well as cash equivalent money market funds, all of which exceed the applicable U.S. federal (FDIC and/or SIPC) and local jurisdiction (foreign banking institutions) insurance limits, and Accounts receivable. The recent disruptions in the financial services industry have created significant market challenges and uncertainty for entities that bank with those institutions, and which raised significant concern regarding the stability of the banking system in the United States. The Company did not maintain any funds or lending relationships with any of the banks impacted and the banks we do maintain accounts and relationships with have, to date, not experienced any significant disruptions.

The Company deposits its cash in interest bearing checking accounts, acquires cash equivalent money market funds, and holds short-term investments designated as held-to-maturity investment securities, each with financial institutions that the Company considers to be of high credit quality. Management continually monitors the financial institutions with whom we conduct business and responds appropriately, when necessary, to manage potential risk exposure to our cash balances above the insurance limits.

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. \$6.0 million and \$8.1 million of inventory purchased under such contracts with Amazon.com, Inc. are included in our Consolidated Inventory balances as of June 30, 2023, and September 30, 2022, respectively. Our vendor contracts with respect to sourcing or consigning merchandise for our RSCG segment generally reflect the concentration dynamics inherent to the retail industry.

Recent Accounting Pronouncements

Accounting Standards Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments (Topic 326)*, or Accounting Standards Codification (ASC) 326. ASC 326, including all amendments and related guidance, was designed to provide financial statement users with more useful information about the expected credit losses on financial instruments and other commitments to extend credit. ASC 326 will require estimation of expected credit losses using a methodology that takes into consideration a broad range of reasonable and supportable information. The guidance will be effective for the Company beginning on October 1, 2023, and will be applied on a modified-retrospective basis, with any cumulative-effect adjustment recorded to retained earnings on the adoption date. The Company is in the process of evaluating the impact ASC 326 will have on its condensed consolidated financial statements and expects to estimate credit losses on its financial assets such as its accounts receivable, cash equivalent money market funds, and short-term investments. 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.

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

The 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 fair value of \$28.0 million. Former shareholders of Bid4Assets were 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 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
Payable to sellers		3,715
Operating lease liabilities		204
Deferred tax liability		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 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 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

Contingent Consideration

During the year ended September 30, 2022, and as a result of the acquisition of Bid4Assets, the Company recorded contingent consideration in the amount of \$28.0 million on its Condensed Consolidated Balance Sheets. Through December 31, 2022, \$3.5 million in earn-out payments were made. The remaining earn-out fair value was \$0 based upon actual performance through the final earn-out measurement period ending December 31, 2022. See further discussion of this matter within Note 11 - *Fair Value Measurement*.

Other Information

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

4. Earnings per Share

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

The computation of Basic and Diluted net income per share is as follows:

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

	Three months ended June 30,		Nine Months Ended June 30,	
	2023	2022	2023	2022
Numerator:				
Net income	\$ 6,487	\$ 16,408	\$ 14,698	\$ 31,979
Denominator:				
Basic weighted average shares outstanding	30,605,963	31,908,864	31,243,979	32,482,326
Dilutive impact of stock options, RSUs and RSAs	907,525	1,169,704	949,260	1,530,907
Diluted weighted average shares outstanding	31,513,488	33,078,568	32,193,239	34,013,233
Basic income per common share	\$ 0.21	\$ 0.51	\$ 0.47	\$ 0.98
Diluted income per common share	\$ 0.21	\$ 0.50	\$ 0.46	\$ 0.94
Stock options, RSUs and RSAs excluded from income per diluted share because their effect would have been anti-dilutive	1,813,106	1,303,147	1,834,550	1,290,073

5. Leases

The Company has operating leases for its corporate offices, warehouses, vehicles and equipment. The operating leases have remaining terms of up to 3.6 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:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2023	2022	2023	2022
Finance lease – lease asset amortization	\$ 20	\$ 19	\$ 59	\$ 61
Finance lease – interest on lease liabilities	4	5	12	15
Operating lease cost	1,327	1,406	4,011	4,318
Short-term lease cost	78	101	348	218
Variable lease cost ⁽¹⁾	199	405	948	958
Sublease income	(27)	(22)	(78)	(90)
Total net lease cost	\$ 1,601	\$ 1,914	\$ 5,300	\$ 5,480

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

Maturities of lease liabilities are:

	June 30, 2023	
	Operating Leases	Finance Leases
Remainder of 2023	\$ 1,303	\$ 29
2024	4,503	97
2025	3,682	68
2026	2,235	65
2027	420	12
Thereafter	—	—
Total lease payments ⁽¹⁾	\$ 12,143	\$ 271
Less: imputed interest ⁽²⁾	(978)	(21)
Total lease liabilities	\$ 11,165	\$ 250

⁽¹⁾ The weighted average remaining lease term is 2.8 years for operating leases and 3.0 years for finance leases.

⁽²⁾ 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:

	Nine Months Ended June 30,	
	2023	2022
Cash paid for amounts included in operating lease liabilities	\$ 3,598	\$ 3,190
Cash paid for amounts included in finance lease liabilities	\$ 75	\$ 75
Non-cash: lease liabilities arising from new operating lease assets obtained	\$ —	\$ 4,664
Non-cash: lease liabilities arising from new finance lease assets obtained	\$ —	\$ 179
Non-cash: adjustments to lease assets and liabilities ⁽¹⁾	\$ 408	\$ (196)

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

6. Goodwill

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

(in thousands)	GovDeals	CAG	Machinio	Total
September 30, 2021	\$ 23,731	\$ 21,583	\$ 14,558	\$ 59,872
Addition: Bid4Assets acquisition	30,083	—	—	30,083
Translation adjustments	—	(1,045)	—	(1,045)
September 30, 2022	53,814	20,538	14,558	88,910
Translation adjustments	—	706	—	706
June 30, 2023	\$ 53,814	\$ 21,244	\$ 14,558	\$ 89,616

Goodwill is tested for impairment at the beginning of the fourth quarter and during interim periods whenever events or circumstances indicate that the carrying value may not be recoverable. The Company has continued to evaluate the impact of interest rate changes, elevated inflationary levels, 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 and nine months ended June 30, 2023.

7. Intangible Assets

Intangible assets consist of the following:

(in thousands)	Useful Life (in years)	June 30, 2023			September 30, 2022		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Contract intangibles	6 - 8	\$ 17,000	\$ (5,479)	\$ 11,521	\$ 17,000	\$ (3,789)	\$ 13,211
Technology	3 - 5	5,300	(4,145)	1,155	5,300	(3,089)	2,211
Patent and trademarks	7 - 10	2,370	(1,748)	622	2,381	(1,569)	812
Total intangible assets, net		\$ 24,670	\$ (11,372)	\$ 13,298	\$ 24,681	\$ (8,447)	\$ 16,234

Future expected amortization of intangible assets as of June 30, 2023, is as follows:

(in thousands)	Expected Future Amortization
Years ending September 30,	
Remainder of 2023	\$ 846
2024	3,253
2025	2,012
2026	1,768
2027 and thereafter	5,419
Total	\$ 13,298

Intangible asset amortization expense was \$1.0 million and \$1.0 million for the three months ended June 30, 2023 and 2022, respectively, and \$2.9 million and \$2.7 million for the nine months ended June 30, 2023 and 2022, respectively. The increase in intangible amortization expense was primarily due to the Bid4Assets acquisition as consummated on November 1, 2021.

The Company has continued to evaluate the impact of interest rate changes, elevated inflationary levels, 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 three and nine months ended June 30, 2023.

8. Income Taxes

The Company's interim effective income tax rate is based on management's best current estimate of the Company's expected annual effective income tax rate. The Company recorded pre-tax income in the first nine months of fiscal year 2023 and its corresponding effective tax rate is 26.4% compared to 11.7% for the first nine months of fiscal year 2022. The change in the effective tax rate for the nine months ended June 30, 2023, as compared to the same period in the prior year was primarily due to state and foreign taxes, the utilization of net operating losses, and the inclusion of the \$20.0 million non-cash gain from the fair-market value adjustment of the Bid4Assets acquisition earn-out liability recorded in the nine months ended June 30, 2022. The effective tax rate differed from the U.S. statutory federal rate of 21% primarily as a result of the impact of foreign, state, and local income taxes and permanent tax adjustments.

The Inflation Reduction Act (IRA) was enacted on August 16, 2022. The IRA includes provisions imposing a 1% excise tax on share repurchases that occur after December 31, 2022, and introduces a 15% corporate alternative minimum tax (CAMT) on adjusted financial statement income. The CAMT will be effective for us beginning in fiscal year 2024. We currently are not expecting the IRA to have a material adverse impact on our financial statements.

The Company applies the authoritative guidance related to uncertainty in income taxes. ASC 740, *Income Taxes*, states that a benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolution of any related appeals or litigation processes, on the basis of technical merits. During the nine months ended June 30, 2023, the Company recorded a benefit of \$0.1 million due to the reduction of unrecognized tax benefits related to foreign operations. The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, various state and local jurisdictions and in foreign jurisdictions, primarily Canada and the United Kingdom. As of June 30, 2023, 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.

9. 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.

During March 2023, the Company entered into the First Amendment to the Credit Agreement (First Amendment). The First Amendment extended the Credit Agreement end date by 12 months to March 31, 2025, at which time any remaining amounts outstanding will become due immediately. No other changes, including with respect to the borrowing terms or capacities, were made as a result of the First Amendment.

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 defined 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 Line 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) expense, net in the Condensed 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 June 30, 2023, the Company was in full compliance with the terms and conditions of the Credit Agreement.

During the three and nine months ended June 30, 2023 and 2022, the Company did not make any draws under the Credit Agreement. As of June 30, 2023 and 2022, the Company had no outstanding borrowings under the Credit Agreement.

During the three and nine months ended June 30, 2023 and 2022, interest expense incurred by the Company under the Credit Agreement was immaterial to the condensed consolidated financial statements.

10. Stockholders' Equity

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

	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Shares	Amount		Shares	Amount			
Balance at September 30, 2021	35,457,095	\$ 35	\$ 252,017	(2,222,083)	\$ (36,628)	\$ (9,011)	\$ (71,398)	\$ 135,015
Net income	—	—	—	—	—	—	3,602	3,602
Exercise of stock options, grants of restricted stock awards, and vesting of restricted stock units	131,070	1	—	—	—	—	—	1
Taxes paid associated with net settlement of stock compensation awards	(40,239)	—	(851)	—	—	—	—	(851)
Forfeitures of restricted stock awards	(14,855)	—	—	—	—	—	—	—
Common stock repurchased	—	—	—	(147,185)	(2,963)	—	—	(2,963)
Common stock surrendered in the exercise of stock options	—	—	100	(4,678)	(100)	—	—	—
Stock compensation expense	—	—	2,270	—	—	—	—	2,270
Foreign currency translation and other	—	—	—	—	—	(131)	136	5
Balance at December 31, 2021	35,533,071	\$ 36	\$ 253,536	(2,373,946)	\$ (39,691)	\$ (9,142)	\$ (67,660)	\$ 137,079
Net income	—	—	—	—	—	—	11,970	11,970
Exercise of common stock options, grants of restricted stock awards, and vesting of restricted stock units	320,943	—	—	—	—	—	—	—
Taxes paid associated with net settlement of stock compensation awards	(47,124)	—	(958)	—	—	—	—	(958)
Common stock repurchased	—	—	—	(1,011,881)	(17,035)	—	—	(17,035)
Stock compensation expense	—	—	2,102	—	—	—	—	2,102
Forfeiture of restricted stock awards	(242,902)	—	—	—	—	—	—	—
Foreign currency translation	—	—	—	—	—	(169)	—	(169)
Balance at March 31, 2022	35,563,988	\$ 36	\$ 254,680	(3,385,827)	\$ (56,726)	\$ (9,311)	\$ (55,690)	\$ 132,989
Net income	—	—	—	—	—	—	16,408	16,408
Exercise of common stock options, grants of restricted stock awards, and vesting of restricted stock units	18,373	—	—	—	—	—	—	—
Taxes paid associated with net settlement of stock compensation awards	(5,907)	—	(92)	—	—	—	—	(92)
Common stock repurchased	—	—	—	(408,211)	(5,450)	—	—	(5,450)
Stock compensation expense	—	—	1,984	—	—	—	—	1,984
Foreign currency translation	—	—	—	—	—	(1,170)	—	(1,170)
Balance at June 30, 2022	35,576,454	\$ 36	\$ 256,572	(3,794,038)	\$ (62,176)	\$ (10,481)	\$ (39,282)	\$ 144,669

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 (LTIP), and a plan and private placement issuances related to the Company's acquisition of Machinio and Bid4Assets. As of June 30, 2023, the Company has reserved a total of 20,300,000 shares of its common stock for exercises of stock options, vesting of RSUs, and grants of RSAs under these plans. Vesting of RSUs and grants of RSAs count as 1.5x shares against the plan reserves. As of June 30, 2023, 972,696 shares of common stock remained available for use under the LTIP.

Stock Compensation Expense

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2023	2022	2023	2022
Equity-classified awards:				
Stock options	\$ 524	\$ 505	\$ 1,524	\$ 2,097
RSUs & RSAs	1,671	1,478	4,737	4,259
Total Equity-classified award	2,195	1,983	6,261	6,356
Liability-classified awards:				
SARs	—	(99)	(45)	(200)
Total stock compensation expense:	\$ 2,195	\$ 1,884	\$ 6,216	\$ 6,156

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2023	2022	2023	2022
Stock-compensation expense by function				
Technology and operations	\$ 356	\$ 321	\$ 948	\$ 906
Sales and marketing	612	464	1,780	1,496
General and administrative	1,227	1,099	3,488	3,754
Total stock compensation expense:	\$ 2,195	\$ 1,884	\$ 6,216	\$ 6,156

Stock Options and RSUs & RSAs

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

	Nine Months Ended June 30, 2023
Stock Options granted:	
Options containing only service conditions:	178,048
Weighted average exercise price	\$ 14.43
Weighted average grant date fair value	\$ 7.50
Options containing performance conditions:	
	175,910
Weighted average exercise price	\$ 14.42
Weighted average grant date fair value	\$ 7.48
RSUs & RSAs granted:	
RSUs & RSAs containing only service conditions:	472,813
Weighted average grant date fair value	\$ 15.14
RSUs & RSAs containing performance conditions:	
	288,420
Weighted average grant date fair value	\$ 15.15

The stock options and RSUs & RSAs containing only service conditions will vest over a four-year service period. The stock options and RSUs & RSAs containing performance conditions will vest upon the achievement of specified financial targets of the Company, a segment, or a division of a segment. Vesting is measured the first day of each fiscal quarter over the three-year terms of the awards, starting with the first fiscal quarter after the first anniversary of the grant date.

The range of assumptions used to determine the fair value of stock options using the Black-Scholes option-pricing model during the nine months ended June 30, 2023, were as follows:

	Nine Months Ended June 30, 2023
Dividend yield	—
Expected volatility	56.87% - 62.16%
Risk-free interest rate	3.39% - 3.88%
Expected term	4.5 - 7.6 years

SARs

During the nine months ended June 30, 2023, the Company did not issue any SARs, while 24,150 SARs were exercised requiring the Company to make cash payments of \$0.2 million. As of June 30, 2023, there were no SARs outstanding.

Share Repurchase Program

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

As of September 30, 2022, the Company had \$6.6 million of remaining share repurchase authorization.

On December 6, 2022, and March 13, 2023, the Company's Board of Directors authorized new stock repurchase plans of up to \$8.4 million and \$8.0 million, respectively.

The Company repurchased 1,607,132 shares for \$21.2 million during the nine months ended June 30, 2023. As of June 30, 2023, the Company had \$1.8 million of remaining authorization to repurchase shares through December 31, 2025.

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. Any shares surrendered to the Company in this manner are not available for future grant.

During the nine months ended June 30, 2023 and 2022, participants surrendered 12,215 and 4,678 shares of common stock, respectively, in the exercise of stock options. Any shares surrendered to the Company in this manner are not available for future grant.

11. Fair Value Measurement

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

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs for the asset or liability.

Cash and cash equivalents. The Company had \$37.5 million and \$22.0 million of money market funds considered cash equivalents at June 30, 2023, and September 30, 2022, respectively. These assets were measured at fair value as of June 30, 2023, and September 30, 2022, 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, Inc. (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 was 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 was included in Accrued expenses and other current liabilities within the Consolidated Balance Sheets.

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 three months ended December 31, 2022, was as follows (in thousands):

		Contingent Consideration
Balance at September 30, 2022	\$	—
Change in fair value		—
Balance at December 31, 2022	\$	—

Through the earnout period ended December 31, 2022, \$3.5 million in earn-out payments were made. As of September 30, 2022, the earn-out fair value was estimated to be \$0 based upon a Monte Carlo simulation of forecasted EBITDA for the final measurement period ending December 31, 2022.

As of December 31, 2022, the remaining earn-out fair value was \$0 based upon actual performance through the final earn-out measurement period ended December 31, 2022.

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, accounts payable, and payables to sellers. The Company believes the carrying values of these instruments approximate fair value.

As of June 30, 2023, the Company had no non-financial instruments measured at fair value on a non-recurring basis other than fair value measurements associated with the purchase accounting for Bid4Assets. As of June 30, 2023, and September 30, 2022, the Company did not have any material assets or liabilities measured at fair value on a non-recurring basis.

12. Defined Benefit Pension Plan

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

The net periodic (benefit) is recognized within Interest and other (income) expense, net in the Condensed Consolidated Statements of Operations, and for the three and nine months ended June 30, 2023 and 2022, included the following components:

(in thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2023	2022	2023	2022
Interest cost	\$ 203	\$ 122	\$ 594	\$ 384
Expected return on plan assets	(224)	(219)	(653)	(686)
Amortization of prior service cost	7	5	20	15
Total net periodic (benefit)	\$ (14)	\$ (92)	\$ (39)	\$ (287)

13. Legal Proceedings and Other Contingencies

The Company reserves for contingent liabilities based on ASC 450, *Contingencies*, when it determines that a liability is probable and reasonably estimable.

From time to time, the Company may become involved in litigation relating to claims arising in the ordinary course of the business. 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. The court granted the motion with respect to the age discrimination claim but denied the motion with respect to the race and gender discrimination claims. The Company believes the remaining claims are without merit and cannot estimate a range of potential liability, if any, at this time. The Company's employment practices liability insurance carrier, CNA, has accepted tender of this claim. The trial for this matter is scheduled to begin on October 30, 2023.

In October 2021, the Company's former Chief Marketing Officer (the "Former CMO") filed a charge 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. On December 28, 2022, the Former CMO filed a complaint (the "Original Complaint"), alleging the same claims noted in the EEOC charge in federal court in Montgomery County, Maryland (the "District Court"). The EEOC dismissed the Former CMO's charge on April 26, 2023. In addition, on April 26, 2023, the Former CMO filed an amended complaint with the District Court, alleging the same claims made in the Original Complaint. 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.

Unless otherwise noted, based on the information currently available, there are no claims or actions pending or threatened against the Company that, if adversely determined, would have, in Company's management's judgment based on the information known to management, a material adverse effect on the Company.

14. Segment Information

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

- The GovDeals reportable segment provides self-directed service solutions that enable federal, state, and local 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.

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

- 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.
- 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 AllSurplus, GoIndustry DoveBid, and GovDeals 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. Machinio also offers the Machinio System service that provides equipment sellers with a set of online marketing tools that includes website hosting, email marketing, and inventory management.

We also report results for 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 this assessment, the CODM uses direct profit to evaluate the performance of each segment. Segment direct profit, previously referred to as segment gross profit, continues to be calculated as total revenue less cost of goods sold (excluding depreciation and amortization).

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

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

(in thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2023	2022	2023	2022
GovDeals:				
Purchase revenue	\$ —	\$ —	\$ —	\$ —
Consignment and other fee revenues	17,270	16,587	45,956	45,130
Total revenue	17,270	16,587	45,956	45,130
Segment direct profit	\$ 16,389	\$ 15,765	\$ 43,572	\$ 42,913
RSCG:				
Purchase revenue	\$ 41,439	\$ 33,788	\$ 121,651	\$ 99,838
Consignment and other fee revenues	9,532	8,586	29,006	23,045
Total revenue	50,971	42,374	150,657	122,883
Segment direct profit	\$ 17,876	\$ 15,942	\$ 50,562	\$ 46,818
CAG:				
Purchase revenue	\$ 1,370	\$ 1,719	\$ 7,064	\$ 9,271
Consignment and other fee revenues	7,615	6,077	20,731	18,725
Total revenue	8,985	7,796	27,795	27,996
Segment direct profit	\$ 7,938	\$ 6,271	\$ 23,466	\$ 21,076
Machinio:				
Purchase revenue	\$ —	\$ —	\$ —	\$ —
Consignment and other fee revenues	3,559	3,124	10,144	8,883
Total revenue	3,559	3,124	10,144	8,883
Segment direct profit	\$ 3,381	\$ 2,971	\$ 9,611	\$ 8,424
Corporate & Other, including elimination adjustments:				
Purchase revenue	\$ —	\$ —	\$ —	\$ —
Consignment and other fee revenues	(16)	(15)	(47)	(44)
Total revenue	(16)	(15)	(47)	(44)
Segment direct profit	\$ (16)	\$ (15)	\$ (47)	\$ (44)
Consolidated:				
Purchase revenue	\$ 42,809	\$ 35,507	\$ 128,715	\$ 109,109
Consignment and other fee revenues	37,961	34,359	105,790	95,739
Total revenue	80,770	69,866	234,505	204,848
Total Segment direct profit	\$ 45,568	\$ 40,934	\$ 127,165	\$ 119,186

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

(in thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2023	2022	2023	2022
Reconciliation:				
Total segment direct profit	\$ 45,568	\$ 40,934	\$ 127,165	\$ 119,186
Other costs and expenses from operations ⁽¹⁾	\$ 37,315	33,712	108,811	103,008
Fair value adjustment of acquisition earn-outs	\$ —	(11,500)	—	(20,000)
Interest and other (income) expense, net	\$ (777)	131	(1,609)	(55)
Income before provision for income taxes	\$ 9,030	\$ 18,591	\$ 19,963	\$ 36,233

⁽¹⁾ Other costs and expenses from operations is defined as Total costs and expenses from operations per the Condensed Consolidated Statements of Operations, less Cost of goods sold (which is included in the calculation of Segment direct profit).

The percent of our revenues that came from transactions conducted outside of the United States for the three months ended June 30, 2023 and 2022, was 8.8% and 11.9%, respectively. The percent of our revenues that came from transactions conducted outside of the United States for the nine months ended June 30, 2023 and 2022, was 10.4% and 13.6%, respectively.

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

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements. These statements are only predictions. The outcome of the events described in these forward-looking statements is subject to known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks and other factors include but are not limited to the factors set forth in our Annual Report on Form 10-K for the fiscal year ended September 30, 2022, and subsequent filings with the Securities and Exchange Commission (SEC). You can identify forward-looking statements by terminology such as "may," "will," "should," "could," "would," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continues" or the negative of these terms or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. There may be other factors of which we are currently unaware or deem immaterial that may cause our actual results to differ materially from the forward-looking statements.

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

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

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.

Results from our operations are organized into four reportable segments: GovDeals, Retail Supply Chain Group (RSCG), Capital Assets Group (CAG), and Machinio. See Note 14 - *Segment Information* to the condensed consolidated financial statements for more information regarding our segments.

Macroeconomic Conditions

Supply chain challenges and shifting consumer sentiment. Constraints in the production of new vehicles and heavy equipment originating during the COVID-19 pandemic, particularly as it relates to new fleet sales, are continuing to impact the supply of used vehicles available for sale on our marketplaces, while used car market price indices are simultaneously experiencing heightened volatility. In addition, general consumer behavior appears to be more cautious, focused more on essential goods and travel with limited discretionary high-value purchases. These conditions are impacting our GMV, Revenues, Segment direct profit and Segment direct profit margins, and may continue to do so while these conditions persist, or if similar challenges emerge in other key asset categories.

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. 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.

Disruptions in the Financial Services Industry. In March 2023, Silicon Valley Bank and Signature Bank were each closed and taken over by the Federal Deposit Insurance Corporation (FDIC), which created significant market disruption and uncertainty for entities that bank with those institutions, and which raised significant concern regarding the stability of the banking system in the United States. The Company did not maintain any funds or lending relationships with either of those banks and the banks we do maintain accounts and relationships with have, to date, not experienced any significant disruptions. Any additional market disruptions could impact banks directly used by the Company or those used by its buyers and sellers that transact using its marketplaces, which could have a negative effect on the Company's financial position and results of operations.

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 three and nine months ended June 30, 2023 and 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.

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.

Our Marketplace Transactions

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 June 30, 2023, we had more than 5.1 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 twelve months ended June 30, 2023, the approximate number of registered buyers increased from 4.8 million to 5.1 million, or approximately 5%. 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.

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 Condensed 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.

Consignment model. 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 Condensed 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.

Other fee revenues. We also earn non-consignment fee revenue from Machinio's subscription services, as well as other services including asset valuation. Non-consignment fee revenue is recorded within the Consignment and other fee revenues line item on the Condensed Consolidated Statements of Operations.

Transaction Model Mix. Most of our transactions are conducted under the consignment model, which represented 87% and 85% of our consolidated GMV for the three and nine months ended June 30, 2023, respectively, and 89% and 87% for the three and nine months ended June 30, 2022, respectively. However, only the consignment fee, representing a small portion of the consignment GMV, is recognized as revenue, causing consignment revenues to account for 39% and 38% of our total revenue for the three and nine months ended June 30, 2023, respectively, and 41% and 39% for the three and nine months ended June 30, 2022, respectively.

Purchase model transactions are a smaller proportion of our consolidated GMV, representing 13% and 15% of our GMV for the three and nine months ended June 30, 2023, respectively, and 11% and 13% for the three and nine months ended June 30, 2022, respectively. However, all of the GMV associated with the purchase model transaction is generally able to be recognized as revenue, causing purchase revenues to account for 53% and 55% of our total revenues for the three and nine months ended June 30, 2023, respectively, and 51% and 53% for the three and nine months ended June 30, 2022, respectively.

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. \$6.0 million and \$8.1 million of inventory purchased under such contracts with Amazon.com, Inc. are included in our Consolidated Inventory balances as of June 30, 2023, and September 30, 2022, respectively. Our vendor contracts with respect to sourcing or consigning merchandise for our RSCG segment generally reflect the concentration dynamics inherent to the retail industry.

Other fee revenues accounted for 7.9% and 7.5% of our total revenues for the three and nine months ended June 30, 2023, respectively, and 8.3% and 7.7% of our total revenues for the three and nine months ended June 30, 2022, respectively.

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 three and nine months ended June 30, 2023, was \$334.0 million and \$887.5 million, respectively.

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 each of June 30, 2023, and 2022, we had 5.1 million and 4.8 million, registered buyers, respectively. None of our buyers represented more than 10% of our revenue during the three and nine months ended June 30, 2023.

Total auction participants. For each auction we manage, the number of auction participants represents the total number of registered buyers who have bid one or more times in that auction. As a result, a registered buyer who bids, or participates, in more than one auction is counted as an auction participant in each auction in which he or she participates. Thus, total auction participants for a given period is the sum of the auction participants in each auction conducted during that period. We use this metric to allow us to compare our online auction marketplaces to our competitors, including other online auction sites and traditional on-site auctioneers. In addition, we measure total auction participants on a periodic basis to evaluate the activity level of our base of registered buyers and to measure the performance of our marketing and promotional efforts. During the three months ended June 30, 2023 and 2022, 924,000 and 884,000 participants participated in auctions on our marketplaces, respectively. During the nine months ended June 30, 2023 and 2022, approximately 2,465,000 and 2,355,000, respectively, total auction participants participated in auctions on our marketplaces.

Completed transactions. Completed transactions represents the number of auctions in a given period from which we have recorded revenue. Similar to GMV, we believe that completed transactions is a key business metric because it provides an additional measurement of the volume of activity flowing through our marketplaces. During the three months ended June 30, 2023 and 2022, we completed 252,000 and 253,000 transactions, respectively. During the nine months ended June 30, 2023 and 2022, we completed approximately 675,000 and 709,000 transactions, respectively.

Critical Accounting Policies and Estimates

The Company's critical accounting policies and estimates are described in our Annual Report on Form 10-K for the year ended September 30, 2022, and in Note 2 — *Summary of Significant Accounting Policies* to the condensed consolidated financial statements. The following discussion is a supplement to the disclosures referenced in connection with accounting estimates made in preparing the purchase accounting for the Bid4Assets acquisition completed during the year ended September 30, 2022.

Earn-out liability. Following the acquisition of Bid4Assets during the year ended September 30, 2022, shareholders of Bid4Assets were 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 on November 1, 2021. As of June 30, 2023, \$3.5 million in earn out payments were made as based upon actual performance through the final earn-out measurement period ending December 31, 2022. During the year ended September 30, 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 purchase price allocation, goodwill arising from the Bid4Assets acquisition was determined to be \$30.1 million. As discussed in Note 11 — *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. As of June 30, 2023, there was no remaining earn-out liability pursuant to the final earn out measurement period ending December 31, 2022. The decline in earn-out liability since the acquisition date was due to timing changes, which were not known nor knowable as of the acquisition date, impacting the level of auction events and transactions that were 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 December 31, 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* in our Annual Report on Form 10-K for discussion of the Company's related accounting policies.

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

Technology and operations. Technology expenses 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 Condensed Consolidated Statements of Operations. Technology expenses are presented separately from Costs of goods sold (excluding depreciation and amortization) in the Condensed 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 marketplaces and support systems, 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 (income) expenses. 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) expense, net. Interest and other (income) expense, net consists of interest income on interest bearing checking accounts, money market funds, 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. For interim income tax reporting, we estimate our annual effective tax rate and apply this effective tax rate to our year-to-date pre-tax income (loss). Our effective income tax rate after discrete items was 26.4% for the nine months ended June 30, 2023. The effective tax rate differed from the statutory federal rate of 21% primarily as a result of the impact of foreign, state, and local income taxes and permanent tax adjustments.

Results of Operations

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

(in thousands)	Three Months Ended June 30,		Change		Nine Months Ended June 30,		Change	
	2023	2022	\$	%	2023	2022	\$	%
Purchase revenues	\$ 42,809	\$ 35,507	\$ 7,302	20.6 %	\$ 128,715	\$ 109,109	\$ 19,606	18.0 %
Consignment and other fee revenues	37,961	34,359	3,602	10.5 %	105,790	95,739	10,051	10.5 %
Total revenue	80,770	69,866	10,904	15.6 %	234,505	204,848	29,657	14.5 %
Costs and expenses from operations:								
Cost of goods sold (excludes depreciation and amortization)	35,201	28,932	6,269	21.7 %	107,340	85,662	21,678	25.3 %
Technology and operations	13,927	13,782	145	1.1 %	43,423	41,573	1,850	4.4 %
Sales and marketing	13,068	10,900	2,168	19.9 %	35,712	32,217	3,495	10.8 %
General and administrative	7,454	6,389	1,065	16.7 %	21,243	21,672	(429)	(2.0) %
Depreciation and amortization	2,866	2,641	225	8.5 %	8,433	7,546	887	11.8 %
Fair value adjustment of acquisition earn-outs	—	(11,500)	11,500	NM	—	(20,000)	20,000	NM
Other operating (income) expenses, net	(1)	27	(28)	NM	128	18	110	NM
Total costs and expenses	72,515	51,171	21,344	41.7 %	216,279	168,688	47,591	28.2 %
Income from operations	8,255	18,695	(10,440)	(55.8) %	18,226	36,160	(17,934)	(49.6) %
Interest and other (income) expense, net	(775)	104	(879)	NM	(1,737)	(73)	(1,664)	NM
Income before provision for income taxes	9,030	18,591	(9,561)	(51.4) %	19,963	36,233	(16,270)	(44.9) %
Provision for income taxes	2,543	2,183	360	16.5 %	5,265	4,254	1,011	23.8 %
Net income	\$ 6,487	\$ 16,408	\$ (9,921)	(60.5) %	\$ 14,698	\$ 31,979	\$ (17,281)	(54.0) %

NM = not meaningful

The following table presents reportable segment GMV, revenue, segment direct profit (previously referred to as segment gross profit which continues to be calculated as total revenue less cost of goods sold (excluding depreciation and amortization)), and segment direct profit as a percentage of total revenue for the periods indicated:

(dollars in thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2023	2022	2023	2022
GovDeals:				
GMV	\$ 213,052	\$ 222,238	\$ 542,025	\$ 559,429
Total revenue	\$ 17,270	\$ 16,587	\$ 45,956	\$ 45,130
Segment direct profit	\$ 16,389	\$ 15,765	\$ 43,572	\$ 42,913
Segment direct profit as a percentage of total revenue	94.9 %	95.0 %	94.8 %	95.1 %
RSCG:				
GMV	\$ 72,677	\$ 60,476	\$ 210,913	\$ 172,930
Total revenue	\$ 50,971	\$ 42,374	\$ 150,657	\$ 122,883
Segment direct profit	\$ 17,876	\$ 15,942	\$ 50,562	\$ 46,818
Segment direct profit as a percentage of total revenue	35.1 %	37.6 %	33.6 %	38.1 %
CAG:				
GMV	\$ 48,229	\$ 42,292	\$ 134,518	\$ 129,674
Total revenue	\$ 8,985	\$ 7,796	\$ 27,795	\$ 27,996
Segment direct profit	\$ 7,938	\$ 6,271	\$ 23,466	\$ 21,076
Segment direct profit as a percentage of total revenue	88.3 %	80.4 %	84.4 %	75.3 %
Machinio:				
GMV	—	—	—	—
Total revenue	\$ 3,559	\$ 3,124	\$ 10,144	\$ 8,883
Segment direct profit	\$ 3,381	\$ 2,971	\$ 9,611	\$ 8,424
Segment direct profit as a percentage of total revenue	95.0 %	95.1 %	94.7 %	94.8 %
Consolidated:				
GMV	\$ 333,958	\$ 325,006	\$ 887,456	\$ 862,033
Total revenue	\$ 80,770	\$ 69,866	\$ 234,505	\$ 204,848

Three Months Ended June 30, 2023, Compared to the Three Months Ended June 30, 2022

Segment Results

GovDeals. Total revenues from our GovDeals reportable segment increased 4.1%, or \$0.7 million, while GMV decreased by 4.1%, or \$9.2 million. The decline in GMV was driven by lower volumes of lower take-rate foreclosed real estate properties available for auction. The increase in revenues was driven by increased marketplace activity, including additional sellers, improved availability of used vehicles, and increased take-rate pricing. Combined, these factors caused revenue as a percentage of GMV to increase to 8.1% from 7.5% last year. Segment direct profit increased by \$0.6 million, or 4.0%. Segment direct profit as a percentage of total revenue remained relatively consistent between the periods.

RSCG. Revenue from our RSCG reportable segment increased \$8.6 million, or 20.3%, due to a \$12.2 million, or 20.2%, rise in GMV due to increased access to recurring product flows from new and expanded client programs, and improving recovery rates due to reduced availability of excess inventories available in the broader spot market that had accumulated from retailer supply chain related challenges in the prior year. Segment direct profit increased by \$1.9 million, or 12.1%. Segment direct profit as a percentage of total revenue decreased from 37.6% to 35.2%, due to an increase in the purchase model GMV mix and a \$0.4 million inventory provision, partially offset by improving recovery rates.

CAG. Revenue from the CAG reportable segment increased by \$1.2 million, or 15.2%, due to a \$5.9 million, or 14.0%, increase in GMV driven by consignment sales in our industrial and heavy equipment categories. As a result of the increase in revenues, Segment direct profit increased by \$1.7 million, or 26.6%. Segment direct profit as a percentage of total revenue increased 8.0% due to inherent variations in the mix of assets sourced and sold by the CAG segment in any given period, from a higher mix of consignment transactions and higher margins on purchase transactions conducted during the quarter. Challenged global supply chains are experiencing heightened disruptions due to international tensions 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 13.4%, or \$0.4 million, due to price increases and continued growth in subscribers. As a result of the increase in revenues, segment direct profit increased 13.8%, or \$0.4 million. Segment direct profit as a percentage of total revenue remained relatively consistent between the periods.

Consolidated Results

Total revenues - Total consolidated revenue increased \$10.9 million, or 15.6%. Refer to the discussion of Segment Results above for discussion of the increase in revenue.

Cost of goods sold (excludes depreciation and amortization). Cost of goods sold increased \$6.3 million, or 21.7%, which changed at a higher rate than Total revenues primarily due to an increase in purchase transactions at the RSCG segment. However, this increase was consistent with the 20.6% increase in Purchase revenues between the three months ended June 30, 2023 and 2022, as the cost of inventory purchased for purchase model transactions is the largest component of our consolidated Cost of goods sold.

Technology and operations expenses. Technology and operations expenses increased \$0.1 million, or 1.1%, primarily due to changes to stock compensation and other variable compensation, offset by a \$0.6 million decrease from streamlining operations expenses following the prior year growth in our distribution network.

Sales and marketing expenses. Sales and marketing expenses increased \$2.2 million, or 19.9%, due to a \$0.3 million increase in bad debt expense, and the impact of our market share expansion and client diversification efforts that occurred throughout the past year, as well as other inflationary cost increases.

General and administrative expenses. General and administrative expenses increased \$1.1 million, or 16.7%, due to increases in stock compensation and other variable compensation.

Depreciation and amortization. Depreciation and amortization expense increased \$0.2 million, or 8.5%, stemming from our ongoing technology and operations investments to continue our growth.

Fair value adjustment of acquisition earn-outs. Fair value adjustment of acquisition earn-outs decreased by \$11.5 million as a non-cash gain for the same amount was recorded during the three months ended June 30, 2022, due to a reduction in the fair value of the Bid4Assets earn-out liability. See Note 11 - Fair Value Measurement for further information.

Other operating (income) expenses, net. Other operating (income) expense, net was consistent between the three months ended June 30, 2023 and 2022.

Interest and other (income) expense, net. Interest and other (income) expense, net increased \$0.9 million, due to the effect of rising interest rates on our cash equivalent and short-term investment holdings.

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

Nine Months Ended June 30, 2023, Compared to the Nine Months Ended June 30, 2022

Segment Results

GovDeals. Total revenues from our GovDeals reportable segment increased 1.8%, or \$0.8 million, while GMV decreased by 3.1%, or \$17.4 million. The decline in GMV was driven by lower volumes of lower take-rate foreclosed real estate properties available for auction. The increase in revenues was driven by increased marketplace activity, including additional sellers, improved availability of used vehicles, and increased take-rate pricing. Combined, these factors caused revenue as a percentage of GMV to increase to 8.5% from 8.1% last year. Segment direct profit increased by \$0.7 million, or 1.5%. Segment direct profit as a percentage of total revenue remained consistent between the periods.

RSCG. Revenue from our RSCG reportable segment increased \$27.8 million, or 22.6%, due to a \$38.0 million, or 22.0%, rise in GMV due to a stronger holiday return and liquidations season, access to recurring product flows from new and expanded client programs and distribution networks, and improving recovery rates due to reduced availability of excess inventories available in the broader spot market that had accumulated from retailer supply chain related challenges in the prior year. Segment direct profit increased by \$3.7 million, or 8.0%. Segment direct profit as a percentage of total revenue decreased from 38.1% to 33.6%, due to an increase in the purchase model GMV mix and \$1.0 million in inventory provisions, partially offset by improving recovery rates.

CAG. Revenue from the CAG reportable segment decreased by \$0.2 million, or 0.7%. GMV increased by \$4.8 million, or 3.7%, driven by consignment sales in our energy and heavy equipment categories. The increase in transactions conducted under the consignment model contributed to Segment direct profit increasing by \$2.4 million, or 11.3%. Segment direct profit as a percentage of total revenue which increased 9.1% due to inherent variations in the mix of assets sourced and sold by the CAG segment in any given period, from a higher mix of consignment transactions and higher margins on purchase transactions conducted during the quarter. Challenged global supply chains are experiencing heightened disruptions due to international tensions 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 14.2%, or \$1.3 million, due to price increases and continued growth in subscribers. As a result of the increase in revenues, Segment direct profit increased 14.2%, or \$1.2 million. Segment direct profit as a percentage of total revenue remained relatively consistent between the periods.

Consolidated Results

Total revenues - Total consolidated revenue increased \$29.7 million, or 14.5%. Refer to the discussion of Segment Results above for discussion of the increase in revenue.

Cost of goods sold (excludes depreciation and amortization). Cost of goods sold increased \$21.7 million, or 25.3%, which changed at a higher rate than Total revenues primarily due to an 18.0% increase in our Purchase revenues between the nine months ended

June 30, 2023 and 2022, as changes in consumer sentiment affected our product mix earlier in the current year, resulting in a higher proportion of lower value products during that time.

Technology and operations expenses. Technology and operations expenses increased \$1.8 million, or 4.4%, due to a \$0.7 million increase from changes to stock compensation and other variable compensation, and from the impact of the growth in our distribution network facilities, market share expansion, and client diversification efforts, as well as other inflationary cost increases.

Sales and marketing expenses. Sales and marketing expenses increased \$3.5 million, or 10.8%, due to a \$1.0 million increase in stock compensation expense and other variable compensation, a \$0.5 million increase in bad debt expense, and the impact of our market share expansion and client diversification efforts, as well as other inflationary cost increases. These increases were partially offset by a \$0.9 million non-recurring benefit from a concluded client program.

General and administrative expenses. General and administrative expenses decreased \$0.4 million, or 2.0%, primarily due to a \$0.3 million decrease in stock compensation expense.

Depreciation and amortization. Depreciation and amortization expense increased \$0.9 million, or 11.8%, 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 decreased by \$20.0 million as the cumulative non-cash gain for the same amount was recorded during the nine months ended June 30, 2022, due to a reduction in the fair value of the Bid4Assets earn-out liability. See Note 11 - Fair Value Measurement for further information.

Other operating (income) expenses, net. Other operating (income) expense, net was consistent between the nine months ended June 30, 2023 and 2022.

Interest and other (income) expense, net. Interest and other (income) expense, net increased \$1.7 million, due to the effect of rising interest rates on our cash equivalent and short-term investment holdings.

Provision for income taxes. Provision for income taxes increased \$1.0 million due to 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 plus Interest and other (income) expense, net excluding the non-service components of net periodic pension (benefit) expense; Provision for income taxes; and Depreciation and amortization. Interest and other (income) expense, 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, and goodwill, long-lived asset and other non-current 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 based upon information known or knowable as of the acquisition date, 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 to Non-GAAP EBITDA and Non-GAAP Adjusted EBITDA for the periods presented.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2023	2022	2023	2022
Net income	\$ 6,487	\$ 16,408	\$ 14,698	\$ 31,979
Interest and other (income) expense, net ¹	(761)	196	(1,698)	214
Provision for income taxes	2,543	2,183	5,265	4,254
Depreciation and amortization	2,866	2,641	8,433	7,546
EBITDA	\$ 11,135	\$ 21,428	\$ 26,698	\$ 43,993
Stock compensation expense	2,195	1,884	6,216	6,156
Acquisition costs and impairment of long-lived and other non-current assets ²	—	43	183	295
Fair value adjustment of acquisition earn-outs ³	—	(11,500)	—	(20,000)
Non-GAAP Adjusted EBITDA	\$ 13,330	\$ 11,855	\$ 33,097	\$ 30,444

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

² Acquisition costs and impairment of long-lived and other non-current assets, are components of Other operating (income) expenses, net on the Condensed Consolidated Statements of Operations.

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 June 30, 2023, we had \$98.1 million and \$7.7 million in Cash and cash equivalents and Short-term investments, respectively, which we believe is sufficient to meet the Company's anticipated cash needs for at least one year from the date 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 nine months ended June 30, 2023 and 2022, were \$3.9 million and \$6.3 million, respectively. This decrease was primarily driven by prior year growth in our distribution network facilities. As of June 30, 2023, 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, the due date for which was extended by 12 months to March 31, 2025, during the three months ended March 31, 2023, via the First Amendment to the Credit Agreement. No other changes, including with respect to the borrowing terms or capacities, were made as a result of the First Amendment.

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 three and nine months ended June 30, 2023, the Company did not make any draws under the Credit Agreement. As of June 30, 2023, 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 June 30, 2023, 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 recent disruptions in the financial services industry have created significant market challenges and uncertainty for entities that bank with those institutions, and which raised significant concern regarding the stability of the banking system in the United States. The Company did not maintain any funds or lending relationships with any of the banks impacted and the banks we do maintain accounts and relationships with have, to date, not experienced any significant disruptions. The Company maintains its cash balances in non-interest bearing and interest-bearing accounts which exceed the applicable U.S. FDIC and local jurisdiction (foreign banking institutions) insurance limits. Management continually monitors the financial institutions with whom we conduct business and takes appropriate measures, when necessary, to manage potential risk exposure to our cash balances above the insurance limits.

We expect to continue to invest in enhancements to our e-commerce technology platform, marketplace capabilities, operational technology, and tools for data-driven decision support, 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 \$10.4 million of undistributed foreign earnings as of June 30, 2023. As of June 30, 2023, and September 30, 2022, \$15.3 million and \$20.3 million, respectively, of cash and cash equivalents was held by foreign subsidiaries outside of the U.S.

Other Uses of Capital Resources

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.

As of September 30, 2022, the Company had \$6.6 million remaining share repurchase authorization.

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

On March 13, 2023, the Company's Board of Directors authorized a new stock repurchase plan of up to \$8.0 million of the Company's outstanding shares of common stock through December 31, 2025.

The Company repurchased 1,607,132 shares for \$21.2 million during the nine months ended June 30, 2023. As of June 30, 2023, the Company had \$1.8 million of remaining authorization to repurchase shares through December 31, 2025.

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: Nine Months Ended June 30, 2023 Compared to the Nine Months Ended June 30, 2022

Net cash provided by operating activities was \$32.4 million and \$31.1 million for the nine months ended June 30, 2023 and 2022, respectively. The \$1.3 million increase in cash provided by operating activities between periods was attributable to \$6.0 million of higher Net income as adjusted for non-cash items; a \$7.4 million increase in cash inflows from Accounts receivable driven by the collection of proceeds from large spot purchase transactions with international clients conducted in the prior year; and a \$3.2 million decrease in cash outflows from Accrued expenses and other current liabilities driven by changes in other variable compensation targets. These increases were offset by a combined \$16.0 million decrease in cash inflows associated with our Accounts payable and Payables to sellers primarily due to lower volumes of foreclosed real estate property sales and timing differences in the payment of GovDeals seller settlements relative to the period end date.

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 \$9.5 million and \$17.4 million for the nine months ended June 30, 2023 and 2022, respectively. The \$7.9 million decrease in cash used in investing activities was driven by the prior year \$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. This decrease was offset by \$5.6 million in short-term investments purchased during the nine months ended June 30, 2023.

Net cash used in financing activities was \$21.8 million and \$31.0 million for the nine months ended June 30, 2023 and 2022, respectively. The \$9.2 million decrease in cash used in financing activities was primarily driven by a \$4.2 million decrease in share repurchases, a prior year \$3.5 million cash payment for contingent consideration arising from the Bid4Assets acquisition as discussed at Note 3 - *Bid4Assets Acquisition*, and \$0.9 million in lower taxes paid in connection with the net settlement of stock compensation awards. These were partially offset by \$0.5 million of proceeds from the exercise of stock options.

Item 3. 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 June 30, 2023, we hold cash and cash equivalents and short-term investments that are subject to varying interest rates based upon their maturities. A hypothetical one hundred basis point decline in interest rates would impact our pre-tax earnings by approximately \$1.0 million on an annualized basis.

As of June 30, 2023, we do not have any debt, however, should the Company draw on our Line 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, the Russia-Ukraine conflict and increasing tensions between the United States and China 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 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

As of June 30, 2023, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective and were operating to provide reasonable assurance that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

During the three months ended June 30, 2023, 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.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may become involved in litigation relating to claims arising in the ordinary course of the business. Information regarding the Company's legal proceedings can be found in Note 13 - *Legal Proceedings and Other Contingencies*, of the accompanying Notes to the condensed consolidated financial statements.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2022, as supplemented by the additional risk factor disclosure in our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2023. In addition to the other information set forth in this report, you should carefully consider the factors set forth in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2022, and Part II, "Item 1A. Risk Factors" in our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2023, which could materially affect our business, financial condition or future results. The risks described in our Form 10-K and Form 10-Q are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

Unregistered Sales of Equity Securities

None.

Use of Proceeds

Not applicable.

Issuer Purchases of Equity Securities

The following table presents information about our repurchases of common stock during the three months ended June 30, 2023 (in thousands, except share and per share amounts).

Period	Total Number of Shares Purchased ¹	Average Price Paid Per Share	Total Number of Shares Purchased as a Part of a Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Programs (in million)
April 1, 2023, to April 30, 2023	266,170	\$ 12.95	266,170	\$ 2.5
May 1, 2023, to May 31, 2023	53,841	\$ 13.10	53,841	\$ 1.8
June 1, 2023, to June 30, 2023	16,194	\$ 15.77	5,399	\$ 1.8
Total	336,205		325,410	

¹ 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 June 30, 2023, participants surrendered 10,795 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. Repurchase programs may be discontinued or suspended at any time and will be funded using our available cash.

As of June 30, 2023, the Company had \$1.8 million of remaining authorization to repurchase outstanding shares of common stock.

Item 5. Other Information

On August 1, 2023, the Board of Directors determined to adopt a revised Clawback Policy (the "Revised Clawback Policy") which reflects recent amendments to the Nasdaq continued listing standards requiring the recoupment of certain executive compensation in the event of an accounting restatement resulting from material noncompliance with financial reporting requirements. Effective October 1, 2023, the Revised Clawback Policy will amend and restate, in its entirety, the Liquidity Services, Inc. Clawback Policy adopted as of December 22, 2014.

Item 6. Exhibits

Exhibit No.	Description
3.1	<u>Fourth Amended and Restated Certificate of Incorporation (the "Fourth A&R Certificate"), incorporated herein by reference to Exhibit 3.1 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (Registration No. 333-129656), filed with the SEC on January 17, 2006.</u>
3.2	<u>Certificate of Amendment of the Fourth A&R Certificate, incorporated herein by reference to Appendix A to the Company's Schedule 14A, filed with the SEC on January 24, 2023.</u>
3.3	<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>
31.1	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.</u>
32.1	<u>Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
99.1	<u>Revised Liquidity Services, Inc. Clawback Policy (effective October 1, 2023)</u>
101	The following materials from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2023, formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statement of Stockholders' Equity, (v) Condensed Consolidated Statements of Cash Flows, and (vi) Notes to the Unaudited Condensed Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

SIGNATURES

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

LIQUIDITY SERVICES, INC.
(Registrant)

August 3, 2023

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

August 3, 2023

By: /s/ Jorge A. Celaya
Jorge A. Celaya
Chief Financial Officer
(Principal Financial Officer)

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

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

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

August 3, 2023

/s/ William P. Angrick, III

By: William P. Angrick, III

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

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

I, Jorge A. Celaya, certify that:

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

August 3, 2023

/s/ Jorge A. Celaya

By: Jorge A. Celaya
Title: *Chief Financial Officer*
(Principal Financial Officer)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Liquidity Services, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2023 as filed with the Securities and Exchange Commission (the "Report"), I, William P. Angrick, III, Chief Executive Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 3, 2023

/s/ William P. Angrick, III

William P. Angrick, III

Chairman of the Board of Directors and Chief Executive Officer
(Principal Executive Officer)

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

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

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Liquidity Services, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2023 as filed with the Securities and Exchange Commission (the "Report"), I, Jorge A. Celaya, Chief Financial Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 3, 2023

/s/ Jorge A. Celaya

Jorge A. Celaya
Chief Financial Officer
(Principal Financial Officer)

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

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

LIQUIDITY SERVICES, INC.
CLAWBACK POLICY

Effective Date: October 1, 2023

1. **Purpose.** This Clawback Policy (this “Policy”) has been adopted by the Board of Directors (the “Board”) of Liquidity Services, Inc. (the “Company”) to provide for the recovery of certain erroneously awarded incentive compensation in the event the Company is required to prepare an accounting restatement. This Policy amends, restates, and replaces in its entirety the Liquidity Services, Inc. Clawback Policy adopted as of December 22, 2014.

 2. **Definitions.** For purposes of this Policy:
 - a. “Accounting Restatement” means an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including the correction of an error in previously issued financial restatements that is (a) material to the previously issued financial statements, or (b) is not material to those financial statements but would result in a material misstatement if the error was corrected by way of an aggregate correction in the current period or was left uncorrected in the current period.

 - b. “Erroneously Awarded Compensation” means (1) the amount of Incentive Compensation received by an Executive Officer during a Recovery Period that exceeds the amount of Incentive Compensation the Executive Officer otherwise would have received had such Incentive Compensation been determined based on the restated amounts, or (2) for Incentive Compensation based on stock price or total shareholder return, where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in the applicable Accounting Restatement, the amount determined by the Board based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or total shareholder return upon which such Incentive Compensation was received. The amounts in (1) and (2) shall be computed without regard to any taxes paid.

 - c. “Executive Officer” means a current or former executive officer, as determined by the Board in accordance with Section 10D of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), Exchange Act Rule 10D-1, and Nasdaq Stock Market Listing Rule 5608 (“Rule 5608”).

 - d. “Financial Reporting Measures” means those measures that are determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements (regardless of whether those measures are presented in the Company’s financial statements or any SEC filing), and any measures derived in whole or in part from such measures. For the avoidance of doubt, the Company’s stock price and total shareholder return are Financial Reporting Measures.

 - e. “Incentive Compensation” means any compensation that has been granted, earned, or vested based in whole or in part upon the attainment of a Financial Reporting Measure.
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- f. “Recovery Period” means (1) the three completed fiscal years of the Company immediately preceding the Restatement Date and (2) any transition period (that results from a change in the Company’s fiscal year) within or immediately following those three completed fiscal years that is within the scope of the recovery period described in Rule 5608.
- g. “Restatement Date” means the date the Company is required to prepare an Accounting Restatement. Such date shall be the earlier of (1) the date the Board, a committee of the Board, or the officer(s) of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement, or (2) the date a court, regulator, or other legally authorized body directs the Company to prepare an Accounting Restatement.

3. Recovery of Erroneously Awarded Compensation.

- a. If the Company is required to prepare an Accounting Restatement, the Board shall review all Incentive Compensation received by any Executive Officer during the applicable Recovery Period to determine if any Erroneously Awarded Compensation has been received. For purposes of this policy, Incentive Compensation is deemed “received” in the fiscal period within which a Financial Reporting Measure specified in the Incentive Compensation award has been attained, even if the payment or grant of the Incentive Compensation occurs after the end of that period.
 - b. If the Board determines that an Executive Officer received Erroneously Awarded Compensation, the Company shall recover, reasonably promptly, such Erroneously Awarded Compensation. This may include providing written notice to the affected Executive Officer of the amount of Erroneously Awarded Compensation, a demand for repayment or return (as applicable), and a due date, and such other means of recovery contemplated in Section 3(c).
 - c. The Company may recover Erroneously Award Compensation by requiring the affected Executive Officer to repay or reimburse the Company or by set-off, by reducing future compensation, by cancelling outstanding vested or unvested equity awards, or by such other means or combination of means as the Board determines to be appropriate to recover the total amount of Erroneously Awarded Compensation.
 - d. Except as set forth in Section 4, in no event may the Company seek to recover an amount that is less than the Erroneously Awarded Compensation owed by an Executive Officer.
 - e. This Policy applies to all Incentive Compensation received by a person (1) after beginning service as an Executive Officer; (2) who served as an Executive Officer at any time during the performance period for that Incentive Compensation; (3) while the Company has a class of securities listed on a national securities exchange; and (4) during the Recovery Period. For the avoidance of doubt, this Policy shall apply to all such Executive Officers who received Erroneously Awarded Compensation during the applicable Recovery Period, regardless of whether any misconduct occurred or an Executive Officer was responsible for the preparation of the Company’s financial statements. Further, the Company’s obligation to recover Erroneously Awarded Compensation is not dependent on if or when restated financial statements are filed.
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4. **Exceptions to Recovery of Erroneously Awarded Compensation.** Notwithstanding anything herein to the contrary, the Company shall not be required to take the actions contemplated by Section 3 if the conditions set forth in Exchange Act Rule 10D-1 and Rule 5608 are met, and the Compensation Committee, or in the absence of an independent compensation committee, a majority of the independent directors serving on the Board, has made a determination that recovery would be impracticable in accordance with Exchange Act Rule 10D-1 and Rule 5608.
 5. **Records.** The Company shall maintain documentation relating to the Board's review process, including any computation of the restated amounts or the Erroneously Awarded Compensation. Further, if the amount of Erroneously Awarded Compensation is determined pursuant to clause (2) of Section 2(b), the Company shall maintain documentation of any estimated Erroneously Awarded Compensation, and provide such documentation to Nasdaq.
 6. **Indemnification Prohibition.** Under no circumstances will the Company indemnify any Executive Officer against, or provide insurance coverage for, the loss of any Erroneously Awarded Compensation or any claims relating to the Company's enforcement of its rights under this Policy. Further, the Company shall not enter into any agreement that exempts any Incentive Compensation from the application of this Policy or that waives the Company's right to recover any Erroneously Awarded Compensation. This Policy shall supersede any such agreement (whether entered into before, on, or after the Effective Date).
 7. **Administration and Interpretation.** This Policy shall be administered and enforced by the Board, and shall be interpreted in accordance with Section 10D of the Exchange Act, Exchange Act Rule 10D-1, and Rule 5608. Any determinations made by the Board in good faith pursuant to this Policy or otherwise made in accordance with this Policy, Section 10D of the Exchange Act, Exchange Act Rule 10D-1, and Rule 5608 shall be final and binding on all affected individuals.
 8. **Other Recoupment Rights.** The Board intends for this Policy to apply to the fullest extent of the law. The Board may require that any employment agreement, equity award agreement, or similar agreement entered into on or after the Effective Date shall, as a condition to the grant of any benefit thereunder, require an Executive Officer to agree to abide by the terms of this Policy. Any right of recoupment under this Policy is in addition to, and not in lieu of, any other remedies or rights of recoupment that may be available to the Company pursuant to the terms of any similar additional policy adopted by the Company to supplement this Policy; any similar policy in any employment agreement, equity award agreement, or similar agreement; any compensation, incentive, or severance plan or policy; and any other remedies at law or in equity available to the Company.
 9. **Severability.** If any provision of this Policy is determined to be unenforceable or invalid under any applicable law, such provision shall be applied to the maximum extent permitted by applicable law and shall automatically be deemed amended in a manner consistent with its objectives to the extent necessary to conform to any limitations required under applicable law.
 10. **Successors.** This Policy shall be binding and enforceable against all Executive Officers and their beneficiaries, heirs, executors, administrators, or other legal representatives.
 11. **Amendment; Termination.** The Board may amend or terminate this Policy at any time in its discretion. Notwithstanding anything contrary herein, no amendment or termination of this Policy shall be effective if such amendment or termination would cause the Company to violate any federal securities laws, SEC rules, or rules of any national securities exchange on which the Company's securities are listed.
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