

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

	<u>September 30,</u>	
	<u>2018</u>	<u>2017</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 58,448	\$ 94,348
Short-term investments	20,000	—
Accounts receivable, net of allowance for doubtful accounts of \$337 and \$668 in 2018 and 2017, respectively	4,870	11,598
Inventory	10,122	20,736
Prepaid taxes and tax refund receivable	1,727	2,466
Prepaid expenses and other current assets	<u>7,816</u>	<u>9,774</u>
Total current assets	102,983	138,922
Property and equipment, net	16,610	16,793
Intangible assets, net	7,366	427
Goodwill	59,819	45,388
Deferred tax assets	930	962
Other assets	<u>14,124</u>	<u>12,737</u>
Total assets	<u>\$ 201,832</u>	<u>\$215,229</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 13,859	\$ 13,099
Accrued expenses and other current liabilities	21,373	30,193
Distributions payable	2,128	3,081
Deferred revenue	2,142	—
Payables to sellers	<u>28,969</u>	<u>24,383</u>
Total current liabilities	68,471	70,756
Deferred taxes and other long-term liabilities	<u>3,707</u>	<u>11,837</u>
Total liabilities	72,178	82,593
Commitments and contingencies (Notes 8 and 16)		
Stockholders' equity:		
Common stock, \$0.001 par value; 120,000,000 shares authorized; 32,774,118 shares issued and outstanding at September 30, 2018; 31,503,349 shares issued and outstanding at September 30, 2017	33	29
Additional paid-in capital	236,115	227,264
Accumulated other comprehensive loss	(6,449)	(6,431)
Accumulated deficit	<u>(100,045)</u>	<u>(88,226)</u>
Total stockholders' equity	129,654	132,636
Total liabilities and stockholders' equity	<u>\$ 201,832</u>	<u>\$215,229</u>

See accompanying notes to the consolidated financial statements.

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

	Year Ended September 30,		
	2018	2017	2016
Revenue	\$ 149,677	\$ 188,570	\$ 233,828
Fee revenue	74,837	81,445	82,626
Total revenue from operations.....	224,514	270,015	316,454
Costs and expenses from operations:			
Cost of goods sold (exclusive of depreciation and amortization)	100,087	126,227	143,127
Seller distributions	14,715	19,298	11,214
Technology and operations	60,786	82,988	93,405
Sales and marketing	33,703	35,211	37,570
General and administrative	30,158	35,835	39,717
Depreciation and amortization	4,599	5,796	6,502
Acquisition costs and related fair value adjustments and impairment of goodwill and long-lived assets	467	1,009	19,037
Other operating expenses	1,392	3,651	—
Total costs and expenses	245,907	310,015	350,572
Loss from operations	(21,393)	(40,000)	(34,118)
Interest income and other income, net	(450)	(362)	(1,217)
Loss before provision for income taxes	(20,943)	(39,638)	(32,901)
(Benefit) provision for income taxes	(9,328)	(451)	27,025
Net loss	\$ (11,615)	\$ (39,187)	\$ (59,926)
Basic and diluted loss per common share	\$ (0.36)	\$ (1.25)	\$ (1.96)
Basic and diluted weighted average shares outstanding	32,095,491	31,402,921	30,638,163

See accompanying notes to the consolidated financial statements.

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

	<u>Year Ended September 30,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating activities			
Net loss	\$(11,615)	\$(39,187)	\$(59,926)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	4,599	5,796	6,502
Change in fair value of earnout liability	100	(954)	—
Stock compensation expense	6,597	7,377	12,247
Provision for inventory allowance	2,494	10,381	2,676
Provision for doubtful accounts	199	357	247
Deferred tax (benefit) expense	(10,945)	(620)	26,177
Impairment of goodwill and long-lived assets	—	1,963	18,998
Change in fair value of financial instruments	90	(573)	—
Incremental tax loss from exercise of common stock options and restricted stock	—	1,198	229
Gain on disposal of property and equipment	(480)	—	—
Changes in operating assets and liabilities:			
Accounts receivable	6,582	(1,611)	(4,408)
Inventory	8,120	(3,507)	(4,776)
Prepaid and deferred taxes	739	730	27,057
Prepaid expenses and other assets	(689)	(1,024)	(160)
Accounts payable	670	3,192	232
Accrued expenses and other current liabilities	(9,576)	(14,882)	17,151
Distributions payable	(953)	1,359	(790)
Deferred revenue	743	—	—
Payables to sellers	4,586	(4,519)	(901)
Other liabilities	(642)	2,871	5,283
Net cash provided by (used in) operating activities	619	(31,653)	45,838
Investing activities			
Increase in intangibles	(35)	(119)	(62)
Purchases of property and equipment, including capitalized software	(4,174)	(7,805)	(6,090)
Proceeds from note receivable	3,000	—	—
Proceeds from sale of property and equipment	828	—	—
Purchase of short-term investments	(20,000)	—	—
Cash paid for business acquisition, net of cash acquired	(16,673)	—	—
Net cash used in investing activities	(37,054)	(7,924)	(6,152)
Financing activities			
Proceeds from exercise of common stock options (net of tax)	404	92	9
Incremental tax loss from exercise of common stock options and restricted stock	—	(1,198)	(229)
Net cash provided by (used in) financing activities	404	(1,106)	(220)
Effect of exchange rate differences on cash and cash equivalents	131	518	(418)
Net (decrease) increase in cash and cash equivalents	(35,900)	(40,165)	39,048
Cash and cash equivalents at beginning of year	94,348	134,513	95,465
Cash and cash equivalents at end of year	<u>\$ 58,448</u>	<u>\$ 94,348</u>	<u>\$134,513</u>
Supplemental disclosure of cash flow information			
Earnout liability for acquisition activity	\$ 1,200	\$ —	\$ —
Issuance of common stock for acquisition activity	\$ 2,005	\$ —	\$ —
Cash (paid) received for income taxes, net	\$ (916)	\$ 793	\$ 33,966

See accompanying notes to the consolidated financial statements.