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 December 31, 2021

OR

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

For the transition period from to

Commission file number 0-51813

LIQUIDITY SERVICES

A Better Future for Surplus

LIQUIDITY SERVICES, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**52-2209244**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
6931 Arlington Road, Suite 200, Bethesda, MD	**20814**
(Address of Principal Executive Offices)	(Zip Code)

(202) 467-6868
(Registrant's Telephone Number, Including Area Code)

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

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
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 January 31, 2022 was 35,564,964.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

	December 31, 2021	September 30, 2021
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 91,321	$ 106,335
Accounts receivable, net of allowance for doubtful accounts of $478 and $490	7,797	5,866
Inventory, net	13,225	12,468
Prepaid taxes and tax refund receivable	1,677	1,713
Prepaid expenses and other current assets	6,465	5,460
Total current assets	120,485	131,842
Property and equipment, net of accumulated depreciation of $20,058 and $18,558	18,164	17,634
Operating lease assets	15,309	13,478
Intangible assets, net	19,187	3,453
Goodwill	88,727	59,872
Deferred tax assets	19,217	23,822
Other assets	5,789	5,475
Total assets	$ 286,878	$ 255,576
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 31,957	$ 40,611
Accrued expenses and other current liabilities	35,709	25,975
Current portion of operating lease liabilities	4,382	4,250
Deferred revenue	4,685	4,624
Payables to sellers	48,288	33,713
Total current liabilities	125,021	109,173
Operating lease liabilities	11,774	10,098
Other long-term liabilities	13,004	1,290
Total liabilities	149,799	120,561
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock, $0.001 par value; 120,000,000 shares authorized; 35,533,071 shares issued and outstanding at December 31, 2021; 35,457,095 shares issued and outstanding at September 30, 2021	36	35
Additional paid-in capital	253,536	252,017
Treasury stock, at cost; 2,373,946 shares at December 31, 2021 and 2,222,083 shares at September 30, 2021	(39,691)	(36,628)
Accumulated other comprehensive loss	(9,142)	(9,011)
Accumulated deficit	(67,660)	(71,398)
Total stockholders' equity	137,079	135,015
Total liabilities and stockholders' equity	$ 286,878	$ 255,576

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 December 31,	
	2021	2020
	(Unaudited)	
Revenue	$ 36,217	$ 31,071
Fee revenue	30,490	24,680
Total revenue	66,707	55,751
Costs and expenses from operations:		
Cost of goods sold (excludes depreciation and amortization)	27,762	22,573
Technology and operations	13,918	10,573
Sales and marketing	10,044	9,108
General and administrative	8,230	6,996
Depreciation and amortization	2,302	1,871
Other operating (income) expenses	(32)	4
Total costs and expenses	62,224	51,125
Income from operations	4,483	4,626
Interest and other income, net	(131)	(185)
Income before provision for income taxes	4,614	4,811
Provision for income taxes	1,012	297
Net income	$ 3,602	$ 4,514
Basic income per common share	$ 0.11	$ 0.14
Diluted income per common share	$ 0.10	$ 0.13
Basic weighted average shares outstanding	32,971,709	33,176,895
Diluted weighted average shares outstanding	34,868,869	34,911,119

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 December 31,	
	2021	2020
	(Unaudited)	
Net income	$ 3,602	$ 4,514
Other comprehensive (loss) income:		
Foreign currency translation	(131)	896
Other comprehensive (loss) income	(131)	896
Comprehensive income	$ 3,471	$ 5,410

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			Treasury Stock				
	Shares	Amount	Additional Paid-in Capital	Shares	Amount	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
				(Unaudited)				
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

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Three Months Ended December 31,	
	2021	2020
	(Unaudited)	
Operating activities		
Net income	$ 3,602	$ 4,514
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,302	1,871
Stock compensation expense	2,280	2,229
Inventory adjustment to net realizable value	98	—
Provision for doubtful accounts	11	15
Deferred tax provision	881	32
Gain on disposal of property and equipment	(6)	(1)
Gain on termination of lease	(205)	—
Changes in operating assets and liabilities:		
Accounts receivable	(1,795)	506
Inventory	(855)	(4,324)
Prepaid and deferred taxes	35	208
Prepaid expenses and other assets	(1,137)	(1,235)
Operating lease assets and liabilities	214	(89)
Accounts payable	(8,815)	3,301
Accrued expenses and other current liabilities	(5,193)	(1,994)
Deferred revenue	60	174
Payables to sellers	11,199	1,069
Other liabilities	(805)	(238)
Net cash provided by operating activities	1,871	6,038
Investing activities		
Cash paid for business acquisition, net of cash acquired	(11,063)	—
Purchases of property and equipment, including capitalized software	(1,964)	(1,363)
Increase in intangibles	(1)	(5)
Proceeds from sales of property and equipment	7	14
Proceeds from promissory note	—	508
Net cash used by investing activities	(13,021)	(846)
Financing activities		
Payments of the principal portion of finance lease liabilities	(27)	(9)
Taxes paid associated with net settlement of stock compensation awards	(851)	(58)
Proceeds from exercise of stock options	—	197
Common stock repurchased	(2,963)	(4,103)
Net cash used by financing activities	(3,841)	(3,973)
Effect of exchange rate differences on cash and cash equivalents	(23)	589
Net (decrease) increase in cash and cash equivalents	(15,014)	1,808
Cash and cash equivalents at beginning of period	106,335	76,036
Cash and cash equivalents at end of period	$ 91,321	$ 77,844
Supplemental disclosure of cash flow information		
Cash (received) paid for income taxes, net	$ (28)	$ 208
Non-cash: Earnout liability for acquisition activity	$ 26,900	$ —
Non-cash: Common stock surrendered in the exercise of stock options	$ 100	$ 169

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. (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.

Results from our operations are organized into four reportable segments: Retail Supply Chain Group (RSCG), Capital Assets Group (CAG), GovDeals, and Machinio. See Note 13 - *Segment Information* for more information.

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

On November 1, 2021, the Company purchased all of the issued and outstanding shares of stock of Bid4Assets, Inc. (Bid4Assets), a Maryland corporation based in Silver Spring, MD. Bid4Assets auctions distressed real estate for the federal government, sheriffs, county tax-collectors, financial institutions and real estate funds. See Note 3 - *Bid4Assets Acquisition* for more information regarding this transaction.

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

2. Summary of Significant Accounting Policies

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 months ended December 31, 2021 are not necessarily indicative of the results that may be expected for the year ending September 30, 2022 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 months ended December 31, 2021, these estimates required the Company to make assumptions about the extent and duration of restrictions on cross-border transactions and the impact of the COVID-19 pandemic on macroeconomic conditions and, in turn, the Company's results of operations. As there remains uncertainty associated with the COVID-19 pandemic, the Company will continue to update its assumptions as conditions change. Actual results could differ significantly from those estimates.

Contract Assets and Liabilities

Contract assets reflect an estimate of expenses that will be reimbursed upon settlement with a seller. The contract asset balance was $0.7 million as of December 31, 2021 and $0.6 million as of September 30, 2021 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 December 31, 2021 and $4.6 million as of September 30, 2021 and is included in the line item Deferred revenue on the Condensed Consolidated Balance Sheets. Of the September 30, 2021 contract liability balance, $2.1 million was earned as Fee revenue during the three months ended December 31, 2021.

Performance obligations for Machinio's subscription services are satisfied over time as the Company provides the services over the term of the subscription. At December 31, 2021, the Company has a remaining performance obligation of $4.7 million for these subscription services, and the Company expects to recognize the substantial majority of that amount as Fee Revenue over the next 12 months.

Contract Costs

Contract costs relate to sales commissions paid on subscription contracts that are capitalized. Contract costs are amortized over the expected life of the customer contract. The contract cost balance was $1.7 million as of December 31, 2021 and $1.6 million as of September 30, 2021 and is included in the line items Prepaid expenses and other current assets and Other assets on the Condensed Consolidated Balance Sheets. Amortization expense was $0.2 million and $0.1 million during the three months ended December 31, 2021 and 2020, respectively.

Other Assets - Promissory Note

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

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

On May 12, 2021, the Company entered into the First Amendment to the Forbearance Agreement with JTC, providing JTC with full satisfaction and discharge from its indebtedness upon receipt of a $3.5 million payment made on May 17, 2021. As a result, the Company recorded a $1.1 million loss as component of Other operating expenses in its Condensed Consolidated Statement of Operations during the three months ended June 30, 2021, representing the difference between the $4.6 million outstanding balance of principal and accrued interest and the $3.5 million payment received. There was no impact on the unaudited financial statements from this transaction as of and for the three months ended December 31, 2021 and December 31, 2020.

Risk Associated with Certain Concentrations

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

For consignment sales transactions, funds are typically collected from buyers and are held by the Company on the sellers' behalf. The funds are included in Cash and cash equivalents 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 and cash equivalent money market funds in accounts which may at times exceed federally insured limits (FDIC and/or SIPC), and Accounts receivable. The Company deposits its cash and acquires cash equivalent money market funds with financial institutions that the Company considers to be of high credit quality.

Additionally, the Company has multiple vendor contracts with Amazon.com, Inc. under which the Company acquires and sells commercial merchandise. The property purchased under these contracts with Amazon.com, Inc. represented 60.5% and 60.0% of consolidated Cost of goods sold for the three months ended December 31, 2021 and 2020, respectively. These contracts are included within the RSCG reportable segment.

Recent Accounting Pronouncements

Accounting Standards Adopted

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

Accounting Standards Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments (Topic 326)*, or ASC 326. ASC 326, including all amendments and related guidance, was designed to provide financial statement users with more useful information about the expected credit losses on financial instruments and other commitments to extend credit. ASC 326 will require estimation of expected credit losses using a methodology that takes into consideration a broad range of reasonable and supportable information. The guidance will be effective for the Company beginning on October 1, 2023 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 and money market funds. While the Company has not experienced significant credit losses historically, the materiality of the impact of adoption will depend on events and conditions as of the date of adoption, which cannot be determined conclusively at this time.

3. Bid4Assets Acquisition

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

As of December 31, 2021, the Company's purchase price allocation related to this acquisition is preliminary and subject to revisions as additional information is obtained about the facts and circumstances that existed as of the acquisition date. The revisions may have a significant impact on our condensed consolidated financial statements. The allocation of the purchase price will be finalized once all the information that was known and knowable as of the acquisition date is obtained and analyzed, but not to exceed one year from the acquisition date. The primary areas of the purchase price allocation that are not yet finalized relate to income and non-income taxes, the valuation of intangible assets acquired and earn-out liability, and the residual goodwill. The preliminary amounts assigned to intangible assets by type for this acquisition were based upon our valuation model and historical experiences with entities with similar business characteristics.

The preliminary acquisition date fair value of the consideration transferred to the shareholders of Bid4Assets was approximately $41.6 million consisting of $14.7 million in cash (net of working capital adjustments totaling $0.3 million) and earn-out consideration with a preliminary fair value of $26.9 million. Shareholders of Bid4Assets are eligible to receive earn-out consideration of up to $37.5 million in cash, payable based on Bid4Assets' achievement of trailing twelve-month EBITDA targets measured at the end of each calendar quarter until the quarter ended December 31, 2022.

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

(in thousands)	**Fair Value**
Cash and cash equivalents	$ 3,576
Intangible assets	16,500
Other assets	368
Total assets acquired	20,443
Payables to sellers	3,701
Operating lease liabilities	204
Deferred tax liabilities	3,724
Total liabilities assumed	7,629
Net identifiable assets acquired	$ 12,815
Goodwill	28,825
Total consideration transferred	$ 41,639

The excess of purchase consideration over the fair value of assets acquired and liabilities assumed was recorded as goodwill. The goodwill associated with our acquisition includes the acquired assembled work force, and the value associated with the opportunity to leverage the workforce to continue to grow by adding additional customer relationships or new solutions in the future. Based on management's preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed, goodwill of approximately $28.8 million was recorded. The total goodwill arising from the acquisition is included in the GovDeals reportable segment and is not deductible for tax purposes.

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

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

Contract Intangibles

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

Developed Software

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

Trade Name

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

Contingent Consideration

During the three months ended December 31, 2021, and as a result of the acquisition of Bid4Assets, the Company recorded preliminary contingent consideration in the amount of $26.9 million on its Condensed Consolidated Balance Sheets. See further discussion of this matter within Note 10 - *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 months ended December 31, 2021 and 2020, as applicable.

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:

	Three Months Ended December 31,	
	2021	2020
Numerator:		
Net income	$ 3,602	$ 4,514
Denominator:		
Basic weighted average shares outstanding	32,971,709	33,176,895
Dilutive impact of stock options, RSUs and RSAs	1,897,160	1,734,224
Diluted weighted average shares outstanding	34,868,869	34,911,119
Basic income per common share	$ 0.11	$ 0.14
Diluted income per common share	$ 0.10	$ 0.13
Stock options, RSUs and RSAs excluded from income (loss) per diluted share because their effect would have been anti-dilutive	786,593	1,711,221

5. Leases

The Company has operating leases for its corporate offices, warehouses, vehicles and equipment. The operating leases have remaining terms of up to 5.1 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 December 31,	
(in thousands)	**2021**	**2020**
Finance lease – lease asset amortization	$ 21	$ 16
Finance lease – interest on lease liabilities	5	5
Operating lease cost	1,478	1,389
Short-term lease cost	53	74
Variable lease cost [1]	384	363
Sublease income	(36)	(76)
Total net lease cost	$ 1,905	$ 1,771

[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:

	December 31, 2021	
(in thousands)	**Operating Leases**	**Finance Leases**
2022	$ 3,934	$ 88
2023	4,768	117
2024	3,860	98
2025	3,170	69
2026	2,139	66
Thereafter	389	12
Total lease payments [1]	$ 18,260	$ 450
Less: imputed interest [2]	(2,104)	(49)
Total lease liabilities	$ 16,156	$ 401

[1] The weighted average remaining lease term is 3.9 years for operating leases and 4.3 years for finance leases.
[2] The weighted average discount rate is 6.3% for operating leases and 5.5% for finance leases.

Supplemental disclosures of cash flow information related to leases are:

	Three Months Ended December 31,	
(in thousands)	**2021**	**2020**
Cash paid for amounts included in operating lease liabilities	$ 1,060	$ 1,240
Cash paid for amounts included in finance lease liabilities	27	9
Non-cash: lease liabilities arising from new operating lease assets obtained	3,224	468
Non-cash: lease liabilities arising from new finance lease assets obtained	179	—
Non-cash: adjustments to lease assets and liabilities[1]	(205)	3,187

[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)	CAG	GovDeals	Machinio	Total
Balance at September 30, 2020	$ 21,550	$ 23,731	$ 14,558	$ 59,839
Translation adjustments	33	—	—	33
Balance at September 30, 2021	$ 21,583	$ 23,731	$ 14,558	$ 59,872
Bid4Assets acquisition (see Note 3)	—	28,825	—	28,825
Translation adjustments	30	—	—	30
Balance at December 31, 2021	$ 21,613	$ 52,556	$ 14,558	$ 88,727

The increase in the goodwill balance of $28.8 million at the GovDeals reportable segment during the three months ended December 31, 2021 is due to the Bid4Assets acquisition. See Note 3 - *Bid4Assets Acquisition* for further information.

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 the COVID-19 pandemic on the recoverability of its goodwill. The Company did not identify any indicators of impairment that required an interim goodwill impairment test during the three months ended December 31, 2021.

7. Intangible Assets

Intangible assets consist of the following:

		December 31, 2021			September 30, 2021		
(in thousands)	Useful Life (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Contract intangibles	6 - 8	17,000	(2,098)	14,902	3,100	(1,679)	1,421
Technology	3 - 5	5,300	(2,033)	3,267	2,700	(1,755)	945
Patent and trademarks	3 - 10	2,360	(1,342)	1,018	2,360	(1,273)	1,087
Total intangible assets		$ 24,660	$ (5,473)	$ 19,187	$ 8,160	$ (4,707)	$ 3,453

The gross carrying amount of total intangible assets increased by $16.5 million during the three months ended December 31, 2021 due to the Bid4Assets acquisition. The acquired developed software and trade name are included in the above line items of Technology and Patent and trademarks, respectively. See Note 3 - *Bid4Assets Acquisition* for further information.

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

(in thousands) Years ending September 30,	Expected Amortization Expense
Remainder of 2022	$ 2,951
2023	3,791
2024	3,253
2025	2,012
2026 and thereafter	7,180
Total	$ 19,187

Intangible asset amortization expense was $0.8 million and $0.3 million for the three months ended December 31, 2021 and 2020, respectively.

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

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 three months of fiscal year 2022 and its corresponding effective tax rate is 21.3% compared to 6.2% for the first three months of fiscal year 2021. The change in the effective tax rate for the three months ended December 31, 2021 as compared to the same period in the prior year was primarily due to state and foreign taxes, and the utilization of net operating losses. Tax expense in the three months ended December 31, 2021 is due to state and foreign taxes paid and the utilization of net operating losses. 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 Company applies the authoritative guidance related to uncertainty in income taxes. *ASC Topic 740, Income Taxes*, states that a benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolution of any related appeals or litigation processes, on the basis of technical merits. The Company identified no new uncertain tax positions during the three months ended December 31, 2021. The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, various state and local jurisdictions and in foreign jurisdictions, primarily Canada and the United Kingdom. As of December 31, 2021, the Company has no open income tax examinations in the U.S. and the statute of limitations for years prior to 2018 is now closed. However, certain tax attribute carryforwards that were generated prior to fiscal year 2018 may be adjusted upon examination by tax authorities if they are utilized.

9. Stockholders’ Equity

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

	Common Stock			Treasury Stock				
(dollars in thousands)	**Shares**	**Amount**	**Additional Paid-in Capital**	**Shares**	**Amount**	**Accumulated Other Comprehensive Loss**	**Accumulated Deficit**	**Total**
Balance at September 30, 2020	34,082,406	$ 34	$ 247,892	$ (547,508)	$ (3,983)	$ (9,782)	$ (122,346)	$ 111,815
Net income	—	—	—	—	—	—	4,514	4,514
Exercise of stock options, grants of restricted stock awards, and vesting of restricted stock units	151,845	—	197	—	—	—	—	197
Taxes paid associated with net settlement of stock compensation awards	(7,703)	—	(57)	—	—	—	—	(57)
Forfeitures of restricted stock awards	(13,733)	—	—	—	—	—	—	—
Common stock repurchased	—	—	—	(309,496)	(4,103)	—	—	(4,103)
Common stock surrendered in the exercise of stock options	—	—	169	(9,384)	(169)	—	—	—
Stock compensation expense	—	—	1,801	—	—	—	—	1,801
Foreign currency translation	—	—	—	—	—	896	—	896
Balance at December 31, 2020	34,212,815	$ 34	$ 250,002	$ (866,388)	$ (8,255)	$ (8,886)	$ (117,832)	$ 115,063

Stock Compensation Incentive Plans

The Company has several incentive plans under which stock options, restricted stock units (RSUs), restricted stock awards (RSAs), and cash-settled stock appreciation rights (SARs) have been issued, including the Third Amended and Restated 2006 Omnibus Long-Term Incentive Plan, as amended, and a plan and private placement issuances related to the Company's acquisition of Machinio and Bid4Assets. As of December 31, 2021, the Company has reserved at total of 19,100,000 shares of its common stock for exercises of stock options, vesting of RSUs, and grants of RSAs under these plans. Vesting of RSUs and grants of RSAs count as 1.5x shares against the plan reserves. As of December 31, 2021, 994,605 shares of common stock remained available for use.

Stock Compensation Expense

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

	Three Months Ended December 31,	
	2021	2020
Equity-classified awards:		
Stock options	$ 1,077	$ 884
RSUs & RSAs	1,193	918
Total equity-classified awards	$ 2,270	$ 1,802
Liability-classified awards:		
SARs	10	427
Total stock compensation expense:	$ 2,280	$ 2,229

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

	Three Months Ended December 31,	
	2021	2020
Stock Compensation Expense by Line Item		
Technology and operations	$ 303	$ 367
Sales and marketing	490	580
General and administrative	1,487	1,282
Total stock compensation expense:	$ 2,280	$ 2,229

Stock Options and RSUs & RSAs

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

		Three Months Ended December 31, 2021
Stock Options granted:		
Options containing only service conditions:		129,945
Weighted average exercise price	$	23.14
Weighted average grant date fair value	$	10.83
Options containing performance or market conditions:		129,945
Weighted average exercise price	$	23.14
Weighted average grant date fair value	$	10.30
RSUs & RSAs granted:		
RSUs & RSAs containing only service conditions:[1]		316,085
Weighted average grant date fair value	$	22.10
RSUs & RSAs containing performance or market conditions:[1]		331,085
Weighted average grant date fair value	$	18.80

[1] 55,000 RSUs containing service conditions and 70,000 RSUs containing performance conditions were granted by private placement.

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

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

	Three Months Ended December 31, 2021
Dividend yield	—
Expected volatility	58.7% - 61.2%
Risk-free interest rate	1.1% - 1.3%
Expected term	4.5 - 5.0 years

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

	Three Months Ended December 31, 2021
Dividend yield	—
Expected volatility	57.2% - 62.9%
Risk-free interest rate	1.1% - 1.5%
Expected holding period (% of remaining term)	29.4% - 100.0%

SARs

During the three months ended December 31, 2021, the Company did not issue any SARs, 750 SARs were exercised requiring the Company to make cash payments of less than $0.1 million, and 2,500 SARs were canceled. As of December 31, 2021, 38,795 SARs were outstanding.

Share Repurchase Program

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

The Company had no remaining share repurchase authorization as of September 30, 2021. On December 6, 2021, the Company's Board of Directors authorized a new stock repurchase plan (the "December 6 Stock Repurchase Plan") of up to $20 million of the Company's outstanding shares of common stock through December 31, 2023. During the three months ended December 31, 2021, the Company repurchased a total of 147,185 shares for $3.0 million under this program. As of December 31, 2021, the company may repurchase an additional $17.0 million of shares under this program.

Other Share Repurchases

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

During the three months ended December 31, 2021 and December 31, 2020, participants surrendered 4,678 and 9,384 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.

10. Fair Value Measurement

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

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

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

During the three months ended December 31, 2021, and as a result of the acquisition of Bid4Assets, the Company recorded preliminary fair value of contingent consideration in the amount of $26.9 million on its Condensed Consolidated Balance Sheets. The contingent consideration is based on Bid4Assets' achievement of trailing twelve-month EBITDA targets measured at the end of each calendar quarter until the quarter ended December 31, 2022. The liability for this consideration has $14.5 million included in Accrued expenses and other current liabilities and $12.4 million recorded in Other long-term liabilities within the Condensed Consolidated Balance Sheets.

The Company fair valued the earn-out consideration using Monte Carlo valuation method. The fair value measurements utilized were classified as Level 3 assets within the fair value hierarchy under the provisions of ASC 820 and ASC 805. The significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy included estimated results of operations over the earn-out period, volatility of gross profit and operating expenses, and the discount rate. The earn-out consideration was preliminarily valued at approximately $26.9 million at the acquisition date. Fair value of the earn-out consideration will be remeasured at the end of each calendar quarter until December 31, 2022.

The changes in earn-out liability measured at fair value for which the Company has used Level 3 inputs to determine fair value during the three months ended December 31, 2021, is as follows (in thousands):

	Contingent Consideration	
Balance at September 30, 2021	$	—
Earn-out from business acquisition		26,900
Balance at December 31, 2021	$	26,900

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

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

As of December 31, 2021, the Company had no non-financial instruments measured at fair value on a non-recurring basis other than fair value measurements associated with the preliminary purchase accounting for Bid4Assets. See Note 3 - *Bid4Assets Acquisition* for more information. As of September 30, 2021, the Company did not have any material assets or liabilities measured at fair value on a non-recurring basis.

11. Defined Benefit Pension Plan

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

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

	Three Months Ended December 31,			
(in thousands)	**2021**		**2020**	
Interest cost	$	132	$	107
Expected return on plan assets		(235)		(194)
Amortization of prior service cost		5		5
Total net periodic (benefit)	$	(98)	$	(82)

12. Legal Proceedings and Other Contingencies

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

Former Employee Matters

On December 22, 2020, the Company's former Vice President, Human Resources (the "HR Plaintiff") filed a claim with the Equal Employment Opportunity Commission ("EEOC") for wrongful termination on the basis of gender, race, and age. The EEOC subsequently assigned HR Plaintiff's claim to the Montgomery County Office of Human Rights for investigation, which, in turn, dismissed HR Plaintiff's claim after HR Plaintiff filed a complaint in the United States District Court for the District of Maryland Southern Division on May 19, 2021. The Company believes this claim is without merit and cannot estimate a range of potential liability, if any, at this time. The Company's employment practices liability insurance carrier, CNA, has accepted tender of this claim.

On October 22, 2021, the Company’s former Chief Marketing Officer (“Marketing Plaintiff”) filed a claim with the EEOC alleging that the Company discriminated against him on the basis of his race and age and that the Company retaliated against him. 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 the claims.

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 judgement based on the information known to management, a material adverse effect based on the Company in the Company.

13. Segment Information

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

- The GovDeals reportable segment provides self-directed service solutions that enable local and state government entities including city, county and state agencies, located in the United States and Canada to sell surplus, salvage and real estate assets through our GovDeals and Bid4Assets marketplaces (see Note 3).

- 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 includes the Company's Liquidation.com, Secondipity and AllSurplus Deals marketplaces. Through the end of third quarter fiscal 2021, RSCG operated the Liquidation.com DIRECT marketplace for truckload quantities of retail surplus. Those assets are now sold on the Liquidation.com marketplace.

- The CAG reportable segment provides managed and self-directed service solutions to sellers and consists of marketplaces that enable commercial businesses to sell surplus and idle assets. CAG also offers a suite of services that includes surplus management, asset valuation, asset sales and marketing. Commercial seller assets are located across North America, Europe, Australia, Asia, and Africa. This segment includes the Company's Network International and GoIndustry DoveBid marketplaces and self-directed service solutions for commercial businesses on the AllSurplus marketplace.

- The Machinio reportable segment operates a global search engine platform for listing used equipment for sale in the construction, machine tool, transportation, printing and agriculture sectors.

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

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

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

	Three Months Ended December 31,	
(in thousands)	2021	2020
GovDeals:		
Revenue	$ —	$ —
Fee revenue	13,984	10,818
Total revenue	13,984	10,818
Gross profit	$ 13,295	$ 10,203
RSCG:		
Revenue	$ 32,083	$ 28,161
Fee revenue	6,601	6,745
Total revenue	38,684	34,906
Gross profit	$ 14,257	$ 14,627
CAG:		
Revenue	$ 4,134	$ 2,910
Fee revenue	7,073	5,003
Total revenue	11,207	7,913
Gross profit	$ 8,719	$ 6,358
Machinio:		
Revenue	$ —	$ —
Fee revenue	2,832	2,114
Total revenue	2,832	2,114
Gross Profit	$ 2,674	$ 1,991
Corporate & Other, including elimination adjustments:		
Revenue	$ —	$ —
Fee revenue	—	—
Total revenue	—	—
Gross profit	$ —	$ —
Consolidated:		
Revenue	$ 36,217	$ 31,071
Fee revenue	30,490	24,680
Total revenue	66,707	55,751
Gross profit	$ 38,945	$ 33,178

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

	Three Months Ended December 31,	
(in thousands)	2021	2020
Reconciliation:		
Gross profit	$ 38,945	$ 33,178
Operating expenses	34,494	28,548
Other operating (income) expenses	(32)	4
Interest and other income, net	(131)	(185)
Income before provision for income taxes	$ 4,614	$ 4,811

The percent of our revenues that came from transactions conducted outside of the United States for the three months ended December 31, 2021 and 2020 was 13.5% and 9.6%, 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, 2021 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 through its ability to unleash the intrinsic value of surplus from our marketplace platforms. These platforms ignite and enable a self-reinforcing cycle of value creation where buyers and sellers 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: Retail Supply Chain Group (RSCG), Capital Assets Group (CAG), GovDeals, and Machinio. See Note 13 - *Segment Information* to the Condensed Consolidated Financial Statements for more information regarding our reportable segments.

On November 1, 2021, the Company purchased all of the issued and outstanding shares of stock of Bid4Assets, Inc. (Bid4Assets), a Maryland corporation based in Silver Spring, MD. Bid4Assets auctions distressed real estate for the federal government, sheriffs, county tax-collectors, financial institutions and real estate funds. See Note 3 - *Bid4Assets Acquisition* for more information regarding this transaction.

Impacts of the COVID-19 Pandemic

The Company has been closely monitoring the COVID-19 pandemic. In April 2020, the Company experienced the largest impacts on its operations thus far stemming from the initial actions taken by governments and the private sector to limit the spread of COVID-19. The restrictions on economic activity were caused, in part, by business closures, limitations on the operations of business activity and significant prioritization of essential business functions. Since May 2020, we have seen subsequent increases in GMV and revenues as businesses and governments re-opened from government ordered closures which, combined with cost control measures, generated positive net income since the third quarter of fiscal 2020. However, COVID-19 and its variants continue to impact the global economy and the ability to conduct cross-border commerce due to ongoing travel restrictions in various countries. At this time, the likelihood, magnitude and timing of business developments across our reportable segments are difficult to predict given the current economic uncertainty, unknown duration and overall impact of the global pandemic. As a result, prior trends in the Company's results of operations may not be applicable throughout the duration of the COVID-19 pandemic.

Throughout the COVID-19 pandemic, the Company has actively monitored its liquidity position and working capital needs. During fiscal 2021 and during the three months ended December 31, 2021, the Company determined that its liquidity position and working capital were more than sufficient to meet its projected needs. As discussed in Note 9 - *Stockholders' Equity*, on December 6, 2021, the Company's Board of Directors authorized the repurchase of up to $20.0 million of the Company's outstanding shares of common stock through December 31, 2023. During the three months ended December 31, 2021, the Company repurchased a total of 147,185 shares for $3.0 million under this program. Future timing and actual number of shares repurchased will depend on a variety of factors, including price, general business and market conditions, and the existence of alternative investment opportunities. The repurchase program will be executed consistent with the Company's capital allocation strategy of prioritizing investment to grow the business over the long term.

Our Marketplace Transactions

We believe our ability to create liquid marketplaces for surplus and salvage assets generates a continuous flow of goods from our corporate and government sellers. This flow of goods in turn attracts an increasing number of professional buyers to our marketplaces. During the twelve months ended December 31, 2021, the approximate number of registered buyers increased from 3,839,000 to 4,713,000, or 23%. Of the increase, approximately 16% is attributable to the Bid4Assets registered buyer base acquired in Q1-FY22.

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

> *Purchase model.* Under our purchase transaction model, we recognize revenue within the Revenue line item on the 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. For the three months ended December 31, 2021 and 2020, our purchase transaction model accounted for 14.5% and 16.2% of our Gross Merchandise Volume (GMV), and 54.3% and 55.7% of our total revenues, respectively. These amounts included sales of commercial merchandise sourced from vendor contracts with Amazon.com, Inc. by our RSCG reportable segment. See further discussion regarding our Amazon.com, Inc. contracts at Note 2 - *Summary of Significant Accounting Policies*.
>
> *Consignment model — fee revenue.* Under our consignment transaction model, we enable our sellers to sell goods they own in our marketplaces and we charge them a commission fee based on the gross or net proceeds received from such sales. The revenue from our consignment transaction model is recognized upon auction close or upon collection of auction proceeds, depending upon the settlement service level selected by the seller. Revenue under the consignment model is recorded within the Fee revenue 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. For the three months ended December 31, 2021 and 2020, our consignment model accounted for 85.5% and 83.8% of our GMV, and 38.4% and 36.7% of our total revenues, respectively.
>
> *Other — fee revenue*. We also earn non-consignment fee revenue from Machinio's Advertising and System subscription services, as well as other services including returns management, refurbishment of assets, and asset valuation services. Other revenues accounted for 7.3% and 7.6% of our total revenues for the three months ended December 31, 2021 and 2020, respectively.

Industry trends. We believe there are several industry trends positively impacting the long-term growth of our business including: (1) the increase in the volume of returned merchandise handled both online and in stores as online and omni-channel retail grow as a percentage of overall retail sales; (2) the increase in government regulations and the need for corporations to have sustainability solutions necessitating verifiable recycling and remarketing of surplus assets; (3) the increase in outsourcing the disposition of surplus and end-of-life assets by corporations and government entities as they focus on reducing costs, improving transparency, compliance and working capital flows, and increasingly prefer service providers with a proven track record, innovative scalable solutions and the ability to make a strategic impact in the reverse supply chain; (4) an increase in buyer demand for surplus merchandise as consumers trade down by purchasing less expensive goods and seek greater value from their purchases, which results in lower per unit prices and margins in our retail goods vertical; (5) in the long-term we expect innovation in the retail supply chain will increase the pace of product obsolescence and, therefore, increase the supply of surplus assets; and (6) the increase in demand from sellers and buyers to transact in a low touch, online solution as compared to live, in-person auctions or public sale events.

Our Vendor Agreements

Our commercial agreements. We have multiple vendor contracts with Amazon.com, Inc. under which the Company acquires and sells commercial merchandise. The property purchased under these contracts with Amazon.com, Inc. represented 60.5% and 60.0% of consolidated Cost of goods sold for the three months ended December 31, 2021 and 2020, respectively. These contracts are included within our RSCG reportable segment. Our agreements with our other sellers are generally terminable at will by either party.

Key Business Metrics

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

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

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

Total registered buyers, as of a given date, represent the aggregate number of persons or entities who have registered on one of our marketplaces. We use this metric to evaluate how well our marketing and promotional efforts are performing. Total registered buyers exclude duplicate registrations, buyers who are suspended from utilizing our marketplaces and those buyers who have voluntarily removed themselves from our registration database. In addition, if we become aware of registered buyers that are no longer in business, we remove them from our database. As of December 31, 2021 and 2020, we had approximately 4,713,000 and 3,839,000 registered buyers, respectively. Of the increase, approximately 16% is attributable to the Bid4Assets registered buyer base acquired in Q1-FY22.

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 December 31, 2021 and 2020, approximately 642,000 and 517,000, 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 December 31, 2021 and 2020, we completed approximately 211,000 and 152,000 transactions, respectively.

Non-GAAP Financial Measures

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

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

- Depreciation and amortization expense primarily relates to property and equipment and the amortization of intangible assets. These expenses are non-cash charges that have fluctuated significantly in the past. As a result, we believe that adding back these non-cash charges is useful in evaluating the operating performance of our business on a consistent basis from year-to-year.
- As a result of varying federal and state income tax rates, we believe that presenting a financial measure that adjusts for provision for income taxes is useful to investors when evaluating the operating performance of our business on a consistent basis from year to year.
- The authoritative guidance for stock-based compensation requires all share-based payments to employees, including grants of employee stock options, restricted stock and stock appreciation rights to be recognized in the income statement based on their estimated fair values. We believe adjusting for this stock-based compensation expense is useful to investors when evaluating the operating performance of our business on a consistent basis from year to year.
- The authoritative guidance related to business combinations requires the initial recognition of contingent consideration at fair value with subsequent changes in fair value recorded through the Condensed 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 adjusting Non-GAAP EBITDA to eliminate the impact of items that we do not consider indicative of our core operating performance. You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. As an analytical tool, Non-GAAP Adjusted EBITDA is subject to all of the limitations applicable to Non-GAAP EBITDA. Our presentation of Non-GAAP Adjusted EBITDA should not be construed as an implication that our future results will be unaffected by unusual or non-recurring items.

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

	Three Months Ended December 31,	
	2021	2020
(in thousands)	(Unaudited)	
Net income	$ 3,602	$ 4,514
Interest and other income, net[1]	(33)	(103)
Provision for income taxes	1,012	297
Depreciation and amortization	2,302	1,871
Non-GAAP EBITDA	$ 6,883	$ 6,579
Stock compensation expense	2,280	2,229
Acquisition costs and impairment of long-lived and other assets[2]	211	—
Business realignment expenses[2, 3]	—	5
Non-GAAP Adjusted EBITDA	$ 9,374	$ 8,813

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[1] *Represents Interest and other income, net, per the Statement of Operations, excluding the non-service components of net periodic pension (benefit).*

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

[3] *Business realignment expense includes the amounts accounted for as exit costs under ASC 420, and the related impacts of business realignment actions subject to other accounting guidance.*

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, 2021, 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 preliminary purchase accounting for the acquisition Bid4Assets as of November 1, 2021.

Business combinations. The Company recognizes all of the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. Acquisition-related costs are recognized separately from the acquisition and expensed as incurred. Restructuring costs incurred in periods subsequent to the acquisition date are expensed when incurred. Subsequent changes to the purchase price (i.e., working capital adjustments) or other fair value adjustments determined during the measurement period are recorded as an adjustment to goodwill, with the exception of contingent consideration, which is recognized in the statement of operations in the period it is modified.

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

- Contract Intangibles - We valued the contract intangibles using the multi-period excess earnings method, an income approach valuation model. The significant assumptions used in the income approach includes estimates about future expected cash flows from supplier contracts, the attrition rate, and the discount rate.

- Developed Software - We valued the developed software by applying the relief-from-royalty method, an income approach valuation model. The significant assumptions used in the relief-from-royalty method include estimates about future expected cash flows from the developed software, the royalty rate, the obsolescence factor and the discount rate.

- Trade Name - We valued the trade name acquired using a relief-from-royalty method. The significant assumptions used in the relief-from-royalty method include future expected cash flows from the trade name, the royalty rate, and the discount rate.

Earnout Liability. Shareholders of Bid4Assets are eligible to receive up to $37.5 million in cash, payable based on Bid4Assets' achievement of trailing twelve-month EBITDA targets measured at the end of each calendar quarter until the quarter ended December 31, 2022. The earn-out consideration was preliminarily fair valued at approximately $26.9 million as of the acquisition date. The significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy included estimated results of operations over the earn-out period, volatility of gross profit and operating expenses, and the discount rate.

Goodwill. Goodwill represents the costs in excess of the fair value of net assets acquired through acquisitions by the Company. Pursuant to our preliminary purchase price allocation, goodwill arising from the acquisition was determined to be $28.8 million. See Note 3 - *Bid4Assets Acquisition* for further information.

Components of Revenue and Expenses

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

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

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

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

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

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

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

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

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

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

Income taxes. For interim income tax reporting, we estimate our annual effective tax rate and apply this effective tax rate to our year-to-date pre-tax income (loss). Our effective income tax rate after discrete items was 21.3% for the three months ended December 31, 2021. 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:

	Three Months Ended December 31,			
(dollars in thousands)	**2021**	**2020**	**$ Change**	**% Change**
Revenue	$ 36,217	$ 31,071	$ 5,146	16.6 %
Fee revenue	30,490	24,680	5,810	23.5
Total revenue	66,707	55,751	10,956	19.7
Costs and expenses from operations:				
Cost of goods sold (excludes depreciation and amortization)	27,762	22,573	5,189	23.0
Technology and operations	13,918	10,573	3,345	31.6
Sales and marketing	10,044	9,108	936	10.3
General and administrative	8,230	6,996	1,234	17.6
Depreciation and amortization	2,302	1,871	431	23.0
Other operating (income) expenses	(32)	4	(36)	NM
Total costs and expenses	62,224	51,125	11,099	21.7
Income from operations	4,483	4,626	(143)	(3.1)
Interest and other income, net	(131)	(185)	54	29.2
Income before provision for income taxes	4,614	4,811	(197)	(4.1)
Provision for income taxes	1,012	297	715	240.7
Net income	$ 3,602	$ 4,514	$ (912)	(20.2)%

NM = not meaningful

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

	Three Months Ended December 31,	
(dollars in thousands)	**2021**	**2020**
GovDeals:		
GMV	$ 156,935	$ 107,604
Total revenue	$ 13,984	$ 10,818
Gross profit	$ 13,295	$ 10,203
Gross profit margin	95.1 %	94.3 %
RSCG:		
GMV	$ 53,369	$ 51,717
Total revenue	$ 38,684	$ 34,906
Gross profit	$ 14,257	$ 14,627
Gross profit margin	36.9 %	41.9 %
CAG:		
GMV	$ 49,862	$ 31,080
Total revenue	$ 11,207	$ 7,913
Gross profit	$ 8,719	$ 6,358
Gross profit margin	77.8 %	80.3 %
Machinio:		
GMV	$ —	$ —
Total revenue	$ 2,832	$ 2,114
Gross profit	$ 2,674	$ 1,991
Gross profit margin	94.4 %	94.2 %
Consolidated:		
GMV	$ 260,166	$ 190,401
Total revenue	$ 66,707	$ 55,751
Gross profit	$ 38,945	$ 33,178
Gross profit margin	58.4 %	59.5 %

Three Months Ended December 31, 2021, Compared to the Three Months Ended December 31, 2020

Segment Results

GovDeals. Revenue from our GovDeals reportable segment increased 29.3%, or $3.2 million, due to a 45.8%, or $49.3 million, increase in GMV from adding new sellers and increasing volumes with existing sellers across several key categories, including transportation and real estate. In addition, increased recovery rates on assets sold were driven by our growing buyer base, automated asset promotion tools, and favorable macroeconomic factors in certain asset categories, such as transportation assets. As GovDeals real estate sales increase through the integration with Bid4Assets, GovDeals revenue as a percent of GMV is expected to decline, as these higher value real estate sales are generally conducted at a lower take-rate than our traditional GovDeals asset categories. For that reason, revenue as a percentage of GMV decreased to 8.9% from 10.1% last year. As a result of the increase in revenues, gross profit increased 30.3%, or $3.1 million. Gross profit margin remained relatively consistent between the periods.

RSCG. Revenue from our RSCG reportable segment increased 10.8%, or $3.8 million, due to a 3.2%, or $1.7 million, increase in GMV as it continues to diversify its seller product flows by launching new programs with large and mid-sized retailers, expanding its distribution network into the northeast, launching AllSurplus Deals as a new marketplace offering consumers deals for curbside pickup, and an increase in the mix of transactions conducted under the purchase model. The prior year included higher volumes magnified by selected seller capacity constraints. Gross profit decreased by 2.5%, or $0.4 million, as increased volumes were offset by an unfavorable change in the mix of inventory handled by the RSCG segment during the quarter, which also caused gross profit margin to decrease by 5.0%.

CAG. Revenue from the CAG reportable segment increased by 41.6%, or $3.3 million, due to a 60.4%, or $18.8 million, increase in GMV driven by increasing opportunities to obtain and sell inventory under our purchase model, and strong consignment sales in the energy and heavy equipment categories. Revenues did not increase at the same rate as GMV due to increases in the mix of transactions using partner organizations. As a result of the increase in revenues, gross profit increased 37.1%, or $2.4 million. Gross profit margin increased 2.5% due to inherent variations in the mix of assets sourced and sold by the CAG segment in any given period.

Machinio. Revenue from our Machinio reportable segment increased 34.0%, or $0.7 million, due to an increase in subscription activity. As a result of the increase in revenues, gross profit increased 34.3%, or $0.7 million.

Consolidated Results

Revenue - Total consolidated revenue increased $11.0 million, or 19.7%. 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 $5.2 million, or 23.0%, which changed at a higher rate than Revenue primarily due to an increase in principal transactions at our RSCG and CAG reportable segments.

Technology and operations expenses. Technology and operations expenses increased $3.3 million, or 31.6%, as we are investing in technology and operations to continue our growth, including RSCG's expansion of its distribution network into the northeast, and launching AllSurplus Deals as a new marketplace offering consumers deals for curbside pickup.

Sales and marketing expenses. Sales and marketing expenses increased $0.9 million, or 10.3%, as we are investing in our sales and marketing functions to continue our growth, including promotional efforts around our marketplaces to expand our market share in key verticals, and to promote new business initiatives including our new AllSurplus Deals consumer marketplace.

General and administrative expenses. General and administrative expenses increased $1.2 million, or 17.6%, primarily due to increased corporate support costs to support the anticipated growth resulting from the investments in our technology, operations, sales and marketing functions.

Depreciation and amortization. Depreciation and amortization expense increased $0.4 million, or 23.0%, primarily due to the increase in intangible assets following our acquisition of Bid4Assets on November 1, 2021.

Other operating (income) expenses. Other operating (income) expenses was consistent between the three months ended December 31, 2021 and 2020.

Interest and other income, net. Interest and other income, net was consistent between the three months ended December 31, 2021 and 2020.

Provision for income taxes. Provision for income taxes increased $0.7 million primarily due to the increase in effective tax rate following the release of our valuation allowance on US deferred tax assets in Q4-FY21.

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 December 31, 2021, we had $91.3 million in cash and cash equivalents.

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

The COVID-19 pandemic has caused the Company's GMV and revenues to fluctuate, and the Company initially implemented cost control measures to protect against the uncertainties created by the severe economic restrictions in its initial phases. From a cash flow perspective, the Company employed working capital management practices, primarily in the form of temporary extensions to vendor payment terms, and also experienced accumulation in its payables to sellers balance due to COVID-19 restrictions, which continue to be a factor in certain countries, causing some buyer delays in their ability to pick up purchased assets. As a result of our actions taken, the Company’s cash and cash equivalents balance is $91.3 million as of December 31, 2021, which we believe is sufficient to meet the Company’s anticipated cash needs one year from issuance of these financial statements.

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

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

The preliminary acquisition date fair value of the consideration transferred to the Shareholders of Bid4Assets was approximately $41.6 million consisting of $14.7 million in cash (net of working capital adjustments totaling $0.3 million) and earn-out consideration with a preliminary fair value of approximately $26.9 million. As part of the acquisition of Bid4Assets, Shareholders of Bid4Assets are eligible to receive earn-out consideration of up to $37.5 million in cash. The earn-out consideration was preliminarily fair valued at $26.9 million as of December 31, 2021, of which $14.5 million is included in Accrued expenses and other current liabilities and $12.4 million is included in Other long-term liabilities within the Condensed Consolidated Balance Sheets. See Note 3 - *Bid4Assets Acquisition* for further information.

We did not record a provision for deferred U.S. tax expense on the undistributed earnings of foreign subsidiaries because we intend to indefinitely reinvest the earnings of these foreign subsidiaries outside the United States. The amount of such undistributed foreign earnings was $7.3 million as of December 31, 2021. As of December 31, 2021 and September 30, 2021, $25.5 million and $22.4 million, respectively, of Cash and cash equivalents was held outside of the U.S.

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

The Company had no remaining share repurchase authorization as of September 30, 2021. On December 6, 2021, the Company's Board of Directors authorized a new stock repurchase plan (the "December 6 Stock Repurchase Plan") of up to $20 million of the Company's outstanding shares of common stock through December 31, 2023. During the three months ended December 31, 2021, the Company repurchased a total of 147,185 shares for $3.0 million under this program. As of December 31, 2021, the company may repurchase an additional $17.0 million of shares under this program.

Changes in Cash Flows: Three Months Ended December 31, 2021 Compared to the Three Months Ended December 31, 2020

Net cash provided by operating activities was $1.9 million and $6.0 million for the three months ended December 31, 2021 and 2020, respectively. The $4.2 million decrease in cash provided by operations between periods was attributable to a $2.3 million decrease in accounts receivable; a $12.1 million decrease to accounts payable, $3.2 million decrease to accrued expenses and a $0.6 million decrease in other liabilities all as driven by the management of working capital. These decreases were offset by $0.3 million of higher Net income as adjusted for non-cash items; a $10.1 million increase in payables to sellers, driven by increasing transactions volumes; and a $3.5 million decrease in inventory purchases. Our working capital accounts are subject to natural variations depending on the rate of change of our transaction volumes, the timing of cash receipts and payments, and variations in our transaction volumes related to settlements between our buyers and sellers. However, there have been no significant changes to the working capital requirements for the Company.

Net cash used by investing activities was $13.0 million for the three months ended December 31, 2021, and $0.8 million for the three months ended December 31, 2020. The $12.2 million decrease in cash provided by investing activities was primarily driven by $11.1 million cash paid at closing to acquire Bid4Assets on November 1, 2021, net of cash acquired. See Note 3 - *Bid4Assets Acquisition* for further information.

Net cash used by financing activities was $3.8 million for the three months ended December 31, 2021, and $4.0 million for the three months ended December 31, 2020, a slight decrease across the periods.

Capital expenditures. Our capital expenditures consist primarily of capitalized software, computers and purchased software, office equipment, furniture and fixtures, and leasehold improvements. The timing and volume of such capital expenditures in the future will be affected by the addition of new sellers or buyers or expansion of existing seller or buyer relationships. We intend to fund those expenditures primarily from our existing cash balances and operating cash flows. Our capital expenditures for the three months ended December 31, 2021 were $2.0 million. As of December 31, 2021, we had no significant outstanding commitments for capital expenditures.

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

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest rate sensitivity. As of December 31, 2021, we do not have any debt, and we are not holding any short-term investments, but we do hold $40.0 million of cash and cash equivalents in money market funds. Changes in yields on the money market funds are not expected to have a significant impact to our consolidated results of operations. Our investment policy requires us to invest funds in excess of current operating requirements. The principal objectives of our investment activities are to preserve principal, provide liquidity and maximize income consistent with minimizing risk of material loss.

Exchange rate sensitivity. Because of the number of countries and currencies we operate in, movements in currency exchange rates may affect our results. We report our operating results and financial condition in U.S. dollars. Our U.S. operations earn revenues and incur expenses primarily in U.S. dollars. Outside the United States, we predominantly generate revenues and expenses in the local currency. When we translate the results and net assets of these operations into U.S. dollars for reporting purposes, movements in exchange rates will affect reported results and net assets. Volatile market conditions arising from the COVID-19 pandemic may result in significant changes in exchange rates, which could affect our results of operations expressed in U.S. dollars.

Item 4. Controls and Procedures.

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

Changes in Internal Control over Financial Reporting

During the three months ended December 31, 2021, no change occurred in our internal controls over financial reporting that materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors set forth in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2021, which could materially affect our business, financial condition or future results. The risks described in our Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

Unregistered Sales of Equity Securities

In connection with the purchase of Bid4Assets on November 1, 2021, the Company agreed at closing to issue up to a total of 125,000 restricted stock units in a private placement to Mr. Jesse Loomis, current Chief Executive Officer of Bid4Assets, exempt from registration under Rule 506(b) of Regulation D promulgated under the Securities Act of 1933, as amended, (i) 55,000 of which are time-based and vest over a four year period, and (ii) 70,000 of which are performance-based and vest upon Bid4Asset's achievement of certain performance targets, subject in each case to Mr. Loomis' continued employment with the Company. In addition to Mr. Loomis' continued employment, certain shareholders agreed not to directly or indirectly solicit or otherwise interfere with Bid4Assets' employees for five years after closing.

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 December 31, 2021 (in thousands, except share and per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as a Part of a Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Programs
October 1, 2021 to October 31, 2021	—	$ —	—	$ —
November 1, 2021 to November 30, 2021	—	$ —	—	$ —
December 1, 2021 to December 31, 2021[1]	151,863	$ 20.17	147,185	$ 17,037
Total	151,863		147,185	

[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 December 31, 2021, participants surrendered 4,678 shares of common stock in the exercise of stock options. Any shares surrendered to the Company in this manner are not available for future grant.

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 December 31, 2021, the Company had $17.0 million of remaining authorization to repurchase shares under the December 6, 2021 Stock Repurchase Plan.

Item 5. Other Information

None

Item 6. Exhibits

Exhibit No.	Description
2.1	Stock Purchase Agreement, dated July 10, 2018, by and among the Company, Machinio, Corp., the stockholders of Machinio, Corp., and Shareholder Representative Services., LLC., incorporated herein by reference to Exhibit 2.1 to the Company's Quarterly Report on 10-Q, filed with SEC on August 2, 2018.
2.2	Agreement and Plan of Merger, effective as of November 1, 2021, by and among the Company, Liquidity Services RE Ventures, Inc., Bid4Assets, USA B4A Sellers Rep LLC and certain holders of the outstanding stock of Bid4Assets, incorporated herein by reference to Exhibit 2.1 to the Company’s Form 8-K filed with the SEC on November 1, 2021.
3.1	Fourth Amended and Restated Certificate of Incorporation, incorporated herein by reference to Exhibit 3.1 to Amendment No. 2 to the Company’s Registration Statement on Form S-1 (Registration No. 333-129656), filed with the SEC on January 17, 2006.
3.2	Amended and Restated Bylaws dated August 2, 2016, incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on 10-Q, filed with SEC on August 4, 2016.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Registrant’s Quarterly Report on Form 10-Q for the quarter ended December 31, 2021, 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 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)

February 3, 2022	By:	/s/ William P. Angrick, III
		William P. Angrick, III *Chairman of the Board of Directors* *and Chief Executive Officer*
February 3, 2022	By:	/s/ Jorge A. Celaya
		Jorge A. Celaya *Chief Financial Officer*

EXHIBIT 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a)

OF THE SECURITIES EXCHANGE ACT OF 1934

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

1. I have reviewed this 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.

February 3, 2022

/s/ William P. Angrick, III

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

EXHIBIT 31.2

CERTIFICATION PURSUANT TO RULE 13a-14(a)

OF THE SECURITIES EXCHANGE ACT OF 1934

I, Jorge A. Celaya, certify that:

1. I have reviewed this 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.

February 3, 2022

/s/ Jorge A. Celaya

By: Jorge A. Celaya

Title: *Chief Financial Officer*

EXHIBIT 32.1

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Liquidity Services, Inc. (the “Company”) on Form 10-Q for the period ended December 31, 2021 as filed with the Securities and Exchange Commission (the “Report”), I, William P. Angrick, III, Chief Executive Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 3, 2022	/s/ William P. Angrick, III
	William P. Angrick, III
	Chairman of the Board of Directors and Chief Executive Officer

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

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

EXHIBIT 32.2

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Liquidity Services, Inc. (the "Company") on Form 10-Q for the period ended December 31, 2021 as filed with the Securities and Exchange Commission (the "Report"), I, Jorge A. Celaya, Chief Financial Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 3, 2022

/s/ Jorge A. Celaya
Jorge A. Celaya
Chief Financial Officer

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

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