

LIQUIDITY SERVICES INC  
Form 10-K  
November 23, 2015

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[PART IV](#)

[Table of Contents](#)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

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**FORM 10-K**

**(Mark One)**

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

**For the fiscal year ended September 30, 2015**

**OR**

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

**For the transition period from            to  
Commission file number 0-51813**

**LIQUIDITY SERVICES, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

**1920 L Street, N.W., 6th Floor, Washington, D.C.**  
(Address of Principal Executive Offices)

**20036**  
(Zip Code)

**(202) 467-6868**

(Registrant's Telephone Number, Including Area Code)

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

**None**

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Securities Registered pursuant to Section 12(g) of the Act:  
Common Stock, par value \$.001 per share

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer <input checked="" type="radio"/>	Accelerated filer <input type="radio"/>	Non-accelerated filer <input type="radio"/>	Smaller reporting company <input type="radio"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of March 31, 2015 based upon the closing price of the common stock as reported by The NASDAQ Stock Market on such date, was approximately \$237,886,000.

The number of shares outstanding of the issuer's common stock, par value \$.001 per share, as of November 16, 2015 was 30,551,081.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to its 2016 Annual Stockholders' Meeting, to be filed subsequently, are incorporated by reference into Part III of this Form 10-K.

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Table of Contents

## INDEX

## TABLE OF CONTENTS

Item	Description	Page
	<b><u>PART I</u></b>	
<u>1.</u>	<u>Business</u>	<u>1</u>
<u>1A.</u>	<u>Risk Factors</u>	<u>18</u>
<u>1B.</u>	<u>Unresolved Staff Comments</u>	<u>30</u>
<u>2.</u>	<u>Properties</u>	<u>31</u>
<u>3.</u>	<u>Legal Proceedings</u>	<u>31</u>
<u>4.</u>	<u>Mine Safety Disclosures</u>	<u>31</u>
	<b><u>PART II</u></b>	
<u>5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>32</u>
<u>6.</u>	<u>Selected Financial Data</u>	<u>34</u>
<u>7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>37</u>
<u>7A.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>54</u>
<u>8.</u>	<u>Financial Statements and Supplemental Data</u>	<u>54</u>
<u>9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>55</u>
<u>9A.</u>	<u>Controls and Procedures</u>	<u>55</u>
<u>9B.</u>	<u>Other Information</u>	<u>57</u>
	<b><u>PART III</u></b>	
<u>10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	<u>58</u>
<u>11.</u>	<u>Executive Compensation</u>	<u>58</u>
<u>12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>58</u>
<u>13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>58</u>
<u>14.</u>	<u>Principal Accounting Fees and Services</u>	<u>58</u>
	<b><u>PART IV</u></b>	
<u>15.</u>	<u>Exhibits and Financial Statement Schedules</u>	<u>59</u>
	<u>Signatures</u>	<u>102</u>

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Table of Contents

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

**PART I**

**Item 1. Business.**

**Overview**

We operate leading online auction marketplaces for surplus and salvage assets. We enable buyers and sellers to transact in an efficient, online auction environment offering over 500 product categories. Our marketplaces provide professional buyers access to a global, organized supply of surplus and salvage assets presented with customer focused information including digital images and other relevant product information along with services to efficiently complete the transaction. Additionally, we enable our corporate and government sellers to enhance their financial return on excess assets by providing liquid marketplaces and value-added services that integrate sales and marketing, logistics and transaction settlement into a single offering. We organize our products into categories across major industry verticals such as consumer electronics, general merchandise, apparel, scientific equipment, aerospace parts and equipment, technology hardware, energy equipment, industrial capital assets, fleet and transportation equipment, and specialty equipment. Our online auction marketplaces are [www.liquidation.com](http://www.liquidation.com), [www.govliquidation.com](http://www.govliquidation.com), [www.govdeals.com](http://www.govdeals.com), [www.networkintl.com](http://www.networkintl.com), [www.truckcenter.com](http://www.truckcenter.com), [www.secondipity.com](http://www.secondipity.com), and [www.go-dove.com](http://www.go-dove.com).

We believe our ability to create liquid marketplaces for surplus and salvage assets generates a continuing flow of goods from our corporate and government sellers. This valuable and reliable flow of goods in turn attracts an increasing number of professional buyers to our marketplaces. During fiscal year 2015, the number of registered buyers grew from approximately 2,615,000 to approximately 2,845,000, or 8.8%.

During the past three fiscal years, we have conducted over 1,644,000 online transactions generating over \$2.7 billion in gross merchandise volume or GMV. We believe the continuing flow of goods in our marketplaces attracts a growing buyer base which creates a self-sustaining cycle for our buyers and sellers.

In the fiscal year ended September 30, 2015, we generated GMV of \$799.0 million and revenue of \$397.1 million through multiple sources, including transaction fees from sellers and buyers, revenue sharing arrangements, value-added service charges and online advertising fees. Our GMV has grown at a compound annual growth rate of approximately 19% since fiscal year 2006.

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

**Industry Overview**

While a well-established forward supply chain exists for the procurement of assets, most manufacturers, retailers, corporations and government agencies have not made significant investments in their reverse supply chain process or systems. The reverse supply chain addresses the redeployment and remarketing of surplus and salvage assets. These assets generally consist of retail customer returns, overstock products and end-of-life goods or capital assets from both the corporate and government sectors. According to a May 2015 report by the retail analyst firm IHL Group, retailers worldwide lose a staggering \$1.75 trillion annually due to the cost of overstocks, out-of-stocks and needless returns. And the Investment Recovery Association reports on its website that at any given time, almost 20% of a typical organization's capital assets are surplus to its needs.

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### Table of Contents

The supply of surplus and salvage assets in the reverse supply chain results from a number of factors, including:

*Supply chain inefficiencies.* Forecasting inaccuracies, manufacturer overruns, cancelled orders, evolving market preferences, discontinued product lines, merchandise packaging changes and seasonal fluctuations result in the growth of surplus assets.

*Product innovation.* Continuous innovation in technology products, such as computer and office equipment, consumer electronics, and personal communication and entertainment devices, results in a continuous flow of surplus assets.

*Return policies of large national and online retailers.* The flexible return practices of many large national retailers and online shopping sites result in a continuous supply of returned merchandise, a significant portion of which must be liquidated.

*Compliance with government regulations.* An increasingly stringent regulatory environment necessitates the verifiable recycling and remarketing of surplus assets that would otherwise be disposed of as waste.

*Increasing focus by corporate and government agencies to seek green solutions for surplus assets.* Most organizations appreciate the growing need to be environmentally friendly by improving their management of end of life or surplus goods, including creating the need to repurpose or efficiently redistribute surplus and capital assets to minimize waste and maximize value for themselves and the communities they serve.

*Changing budgetary trends in corporate and governmental entities.* As corporate and governmental entities increasingly are being pressured to enhance efficiencies, while utilizing less resources, surplus and salvage capital assets become a source of funds once liquidated.

Organizations that manufacture, distribute, sell or use finished goods regularly need to dispose of excess inventory or returned merchandise. We believe the management and remarketing of surplus assets traditionally has been an inefficient process. While many organizations spend considerable resources developing systems and channels supporting the flow of finished goods to their core customers, we believe that many have not historically dedicated significant resources to the reverse supply chain. Factors contributing to these inefficiencies in the reverse supply chain include the lack of:

a centralized and global marketplace to sell bulk products in the reverse supply chain;

awareness of effective methods and mechanisms for disposal of surplus assets;

experience in managing the reverse supply chain to seek optimal net returns and improve gross margins; and

real time market data on surplus assets as they move through the final steps of the product life cycle.

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

A significant number of professional buyers seek surplus and salvage assets to sustain their operations and end customers demand. They include online and offline retailers, convenience and discount stores, value-added resellers such as refurbishers and scrap recyclers, import and export firms,



Table of Contents

and small businesses. Traditionally, these buyers have had limited access to a reliable flow of surplus goods and assets, relying instead on their own network of industry contacts and fixed-site auctioneers to locate, evaluate and purchase specific items of interest. Traditional methods are inefficient for buyers due to the lack of:

global access to an available continuous supply of desired goods and assets;

efficient and inexpensive sourcing processes;

a professionally managed central marketplace with transparent, high quality services;

detailed information and product description for the offered goods; and

pricing transparency or ability to compare asset prices.

The Internet is a global medium enabling millions of people worldwide to share information, communicate and conduct business electronically. Strong growth has occurred in the business-to-business (B2B) online retail market, which can be attributed to the rapid migration of manufacturers and wholesalers to open, online platforms. This continued evolution toward ubiquitous B2B platforms that enable sellers and buyers to interact with each other anywhere in the world, is expected to double the size of the existing business-to-consumer (B2C) market and generate revenues of \$6.7 trillion by 2020. (Source: Frost & Sullivan *Future of B2B Online Retailing*, April 2015. We believe professional buyers of surplus and salvage assets will increasingly use these B2B platforms to identify and source goods available for immediate online purchase.

**Our Solution**

Our solution is comprised of our online auction marketplaces and value-added services. Our marketplaces and services are designed to provide sellers a comprehensive solution to quickly bring surplus assets to market and enhance the financial value realized from the sale of their surplus assets while providing buyers with confidence in the reliable flow of goods they purchase. We provide our sellers access to several liquid marketplaces with over 2.8 million professional buyers and a suite of services and logistics capabilities to efficiently manage our clients' reverse supply chain. We seek the optimal methods to maximize our clients' net recovery using channel strategies and dedicated programs to deliver transparent, sustained value.

Through our relationships with sellers, we provide buyers convenient access to a substantial and continuous flow of surplus and salvage assets. We provide buyers with products in over 500 categories in lot sizes ranging from full truck loads to pallets, packages and individual items. Our solution combines leading online marketplaces with a full suite of integrated sales, marketing, merchandising, fulfillment, payment collection, customer support, dispute mediation and logistics services. We provide buyers a convenient method for sourcing surplus and consumer goods. For any given asset, buyers have access to a detailed product description, product manifest, digital images of a product, relevant transaction history regarding the seller, shipping weights, product dimensions and estimated shipping costs to the buyer's location. This enables our solutions to become the primary source for surplus and salvage assets for many of our professional buyers and end-users.

Table of Contents

The following chart provides a summary of our online marketplace solution:

We believe our marketplaces benefit over time from greater scale and adoption by our constituents creating a virtual cycle for our buyers and sellers. As of September 30, 2015, we had aggregated over 2,845,000 registered buyers in our marketplaces and access to millions of end-users through a range of existing consumer marketplaces. Aggregating this level of buyer demand and market data enables us to generate a continuous flow of goods from corporate and government sellers, which in turn attracts an increasing number of professional buyers. During the fiscal year ended September 30, 2015 we had over 2,483,000 auction participants in our online auctions from our registered buyers. During fiscal year 2015, we grew our registered buyer base by 8.8% or approximately 230,000. As buyers continue to discover and use our online marketplaces as an effective method to source assets, we believe our solutions become an increasingly attractive sales channel for corporations and government agencies. We believe this self-reinforcing cycle results in greater transaction volume and enhances the value of our marketplaces.

**Competitive Factors**

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

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

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



Table of Contents

*Integrated and comprehensive solution*

Our marketplaces are designed to provide sellers and buyers with a comprehensive solution for the online sale and purchase of surplus and salvage assets. We offer a full suite of value-added services to simplify the sales and supply chain processes for sellers and improve the utility of our marketplaces for buyers. For corporate and government sellers, we provide sales, marketing, logistics and customer support services that are fully integrated with our marketplaces, creating operational and system efficiencies. For many of these sellers, asset disposition is not a core business function to which they desire to dedicate internal resources. With our solution, we manage each step of the transaction and supply chain for our sellers reducing complexity while providing the ability to optimize the client's net financial return in the sale of surplus goods and assets. Sellers simply make goods available at their facilities or deliver them to our distribution centers and we deliver the profits after the sale is completed. Our buyer services include intelligent alerts, search tools, dynamic pricing, shipping and delivery, secure settlement, live customer support and dispute resolution to enable the most effective methods to source assets for their businesses.

*Flexible and aligned transaction model*

We offer three primary transaction models to our sellers: consignment, profit-sharing and purchase. Under these models, our compensation is derived from either the gross or net proceeds received from the sale of the assets. Our consignment and profit-sharing arrangements are designed to maximize returns by aligning our economic interests.

*Faster transaction cycle times for our seller and buyers*

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

*Solutions that promote sustainability and green solutions for improved corporate/government stewardship*

Our solutions provide a range of capabilities that enable corporate and government agencies to directly reduce the amount of waste generated by redistributing end of life products or assets, through our solutions, improving the net financial recovery generated while positively impacting the communities they serve. In aggregate, some of the world's largest forward thinking corporations and government agencies have significantly enhanced their stewardship of communities and the environment by partnering with us.

**Our Strategy**

The focus of our growth strategy is to provide commercial, municipal government, and federal agency clients and buying customers the world's most transparent, innovative and effective online marketplaces and integrated services for surplus assets. Our business has already attracted over 2.8 million registered buyers and nearly \$800 million of gross merchandise volume and is well positioned to serve any seller for virtually any asset type in every industry sector. Our goal is to develop a multi-billion dollar business by expanding our platform to a diversified base of Fortune 1000 corporations, municipal agencies and small and medium size businesses that can benefit from our global marketplace, buyer liquidity and integrated services.

Table of Contents

The key elements of our growth strategy are to:

*Grow our buyer base and increase active buyer participation on our marketplaces*

We intend to increase the active buyer participation within our consumer goods, commercial capital assets, and municipal government marketplaces, by attracting new buyers and leveraging our base of existing professional buyers. We intend to attract new buyers by using a variety of online and traditional marketing programs while improving the services and experience for our valued professional buyers. In addition, we plan to use the comprehensive buyer profiles, preferences and transactional data we have compiled over the last 16 years to enable us to identify and market highly relevant assets available through our marketplaces to the most likely buyers. We believe these initiatives will help us to increase the total number of auction participants and increase loyalty among our buyer base.

*Increase value and services for existing sellers*

We intend to grow by increasing the number of categories and geographies that we serve to existing sellers as well as by providing a broad range of value-added services such as return to vendor programs and data analytics to solve the needs of large client organizations. For many of our sellers, we currently handle only a portion of the available supply of their surplus inventory or assets. In recent years, we have developed trusted relationships with large corporations and government agencies that offer significant growth opportunities by increasing our services offered and share of supply of their surplus assets. In addition, we have partnered with our sellers to identify previously unknown (untapped) flows of surplus assets that can effectively generate greater net returns than their current processes and improve their corporate stewardship.

*Develop new relationships*

We intend to build upon our client base of the world's largest retailers and manufacturers, our expertise with the DoD and thousands of municipal clients to attract additional corporate and government sellers to our marketplaces. We will extend our platform to partners who would benefit from accessing our marketplace, including dealers, auctioneers, refurbishers, and other principals. We will work with partners under revenue sharing and joint venture relationships with the understanding that the assets will be transacted on our marketplace platform. The vast majority of corporations and government agencies still rely on inefficient, traditional, and less transparent disposition methods for their surplus assets. We believe our demonstrated performance coupled with an expanded sales initiative will allow us to attract additional clients. As part of our ongoing sales initiative, we plan to continue to hire additional professionals and increase our marketing and advertising to the Fortune 1000 companies in our target markets.

*Innovation and technology development*

We are well underway with evolving our technology to create a single integrated marketplace platform to support marketing, sales, customer service, operations, financial performance and human capital management. This effort will result in the global implementation of Liquidity Services' best practices across its entire business and a superior customer experience, including more personalized tools for our buyers and sellers. Some of these, such as our Web-site enhancements or features and multi-channel optimization have already enhanced our business. We intend to develop and introduce new tools to further automate our global solution and leverage the scalability of our technology investments across all of our marketplaces, including multi-currency and multi-lingual solutions. In addition to enhancing the features, experience, and service for our buyers and sellers, we seek to leverage the increasing insight we gain with each transaction to enhance the recovery value clients realize along with improving the relevancy for our buyers in the reverse supply chain.

Table of Contents

*Acquire complementary businesses*

We intend to increase our share of the supply of surplus and salvage goods sold by expanding our operations geographically and across new complementary markets. To support this growth, we intend to continue our disciplined and targeted acquisition strategy. Our approach focuses on identifying target companies that will offer us new or complementary areas of expertise, technology advancements, client bases and geographic territories, such as the GoIndustry acquisition, which we completed in July 2012. In considering each acquisition scenario, we evaluate the merits of the individual opportunity and determine whether to employ a "buy" or "build" strategy.

**Our Marketplaces**

Our online auction marketplaces serve as an efficient and convenient method for the sale of surplus and salvage consumer goods and capital assets. We operate and enable several marketplaces, including the following:

Our *www.liquidation.com* marketplace enables corporations located in the United States to sell surplus and salvage consumer goods and capital assets. This leading business to business marketplace and our related value-added services are designed to meet the needs of clients by selling their surplus assets to domestic and international buyers.

Our *www.govliquidation.com* marketplace enables selected federal government agencies as well as commercial businesses to sell surplus and scrap assets. In addition to goods sold on behalf of other federal agencies, the surplus and scrap assets we sell as the exclusive contractor of the Defense Logistics Agency (DLA) Disposition Services of the U.S. Department of Defense are sold in this marketplace. To satisfy the requirements of U.S. federal government agency sellers, this marketplace incorporates additional terms and conditions of sale, such as U.S. Trade Security Controls clearance for the sale of export-controlled property.

Our *www.govdeals.com* marketplace enables local and state government entities including city, county and state agencies as well as school boards and public utilities located in the United States to sell surplus and salvage assets. This marketplace and our related services are designed to meet the unique needs of public sector clients selling to domestic and international buyers.

Our *www.networkintl.com* marketplace enables corporations to sell idle, surplus, and scrap equipment in the oil and gas, petrochemical and power generation industries. This market place and our related services are designed to meet the unique needs of energy sector clients.

Our *www.go-dove.com* marketplace enables corporations located in the United States, Europe, and Asia to sell manufacturing surplus and salvage capital assets. This marketplace and our related services are designed to meet the specific needs of manufacturing sector clients by selling their surplus assets to domestic and international buyers.

Our *www.truckcenter.com* marketplace enables corporations located in the United States to sell surplus and salvage transportation assets. This marketplace and our related services are designed to meet the specific needs of companies and financial institutions by selling their surplus transportation assets to domestic and international buyers.

Our online auction marketplaces are designed to address the particular requirements and needs of buyers and sellers.

Table of Contents

In addition to these leading business to business marketplaces, we recognize the need to reach end users for some of the assets our clients have entrusted to us. Thus, we have developed the capability to sell products on our client's behalf directly to end-users and/or consumers using a range of existing marketplaces. Our *www.secondipity.com* marketplace provides consumers a trusted source of value products through a socially conscious online experience designed to provide "Better Value, Better Life," through donating a portion of the proceeds of every sale to charity. Our Uncle Sam's Retail Outlet website uses a business-to-consumer model to sell surplus military goods. We also have an established global buyer base that seeks to buy in larger quantities than are offered through our standard auction platform. Thus, we have dedicated sales teams to support their needs and supply chain. These range from a single truckload to ongoing flows for export anywhere in the world, where we market, handle, and support the full disposition on behalf of our buyers. We expect to continue to meet the needs of our clients and to access a growing range of products for all our buyers by enabling our multi-channel strategy to ensure we create the greatest value for assets at the end of their initial product life cycle.

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

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

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

*Merchandising and Channel Optimization* efforts encompass all of the services necessary to prepare merchandise for a successful auction and include the following:

*Channel Optimization* we determine the marketplace and channel sales strategy that creates the greatest value for the individual asset using our real time transaction systems and proprietary data to support ongoing optimization.

*Marketing and promotion* we use a variety of both online and traditional marketing methods to promote our sellers' merchandise and generate the greatest interest in each asset.

*Asset lotting and merchandising* we leverage our industry experience to organize the merchandise we receive into size and product combinations that meet buyer preferences within each marketplace and channel.

*Product information enhancement* we provide digital images of the merchandise to be sold and combine the images with relevant information. In order to increase the realized sales value, we also research, collect and use supplemental product information to enhance product descriptions.

*Logistics.* We provide logistics services designed to support the receipt, handling, transportation and tracking of merchandise offered through our marketplaces, including the following:

*Distribution centers* we provide sellers with the flexibility of either having us manage the sales process at their location or delivering merchandise to one of our distribution centers.

*Inventory management* sellers benefit from our management and inventory tracking system designed so that merchandise is received, processed and delivered in a timely manner.



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### Table of Contents

**Cataloguing merchandise** we catalogue all merchandise, which enables us to provide useful product information to buyers and sellers. In certain circumstances, we will inspect the merchandise and provide condition descriptions to improve quality and the financial recovery to the client.

**Testing, data wiping, de-labeling and refurbishment** we test products, wipe electronic data, refurbish and remove labels and product markings from merchandise prior to sale in order to add value to the asset and protect sellers' brand equity and distribution relationships.

**Return to vendor or product disposition to non-sales channels** we will manage the end to end processes for our clients ensuring that returned merchandise is disposed through a variety of disposition requirements including the end to end management of returning products to vendors, charities, or channels outside of our leading marketplace solutions.

**Outbound fulfillment** we can arrange for domestic or international shipping for all merchandise, whether it's a small item or container load for export located in one of our distribution centers or at a seller's facility.

*Settlement and customer support.* Settlement and customer support services are designed for successful and reliable completion of transactions and include:

**Buyer qualification** we qualify buyers to ensure their compliance with applicable government or seller mandated terms of sale, as well as to confirm their ability to complete a transaction.

**Collection and settlement** we collect payments on behalf of sellers prior to delivery of any merchandise and disburse the profits to the seller after the satisfaction of all conditions of a sale.

**Transaction tracking and reporting** we enable sellers and buyers to track and monitor the status of their transactions throughout the sales process. We support the successful completion of each transaction on behalf of the buyer and seller. We provide a range of comprehensive reporting services to sellers upon the completion of a transaction. Our invoicing and reporting tools can be integrated with the seller's information system, providing a more efficient flow of data.

**Customer support and dispute resolution** we provide full customer support throughout the transaction process and dispute resolution for our customers if needed.

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

**Intelligent alerts and recommendations** we notify buyers of upcoming auctions based on their registered preferences and prior transaction history. Registered preferences can be as broad as a product category or as specific as a part number or key word. We use this information to ensure informed recommendations whenever we identify a product that fits a buyer's preference. We will alert our buyers based on their preferences when auctions are initially launched or nearing conclusion and based on various other parameters to enable our buyers to see the most relevant products.

**Search and navigation tools** buyers can search our marketplaces for products based on a variety of criteria and personalized settings, including product category, keyword, lot size, product condition, product geographic location and auction ending date.

Dynamic pricing tools, product information, and shipping quotes we offer multiple dynamic pricing tools including outbid notification, automated bid agent and automatic auction extension.

Table of Contents

In addition, we provide buyers the information they need to make informed decisions, including product data, seller performance, and online shipping quotes to help understand their landed cost.

Broad and flexible range of shipping/pick-up options we can provide packaging and shipping services for each transaction, whether it is a small item or container loads for export, including buyer pick-up at our premises, for the vast majority of transactions, or support of buyer arranged transportation. We support the most efficient solution for each transaction and each buyer.

Secure settlement and customer support in addition to qualifying sellers, providing several electronic payment options and serving as a trusted market intermediary, we verify transaction completion, which in turn enhances buyer confidence. In addition, we provide full reliable customer support throughout the transaction process.

**Sales and Marketing**

We utilize a direct sales and marketing force to acquire and manage our seller and buyer accounts. As of September 30, 2015, we had 111 sales and 66 marketing personnel. Our sales activities are focused primarily on acquiring new sellers and improving the value to existing sellers. Our marketing activities are focused primarily on acquiring and activating new buyers and increasing existing buyer participation.

*Sales*

Our sales personnel develop seller relationships, establish agreements to provide our services and manage the business accounts on an on-going basis. Our sales team focuses on building long-term relationships with sellers that we believe will generate recurring transactions. They also leverage our years of experience and market data of completed transactions to identify which of our various services would be beneficial to each new or existing seller.

Our sales group is organized to serve three distinct groups of sellers: large corporate accounts, medium to small corporate accounts and government accounts. This approach is based on our experience in understanding and serving the unique needs of each type of seller:

*Large corporate sellers.* These sellers require a customized approach, using a combination of our industry-focused sales team and our value-added services to create a comprehensive solution.

*Medium to small corporate sellers.* These sellers are offered a turn-key solution enabling them to self-serve in our marketplaces by accessing tools and resources to optimize their internal processes and net recovery.

*Government sellers.* These sellers require a customized approach. Sales efforts are both pro-active and re-active, including responding to already structured contract proposal requests and assisting government agencies in developing the appropriate scope of work to serve their needs.

Our sales personnel receive a salary and performance-based commissions.

*Marketing*

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

*Buyer acquisition.* We utilize online marketing, including paid search advertising, search engine optimization, affiliate programs and cross promotion on all of our marketplaces to acquire new



Table of Contents

buyers. We supplement this online marketing with special event print media, classified advertisements and selected direct mail campaigns. Public relations campaigns, participation in trade shows and speaking engagements also complement our overall buyer acquisition efforts.

*Buyer participation.* We use a variety of tools to increase buyer participation, including: targeted opt-in e-mail newsletters that rely on the buyer's stated categories of interest and past bidding or transaction activity; special e-mail alerts highlighting specific products of interest; personalized recommendation engines; and convenient search tools that enable a buyer or prospective buyer to find desired items on our online marketplaces.

*Market research.* In order to better target buyers by industry segment, geographic location or other criteria, our marketing department has gathered data and information from each of the buyer segments we serve. In addition, the marketing department conducts regular surveys to better understand buyers' behavior and needs. We have a privacy policy and have implemented security measures to protect this information.

*Sales support.* Our marketing department creates supporting documentation and research to support our sales team in presenting our company to potential sellers and buyers, including sales brochures, white papers and participation in selected trade shows.

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

**Technology and Infrastructure**

Our marketplaces are fully web-based and can be accessed from any Internet enabled device by using a standard web browser. Our technology systems enable us to automate and streamline many of the manual processes associated with finding, evaluating, bidding on, paying for and shipping surplus and salvage assets. The technology and content behind our marketplaces and integrated value-added services were developed in-house by full-time employees, providing us with control over the marketplaces and the ability to make rapid enhancements to better fit the specific needs of our business and customers. Our marketplaces are supported by a common database architecture and a shared system application. This infrastructure provides:

an efficient channel to sell online through a variety of pricing mechanisms (standard auction, sealed bid, Dutch auction and fixed price);

a scalable back office that enables buyers and sellers to efficiently manage transactions among remote business users by utilizing account management tools, including payment collection, invoicing management, shipping and transaction settlement; and

an input/output agnostic platform, including Application Programming Interface (APIs) or other conduits that enable us to integrate seamlessly with partner enterprise applications of sellers and third party service providers.

We have designed our websites and supporting infrastructure to be highly robust and to support new services and increased traffic. Our servers are fully-managed and hosted in a physically secure and network-secure environment at data centers in Ashburn, Virginia, which is managed by Equinix, Inc. Every critical piece of our application is fully redundant, and we maintain off-site back-up systems as well as a disaster recovery facility. Our network connectivity offers high performance and scalability to accommodate increases in website traffic. Since January 1, 2003, we have experienced no material service interruptions on our online marketplaces.

Our applications support multiple layers of security, including password-protected log-ins, encryption technology to safeguard information transmitted in web sessions and firewalls to help

Table of Contents

prevent unauthorized access to our network and servers. We devote significant efforts to protecting our systems from intrusion.

We continue to execute on our *Liquidity One* transformation initiative. This investment program is focused on the consolidation of best-in-class processes and capabilities into a single, modular platform to increase our scalability and efficiency as an integrated, global business. During Q4 we implemented our new HRIS system and started the final design and configuration of our new financial ERP system which will include a new financial settlement module designed to serve our global client base more efficiently. We have adopted an agile development methodology and have moved to the development phase of our program, we also began to share working prototypes of our new technology platform with internal users and plan to bring external clients in to experience the new platform over the next few quarters. A key aspect of our new platform is the ability to support multi-tenancy and self service capabilities.

**Operations**

Supporting large organizations that have a recurring need to sell surplus and salvage assets requires systematic processes to enhance the financial value and convenience received by our customers. We believe we have integrated all of the required operational processes into our solution to efficiently and to effectively support our buyers and sellers. Our operations group is comprised of three functions: (1) buyer relations, (2) shipping logistics and (3) distribution center and field service operations.

*Buyer relations*

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

*Shipping logistics*

Our shipping logistics group manages and coordinates inbound and outbound shipping of merchandise for sellers and buyers. We offer, as part of our value-added services, integrated shipping services and price quotes through multiple shipping carriers. In addition, our shipping coordination group personnel monitor the performance and service level of our network of carriers to help ensure speed and quality of service.

*Distribution center and field service operations*

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

Table of Contents

**Competition**

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

other e-commerce providers;

auction websites;

government agencies that have created websites to sell surplus and salvage assets; and

traditional liquidators and fixed-site auctioneers.

We expect our market to become even more competitive as traditional and online liquidators and auctioneers continue to develop online and offline services for disposition, redeployment and remarketing of surplus and salvage assets. In addition, manufacturers, retailers and additional government agencies may decide to create their own websites to sell their own surplus and salvage assets and those of third parties. Competitive pressures could harm our business, financial condition and operating results.

Some of our other current and potential competitors have longer operating histories, larger client bases, greater brand recognition and significantly greater financial, marketing and other resources than we do. In addition, some of these competitors may be able to devote greater financial resources to marketing and promotional campaigns, secure merchandise from sellers on more favorable terms, adopt more aggressive pricing or inventory availability policies and devote substantially more resources to website and systems development than we are able to do. Increased competition may result in reduced operating margins and loss of market share. We may not be able to compete successfully against current and future competitors.

**Our Contracts with the U.S. Department of Defense**

We have two material contracts with the DoD under which we acquire, manage and sell government property. This relationship provides a significant supply of goods that we offer to our buyer base through our online marketplace *www.govliquidation.com*. In support of these contracts, we provide services in over 2 million square feet of military space at over 150 military bases throughout the United States and in U.S. territories. The largest contract was originally awarded in June 2001, was renewed in December 2008, was extended in January 2014 and February 2015, and relates to usable surplus property of the DoD turned in to the DLA Disposition Services and located in the United States, Puerto Rico and Guam, such as computers, electronics, office supplies, equipment, aircraft parts, clothing and textiles (the "Surplus Contract"). The second contract was awarded in June 2005 and relates to substantially all scrap property of DoD turned into the DLA Disposition Services, such as metals, alloys, and building materials. Property sold under the contracts is "demilitarized" prior to sale and does not include weapons or hazardous materials (the "Scrap Contract").

Under the current Surplus Contract, as amended, we are obligated to purchase all DoD surplus property at 1.8% of Disposition Services' original acquisition value or OAV. The DoD has broad discretion to determine what property will be made available for sale to us under the Surplus Contract and may retrieve or restrict property previously sold to us for national security reasons or if the property is otherwise needed to support the mission of the DoD. The Surplus Contract has a 36 month term, beginning February 2009, with two 12 month renewal options exercisable by the DoD. The DoD has exercised both renewal options. In January 2014, the DoD awarded us a follow-on contract to extend the terms of the second Surplus Contract for a base term of ten months with two one-month renewal option periods. On December 3, 2014, the DoD exercised the two one-month renewal option periods. In February 2015, the DoD awarded us a second follow-on contract to the current Surplus Contract for a base term of six months with three 30-day additional option periods. The DoD has

Table of Contents

exercised all three 30-day renewal option periods. In July, the Defense Logistics Agency Disposition Services (the "DLA Disposition Services") determined that it is in the best interest of the Government to exercise the remaining three 30-day renewal option periods under the Surplus Contract. As a result, the Surplus Contract's performance period was extended through November 14, 2015. On November 13, 2015, the DLA Disposition Services notified us that they were amending the current Surplus Contract to extend the wind-down period by an additional ten months to allow for the continued processing of usable non-rolling stock surplus property. All other terms, including pricing, remain consistent with the current Surplus Contract.

The DoD, in accordance with the award of the next Surplus Contract, split the contract into a rolling stock and a non-rolling stock contract, with bidding on these two surplus contracts held on April 1 and 2, 2014. On April 1, 2014, the Company was the high bidder for the non-rolling stock surplus contract with a bid equal to 4.35% of the DoD's OAV. The non-rolling stock surplus contract has a base term of two years with four one-year renewal options. Following the bidding event on April 2, 2014 for the DoD rolling stock contract, the Company withdrew from the live auction bidding for this contract. Bidding reached a level that the Company determined would be economically unsustainable under the terms of the new contract, jeopardizing the high level of service the Company has historically provided the agency client. The price the Company will pay for inventory under the next Surplus Contract will increase from 1.8% to 4.35% of OAV, resulting in significantly higher Cost of Goods Sold (COGS) in fiscal year 2016 and beyond.

Under the Scrap Contract, we acquire scrap property at a per pound price and disburse 77% of the profits to the DOD, which we refer to as profit-sharing distributions. As a result of these arrangements, we recognize as revenue the gross proceeds from these sales. We also have a small business performance incentive based on the number of scrap buyers that are small businesses that would allow us to receive up to an additional 2% of the profit sharing distribution. The Scrap Contract base term expired in June 2012, subject to the DoD's right to extend for three additional one-year terms. The DoD has exercised all three renewal options. Effective June 9, 2015, modifications were made to the principal terms of the Scrap Contract including that: (i) contract pricing will be adjusted to reflect a 65% profit sharing distribution to the DLA Disposition Services; (ii) DLA Disposition Services may elect to terminate portions of the Scrap Contract by location with a 90-day notification required; and (iii) DLA Disposition Services may elect to terminate portions of the Scrap Contract by certain commodity categories with a 60-day notification required; provided that no such termination shall be effective sooner than October 8, 2015. The modifications to the Scrap Contract also included the elimination of the small business performance incentive.

These contracts require us to satisfy export control and other regulatory requirements in connection with sales. Specifically, for specified categories of property sold under the contracts that are subject to export controls, we are required to (1) obtain an end-use certificate from the prospective buyer describing the nature of the buyer's business, describing the expected disposition and specific end-use of the property, and acknowledging the applicability of pertinent export control and economic sanctions laws and (2) confirm that each buyer has been cleared to purchase export-controlled items. Applicable export controls include the Export Administration Regulations enforced by the Bureau of Industry and Security ("BIS") of the U.S. Department of Commerce, and the International Traffic In Arms Regulations enforced by the Directorate of Defense Trade Controls ("DDTC") of the U.S. Department of State. Our collection, settlement tools and procedures are designed so that transactions for these categories of property cannot be completed until we receive a completed end-use certificate and confirmation of the buyer's trade security controls clearance. In addition, we do not combine export-controlled property into auction lots with property not subject to export controls.

We are also prohibited from selling property to persons or entities that appear on lists of restricted or prohibited parties maintained by the United States or other governments, including the Specially Designated Nationals and Blocked Persons List maintained by the Office of Foreign Assets Control of

Table of Contents

the U.S. Department of Treasury and the Entity List maintained by BIS, the Denied Persons List maintained by BIS and the Debarred Parties List maintained by DDTC. In addition, we are prohibited from selling to countries, regimes, or nationals that are the target of applicable economic sanctions or other embargoes. As part of each sale, we collect information from potential customers that our systems cross reference against a list of restricted or prohibited parties and countries, regimes, or nationals that are the target of economic sanctions or other embargoes in order to comply with these restrictions. Failure to satisfy any of these export control and other regulatory requirements could subject us to civil and criminal penalties and administrative sanctions, including termination of the DLA Disposition Services contracts, forfeiture of profits, suspension of payments, fines and suspension or debarment from doing business with U.S. federal government agencies.

The Scrap Contract may be terminated by DoD or by us if the rate of return performance ratios do not exceed specified benchmark ratios for two consecutive quarterly periods and the preceding twelve months. We have never failed to meet the required benchmark ratios during any of the testing periods. DoD also has the right to audit our performance under the contracts. DoD may terminate the contracts and seek other contract remedies in the event of material breaches, provided that it provides us notice and a 30-day opportunity to cure such breaches. The new Surplus Contract contains a provision providing for a mutual termination of the contract for convenience.

The Surplus Contract accounted for 27.7%, 26.8%, and 24.7% of our revenue and 15.0%, 14.3%, and 12.3% of our gross merchandise volume for the fiscal years ended September 30, 2013, 2014 and 2015, respectively. We began operating under the Scrap Contract in August 2005, and it accounted for 13.5%, 14.4%, and 15.3% of our revenue and for 7.0%, 7.7%, and 7.6% of our gross merchandise volume for the fiscal years 2013, 2014 and 2015, respectively. The contracts were awarded in competitive bids conducted by DoD, and we may be required to go through a new competitive bidding process when our existing contracts expire.

**Our Contracts with Wal-Mart**

We have various contracts with Wal-Mart Stores, Inc., pursuant to which we purchase certain consumer products from Wal-Mart that have been removed from the sales stream of its retail operations. For the year ended September 30, 2015, approximately 6% of our GMV was generated from Wal-Mart under multiple contracts / programs. All of these agreements have customary commercial terms, which generally expire within a year and allow both parties to terminate for convenience with reasonable notice. As a result of the Jacobs Trading acquisition on October 1, 2011, we also had a long-term contract with Wal-Mart that did not provide for termination for convenience (the "Wal-Mart Agreement"). The term of this agreement was scheduled to expire on May 16, 2016. On December 1, 2014, Wal-Mart provided us written notice (the "Termination Notice") terminating the Wal-Mart Agreement effective December 8, 2014. The Termination Notice alleged that we failed to comply with certain provisions under the Wal-Mart Agreement with respect to service level requirements and restrictions on the disposition of merchandise. We disputed these allegations and contested the termination of the Wal-Mart Agreement with Wal-Mart. As a result of negotiations with Wal-Mart, on January 22, 2015, we finalized a settlement whereby, in exchange for both parties waiving all respective claims against the other, Wal-Mart agreed to pay \$7.5 million in damages. The amount of the settlement was recorded within accounts receivable and a reduction of inventory on the consolidated balance sheet as of December 31, 2014, as the settlement compensated us for the overpayment of inventory from Wal-Mart. We received the payment in February 2015. On September 30, 2015, we sold certain assets related to the Jacobs Trading business to a buyer, Tanager Acquisitions, LLC. In connection with the disposition, the buyer assumed certain liabilities related to the Jacobs Trading business. The buyer issued to us a promissory note in the amount of \$12.3 million. The divestiture of the Jacobs Trading business resulted in a \$8.0 million loss and we expect it to result in a \$33.5 million cash benefit from prior year income taxes and a \$7 million cash-tax benefit for 2015.

Table of Contents

**Government Regulation**

We are subject to federal and state consumer protection laws, including laws protecting the privacy of customer non-public information and regulations prohibiting unfair and deceptive trade practices. Furthermore, the growth and demand for online commerce has resulted in and may continue to result in more stringent consumer protection laws that impose additional compliance burdens on online companies. Many jurisdictions also regulate "auctions" and "auctioneers" and may regulate online auction services. These consumer protection laws and regulations could result in substantial compliance costs and could interfere with the conduct of our business.

In many states, there is currently great uncertainty about whether or how existing laws governing issues such as property ownership, sales and other taxes, auctions and auctioneering, libel and personal privacy apply to the Internet and commercial online services. These issues may take years to resolve. New legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to our business or the application of existing laws and regulations to the Internet and commercial online services could result in significant additional taxes or regulatory restrictions on our business. These potential restrictions could have an adverse effect on our cash flows and results of operations. Furthermore, there is a possibility that we may be subject to significant fines or other payments for any past failures to comply with these requirements.

In connection with our contracts with the U.S. federal government, the U.S. federal government has the right to audit and review our performance on our government contracts, as well as our compliance with applicable laws and regulations. In addition, we sell merchandise under our government contracts, such as scientific instruments, information technology equipment and aircraft parts, that is subject to further government regulations, some of which may require us to obtain an export license in certain circumstances or an end-use certificate from the buyer. In the United States, the sale of this type of merchandise is further regulated by, among others, the U.S. Export Administration Regulations, International Traffic in Arms Regulations and the economic sanctions and embargo laws enforced by the Office of Foreign Assets Control Regulations. If a government audit uncovers improper or illegal activities, or if we are alleged to have violated any laws or regulations governing the products we sell under our government contracts, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, denial of export privileges, forfeiture of profits, suspension of payments, fines, and suspension or debarment from doing business with U.S. federal government agencies. See "Risk Factors Unfavorable findings resulting from a government investigation or audit could subject us to a variety of penalties and sanctions, could negatively impact our future operating results and could force us to adjust previously reported operating results."

**Intellectual Property**

We regard our intellectual property, particularly domain names, copyrights and trade secrets, as critical to our success. We rely on a combination of contractual restrictions and common law copyright and trade secret laws to protect our proprietary rights, know-how, information and technology. These contractual restrictions include confidentiality and non-compete provisions. We generally enter into agreements containing these provisions with our employees, contractors and third parties with whom we have strategic relationships. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our intellectual property without our authorization. We currently are the registered owners of several Internet domain names, including *www.liquidation.com*, *www.govliquidation.com*, *www.govdeals.com*, *www.networkintl.com*, *www.truckcenter.com*, *www.secondipity.com*, and *www.go-dove.com*. We pursue the registration of our trademarks in the U.S. and internationally. Effective patent, copyright, trademarks, trade secret and domain name protection is expensive to maintain and may require litigation to enforce our intellectual property rights. We seek to protect our domain names in an increasing number of jurisdictions and may not be successful in certain jurisdictions.

Table of Contents

We rely on technologies that we license from third parties. These licenses may not continue to be available to us on commercially reasonable terms in the future. As a result, we may be required to obtain substitute technology of lower quality or at greater cost, which could materially adversely affect our business, financial condition, results of operations and cash flows.

We do not believe that our business, sales policies or technologies infringe the proprietary rights of third parties. However, third parties have in the past and may in the future claim that our business, sales policies or technologies infringe their rights. We expect that participants in the e-commerce market will be increasingly subject to infringement claims as the number of services and competitors in the industry grows. Any such claim, with or without merit, could be time consuming, result in costly litigation or an injunction or require us to enter into royalty or licensing agreements. Such royalty or licensing agreements might not be available on terms acceptable to us, or at all or may be prohibited by an injunction. As a result, any such claim of infringement against us could have a material adverse effect upon our business, financial condition, results of operations and cash flows.

**Employees**

As of September 30, 2015, we had 886 U.S. employees, including 122 in sales and marketing, 98 in technology, 70 in customer service, 495 in operations and 101 in finance and administration. In addition, as of that date, we had 293 international employees, including 55 in sales and marketing, 14 in technology, 8 in customer service, 187 in operations and 29 in finance and administration.

None of our U.S. employees are covered by collective bargaining agreements and 43% of our non-U.S. employees are covered by collective bargaining agreements or statutory trade union agreements. On June 21, 2014, we entered into a First Collective Agreement with the United Food & Commercial Workers International Union which relates to the employment of employees at our Toronto, Ontario location. The Agreement expires on June 20, 2017. We believe that we have good relationships with our employees. We have never had a work stoppage.

**Available Information**

Our annual, quarterly and current reports, proxy statements, amendments to those reports and other information are also made available free of charge on our website [www.liquidityservices.com](http://www.liquidityservices.com), as soon as reasonably practicable after we electronically file these materials with, or furnish them to, the SEC. We use our website as a channel of distribution for material company information. Important information, including news releases, analyst presentations and financial information regarding the Company is routinely posted on and accessible at [www.liquidityservices.com](http://www.liquidityservices.com).

**Cautionary Note Regarding 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 those listed in Part I, Item 1A ("Risk Factors") and in our other filings with the Securities and Exchange Commission (SEC) from time to time. You can identify forward-looking statements by terminology such as "may," "will," "should," "could," "would," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continues" or the negative of these terms or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. There may be other factors of which we are currently unaware

Table of Contents

or deem immaterial that may cause our actual results to differ materially from the forward-looking statements.

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

**Item 1A. Risk Factors.**

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

**We depend on contracts with the United States Department of Defense and for a significant portion of our revenue, and if our relationships with these customers are disrupted, we would experience a significant decrease in revenue and income.**

We have two material contracts with the DLA Disposition Services under which we acquire, manage and sell surplus and scrap property of the DoD. If our relationship with the DoD is impaired, we are not awarded new DoD contracts when our current contracts expire, any of our DoD contracts are terminated or the supply of assets under the contracts is significantly decreased, we would experience a significant decrease in revenue and have difficulty generating income. The Surplus Contract accounted for 27.7%, 26.8%, and 24.7% of our revenue and 15.0%, 14.3%, and 12.3% of our GMV for the fiscal years ended September 30, 2013, 2014 and 2015, respectively. The Scrap Contract accounted for 13.5%, 14.4%, and 15.3% of our revenue and 7.0%, 7.7%, and 7.6% of our GMV in fiscal year 2013, 2014 and 2015, respectively. We believe that these contracts will continue to be the source of a significant portion of our revenue and GMV during their respective terms. The current Surplus Contract has a three-year base term that expired in February 2012, subject to the DoD's right to extend for two additional one-year terms. The DoD has exercised both extension options. In January 2014, the DoD awarded the Company a follow-on contract to extend the terms of the current Surplus Contract for a base term of ten months with two one-month renewal option periods. The DoD has exercised both renewal options. In February 2015, the DoD awarded the Company a second follow-on contract to the current Surplus Contract for a base term of six months with three 30-day additional option periods. The DoD has exercised all three 30-day renewal options which extends the Surplus Contract until November 14, 2015. On November 13, 2015, the DLA Disposition Services notified us that they were amending the current Surplus Contract to extend the wind-down period by an additional ten months to allow for the continued processing of usable non-rolling stock surplus property. All other terms, including pricing, remain consistent with the current Surplus Contract. The Scrap Contract has a seven-year base term that expired in June 2012, subject to the DoD's right to extend for three additional one-year terms. The DoD has exercised its right to extend the performance period of the Scrap Contract to June 2015. This Scrap Contract was further modified on June 9, 2015 to extend the Scrap Contract for an additional nine months, subject to the DoD's right to extend the contract for three additional three-month option periods. As part of the June 9, 2015 amendment, modifications were also made to the principal terms of the Scrap Contract including that: (i) contract pricing will be adjusted to reflect a 65% profit sharing distribution to the DLA Disposition Services; (ii) DLA



Table of Contents

Disposition Services may elect to terminate portions of the Scrap Contract by location with a 90-day notification required; and (iii) DLA Disposition Services may elect to terminate portions of the Scrap Contract by certain commodity categories with a 60-day notification required; provided that no such termination shall be effective sooner than October 8, 2015. The contracts were awarded by the DoD through a competitive bidding process, and we may be required to go through a new competitive bidding process when our existing contracts expire. Under the current Surplus Contract, as amended, we are obligated to purchase all DoD surplus property at 1.8% of Disposition Services' original acquisition value ("OAV"). The DoD has broad discretion to determine what property will be made available for sale to us under the next Surplus Contract and may retrieve or restrict property previously sold to us for national security reasons or if the property is otherwise needed to support the mission of the DoD. The DoD, in accordance with the award of the next Surplus Contract, split the contract into a rolling stock and a non-rolling stock contract, with bidding on these two surplus contracts held on April 1 and 2, 2014. On April 1, 2014, we were the high bidder for the non-rolling stock surplus contract with a bid equal to 4.35% of the DoD's OAV. The non-rolling stock surplus contract has a base term of two years with four one-year renewal options. Following the bidding event on April 2, 2014 for the DoD rolling stock contract, we withdrew from the live auction bidding for this contract. Bidding reached a level that we determined would be economically unsustainable under the terms of the new contract, jeopardizing the high level of service we have historically provided the agency client. The price that we will pay for inventory under the next Surplus Contract will increase from 1.8% to 4.35% of OAV, resulting in significantly higher Cost of Goods Sold (COGS) in fiscal year 2016 and beyond.

Our Surplus Contract with the DoD allows either party to terminate the contract for convenience. Although our Scrap Contract does not allow the DoD to terminate for convenience, it requires us to meet specified performance benchmarks. The Scrap Contract may be terminated by the DoD if rate of return performance ratios do not exceed specified benchmark ratios for two consecutive quarterly periods and the preceding twelve months. Although, to date, we have never failed to meet the required benchmark ratios during any of the testing periods, we may not meet the performance benchmarks in the future. The DoD also has the right, after giving us notice and a 30-day opportunity to cure, to terminate the contracts and seek other contract remedies in the event of material breaches. We continue to provide services under our existing contract.

We expect that there will be significant competition to renew our DoD contracts. We may not win any such competitive solicitation, as one or more providers may offer to provide the same or similar services at a more favorable price. Even if we win the competitive procurement, we could be required to reduce significantly the prices we charge for our services under the new contracts. The failure to win the competitive solicitation or a requirement to provide our services at significantly less favorable prices would materially adversely affect our revenues and have a material adverse effect on our business, prospects, financial condition and results of operations.

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

The federal government has the right to audit our performance under our government contracts. Any adverse findings from audits or reviews of our performance under our contracts could result in a significant adjustment to our previously reported operating results. For example, our DoD Scrap contract provides that we share sales profits with the government. The federal government may disagree with our calculation of the profits realized from the sales of government assets and may require us to increase profit-sharing payments to the government that have been made in the past. If this occurs, our past operating margins may be reduced. The results of an audit by the government could significantly limit the volume and type of merchandise made available to us under our contracts

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### Table of Contents

with the DoD, resulting in lower gross merchandise volume, revenue, and profitability for our company. If such a government audit uncovers improper or illegal activities, we could be subject to civil and criminal penalties, administrative sanctions and could suffer serious harm to our reputation. Government and law enforcement agencies may also investigate our other activities under our DoD contracts and our company. If such an investigation alleges that we engaged in improper or illegal activities, we could be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or debarment from doing business with U.S. federal government agencies. If, as the result of a government audit or investigation, or for any other reason, we are suspended or debarred from contracting with the federal government generally, or any specific agency, if our reputation or relationship with government agencies is impaired, or if the government otherwise ceases doing business with us or significantly decreases the amount of business it does with us, our revenue and profitability would substantially decrease.

### **The success of our business depends on our ability to successfully obtain a supply of merchandise for our buyers and to attract and retain active professional buyers to create sufficient demand for our sellers.**

Our ability to increase our revenue and maintain profitability depends on whether we can successfully expand the supply of merchandise available for sale on our online marketplaces and attract and retain active professional buyers to purchase the merchandise. Our ability to attract sufficient quantities of suitable merchandise and new buyers will depend on various factors, some of which are out of our control. These factors include our ability to:

offer sellers liquid marketplaces for their surplus and salvage assets;

offer buyers a sufficient supply of merchandise;

develop and implement effective sales and marketing strategies;

comply with regulatory or corporate seller requirements affecting marketing and disposition of certain categories of merchandise;

efficiently catalogue, handle, store, ship and track merchandise; and

achieve high levels of seller and buyer satisfaction with the trading experience.

### **We may not be able to compete successfully against existing or future competitors.**

The online services market for auctioning or liquidating surplus and salvage assets is competitive and growing rapidly. Competitive pressures could affect our ability to attract and retain customers, which could decrease our revenue and negatively affect our operating results. We currently compete with:

other e-commerce providers;

auction websites;

government agencies that have created websites to sell surplus and salvage assets; and

traditional liquidators and fixed-site auctioneers.

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

Table of Contents

Some of our other current and potential competitors have longer operating histories, larger client bases, greater brand recognition and significantly greater financial, marketing and other resources than we do. In addition, some of these competitors may be able to devote greater financial resources to marketing and promotional campaigns, secure merchandise from sellers on more favorable terms, adopt more aggressive pricing or inventory availability policies and devote substantially more resources to website and systems development than we are able to do. Increased competition may result in reduced operating margins and loss of market share. We may not be able to compete successfully against current and future competitors.

**If we fail to successfully integrate our acquired businesses and operations and/or fully realize the expected benefits of these acquisitions in the expected time frame, our future operating results may be materially adversely affected.**

The success of our acquisitions depends, in part, on our ability to successfully integrate the acquired businesses and operations with our other businesses and fully realize the anticipated benefits of the acquisitions. If we are not able to achieve these objectives in a cost-effective and timely manner, we may not fully realize the anticipated benefits of the acquisition or it may take us longer to realize the benefits of the acquisition than we expect. Our acquired operations outside the U.S. may present unique challenges or increase our exposure to risks associated with foreign operations, including foreign currency risks and risks associated with local regulatory regimes.

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

**If we fail to manage our growth effectively, our operating results could be adversely affected.**

We have expanded our operations rapidly since our inception in 1999. Although we currently do not have specific plans for any expansion that would require significant capital investment, in the future we plan to expand our operations further by developing new or complementary services, products, or trading formats and enhancing the breadth and depth of our value-added services. We also plan to continue to expand our sales and marketing, technology and client support organizations. In addition, we will likely need to continue to improve our financial and management controls and our reporting systems and procedures. If we are unable to effectively implement these plans and to otherwise manage our expanding operations, we may not be able to execute our business strategy and our operating results could significantly decrease.

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

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

the addition of new buyers and sellers or the loss of existing buyers and sellers;

entry into, or the modification, termination or expiration of, material contracts;

the volume, size, timing and completion rate of transactions in our marketplaces;

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### Table of Contents

changes in the supply and demand for and the volume, price, mix and quality of our supply of surplus and salvage assets;

introduction of new or enhanced websites, services or product offerings by us or our competitors, which may impact our margins;

implementation of significant new contracts;

changes in our pricing policies or the pricing policies of our competitors;

changes in the conditions and economic prospects of the e-commerce industry or the economy generally, which could alter current or prospective buyers' and sellers' priorities;

impairment of goodwill or other intangible assets;

technical difficulties, including telecommunication system or Internet failures;

changes in government regulation of the Internet and e-commerce industry;

event-driven disruptions such as war, terrorism, disease and natural disasters;

seasonal patterns in selling and purchasing activity; and

costs related to acquisitions of technology or equipment.

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

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

Any system interruptions that affect our websites or our transaction systems could impair the services that we provide to our sellers and buyers. In addition, our systems may be vulnerable to damage from a variety of other sources, including telecommunications failures, power outages, malicious human acts and natural disasters. Improving the reliability and redundancy of our systems may be expensive, reduce our margins and may not be successful in preventing system failures. Our services are also substantially dependent on systems provided by third parties, over whom we have little control. We have occasionally experienced interruptions to our services due to system failures unrelated to our own systems. Any interruptions or failures of our current systems or our ability to communicate with third party systems could negatively affect the demand for our services and our ability to grow our revenue. Although we carry specific insurance against cybersecurity events, our insurance coverage may be inadequate to compensate us for any related losses we incur.

We are implementing a new Enterprise Resource Planning ("ERP") system as part of our Liquidity One Transformation initiative in order to replace and upgrade our information technology systems and networks used to operate our business. Increasingly, our new information technology systems are outsourced cloud solutions not under our direct management or control. Any system or network disruption resulting from our implementation of new systems or interference with outsourced systems based in the cloud could have a negative impact on our operations, sales and operating results.

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We rely on the efficient and uninterrupted operation of complex information technology systems and networks, some of which are managed internally within the Company and some of which are outsourced. As part of the Liquidity One Transformation initiative, we are implementing a new ERP system to replace a number of legacy systems. The implementation of our Liquidity One Transformation plan will require substantial changes to our software and network infrastructure, which could lead to system interruptions, affect our websites and transaction systems and further expose us to operational disruptions, which could have a material adverse effect on our results of operations.

Table of Contents

As part of Liquidity One Transformation, we have increased our use of Cloud based services and will increasingly do so. Many of these outsourced systems are platform as a service solutions and therefore not under our direct management or control. Any disruption to either those outsourced systems or the communication links between us and the outsourced supplier, could negatively impact our ability to operate our websites or our transaction systems and could impair the services that we provide to our sellers and buyers. We may incur additional costs to remedy the damages caused by these disruptions.

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

To remain competitive, we must continue to enhance and improve the functionality and features of our e-commerce business through initiatives like the Liquidity One Transformation initiative. Although we currently do not have specific plans for any upgrades that would require significant capital investment beyond the Liquidity One Transformation, in the future we will need to improve and upgrade our technology, transaction processing systems and network infrastructure in order to allow our operations to grow in both size and scope. Without such improvements, our operations might suffer from unanticipated system disruptions, slow transaction processing, unreliable service levels, or impaired quality or delays in reporting accurate financial information, any of which could negatively affect our reputation and ability to attract and retain sellers and buyers. We may also face material delays in introducing new services, products and enhancements. The Internet and the e-commerce industry are rapidly changing. If competitors introduce new products and services using new technologies or if new industry standards and practices emerge, our existing websites and our proprietary technology and systems may become obsolete. In addition, the expansion and improvement of our systems and infrastructure may require us to commit substantial financial, operational and technical resources, with no assurance our business will increase. If we fail to respond to technological change or to adequately maintain, expand, upgrade and develop our systems and infrastructure in a timely fashion our ability to grow could be limited and our revenue could decrease.

**Shipment of merchandise sold in our marketplaces could be delayed or disrupted by factors beyond our control and we could lose buyers and sellers as a result.**

We rely upon third party carriers such as United Parcel Services, or UPS, for timely delivery of our merchandise shipments. As a result, we are subject to carrier disruptions and increased costs due to factors that are beyond our control, including labor difficulties, inclement weather, terrorist activity and increased fuel costs. In addition, we do not have a long-term agreement with UPS or any other third party carriers, and we cannot be sure that our relationship with UPS will continue on terms favorable to us, if at all. If our relationship with UPS is terminated or impaired or if UPS is unable to deliver merchandise for us, we would be required to use alternative carriers for the shipment of products to our buyers. We may be unable to engage alternative carriers on a timely basis or on terms favorable to us, if at all. Potential adverse consequences include:

reduced visibility of order status and package tracking;

delays in merchandise receipt and delivery;

increased cost of shipment; and

reduced shipment quality, which may result in damaged merchandise.

Any failure to receive merchandise at our distribution centers or deliver products to our buyers in a timely and accurate manner could lead to client dissatisfaction and cause us to lose sellers and buyers.

Table of Contents

**A significant interruption in the operations of our customer service system or our distribution centers could harm our business and operating results.**

Our business depends, to a large degree, on effective customer service and distribution center operations. We currently staff DoD warehouse distribution space, for which we do not incur leasing costs, as well as leased commercial warehouse distribution space. These operations could be harmed by several factors, including any material disruption or slowdown at our distribution centers resulting from labor disputes, changes in the terms of our underlying lease agreements or occupancy arrangements in the case of government provided facilities, telecommunications failures, power or service outages, human error, terrorist attacks, natural disasters or other events. In addition, space provided to us by the DoD could be re-configured or reduced as a result of the DoD's Base Realignment and Closure initiative or other infrastructure reduction initiatives.

**If we fail to accurately predict our ability to sell merchandise in which we take inventory risk and credit risk, our margins may decline as a result of lower sale prices from such merchandise.**

Under our profit-sharing and purchase model, we purchase merchandise and assume the risk that the merchandise may sell for less than we paid for it. We assume general and physical inventory and credit risk. These risks are especially significant because some of the goods we sell on our websites are characterized by rapid technological change, obsolescence and price erosion, and because we sometimes make large purchases of particular types of inventory. In addition, we do not receive warranties on the goods we purchase and, as a result, we have to resell or dispose of any returned goods. Historically, the number of disposed goods (which includes returned goods that we have not resold) has been less than 2% of the goods we have purchased. To manage our inventory successfully, we need to maintain sufficient buyer demand and sell merchandise for a reasonable financial return. We may miscalculate buyer demand and overpay for the acquired merchandise. In the event that merchandise is not attractive to our buyer base, we may be required to take significant losses resulting from lower sale prices, which could reduce our revenue and margins. For example, under the current (second) Surplus Contract, we are obligated to purchase all DoD surplus property at 1.8% of the original acquisition cost, which varies depending on the type of surplus property being purchased. Under the new non-rolling stock (third) surplus contract, we will be obligated to purchase surplus DoD non-rolling stock at 4.35% of original acquisition cost. Under the Scrap Contract, we acquire scrap property at a per pound price. Declines in commodity prices may also reduce the profit we are able to realize in our scrap business. For example, we may not be able to sell our inventory for amounts above its cost and we may incur a loss in products we handle for our commercial clients. As we grow our business, we may choose to increase the amount of merchandise we purchase directly from sellers, thus resulting in increased inventory levels and related risk. Any such increase would require the use of additional working capital and subject us to the additional risk of incurring losses on the sale of that inventory.

**We may be unable to adequately protect or enforce our intellectual property rights, which could harm our reputation and negatively impact the growth of our business.**

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

We currently are the registered owners of several Internet domain names, including *www.liquidation.com*, *www.govliquidation.com*, *www.govdeals.com*, *www.networkintl.com*, *www.truckcenter.com*, *www.secondipity.com*, and *www.go-dove.com*. We pursue the registration of our domain names in the U.S. and internationally. We currently do not have any patents or registered copyrights, but we are pursuing patents. Effective patent, copyright, trademark, service mark, trade



Table of Contents

secret and domain name protection is expensive to maintain and may require litigation. Our competitors may adopt trade names or domain names similar to ours, thereby impeding our ability to promote our marketplaces and possibly leading to client confusion. In addition, we could face trade name or trademark or service mark infringement claims brought by owners of other registered or unregistered trademarks or service marks, including trademarks or service marks that may incorporate variations of our marketplace names. Any claims related to our intellectual property or client confusion related to our marketplaces could damage our reputation and negatively impact the growth of our business.

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

We use software licensed from third parties, including some software, known as open source software that we use without charge. We currently use the following open source software: Linux (an operating system), MySQL (database software), PERL (an interpreter), Apache (a web server), and Java and we may in the future use additional open source software. In the future, these licenses to third party software may not be available on terms that are acceptable to us, or at all. Our inability to use third-party software could result in disruptions to our business, or delays in the development of future services or enhancements of existing services, which could impair our business. In addition, the terms of certain open source software licenses may require us to provide modified versions of the open source software, which we develop, if any, or any proprietary software that incorporates all or a portion of the open source software, if any, to others on unfavorable license terms that are consistent with the open source license term. If we are required to license our proprietary software in accordance with the foregoing, our competitors and other third parties could obtain access to our intellectual property, which could harm our business.

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

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

**If we do not retain our senior management, we may not be able to achieve our business objectives.**

Our future success is substantially dependent on the continued service of our senior management, particularly William P. Angrick, III, our chief executive officer. We do not have key-person insurance on any of our officers or employees. The loss of any member of our existing senior management team could damage key seller relationships, result in the loss of key information, expertise or know-how, lead to unanticipated recruitment and training costs and make it more difficult to successfully operate our business and achieve our business goals.

Table of Contents

**If we are unable to attract and retain skilled employees, we might not be able to sustain our growth.**

Our future success depends on our ability to continue to attract, retain and motivate highly skilled employees, particularly employees with sales, marketing, operations and technology expertise. Competition for employees in our industry is intense. We have experienced difficulty from time to time in attracting the personnel necessary to support the growth of our business, and we may experience similar difficulties in the future. If we are unable to attract, assimilate and retain employees with the necessary skills, we may not be able to grow our business and revenue.

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

We may need additional funds to finance our operations, as well as to enhance our services, fund our expansion, respond to competitive pressures or acquire complementary businesses or technologies. However, our business may not generate the cash needed to finance such requirements. If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our existing stockholders would be reduced, and these securities may have rights, preferences or privileges senior to those of our common stock. If adequate funds are not available or are not available on acceptable terms, our ability to enhance our services, fund our expansion, respond to competitive pressures or take advantage of business opportunities would be significantly limited, and we might need to significantly restrict our operations.

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

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

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

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

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

Table of Contents

regarding any such transactions or allegations may damage our reputation, our ability to attract new sellers and buyers and our business.

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

We sell merchandise, such as scientific instruments, information technology equipment and aircraft parts, that is subject to export control and economic sanctions laws, among other laws, imposed by the United States and other governments. Such restrictions include the U.S. Export Administration Regulations, the International Traffic in Arms Regulations, and economic sanctions and embargo laws administered by the Office of the Foreign Assets Control Regulations. These restrictions prohibit us from, among other things, selling property to (1) persons or entities that appear on lists of restricted or prohibited parties maintained by the United States or other governments or (2) countries, regimes, or nationals that are the target of applicable economic sanctions or other embargoes. In addition, for specified categories of property sold under our contracts with the DoD, we are required to (1) obtain an end-use certificate from the prospective buyer describing the nature of the buyer's business, describing the expected disposition and specific end-use of the property, and acknowledging the applicability of pertinent export control and economic sanctions laws and (2) confirm that each buyer has been cleared to purchase export-controlled items.

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

**Our business may be harmed if third parties misappropriate our clients' confidential information.**

We retain highly confidential information on behalf of our clients in our systems and databases. Although we maintain security features in our systems, our operations may be susceptible to hacker interception, break-ins and other disruptions. These disruptions may jeopardize the security of information stored in and transmitted through our systems. As the Department of Defense is one of our clients, our systems may be especially targeted by such malicious attackers. We may be required to expend significant capital and other resources to protect against such security breaches or to alleviate problems caused by such breaches. These issues are likely to become more difficult as we expand our operations. If any compromise of our security were to occur, we may lose clients and our reputation, business, financial condition and operating results could be harmed by the misappropriation of confidential client information. The loss of confidential client information could also expose us to the risk of liability and costly litigation. In addition, if there is any perception that we cannot protect our clients' confidential information, we may lose the ability to retain existing clients and attract new clients and our revenue could decline.

**If we fail to comply with increasing levels of regulation relating to privacy, our business could suffer harm.**

We are subject to increasing regulation at the federal, state and international levels relating to privacy and the use of personal user information. In addition, several states have proposed or enacted legislation to limit uses of personal information gathered online or require online services to establish privacy policies. Data protection regulations and enforcement efforts may restrict our ability to collect demographic and personal information from users, which could be costly or harm our marketing efforts. Such regulations, along with increased government or private enforcement, may increase the cost of growing our business and require us to expend significant capital and other resources. Our failure to comply with these federal, state and international laws and regulations could subject us to

Table of Contents

lawsuits, fines, criminal penalties, statutory damages, adverse publicity and other costs could decrease our profitability.

**If one or more states successfully assert that we should collect sales or other taxes on the sale of our merchandise or the merchandise of third parties that we offer for sale on our websites, our business could be harmed.**

We are currently required to collect and remit sales taxes in all states for shipment of goods from our DoD contracts. We also collect and remit sales or other similar taxes in respect of shipments of other goods into states in which we have a substantial presence. In addition, as we grow our business, any new operation in states in which we currently do not collect and remit sales taxes could subject shipments into such states to state sales taxes under current or future laws.

U.S. Supreme Court decisions restrict the imposition of obligations to collect state and local taxes with respect to sales made over the Internet. However, a number of states have adopted or are considering laws that levy additional taxes on Internet access and electronic commerce transactions. Congress is also considering legislation allowing states to require out-of-state sellers to collect sales and use taxes for electronic commerce transactions. It is not possible to predict with any degree of certainty the outcome of these initiatives or the impact of these initiatives on our business and marketing strategies that we are considering or may consider in the future.

An unfavorable change in U.S. Supreme Court guidance related to sales tax, or a successful assertion by one or more jurisdictions that our sale of merchandise in such jurisdiction is subject to sales or other taxes may result in material tax liabilities, interest and penalties. A change in state or federal laws, or our business model, business strategy, or marketing initiatives may require us to collect sales tax on transactions in which we do not currently collect such tax. These developments, should they occur, may result in a decrease in future sales, may decrease our ability to compete, increase our compliance costs or otherwise harm our business.

**Fraudulent activities involving our websites and disputes relating to transactions on our websites may cause us to lose clients and adversely affect our ability to grow our business.**

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

**False or defamatory statements transmitted through our services could harm our reputation and affect our ability to attract clients.**

The law relating to the liability of online services companies for information carried on or disseminated through their services is currently unsettled. Claims could be made against online services companies under both the U.S. and foreign law for defamation, libel, invasion of privacy, negligence,

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### Table of Contents

copyright or trademark infringement, or other theories based on the nature and content of the materials disseminated through their services. Our website allows users to make comments regarding the online auction industry in general and other users and their merchandise in particular. Although all such comments are generated by users and not by us, we are aware that claims of defamation or other injury have been made against other companies operating auction services in the past and could be made in the future against us for comments made by users. If we are held liable for information provided by our users and carried on our service, we could be directly harmed and may be forced to implement measures to reduce our liability. This may require us to expend substantial resources or discontinue certain service offerings, which could negatively affect our operating results. In addition, the increased attention focused upon liability issues as a result of these lawsuits and legislative proposals could harm our reputation and affect our ability to attract clients.

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

The worldwide financial crisis led to an increase in the overall volatility of the stock market. Despite improved stock market performance, the increased volatility and other broad market and industry factors may adversely affect the market price of our common stock, regardless of our actual operating performance. Other factors that could cause fluctuation in our stock price may include:

actual or anticipated variations in quarterly operating results;

changes in financial estimates by us or by a securities analyst who covers our stock;

publication of research reports about our company or industry;

conditions or trends in our industry;

stock market price and volume fluctuations of other publicly traded companies and, in particular, those whose business involves the Internet and e-commerce;

announcements by us or our competitors of significant contracts (or the amendment or loss of such contracts), acquisitions, commercial relationships, strategic partnerships or divestitures;

announcements by us or our competitors of technological innovations, new services or service enhancements;

announcements of investigations or regulatory scrutiny of our operations or lawsuits filed against us;

the passage of legislation or other regulatory developments that adversely affect us, our clients or our industry;

additions or departures of key personnel;

sales of our common stock, including sales of our common stock by our directors and officers or specific stockholders; and

general economic conditions and slow or negative growth of related markets.

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



Table of Contents

**Some provisions of our charter, bylaws and Delaware law inhibit potential acquisition bids that you may consider favorable.**

Our corporate documents and Delaware law contain provisions that may enable our board of directors to resist a change in control of our company even if a change in control were to be considered favorable by you and other stockholders. These provisions include:

a staggered board of directors;

a prohibition on actions by our stockholders by written consent;

limitations on persons authorized to call a special meeting of stockholders;

the authorization of undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval;

advance notice procedures required for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders; and

the requirement that board vacancies be filled by a majority of our directors then in office.

These provisions could discourage, delay or prevent a transaction involving a change in control of our company. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and cause us to take other corporate actions you desire.

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

Not Applicable

## Edgar Filing: LIQUIDITY SERVICES INC - Form 10-K

### Table of Contents

#### **Item 2. Properties.**

We lease the following properties:

<b>Purpose</b>	<b>Location</b>	<b>Square Feet</b>	<b>Lease Expiration Date</b>
Corporate Headquarters	Washington, D.C., USA	27,100	September 30, 2019
Warehouse	Cranbury, New Jersey, USA	153,800	November 30, 2015
Warehouse	Dallas, Texas, USA	127,144	December 31, 2020
Warehouse	Plainfield, Indiana, USA	187,700	April 30, 2019
Warehouse	North Las Vegas, Nevada, USA	102,400	March 31, 2016
Administrative	Scottsdale, Arizona, USA	23,536	December 31, 2016
Warehouse	Obetz, Ohio, USA	340,000	February 28, 2019
Warehouse	Oklahoma City, Oklahoma, USA	441,300	June 30, 2021
Warehouse	Columbus, Ohio, USA	516,174	December 31, 2016
Storage Lot	Oklahoma City, Oklahoma, USA	217,800	June 30, 2021
Storage Lot	Oklahoma City, Oklahoma, USA	392,040	November 30, 2015
Administrative	Montgomery, Alabama, USA	11,356	September 30, 2017
Administrative	Houston, Texas, USA	12,422	March 31, 2018
Storage Lot	Fontana, California, USA	511,830	May 31, 2018
Storage Lot	Blue Mound, Texas, USA	727,500	May 31, 2018
Storage Lot	Indianapolis, Indiana, USA	697,000	May 31, 2018
Storage Lot	Atlanta, Georgia, USA	479,200	May 31, 2018
Storage Lot	Wilmington, Delaware, USA	484,000	May 31, 2018
Warehouse	Hayward, California, USA	44,280	October 31, 2018
Warehouse	Hazelwood, Missouri, USA	21,368	December 31, 2015
Administrative	London, GBR	6,036	July 12, 2017
Administrative	Toronto, Canada	45,000	February 28, 2016
Warehouse	Brampton, Canada	53,621	Month-to-Month
Administrative	Calamba City, Philippines	15,500	August 31, 2016

In addition, we lease various administrative spaces in North America totaling 65,850 square feet, in Europe, 4,954 square feet, and in Asia, 7,829 square feet. We also own a 420,000 square feet warehouse located in North Wilkesboro, North Carolina, USA. Our servers are housed in data centers in Ashburn, Virginia, which is managed by Equinix, Inc.

#### **Item 3. Legal Proceedings.**

From time to time, we may become involved in litigation relating to claims arising in the ordinary course of our business. On July 14, 2014, Leonard Howard filed a putative class action complaint in the United States District Court for the District of Columbia against the Company and its chief executive officer, chief financial officer, and chief accounting officer, on behalf of stockholders who purchased the Company's common stock between February 1, 2012, and May 7, 2014. The complaint alleges that defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 by, among other things, misrepresenting the Company's growth initiative, growth potential, and financial and operating conditions, thereby artificially inflating its share price, and seeks unspecified compensatory damages and costs and expenses, including attorneys' and experts' fees. On October 14, 2014, the Court appointed Caisse de Dépôt et Placement du Québec and the Newport News Employees' Retirement Fund as co-lead plaintiffs. The Plaintiffs filed an amended complaint on December 15, 2014, which alleges substantially similar claims but which does not name the chief accounting officer as a defendant. The Company believes the allegations are without merit and on March 2, 2015, moved to dismiss the amended complaint for failure to state a claim or plead fraud with the requisite particularity. That motion was fully submitted as of June 1, 2015, and the Company is awaiting a decision by the Court. The Company cannot estimate a range of potential liability, if any, at this time.

#### **Item 4. Mine Safety Disclosures.**

Not applicable.





Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.****Price Range of Common Stock**

Our common stock has been traded on The NASDAQ Stock Market under the symbol LQDT since February 23, 2006. The following table sets forth the intra-day high and low per share bid price of our common stock as reported by The NASDAQ Stock Market for the periods indicated.

<b>Fiscal year ended September 30, 2014</b>	<b>Low</b>	<b>High</b>
First Quarter	\$ 20.37	\$ 33.83
Second Quarter	\$ 20.24	\$ 27.33
Third Quarter	\$ 12.05	\$ 27.14
Fourth Quarter	\$ 12.41	\$ 16.00
<b>Fiscal year ended September 30, 2015</b>		
First Quarter	\$ 7.41	\$ 13.80
Second Quarter	\$ 7.32	\$ 10.50
Third Quarter	\$ 8.60	\$ 11.00
Fourth Quarter	\$ 6.65	\$ 9.89

As of October 30, 2015, there were approximately 2,902 beneficial holders of our common stock and 17 holders of record of our common stock.

**Dividend Policy**

Since becoming a public company on February 22, 2006, we have not paid cash dividends on our stock and currently anticipate that we will continue to retain any future earnings to finance the growth of our business. In addition, the credit agreement we entered into on April 30, 2010 contains restrictions on our ability to pay dividends.

Table of Contents

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

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\*  
\$100 invested on 9/30/10 in stock or index, including reinvestment of dividends. Fiscal year ending September 30.

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## Table of Contents

### Item 6. Selected Financial Data.

You should read the following selected consolidated financial data together with our consolidated financial statements and the related notes, and with "Management's Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere in this Annual Report on Form 10-K. The consolidated statement of operations data for the years ended September 30, 2013, 2014 and 2015 are derived from, and are qualified by reference to, our consolidated financial statements that have been audited by Ernst & Young LLP, an independent registered public accounting firm, and that are included in this Annual Report on Form 10-K. The consolidated statement of operations data for the years ended September 30, 2011 and 2012, and the Consolidated Balance Sheet data as of September 30, 2011, 2012 and 2013 are derived from our audited consolidated financial statements that are not included in this Annual Report on Form 10-K.

	Year ended September 30,				
	2011	2012	2013	2014	2015
(dollars in thousands, except per share data)					
<b>Consolidated Statement of Operations Data:</b>					
Revenue	\$ 297,584	\$ 415,829	\$ 404,041	\$ 388,671	\$ 315,668
Fee revenue	29,794	59,475	101,815	106,990	81,457
<b>Total revenue</b>	<b>327,378</b>	<b>475,304</b>	<b>505,856</b>	<b>495,661</b>	<b>397,125</b>
<b>Costs and expenses:</b>					
Cost of goods sold (excluding amortization)	126,395	198,123	199,494	211,659	166,009
Profit-sharing distributions	49,318	43,242	35,944	35,055	28,093
Technology and operations	52,178	67,553	90,052	108,940	99,743
Sales and marketing	23,279	31,252	40,170	41,951	41,465
General and administrative	26,484	37,107	48,950	49,428	41,418
Amortization of contract intangibles	813	7,943	7,265	7,265	1,211
Depreciation and amortization	4,881	6,223	10,109	9,330	8,024
Acquisition costs and related fair value adjustments and impairment of goodwill and long-lived assets	6,702	1,695	5,921	(18,384)	147,414
Business disposition loss					7,963
<b>Total costs and expenses</b>	<b>290,050</b>	<b>393,138</b>	<b>437,905</b>	<b>445,244</b>	<b>541,340</b>
Income from continuing operations	37,328	82,166	67,951	50,417	(144,215)
Interest income (expense) and other income (expense), net	(1,190)	(2,218)	704	(370)	(171)
Income from continuing operations before income taxes	36,138	79,948	68,655	50,047	(144,386)
Provision for income taxes	15,459	31,652	27,551	19,657	(39,571)
Income from continuing operations	20,679	48,296	41,104	30,390	\$ (104,815)
Loss from discontinued operations	(12,167)				
<b>Net income</b>	<b>\$ 8,512</b>	<b>\$ 48,296</b>	<b>\$ 41,104</b>	<b>\$ 30,390</b>	<b>\$ (104,815)</b>
<b>Basic earnings (loss) per common share:</b>					
From continuing operations	\$ 0.75	\$ 1.57	\$ 1.30	\$ 0.97	\$ (3.50)
From discontinued operations	(0.44)				
<b>Basic earnings per common share</b>	<b>\$ 0.31</b>	<b>\$ 1.57</b>	<b>\$ 1.30</b>	<b>\$ 0.97</b>	<b>\$ (3.50)</b>
<b>Diluted earnings (loss) per common share:</b>					
From continuing operations	\$ 0.71	\$ 1.47	\$ 1.26	\$ 0.97	\$ (3.50)
From discontinued operations	(0.42)				
<b>Diluted earnings per common share</b>	<b>\$ 0.29</b>	<b>\$ 1.47</b>	<b>\$ 1.26</b>	<b>\$ 0.97</b>	<b>\$ (3.50)</b>

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Basic weighted average shares outstanding	27,736,865	30,854,796	31,616,926	31,243,932	29,987,985
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Diluted weighted average shares outstanding	29,081,933	32,783,079	32,657,236	31,395,301	29,987,985
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**Non-GAAP Financial Measures:**

EBITDA from continuing operations(1)	\$ 43,022	\$ 96,332	\$ 85,325	\$ 67,012	\$ (134,980)
Adjusted EBITDA from continuing operations(1)	58,860	110,144	104,625	63,013	33,075

**Supplemental Operating Data:**

Gross merchandise volume from continuing operations(2)	\$ 548,552	\$ 864,226	\$ 973,325	\$ 931,556	\$ 798,977
Completed transactions(3)	475,000	501,000	530,000	547,000	567,000
Total registered buyers(4)	1,604,000	2,186,000	2,424,000	2,615,000	2,845,000
Total auction participants(5)	1,936,000	2,105,000	2,458,000	2,538,000	2,483,000

34

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### Table of Contents

	As of September 30,				
	2011	2012	2013	2014	2015
	(in thousands)				
<b>Consolidated Balance Sheet Data</b>					
Cash, cash equivalents and short-term investments	\$ 128,984	\$ 104,782	\$ 95,109	\$ 62,598	\$ 95,465
Working capital <sup>(6)</sup>	111,687	53,194	79,289	77,935	119,225
Total assets	227,807	400,408	421,344	431,718	288,488
Total liabilities	66,394	150,405	106,465	114,735	72,486
Total stockholders' equity	161,413	250,003	314,879	316,983	216,002

- (1) EBITDA from continuing operations and adjusted EBITDA from continuing operations are supplemental non-GAAP financial measures. GAAP means generally accepted accounting principles in the United States. EBITDA is equal to net income plus (a) interest income (expense) and other income (expense), net; (b) provision for income taxes; (c) amortization of contract intangibles; and (d) depreciation and amortization. Our definition of adjusted EBITDA is different from EBITDA because we further adjust EBITDA for stock based compensation expense, acquisition costs such as transaction expenses and changes in earn out estimates, business realignment expense, goodwill and long-lived assets impairment, and business disposition loss. For a description of our use of EBITDA and adjusted EBITDA and a reconciliation of these non-GAAP financial measures to net income, see the discussion and related table below.
- (2) Gross merchandise volume is the total sales value of all merchandise sold through our marketplaces during a given period.
- (3) Completed transactions represent the number of auctions in a given period from which we have recorded revenue.
- (4) Total registered buyers as of a given date represent the aggregate number of persons or entities who have registered on one of our marketplaces.
- (5) For each auction we manage, the number of auction participants represents the total number of registered buyers who have bid one or more times on that auction, and total auction participants for a given period is the sum of the auction participants in each auction conducted during that period.
- (6) Working capital is defined as current assets minus current liabilities.

We believe non-GAAP financial measures, such as EBITDA and adjusted EBITDA, are useful to an investor in evaluating our performance for the following reasons:

The amortization of contract intangibles relates to the amortization of the Scrap Contract beginning in June 2005, the Wal-Mart Agreement beginning in October 2011, and an assumed contract associated with the National Electronic Service Association (NESA) acquisition on November 1, 2012. Depreciation and amortization expense primarily relates to property and equipment. Both of these expenses are non-cash charges that have significantly fluctuated over the past five years. As a result, we believe that adding back these non-cash charges to net income 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 net income for provision for income taxes is useful to investors when evaluating the operating performance of our business.

Share-based payments to employees, including grants of employee stock options, are recognized in the income statement based on their estimated fair values. This expense is a non-cash charge that can fluctuate from year to year depending on the number of awards granted in a given year and, among other variables, the price of the Company's stock on the grant date. Accordingly, we believe adjusting net income for this non-cash stock based compensation expense is useful to investors when evaluating the operating performance of our business.

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We believe adjusting net income for acquisition and disposition related transaction expenses and changes in contingent consideration is useful to investors when evaluating the operating performance of our business on a consistent basis from year-to-year.

We believe adjusting net income 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 infrequent in nature and have been incurred only twice in the financial periods presented.

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### Table of Contents

We believe isolating non-cash charges, such as amortization and depreciation, and other items, such as impairment costs incurred outside our ordinary course of business, provides additional information about our cost structure, and, over time, helps track our performance.

We believe EBITDA and adjusted EBITDA are important indicators of our operational strength and the performance of our business because they provide a link between profitability and operating cash flow.

We also believe that analysts and investors use EBITDA and adjusted EBITDA as supplemental measures to evaluate the overall operating performance of companies in our industry.

Our management uses EBITDA and adjusted EBITDA:

as measurements of operating performance because they assist us in comparing our operating performance on a consistent basis as they remove the impact of items not directly resulting from our core operations;

for planning purposes, including the preparation of our internal annual operating budget;

to allocate resources to enhance the financial performance of our business;

to evaluate the effectiveness of our operational strategies; and

to evaluate our capacity to fund capital expenditures and expand our business.

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

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

The table below reconciles income from continuing operations to EBITDA and adjusted EBITDA from continuing operations for the periods presented.

	Year ended September 30,				
	2011	2012	2013	2014	2015
	(in thousands)				
Net income (loss) from continuing operations	\$ 20,679	\$ 48,296	\$ 41,104	\$ 30,390	\$ (104,815)
Interest (income) expense and other (income) expense, net	1,190	2,218	(704)	370	171
Provision (benefit) for income taxes	15,459	31,652	27,551	19,657	(39,571)
Amortization of contract intangibles	813	7,943	7,265	7,265	1,211
Depreciation and amortization	4,881	6,223	10,109	9,330	8,024
<b>EBITDA from continuing operations</b>	<b>43,022</b>	<b>96,332</b>	<b>85,325</b>	<b>67,012</b>	<b>(134,980)</b>
Stock compensation expense	9,136	12,117	13,379	12,605	12,405
	6,702	1,695	5,921	(18,384)	147,414



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Acquisition costs and related fair value adjustments and impairment  
of goodwill and long-lived assets

Business disposition loss						7,963
Business realignment expense				1,780		273

Adjusted EBITDA from continuing operations	\$	58,860	\$	110,144	\$	104,625	\$	63,013	\$	33,075
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Table of Contents

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

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

**Overview**

*About us.* We operate leading online auction marketplaces for surplus and salvage assets. We enable buyers and sellers to transact in an efficient, online auction environment offering over 500 product categories. Our marketplaces provide professional buyers access to a global, organized supply of surplus and salvage assets presented with customer focused information including digital images and other relevant product information along with services to efficiently complete the transaction. Additionally, we enable our corporate and government sellers to enhance their financial return on excess assets by providing liquid marketplaces and value-added services that integrate sales and marketing, logistics and transaction settlement into a single offering. We organize our products into categories across major industry verticals such as consumer electronics, general merchandise, apparel, scientific equipment, aerospace parts and equipment, technology hardware, energy equipment, industrial capital assets, fleet and transportation equipment and specialty equipment. Our online auction marketplaces are [www.liquidation.com](http://www.liquidation.com), [www.govliquidation.com](http://www.govliquidation.com), [www.govdeals.com](http://www.govdeals.com), [www.networkintl.com](http://www.networkintl.com), [www.truckcenter.com](http://www.truckcenter.com), [www.secondipity.com](http://www.secondipity.com), and [www.go-dove.com](http://www.go-dove.com).

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 valuable and reliable flow of goods in turn attracts an increasing number of professional buyers to our marketplaces. During fiscal year 2015, the number of registered buyers grew from approximately 2,615,000 to approximately 2,845,000, or 8.8%. During the past three fiscal years, we have conducted over 1,644,000 online transactions generating approximately \$2.7 billion in gross merchandise volume or GMV. We believe the continuous flow of goods in our marketplaces attracts a growing buyer base which creates a virtual cycle for our buyers and sellers.

*Our history.* We were incorporated in Delaware in November 1999 as Liquidation.com, Inc. and commenced operations in early 2000. During 2000, we developed our online auction marketplace platform and began auctioning merchandise primarily for small commercial sellers and government agencies. In 2001, we changed our name to Liquidity Services, Inc. In June 2001, we were awarded our first major DoD contract, the Surplus Contract. Under this agreement, we became the exclusive contractor with the DLA Disposition Services, for the sale of usable DoD surplus assets in the United States. In June 2005, we were awarded an additional exclusive contract with the DLA Disposition Services to manage and sell substantially all DoD scrap property. During 2005, we opened our first distribution center in Dallas, Texas and began serving the reverse logistics needs of top 100 retailers.

*Our revenue.* We offer our sellers three primary transaction models: a profit-sharing model, a consignment model and a purchase model.

*Profit-sharing model.* Under our profit-sharing model, we purchase inventory from our suppliers and share with them a portion of the profits received from a completed sale in the form of a distribution. Distributions are calculated based on the value received from the sale after deducting allowable costs, such as sales and marketing, technology and operations and other general and administrative costs. Because we are the primary obligor, and take general and physical inventory risks and credit risk under this transaction model, we recognize as revenue the sale price paid by the buyer upon completion of a transaction. Revenue from our profit-sharing

Table of Contents

model accounted for approximately 13.5%, 14.4%, and 15.3% of our total revenue for the fiscal years ended September 30, 2013, 2014 and 2015, respectively. The merchandise sold under our profit-sharing model accounted for approximately 7.0%, 7.7%, and 7.6% of our GMV for the fiscal years ended September 30, 2013, 2014 and 2015, respectively.

*Consignment model fee revenue.* Under our consignment model, we recognize commission revenue from sales of merchandise in our marketplaces that is owned by others. These commissions, which we refer to as seller commissions, represent a percentage of the sale 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 and / or provide enhanced product information for the merchandise. We collect the seller commission by deducting the appropriate amount from the sales proceeds prior to their distribution to the seller after completion of the transaction. Revenue from our consignment model, as well as other fee revenue, accounted for approximately 20.1%, 21.6%, and 20.6% of our total revenue for the fiscal years ended September 30, 2013, 2014 and 2015, respectively, and is recorded as fee revenue in the Consolidated Statement of Operations. The merchandise sold under our consignment model accounted for approximately 59.1%, 57.7%, and 59.7% of our GMV for the fiscal years ended September 30, 2013, 2014 and 2015, respectively.

*Purchase model.* Under our purchase model, we offer our sellers a fixed amount or the option to share a portion of the proceeds received from our completed sales in the form of a distribution. Distributions are calculated based on the value we receive from the sale after deducting a required return to us that we have negotiated with the seller. Because we are the primary obligor, and take general and physical inventory risks and credit risk under this transaction model, we recognize as revenue the sale price paid by the buyer upon completion of a transaction. Revenue from our purchase model accounted for approximately 66.5%, 64.0%, and 64.1% of our total revenue for the fiscal years ended September 30, 2013, 2014 and 2015, respectively. The merchandise sold under our purchase model accounted for approximately 33.9%, 34.6%, and 32.7% of our GMV, for the fiscal years ended September 30, 2013, 2014 and 2015, respectively.

We collect a buyer premium on substantially all of our transactions under all of our transaction models. Buyer premiums are calculated as a percentage of the sale price of the merchandise sold and are paid to us by the buyer. Buyer premiums are in addition to the price of the merchandise. Under our profit-sharing model, we typically share the proceeds of any buyer premiums with our sellers.

*Industry trends.* We believe there are several industry trends impacting the growth of our business including: (1) the increase in the adoption of the Internet by businesses to conduct e-commerce both in the United States and abroad; (2) in the near term the decrease in the volume, innovation, and price of consumer electronic products, resulting in lower supply from our retail clients and lower per unit prices and margins in our retail goods marketplace, although in the long term we expect innovation in the retail supply chain will increase the pace of product obsolescence and, therefore, the supply of surplus assets; (3) the increase in the volume of returned merchandise handled by both online and offline retailers; (4) the increase in government regulations and the need for corporations to have sustainability solutions necessitating verifiable recycling and remarketing of surplus assets; (5) the increase in outsourcing by corporate and government organizations of disposition activities for surplus and end-of-life assets as they focus on reducing costs, improving transparency, compliance and working capital flows, and increasingly prefer service providers with a proven track record, innovative scalable solutions and the ability to make a strategic impact in the reverse supply chain, which we expect to increase our seller base; and (6) an increase in buyer demand for surplus merchandise as consumers

Table of Contents

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.

**Our Seller Agreements**

*Our DoD agreements.* We have two material contracts with the DoD pursuant to which we acquire, manage and sell excess property:

*Surplus Contract.* In June 2001, we were awarded the first Surplus Contract, a competitive-bid exclusive contract under which we acquire, manage and sell all usable DoD surplus personal property turned into the DLA Disposition Services. Surplus property generally consists of items determined by the DoD to be no longer needed, and not claimed for reuse by, any federal agency, such as computers, electronics, office supplies, scientific and medical equipment, aircraft parts, clothing and textiles. We responded to a RFP from the DLA Disposition Services regarding a renewal of the Surplus Contract, and we were awarded the contract. We executed the second Contract on December 18, 2008. The second Surplus Contract was to expire in February 2014. In January 2014, the DoD awarded the Company with a follow-on contract to extend the terms of the second Surplus Contract for a base term of ten months with two one-month renewal option periods. In February 2015, the DoD awarded the Company a second follow-on contract to the current Surplus Contract for a base term of six months with three 30-day additional option periods. The DoD has exercised all three 30-day renewal option periods. On November 13, 2015, the DLA Disposition Services notified us that they were amending the current Surplus Contract to extend the wind-down period by an additional ten months to allow for the continued processing of usable non-rolling stock surplus property. All other terms, including pricing, remain consistent with the current Surplus Contract. The DoD, in accordance with the award of the next Surplus Contract, split the contract into a rolling stock and a non-rolling stock contract, with bidding on these two surplus contracts held on April 1 and 2, 2014. On April 1, 2014, we were the high bidder for the non-rolling stock surplus contract with a bid equal to 4.35% of the DoD's original acquisition value (OAV). The non-rolling stock surplus contract has a base term of two years with four one-year renewal options. Following the bidding event on April 2, 2014 for the DoD rolling stock contract, we withdrew from the live auction bidding for this contract. Bidding reached a level that we determined would be economically unsustainable under the terms of the new contract, jeopardizing the high level of service we have historically provided the agency client.

Revenue from our Surplus Contract (including buyer premiums) accounted for approximately 27.7%, 26.8%, and 24.7% of our total revenue for the fiscal years ended September 30, 2013, 2014 and 2015, respectively. The property sold under our Surplus Contract accounted for approximately 15.0%, 14.3%, and 12.3% of our GMV for the fiscal years ended September 30, 2013, 2014 and 2015, respectively.

Under the current second Surplus Contract, as amended, we are obligated to purchase all DoD surplus property at 1.8% of Disposition Services' original acquisition value. The DoD has broad discretion to determine what property will be made available for sale to us under the second Surplus Contract and may retrieve or restrict property previously sold to us for national security reasons or if the property is otherwise needed to support the mission of the DoD.

*Scrap Contract.* In June 2005, we were awarded a competitive-bid exclusive contract under which we acquire, manage and sell substantially all scrap property of the DoD turned into the DLA Disposition Services. Scrap property generally consists of items determined by the DoD to have no use beyond their base material content, such as metals, alloys, and building materials. Revenue from our Scrap Contract (including buyer premiums) accounted for approximately 13.5%, 14.4%, and 15.3% of our total revenue for the fiscal years ended September 30, 2013,

Table of Contents

2014 and 2015, respectively. The property sold under our Scrap Contract accounted for approximately 7.0%, 7.7%, and 7.6% of our GMV for the fiscal years ended September 30, 2013, 2014 and 2015, respectively. We were required to pay \$5.7 million to the DoD in fiscal 2005 for the right to manage the operations and remarket scrap material in connection with the Scrap Contract. The Scrap Contract base term expired in August 2012, subject to DoD's right to extend it for three additional one-year terms. The DoD has exercised all three of the renewal options. Effective June 9, 2015, modifications were made to the principal terms of the Scrap Contract including that: (i) contract pricing will be adjusted to reflect a 65% profit sharing distribution to the DLA Disposition Services; (ii) DLA Disposition Services may elect to terminate portions of the Scrap Contract by location with a 90-day notification required; and (iii) DLA Disposition Services may elect to terminate portions of the Scrap Contract by certain commodity categories with a 60-day notification required; provided that no such termination shall be effective sooner than October 8, 2015.

Under the Scrap Contract, as modified, we acquire scrap property at a per pound price and we are entitled to 35% of the profits of sale (defined as gross proceeds of sale less allowable operating expenses) and distribute the remaining profits to DoD. We refer to these disbursement payments to DoD as profit-sharing distributions. As a result of this arrangement, we recognize as revenue the gross proceeds from these sales. DoD also reimburses us for actual costs incurred for packing, loading and shipping property under the Scrap Contract that we are obligated to pick up from non-DoD locations.

Under the current Surplus Contract, executed on December 18, 2008, we are not required to distribute any portion of the profits realized under the Contract, as the current Contract contains a higher fixed percentage price of 1.8% of the DLA Disposition Services' acquisition value to be paid for the property. The DoD has broad discretion to determine what property will be made available for sale to us under the Surplus Contract and may retrieve or restrict property previously sold to us for national security reasons or if the property is otherwise needed to support the mission of the DoD.

Under the Scrap Contract, we also had a small business performance incentive based on the number of scrap buyers that are small businesses that would allow us to receive up to an additional 2% of the profit sharing distribution. The June 2015 modifications to the Scrap Contract included the elimination of the small business performance incentive. The profit-sharing distribution for the Scrap Contract, as modified, is 35% and includes inventory assurance processes and procedures with respect to the mutilation of demilitarized scrap property sold.

*Our Commercial Agreements.*

We have various contracts with Wal-Mart Stores, Inc., under which we purchase certain consumer products from Wal-Mart that have been removed from the sales stream of its retail operations. For the year ended September 30, 2015, approximately 6% of our GMV was generated from Wal-Mart under multiple contracts / programs. All of these agreements have customary commercial terms, which generally expire within a year and allow both parties to terminate for convenience with reasonable notice. As a result of the Jacobs Trading acquisition, we also had a long-term contract with Wal-Mart that did not provide for termination for convenience (the "Wal-Mart Agreement"). The term of this agreement was scheduled to expire on May 16, 2016. On December 1, 2014, Wal-Mart provided us written notice (the "Termination Notice") terminating the Wal-Mart Agreement effective December 8, 2014. The Termination Notice alleged that we failed to comply with certain provisions under the Wal-Mart Agreement with respect to service level requirements and restrictions on the disposition of merchandise. We disputed these allegations and contested the termination of the Wal-Mart Agreement with Wal-Mart. As a result of negotiations with Wal-Mart, on January 22, 2015, we finalized a settlement whereby, in exchange for both parties waiving all respective claims against the other, Wal-Mart agreed to pay \$7.5 million in damages. The amount of the settlement was recorded within accounts receivable and a reduction of inventory on the consolidated balance sheet as of December 31,

Table of Contents

2014, as the settlement compensated us for the overpayment of inventory from Wal-Mart. We received the payment in February 2015. On September 30, 2015, we sold certain assets related to the Jacobs Trading business to a buyer, Tanager Acquisitions, LLC. In connection with the disposition, the buyer assumed certain liabilities related to the Jacobs Trading business. The buyer issued to us a promissory note in the amount of \$12.3 million. The divestiture of the Jacobs Trading business resulted in a \$8.0 million loss and we expect it to result in a \$33.5 million cash benefit from prior year income taxes and a \$7 million cash-tax benefit for 2015.

During fiscal year 2015, we had over 600 corporate clients who each sold in excess of \$10,000 of surplus and salvage assets in our marketplaces. Our agreements with these clients 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.* Gross merchandise volume, or GMV, is the total sales value of all merchandise sold through our marketplaces during a given period. 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 customer support, value-added services, product development, sales and marketing, and operations. The GMV of goods sold in our marketplace during fiscal year 2015 totaled \$799.0 million.

*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 fiscal year ended September 30, 2015, we completed approximately 567,000 transactions.

*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, represents 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 excludes 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 September 30, 2015, we had approximately 2,845,000 registered buyers.

*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

Table of Contents

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. For the fiscal year ended September 30, 2015, approximately 2,483,000 total auction participants participated in auctions on our marketplaces.

**Critical Accounting Estimates**

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

*Revenue recognition.* For transactions in our marketplaces, which generate substantially all of our revenue, we recognize revenue when all of the following criteria are met:

a buyer submits the winning bid in an auction and, as a result, evidence of an arrangement exists and the sale price has been determined;

the buyer has assumed risks and rewards of ownership; and

collection is reasonably assured.

Most of our sales are recorded subsequent to payment authorization being received, 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.

Revenue is also evaluated for reporting revenue of gross proceeds when we act as the principal in the arrangement or net of commissions when we act as an agent. In arrangements in which we are deemed to be the primary obligor, bear physical and general inventory risk, and credit risk, we recognize as revenue the gross proceeds from the sale, including buyer's premiums. Arrangements in which we act as an agent or broker on a consignment basis, without taking general or physical inventory risk, revenue is recognized based on the sales commissions that are paid to us by the sellers for utilizing our services; in this situation, sales commissions represent a percentage of the gross proceeds from the sale that the seller pays to us upon completion of the transaction.

We have evaluated our revenue recognition policy related to sales under our profit-sharing model and determined it is appropriate to account for these sales on a gross basis. The following factors were most heavily relied upon in our determination:

We are the primary obligor in the arrangement, and we have general inventory risk.

We are the seller in substance and in appearance to the buyer; the buyer contacts us if there is a problem with the purchase. Only we and the buyer are parties to the sales contract and the

Table of Contents

buyer has no recourse to the supplier. If the buyer has a problem, he or she looks to us, not the supplier.

The buyer does not and cannot look to the supplier for fulfillment or for product acceptability concerns.

We take title to the inventory upon paying the amount set forth in the contract with the supplier. Such amount is generally a percentage of the supplier's original acquisition cost under our Surplus Contract and certain commercial contracts, a percentage of the supplier's last retail price under certain commercial contracts and varies depending on the type of the inventory purchased or a fixed price per pound under our Scrap Contract.

We are at risk of loss for all amounts paid to the supplier in the event the property is damaged or otherwise becomes unsaleable. In addition, as payments made for inventory are excluded from the calculation for the profit-sharing distribution under our DoD contracts, we effectively bear inventory risk for the full amount paid to acquire the property (*i.e.*, there is no sharing of inventory risk).

In fiscal year 2015, approximately 7.8% of our revenue was generated outside of the U.S.

*Business Combinations.* We recognize 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 and changes to the fair value of contingent consideration are recorded in the statement of operations subsequent to the acquisition date. 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. All subsequent changes to a valuation allowance or uncertain tax position that relate to the acquired company and existed at the acquisition date that occur both within the measurement period and as a result of facts and circumstances that existed at the acquisition date are recognized as an adjustment to goodwill. All other changes in valuation allowances are recognized as a reduction or increase to income tax expense.

*Valuation of goodwill and other intangible assets.* We identify and value intangible assets that we acquire in business combinations, such as customer arrangements, customer relationships and non-compete agreements, that arise from contractual or other legal rights or that are capable of being separated or divided from the acquired entity and sold, transferred, licensed, rented or exchanged. The fair value of identified intangible assets is based upon an estimate of the future economic benefits expected to result from ownership, which represents the amount at which the assets could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

We test our goodwill and other intangible assets for impairment annually or more frequently if events or circumstances indicate impairment may exist. Examples of such events or circumstances could include a significant change in business climate, a loss of significant customers, or a significant decline in stock price. We make a qualitative evaluation about the likelihood of goodwill impairment to determine whether we should calculate the fair value of a reporting unit. If our evaluation indicates a likelihood of goodwill impairment, we apply a two-step fair value-based test to assess goodwill for impairment. The first step compares the fair value of a reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step is then performed. The second step compares the carrying amount of the reporting unit's goodwill to the fair value of the goodwill. If the fair value of the goodwill is less than the carrying amount, an impairment loss would be recorded in our statements of operations. Intangible assets with definite lives are amortized over their estimated useful lives and are also reviewed for impairment if events or changes in circumstances indicate that their carrying amount may not be realizable.



Table of Contents

Our management makes certain estimates and assumptions in order to determine the fair value of net assets and liabilities, including, among other things, an assessment of market conditions, projected cash flows, cost of capital and growth rates, which could significantly impact the reported value of goodwill and other intangible assets. Estimating future cash flows requires significant judgment, and our projections may vary from cash flows eventually realized. The valuations employ a combination of present value techniques to measure fair value, corroborated by comparisons to estimated market multiples. These valuations are based on a discount rate determined by our management to be consistent with industry discount rates and the risks inherent in our current business model.

We perform the annual goodwill impairment assessment as of the end of the fiscal year. The last annual impairment assessment was performed as of September 30, 2014 and the results of that assessment indicated that goodwill was not impaired. During the three months ended December 31, 2014, we identified indicators of impairment, including the termination of the Wal-Mart Agreement on December 1, 2014, the significant decline in market capitalization during the quarter, and continued uncertainty in projections for fiscal year 2015 and beyond. As a result, we tested the goodwill for impairment as of December 31, 2014. Based on the goodwill impairment analysis as of the interim testing date, the carrying values of our two reporting units exceeded their fair values. Accordingly, step two of the goodwill impairment test was performed, where we determined the estimated fair values of the assets and liabilities of the reporting units. As a result of the step two test, we recorded a goodwill impairment charge of \$85.1 million during the first quarter of fiscal 2015. As part of our annual impairment assessment as of September 30, 2015, we identified indicators of impairment, including a decline in market capitalization and continued uncertainty in projections for fiscal year 2016 and beyond. As a result, we tested the goodwill for impairment as of September 30, 2015. Based on the results of step one of our goodwill impairment analysis as of the fiscal year ended September 30, 2015, the carrying values of both of our two reporting units exceeded their fair value. Accordingly, step two of the goodwill impairment test was performed, where we determined the estimated fair value of the assets and liabilities of the impaired reporting units. As a result of the step two test, we recorded a goodwill impairment charge of \$51.2 million during the fourth quarter of fiscal 2015.

In accordance with ASC 280, which defines that the characteristics of a component require that it (a) constitutes a business, (b) has discrete financial information, and (c) its performance is reviewed by management, the Company has identified its reporting units to be LSI-Retail Supply Chain Group (RSCG) and LSI-Capital Assets Group (CAG). As the RSCG operations and the CAG operations represent two distinct components under the guidance of ASC 280, goodwill should be measured for impairment separately for each of these components.

Determining the fair value of a reporting unit requires the exercise of significant judgment, including judgments about the appropriate discount rates, terminal growth rates, weighted average costs of capital, exit multiples, and the amount and timing of expected future cash flows. The judgments used in determining the fair value of our reporting units are based on significant unobservable inputs which causes the determination of the implied fair value of goodwill to fall within level three of the GAAP fair value hierarchy. The cash flows employed in the discounted cash flow analysis are based on the most recent budgets, forecasts, and business plans as well as various growth rate assumptions for years beyond the current business plan period. Discount rate assumptions are based on an assessment of the risk inherent in the future revenue streams and cash flows of the reporting unit. Various factors, including the failure to successfully implement our business plan for any of our reporting units, as well as other factors beyond our control, could have a negative effect on the fair value of such reporting unit, and increase the risk of further impairments of goodwill in the future.

We cannot predict the occurrence of certain future events that might adversely affect the reported value of goodwill and other intangible assets, which totaled \$68.1 million at September 30, 2015. Such events may include strategic decisions made in response to economic and competitive conditions, the

Table of Contents

impact of the economic environment on our base of buyers and sellers or material negative changes in our relationships with material customers.

*Income taxes.* We account for income taxes using the asset and liability approach for measuring deferred taxes based on temporary differences between the financial statement and income tax bases of assets and liabilities existing at each balance sheet date using enacted tax rates for the years in which the taxes are expected to be paid or recovered. A valuation allowance is provided to reduce the deferred tax assets to a level that we believe will more likely than not be realized. The resulting net deferred tax asset reflects management's estimate of the amount that will be realized.

We provide for income taxes based on our estimate of federal and state tax liabilities. These estimates include, among other items, effective rates for state and local income taxes, estimates related to depreciation and amortization expense allowable for tax purposes, and the tax deductibility of certain other items. Our estimates are based on the information available to us at the time we prepare the income tax provision. We generally file our annual income tax returns several months after our fiscal year-end. Income tax returns are subject to audit by federal, state and local governments, generally years after the returns are filed. These returns could be subject to material adjustments or differing interpretations of the tax laws.

We apply the authoritative guidance related to uncertainty in income taxes. We concluded that there were no uncertain tax positions identified during our analysis.

*Stock-based compensation.* In accordance with ASC 718, Compensation Stock Compensation, we recognize in the statements of operations all share-based payments to employees, including grants of employee stock options, restricted stock awards, and stock appreciation rights, to be recognized in the income statement based on their estimated fair values. We use the Black-Scholes option pricing model to estimate the fair values of share-based payments. As the stock appreciation rights will be paid in cash upon exercise, we have classified the awards as liability awards.

The above list is not intended to be a comprehensive list of all of our accounting estimates. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP, with little need for management's judgment in their application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result. See our audited financial statements and related notes, which contain accounting policies and other disclosures required by GAAP.

**Components of Revenue and Expenses**

*Revenue.* We generate substantially all of our revenue from sales of merchandise held in inventory and by retaining a percentage of the proceeds from the sales. Our revenue recognition practices are discussed in more detail in the section above entitled "*Critical Accounting Estimates.*"

*Cost of goods sold (excluding amortization).* Cost of goods sold includes the costs of purchasing and transporting property for auction, as well as credit card transaction fees.

*Profit-sharing distributions.* Our Scrap Contract with the DoD has been structured as a profit-sharing arrangement in which we purchase and take possession of all goods we receive from the DoD at a contractual price per pound. After deducting allowable operating expenses, we disburse to the DoD on a monthly basis a percentage of the profits of the aggregate monthly sales. We retain the remaining percentage of these profits after the DoD's disbursement. We refer to these disbursement payments to the DoD as profit-sharing distributions.

*Technology and operations.* Technology expenses consist primarily of personnel costs related to our programming staff who develop and deploy new marketplaces and continuously enhance existing marketplaces. These personnel also develop and upgrade the software systems that support our

Table of Contents

operations, such as sales processing. Because our marketplaces and support systems require frequent upgrades and enhancements to maintain viability, we have determined that the useful life for substantially all of our internally developed software is less than one year. As a result, we expense these costs as incurred.

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

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

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

*Amortization of contract intangibles.* Amortization of contract intangibles expense consists of the amortization of our Scrap Contract award during June 2005 and our contract intangibles associated with the Jacobs Trading acquisition on October 1, 2011 and the NESAs acquisition on November 1, 2012. The Scrap Contract required us to purchase the rights to operate the scrap operations of the DoD during the seven year base term of the contract. The intangible asset created from the \$5.7 million purchase was being amortized over 84 months on a straight-line basis and was fully amortized as of September 30, 2012. The amortization period is correlated to the base term of the contract, exclusive of renewal periods. The intangible asset created in conjunction with the Jacobs Trading acquisition was valued at \$33.3 million and was being amortized over 55 months on a straight-line basis. The amortization period is correlated to the base term of the Wal-Mart Agreement from the acquisition date, exclusive of renewal periods. Upon the early termination of the Wal-Mart Agreement in December 2014, we expensed the remaining amount of unamortized expense of approximately \$10.3 million during the three months ended December 2014. The vendor contract intangible asset created in conjunction with the NESAs acquisition was valued at \$3.9 million, was amortized over 20 months on a straight-line basis, and was fully amortized as of June 30, 2014. The amortization period was correlated to the base term of the contract, from the acquisition date, exclusive of renewal periods.

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

*Acquisition costs.* Acquisition costs consist of expenses incurred to complete a business combination and adjustments to the fair value of earn-outs.

*Interest income and other expense (income), net.* Interest income and other income (expense), net consists primarily of expenses related to our credit facility.

*Income taxes.* During fiscal years 2013, 2014 and 2015, we had an effective income tax rate for continuing operations of approximately 40%, 39% and 27%, respectively, which included federal, state and foreign income taxes.

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### Table of Contents

### **Results of Operations**

The following table sets forth, for the periods indicated, selected statement of operations data expressed as a percentage of revenue.

	Year ended September 30,		
	2013	2014	2015
Revenue	100.0%	100.0%	100.0%
Costs and expenses:			
Cost of goods sold (excluding amortization)	39.5	42.7	41.8
Profit-sharing distributions	7.1	7.1	7.1
Technology and operations	17.8	22.0	25.1
Sales and marketing	7.9	8.4	10.5
General and administrative	9.7	10.0	10.4
Amortization of contract intangibles	1.4	1.4	0.3
Depreciation and amortization	2.0	1.9	2.0
Acquisition costs and related fair value adjustments and impairment of goodwill and long-lived assets	1.2	(3.7)	37.1
Business disposition loss			2.0
 Total costs and expenses	 86.6	 89.8	 136.3
 Income (loss) from operations	 13.4	 10.2	 (36.3)
Interest and other (income) expense, net	(0.2)	0.1	0.1
 Income (loss) from operations before provision for income taxes	 13.6	 10.1	 (36.4)
Provision (benefit) for income taxes	5.5	4.0	(10.0)
 Income (loss) from operations	 8.1%	 6.1%	 (26.4)%

### ***Year Ended September 30, 2015 Compared to Year Ended September 30, 2014***

**Revenue.** Revenue decreased \$98.5 million, or 19.9%, to \$397.1 million for the year ended September 30, 2015 from \$495.7 million for the year ended September 30, 2014. This decrease was primarily due to (1) a 27.9% decrease, or \$62.5 million, in our retail commercial marketplaces, primarily as a result of the loss of the Wal-Mart Agreement; and (2) a 22.2% decrease, or \$45.3 million, in our DoD contracts as the result of decreased property flows of lower value product. These decreases were offset in part by (1) a 13.4% increase, or \$6.6 million, in our capital assets marketplaces due to an increase in principal deals in our manufacturing vertical; and (2) a 14.8% increase, or \$2.6 million, in our state and local government (GovDeals) marketplace due to an increase in the number of sellers. The amount of gross merchandise volume decreased \$132.6 million, or 14.2%, to \$799.0 million for the year ended September 30, 2015 from \$931.6 million for the year ended September 30, 2014, primarily due to (1) a 31.8% decrease, or \$102.7 million, in our commercial retail marketplaces, primarily as a result of the loss of the Wal-Mart Agreement; (2) the decreases in our DoD contracts discussed above; and (3) a 17.7% decrease, or \$11.9 million, in our capital assets marketplaces due to the continued weakness in the energy and transportation verticals. These decreases were partially offset by a 15.9% increase, or \$27.3 million, in our state and local government (GovDeals) marketplace due to an increase in the number of sellers.

**Cost of goods sold (excluding amortization).** Cost of goods sold (excluding amortization) decreased \$45.7 million, or 21.6%, to \$166.0 million for the year ended September 30, 2015 from \$211.7 million for the year ended September 30, 2014. As a percentage of revenue, these expenses decreased to 41.8% from 42.7%. These decreases are primarily due to (1) decreased sales of lower value product under our DoD contracts; and (2) decreases in property flow in our retail commercial marketplaces as a result of the termination of the Wal-Mart Agreement.

Table of Contents

*Profit-sharing distributions.* Profit-sharing distributions decreased \$7.0 million, or 19.9%, to \$28.1 million for the year ended September 30, 2015 from \$35.1 million for the year ended September 30, 2014, primarily as a result of decreased property flow under the Scrap Contract. As a percentage of revenue, these expenses were consistent at 7.1%.

*Technology and operations expenses.* Technology and operations expenses decreased \$9.2 million, or 8.4%, to \$99.7 million for the year ended September 30, 2015 from \$108.9 million for the year ended September 30, 2014, primarily due to (1) a decrease in expenses of \$8.3 million in staff and temporary wages, including stock based compensation, primarily as a result of our business realignment initiative; and (2) a decrease in expenses of \$0.9 million in warehouse space as our inventory balance has declined resulting in lower storage costs. As a percentage of revenue, these expenses increased to 25.1% from 22.0%, primarily as a result of the decrease in revenue as described above.

*Sales and marketing expenses.* Sales and marketing expenses decreased \$0.5 million, or 1.2%, to \$41.5 million for the year ended September 30, 2015 from \$42.0 million for the year ended September 30, 2014, which is not significant. As a percentage of revenue, these expenses increased to 10.5% from 8.4%, primarily as a result of the decrease in revenue as described above.

*General and administrative expenses.* General and administrative expenses decreased \$8.0 million, or 16.2%, to \$41.4 million for the year ended September 30, 2015 from \$49.4 million for the year ended September 30, 2014, primarily due to (1) a decrease in expenses of \$3.0 million in staff wages, including stock based and performance based compensation, primarily as a result of our business realignment initiative; and (2) a net decrease in expenses of \$4.8 million in overhead and travel expenses due to streamlining our GoIndustry global operations and lowering our general and administrative expenses. As a percentage of revenue, these expenses increased to 10.4% from 10.0%, primarily as a result of the decrease in revenue as described above.

*Amortization of contract intangibles.* Amortization of contract intangibles decreased \$6.1 million, or 83.3%, to \$1.2 million for the year ended September 30, 2015 from \$7.3 million for the year ended September 30, 2014. As a percentage of revenue, these expenses decreased to 0.3% from 1.4%. These decreases are primarily due to the write-off of the remaining unamortized expense related to the Jacobs Trading acquisition contract intangible asset due to the early termination of the Wal-Mart contract in December 2014.

*Depreciation and amortization expenses.* Depreciation and amortization expenses decreased \$1.3 million, or 14.0%, to \$8.0 million for the year ended September 30, 2015 from \$9.3 million for the year ended September 30, 2014, primarily due to an intangible assets related to the NESAs acquisition being fully amortized in fiscal year 2014. As a percentage of revenue, these expenses increased to 2.0% from 1.9%, primarily as a result of the decrease in revenue as described above.

*Acquisition costs and related fair value adjustments and impairment of goodwill and long-lived assets.* Acquisition costs and related fair value adjustments and impairment of goodwill and long-lived assets increased \$165.8 million to \$147.4 million of expense for the year ended September 30, 2015 from \$18.4 million of income for the year ended September 30, 2014, primarily as a result of goodwill and long-lived assets impairment charges of \$147.4 million during the year ended September 30, 2015, and the reversal of the NESAs earn-out liability of approximately \$18.6 million during the three months ended June 30, 2014.

*Business disposition loss.* Business disposition loss was \$8.0 million for the year ended September 30, 2015, due to the disposal of the Jacobs Trading business.

*Interest and other expense, net.* Interest and other expense, net, decreased \$0.2 million, or 53.8%, to \$0.2 million for the year ended September 30, 2015 from \$0.4 million for the year ended September 30, 2014, which is not significant.

## Edgar Filing: LIQUIDITY SERVICES INC - Form 10-K

### Table of Contents

*(Benefit) provision for income tax expense.* Income tax expense decreased \$59.3 million, or 301.3%, to \$39.6 million of benefit for the year ended September 30, 2015, from \$19.7 million of expense for the year ended September 30, 2014, primarily due to the decrease in income before provision for income taxes from operations and deferred tax benefits resulting from the goodwill impairment charges.

*Net income (loss).* Net income decreased \$135.2 million, or 444.8%, to \$104.8 million of net loss for the year ended September 30, 2015 from \$30.4 million of net income for the year ended September 30, 2014.

### ***Year Ended September 30, 2014 Compared to Year Ended September 30, 2013***

*Revenue.* Revenue decreased \$10.2 million, or 2.0%, to \$495.7 million for the year ended September 30, 2014 from \$505.9 million for the year ended September 30, 2013. This decrease was primarily due to (1) a 9.8% decrease, or \$5.4 million, in our capital asset marketplaces, which primarily utilize the consignment model, as a result of softness in the energy and transportation verticals and (2) a 2.0% decrease, or \$4.1 million, in our DoD contracts, which utilize our purchase and profit-sharing models, as the result of increased property flows of lower value product. The amount of gross merchandise volume decreased \$41.8 million, or 4.3%, to \$931.6 million for the year ended September 30, 2014 from \$973.3 million for the year ended September 30, 2013, primarily due to decreases in our capital assets marketplaces.

*Cost of goods sold (excluding amortization).* Cost of goods sold (excluding amortization) increased \$12.2 million, or 6.1%, to \$211.7 million for the year ended September 30, 2014 from \$199.5 million for the year ended September 30, 2013. As a percentage of revenue, these expenses increased to 42.7% from 39.5%. These increases are primarily due to (1) increased sales of lower value product under our Surplus contract and (2) increased sales in our commercial retail marketplaces with clients using the purchase model.

*Profit-sharing distributions.* Profit-sharing distributions decreased \$0.8 million, or 2.5%, to \$35.1 million for the year ended September 30, 2014 from \$35.9 million for the year ended September 30, 2013. As a percentage of revenue, these expenses were consistent at 7.1%. These decreases are not significant.

*Technology and operations expenses.* Technology and operations expenses increased \$18.9 million, or 21.0%, to \$108.9 million for the year ended September 30, 2014 from \$90.1 million for the year ended September 30, 2013. As a percentage of revenue, these expenses increased to 22.0% from 17.8%. These increases are primarily due to (1) expenses of \$11.0 million in staff and temporary wages, including stock based compensation, and consultant fees associated with technology marketplace integration and enhancement projects; (2) expenses of \$7.1 million for additional warehouse space due to the increase in our inventory; and (3) expenses of \$0.8 million in business realignment costs.

*Sales and marketing expenses.* Sales and marketing expenses increased \$1.8 million, or 4.4%, to \$42.0 million for the year ended September 30, 2014 from \$40.2 million for the year ended September 30, 2013. As a percentage of revenue, these expenses increased to 8.4% from 7.9%. These increases are primarily due to (1) expenses of \$1.3 million in marketing activities; and (2) expenses of \$0.5 million in severance costs related to the business realignment.

*General and administrative expenses.* General and administrative expenses increased \$0.5 million, or 1.0%, to \$49.4 million for the year ended September 30, 2014 from \$48.9 million for the year ended September 30, 2013. As a percentage of revenue, these expenses increased to 10.0% from 9.7%. These increases are primarily due to expenses of \$0.5 million in business realignment costs.

*Amortization of contract intangibles.* Amortization of contract intangibles was consistent at \$7.3 million for the years ended September 30, 2014 and September 30, 2013 and is primarily related to the

## Edgar Filing: LIQUIDITY SERVICES INC - Form 10-K

### Table of Contents

contract intangible assets created in conjunction with the Jacobs Trading acquisition which was valued at \$33.3 million and is being amortized over 55 months on a straight-line basis.

*Depreciation and amortization expenses.* Depreciation and amortization expenses decreased \$0.8 million, or 7.7%, to \$9.3 million for the year ended September 30, 2014 from \$10.1 million for the year ended September 30, 2013, primarily due to a decrease in amortization expenses of intangible assets during 2014.

*Acquisition costs.* Acquisition costs decreased \$24.3 million to \$18.4 million of income for the year ended September 30, 2014 from \$5.9 million of expense for the year ended September 30, 2013, primarily as a result of the reversal of the NESA earn-out liability. On November 1, 2012, we acquired the assets and liabilities of NESA in an all cash transaction. The acquisition price included an upfront cash payment of approximately \$18.3 million and an earn-out payment. Our estimate of the fair value of the earn-out as of the date of acquisition was \$18.0 million out of a possible total earn-out payment of \$37.7 million. Upon a review of the estimate as of June 30, 2014, and based on revised estimates and unfavorable developments in the business, we determined that the fair value of the earn-out from the NESA acquisition was zero and have reversed the liability of \$18.6 million.

*Interest and other expense (income), net.* Interest and other expense (income), net, increased \$1.1 million, or 152.5%, to \$0.4 million of expense for the year ended September 30, 2014 from \$0.7 million of income for the year ended September 30, 2013, primarily due to the payoff of the \$40 million Jacobs Trading acquisition seller subordinated note in November 2012 for which we received a \$1.0 million early payment discount that was recorded as a gain.

*Provision for income tax expense.* Income tax expense decreased \$7.9 million, or 28.7%, to \$19.7 million for the year ended September 30, 2014 from \$27.6 million for the year ended September 30, 2013, primarily due to the decrease in income before provision for income taxes from operations.

*Net income.* Net income decreased \$10.7 million, or 26.1%, to \$30.4 million for the year ended September 30, 2014 from \$41.1 million for the year ended September 30, 2013.

### **Liquidity and Capital Resources**

Historically, our primary cash needs have been working capital (including capital used for inventory purchases), which we have funded primarily through cash generated from operations. As of September 30, 2015, we had approximately \$95.5 million in cash and cash equivalents and our \$75.0 million senior credit facility, as amended, has a \$37.5 million availability as of September 30, 2015, of which we have used \$13.9 million for issued letters of credit. In fiscal year 2013, we utilized \$41.0 million to repay the seller subordinated 5.0% note, including accrued interest, associated with the Jacobs Trading acquisition and \$18.3 million to close the NESA acquisition.

Our Board of Directors has approved the repurchase of up to \$101.9 million in shares under a share repurchase program. Under the program, we are authorized to repurchase our issued and outstanding shares of common stock. 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. Our Board of Directors reviews the share repurchase program periodically, the last such review having

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### Table of Contents

occurred in February 2014. A summary of our share repurchase activity from fiscal year 2009 to the year ended September 30, 2015 is as follows:

Fiscal Year Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Cash Paid for Shares Purchased	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1)
2009	707,462	\$ 5.50	\$ 3,874,000	\$ 6,126,000
2010	1,225,019	\$ 11.53	14,471,000	1,655,000
2011	229,575	\$ 15.39	3,541,000	18,114,000
2012	505,067	\$ 59.41	30,000,000	18,114,000
2013				31,000,000
2014	2,962,978	\$ 15.90	44,873,000	5,127,000
2015				\$ 5,127,000

(1)

On December 2, 2008, our Board of Directors approved a share repurchase program, under which we were authorized to repurchase up to \$10.0 million of the issued and outstanding shares of common stock. On each of February 2, 2010, November 30, 2010 and May 31, 2011, our Board of Directors approved an additional \$10.0 million for the share repurchase program. On May 17, 2012, our Board of Directors approved an additional \$30.0 million for the share repurchase program. On December 12, 2013, our Board of Directors approved an additional approximately \$12.9 million for the share repurchase program. On February 5, 2014, our Board of Directors approved an additional \$19.0 million for the share repurchase program.

*Senior credit facility.* We maintain a \$75.0 million senior credit facility due May 31, 2018. The senior credit facility bears an annual interest rate of 30 day LIBOR plus 1.25%. As of September 30, 2015, we had no outstanding indebtedness under our senior credit facility and our borrowing availability was \$37.5 million as of September 30, 2015, of which we have used \$13.9 million for issued letters of credit. The obligations under our senior credit facility are unconditionally guaranteed by us and each of our existing and subsequently acquired or organized subsidiaries (other than our subsidiary organized to service our DoD Scrap contract) and secured on a first priority basis by security interests (subject to permitted liens) in substantially all assets owned by us, and each of our other domestic subsidiaries, subject to limited exceptions. The Agreement contains certain financial and non-financial restrictive covenants including, among others, the requirements to maintain a minimum level of earnings before interest, income taxes, depreciation and amortization (EBITDA) and a minimum debt coverage ratio. Our credit agreement contains a number of affirmative and restrictive covenants including limitations on mergers, consolidations and dissolutions, sales of assets, investments and acquisitions, indebtedness and liens, and dividends and other restricted payments. As of September 30, 2015, we were in full compliance with the terms and conditions of our credit agreement.

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

### *Changes in Cash Flows: 2015 Compared to 2014*

Net cash provided by operating activities increased \$31.6 million to \$43.5 million for the year ended September 30, 2015 from \$11.9 million for the year ended September 30, 2014. For the year ended September 30, 2015, net cash provided by operating activities primarily consisted of net loss of \$104.8 million, depreciation and amortization expense of \$9.2 million, stock compensation expense of



Table of Contents

\$12.4 million, loss on business disposition of \$8.0 million, goodwill and long-lived assets impairment of \$147.4 million, net increase in accounts receivable, inventory, and prepaid expenses of \$15.7 million, and provisions for inventory allowance and doubtful accounts of \$0.5 million, offset in part by a net decrease in accounts payable, accrued expenses, and other liabilities of \$38.7 million, and deferred tax benefit and incremental tax from exercises of common stock options of \$6.2 million, net. For the year ended September 30, 2014, net cash provided by operating activities primarily consisted of net income of \$30.4 million, depreciation and amortization expense of \$16.6 million, stock compensation expense of \$12.6 million and a net increase in accounts payable, accrued expenses and other liabilities of \$20.6 million, offset in part by the NESA earn-out liability reversal of \$18.4 million, a net increase in accounts receivable, inventory and prepaid expense of \$47.4 million, and provisions for inventory allowance, doubtful accounts, deferred tax benefit, and incremental tax from exercises of common stock options of \$2.6 million, net.

Net cash used in investing activities was \$9.8 million for the year ended September 30, 2015, and \$7.7 million for the year ended September 30, 2014. For the year ended September 2015, net cash used in investing activities consisted primarily of net cash paid for business disposition of \$2.4 million, an increase of goodwill and intangibles of \$0.1 million, and capital expenditures of \$7.3 million for purchases of equipment and leasehold improvements. For the year ended September 30, 2014, net cash used in investing activities in fiscal year 2014 consisted primarily of net cash paid for acquisitions and an increase of goodwill and intangibles of \$0.2 million, and capital expenditures of \$7.5 million for purchases of equipment and leasehold improvements.

Net cash provided by financing activities was \$0.1 million for the year ended September 30, 2015. Net cash used in financing activities as \$36.9 million for the year ended September 30, 2014. For the year ended September 30, 2015, cash provided by financing activities consisted primarily of \$0.1 million from exercises of common stock options and the tax benefit, net. For the year ended September 30, 2014, cash used in financing activities consisted primarily of \$44.9 million in stock repurchases, offset in part by proceeds from the exercise of common stock options and the incremental tax benefit from the exercise of common stock options of \$8.0 million.

***Changes in Cash Flows: 2014 Compared to 2013***

Net cash provided by operating activities from decreased \$34.1 million to \$11.9 million for the year ended September 30, 2014 from \$46.7 million for the year ended September 30, 2013. For the year ended September 30, 2014, net cash provided by operating activities primarily consisted of net income of \$30.4 million, depreciation and amortization expense of \$16.6 million, stock compensation expense of \$12.6 million and a net increase in accounts payable, accrued expenses and other liabilities of \$20.6 million, offset in part by the NESA earn-out liability reversal of \$18.4 million, a net increase in accounts receivable, inventory and prepaid expense of \$47.4 million, and provisions for inventory allowance, doubtful accounts, deferred tax benefit, and incremental tax from exercises of common stock options of \$2.6 million, net. For the year ended September 30, 2013, net cash provided by operating activities primarily consisted of net income of \$41.1 million, depreciation and amortization expense of \$17.4 million, stock compensation expense of \$13.4 million, offset in part by net decreases in accounts payable, accrued expenses and other liabilities of \$6.5 million (including \$9.2 million for the payment of the Jacobs Trading earn-out), provisions for inventory allowance, doubtful accounts, deferred tax benefit, and incremental tax from exercises of common stock options of \$17.0 million, net, a net increase in accounts receivable, inventory and prepaid expense of \$0.7 million, and \$1.0 million from early extinguishment of debt.

Net cash used in investing activities was \$7.7 million for the year ended September 30, 2014 and \$20.2 million for the year ended September 30, 2013. Net cash used in investing activities in fiscal 2014 consisted primarily of net cash paid for acquisitions and an increase of goodwill and intangibles of \$0.2 million, and capital expenditures of \$7.5 million for purchases of equipment and leasehold



Table of Contents

**Inflation**

Inflation generally affects us by increasing our cost of labor and equipment. We do not believe that inflation had any material effect on our results of operations during the fiscal years ended September 30, 2013, 2014 and 2015.

**New Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (FASB) issued a new standard that will change the way we recognize revenue and significantly expand the disclosure requirements for revenue arrangements. In July 2015, the FASB delayed the effective date of the new standard such that the new standard will be effective for us beginning on October 1, 2018, and may be adopted either retrospectively or on a modified retrospective basis whereby the new standard would be applied to new and existing arrangements with remaining performance obligations as of the effective date, with a cumulative catch-up adjustment recorded to retained earnings at the effective date for existing arrangements with remaining performance obligations. We are currently evaluating the methods of adoption allowed by the new standard and the effect that adoption of the standard is expected to have on the consolidated financial statements and related disclosures. As a result, our evaluation of the effect of the new standard will likely extend over several future periods.

In April 2014, FASB issued Accounting Standards Update ("ASU") 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. The amendments in this Update improve the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results. Under current U.S. GAAP, many disposals, some of which may be routine in nature and not a change in an entity's strategy, are reported in discontinued operations. The amendments in this update also require expanded disclosures for discontinued operations. In addition, for individually significant components of an entity that does not qualify for discontinued operations reporting, the Update requires the entity to disclose the pretax profit or loss of the component. Publicly-traded entities are required to prospectively apply this guidance for all disposals (or classifications as held for sale) of components that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. We have evaluated and early adopted the new standard for purposes of reporting the disposal of Jacobs Trading Company pursuant to a purchase and sale agreement on September 22, 2015.

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

*Interest rate sensitivity.* We did not have any debt as of September 30, 2015 and thus do not have any related interest rate exposure. Our investment policy requires us to invest funds in excess of current operating requirements. The principal objectives of our investment activities are to preserve principal, provide liquidity and maximize income consistent with minimizing risk of material loss.

*Exchange rate sensitivity.* We consider our exposure to foreign currency exchange rate fluctuations to be minimal, as approximately 7.8% percent of our sales are denominated in foreign currencies. We have not engaged in any hedging or other derivative transactions to date.

**Item 8. Financial Statements and Supplemental Data.**

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

Table of Contents

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

None.

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

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

**Evaluation of Disclosure Controls and Procedures**

We conducted an evaluation of the effectiveness of the design and operation of our "disclosure controls and procedures" as of the end of the period covered by this Form 10-K. The controls evaluation was conducted under the supervision and with the participation of management, including our Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer. Disclosure controls are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, such as this Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed to reasonably assure that such information is accumulated and communicated to our management, including the Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer, as appropriate to allow timely decisions regarding required disclosure. Our quarterly evaluation of disclosure controls includes an evaluation of some components of our internal control over financial reporting, and internal control over financial reporting is also separately evaluated on an annual basis for purposes of providing the management report which is set forth below.

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

Based upon the controls evaluation, our Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer have concluded that, as of the end of the period covered by this Form 10-K, our disclosure controls were effective to provide reasonable assurance that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC, and that material information related to Liquidity Services and our consolidated subsidiaries is made known to management, including the Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer, particularly during the period

Table of Contents

when our periodic reports are being prepared. We reviewed the results of management's evaluation with the Audit Committee of our Board of Directors.

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

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

Management assessed our internal control over financial reporting as of September 30, 2015, the end of our fiscal year. Management based its assessment on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Management's assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies and our overall control environment. This assessment is supported by testing and monitoring performed by our finance organization.

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

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

**Inherent Limitations on Effectiveness of Controls**

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

**Changes in Internal Control over Financial Reporting**

On a quarterly basis we evaluate any changes to our internal control over financial reporting to determine if material changes occurred. There were no changes in our internal controls over financial reporting during the quarterly period ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Board of Directors and Stockholders of  
Liquidity Services, Inc. and Subsidiaries

We have audited Liquidity Services, Inc. and subsidiaries' internal control over financial reporting as of September 30, 2015, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Liquidity Services, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Liquidity Services, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of September 30, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Liquidity Services, Inc. and subsidiaries as of September 30, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2015 of Liquidity Services, Inc. and subsidiaries and our report dated November 23, 2015 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

McLean, Virginia  
November 23, 2015

**Item 9B. Other Information.**

None.

Table of Contents

**PART III**

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

Incorporated by reference from the Company's Proxy Statement relating to its 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after September 30, 2015.

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

We have adopted a *Code of Business Conduct and Ethics* that applies to all Liquidity Services employees. The *Code of Business Conduct and Ethics* is available on our website.

**Item 11. Executive Compensation.**

Incorporated by reference from the Company's Proxy Statement relating to its 2016 Annual Meeting of Stockholders to be filed with the SEC within 120 days after September 30, 2015.

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

Incorporated by reference from the Company's Proxy Statement relating to its 2016 Annual Meeting of Stockholders to be filed with the SEC within 120 days after September 30, 2015.

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

Incorporated by reference from the Company's Proxy Statement relating to its 2016 Annual Meeting of Stockholders to be filed with the SEC within 120 days after September 30, 2015.

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

Incorporated by reference from the Company's Proxy Statement relating to its 2016 Annual Meeting of Stockholders to be filed with the SEC within 120 days after September 30, 2015.

Table of Contents

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules.**

		<b>Page</b>
(a)(1)	The following financial statements are filed as part of this report: <u>Report of Independent Registered Public Accounting Firm</u>	<u>60</u>
	Financial Statements covered by the Report of Independent Registered Public Accounting Firm: <u>Consolidated Balance Sheets as of September 30, 2015 and 2014</u>	<u>61</u>
	<u>Consolidated Statements of Operations for the years ended September 30, 2015, 2014 and 2013</u>	<u>62</u>
	<u>Consolidated Statements of Comprehensive (Loss) Income for the years ended September 30, 2015, 2014 and 2013</u>	<u>63</u>
	<u>Consolidated Statements of Changes in Stockholders' Equity for the years ended September 30, 2013, 2014 and 2015</u>	<u>64</u>
	<u>Consolidated Statements of Cash Flows for the years ended September 30, 2015, 2014 and 2013</u>	<u>65</u>
	<u>Notes to the Consolidated Financial Statements</u>	<u>66</u>
(a)(2)	The following financial statement schedule is filed as part of this report:  Schedules for the three years ended September 30, 2013, 2014 and 2015:  <u>II Valuation and Qualifying Accounts</u>	<u>95</u>
	All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required or are inapplicable and therefore have been omitted.	
(a)(3)	The documents required to be filed as exhibits to this report under Item 601 of Regulation S-K are listed in the Exhibit Index included elsewhere in this report, which list is incorporated herein by reference.	



Table of Contents

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of  
Liquidity Services, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Liquidity Services, Inc. and subsidiaries as of September 30, 2015 and 2014, and the related consolidated statements of operations, comprehensive (loss) income, changes in stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Liquidity Services, Inc. and subsidiaries at September 30, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Liquidity Services, Inc. and subsidiaries' internal control over financial reporting as of September 30, 2015, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated November 23, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia  
November 23, 2015

Table of Contents

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

	September 30,	
	2015	2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 95,465	\$ 62,598
Accounts receivable, net of allowance for doubtful accounts of \$471 and \$1,042 in 2015 and 2014, respectively	6,194	21,688
Inventory	25,510	78,478
Tax refund receivable	33,491	
Prepaid and deferred taxes	19,903	16,777
Prepaid expenses and other current assets	7,826	5,156
<b>Total current assets</b>	<b>188,389</b>	<b>184,697</b>
Property and equipment, net	13,356	12,283
Intangible assets, net	4,051	17,099
Goodwill	64,073	209,656
Deferred long-term tax assets	5,871	6,160
Other assets	12,748	1,823
<b>Total assets</b>	<b>\$ 288,488</b>	<b>\$ 431,718</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 9,500	\$ 15,994
Accrued expenses and other current liabilities	27,350	44,484
Profit-sharing distributions payable	2,512	4,740
Customer payables	29,802	41,544
<b>Total current liabilities</b>	<b>69,164</b>	<b>106,762</b>
Deferred taxes and other long-term liabilities	3,322	7,973
<b>Total liabilities</b>	<b>72,486</b>	<b>114,735</b>
Stockholders' equity:		
Common stock, \$0.001 par value; 120,000,000 shares authorized; 30,026,223 shares issued and outstanding at September 30, 2015; 29,668,150 shares issued and outstanding at September 30, 2014	29	28
Additional paid-in capital	210,712	204,704
Accumulated other comprehensive loss	(5,626)	(3,451)
Retained earnings	10,887	115,702
<b>Total stockholders' equity</b>	<b>216,002</b>	<b>316,983</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 288,488</b>	<b>\$ 431,718</b>

*See accompanying notes to the consolidated financial statements.*



Table of Contents

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

	Year ended September 30,		
	2015	2014	2013
Revenue	\$ 315,668	\$ 388,671	\$ 404,041
Fee revenue	81,457	106,990	101,815
Total revenue from operations	397,125	495,661	505,856
Costs and expenses from operations:			
Cost of goods sold (excluding amortization)	166,009	211,659	199,494
Profit-sharing distributions	28,093	35,055	35,944
Technology and operations	99,743	108,940	90,052
Sales and marketing	41,465	41,951	40,170
General and administrative	41,418	49,428	48,950
Amortization of contract intangibles	1,211	7,265	7,265
Depreciation and amortization	8,024	9,330	10,109
Acquisition costs and related fair value adjustments and impairment of goodwill and long-lived assets	147,414	(18,384)	5,921
Business disposition loss	7,963		
Total costs and expenses	541,340	445,244	437,905
(Loss) income from operations	(144,215)	50,417	67,951
Interest and other expense (income), net	171	370	(704)
(Loss) income before provision for income taxes	(144,386)	50,047	68,655
(Benefit) provision for income taxes	(39,571)	19,657	27,551
Net (loss) income	\$ (104,815)	\$ 30,390	\$ 41,104
Basic (loss) earnings per common share	\$ (3.50)	\$ 0.97	\$ 1.30
Diluted (loss) earnings per common share	\$ (3.50)	\$ 0.97	\$ 1.26
Basic weighted average shares outstanding	29,987,985	31,243,932	31,616,926
Diluted weighted average shares outstanding	29,987,985	31,395,301	32,657,236

*See accompanying notes to the consolidated financial statements.*

Table of Contents

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

	Year ended September 30,		
	2015	2014	2013
Net (loss) income	\$ (104,815)	\$ 30,390	\$ 41,104
Other comprehensive (loss) income:			
Defined benefit pension plan unrecognized amounts, net of taxes	1,101	(927)	563
Foreign currency translation	(3,276)	(3,042)	(1,291)
Other comprehensive (loss) income, net of taxes	(2,175)	(3,969)	(728)
Comprehensive (loss) income	\$ (106,990)	\$ 26,421	\$ 40,376

*See accompanying notes to the consolidated financial statements.*

Table of Contents

**Liquidity Services, Inc. and Subsidiaries**  
**Consolidated Statements of Changes in Stockholders' Equity**  
(In Thousands Except Share Data)

	Treasury Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	Amount	Shares	Amount				
Balance at September 30, 2012		\$	31,138,111	\$ 31	\$ 182,361	\$ 1,246	\$ 66,365	\$ 250,003
Exercise of common stock options and restricted stock			673,653		2,532			2,532
Compensation expense and incremental tax benefit from grant of common stock options and issuance of restricted stock					21,968			21,968
Net income							41,104	41,104
Defined benefit pension plan unrecognized amounts, net of taxes						563		563
Foreign currency translation and other						(1,291)		(1,291)
Balance at September 30, 2013			31,811,764	\$ 31	\$ 206,861	\$ 518	\$ 107,469	\$ 314,879
Common stock repurchase	(2,962,978)	(44,870)		(3)				(44,873)
Common stock retired	2,962,978	44,870	(2,962,978)		(22,713)		(22,157)	
Exercise of common stock options and restricted stock			819,364		4,146			4,146
Compensation expense and incremental tax benefit from grant of common stock options and issuance of restricted stock					16,410			16,410
Net income							30,390	30,390
Defined benefit pension plan unrecognized amounts, net of taxes						(927)		(927)
Foreign currency translation						(3,042)		(3,042)
Balance at September 30, 2014			29,668,150	\$ 28	\$ 204,704	\$ (3,451)	\$ 115,702	\$ 316,983
Exercise of common stock options and restricted stock			358,073	1	105			106
Compensation expense and incremental tax benefit from grant of common stock options and issuance of restricted stock					5,903			5,903
Net loss							(104,815)	(104,815)
Defined benefit pension plan unrecognized amounts, net of taxes						1,101		1,101
Foreign currency translation						(3,276)		(3,276)
Balance at September 30, 2015		\$	30,026,223	\$ 29	\$ 210,712	\$ (5,626)	\$ 10,887	\$ 216,002

*See accompanying notes to the consolidated financial statements.*

Table of Contents

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

	2015	2014	2013
<b>Operating activities</b>			
Net (loss) income	\$ (104,815)	\$ 30,390	\$ 41,104
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,235	16,595	17,374
Business disposition loss	7,963		
Gain on early extinguishment of debt			(1,000)
Change in fair value of earn out liability		(18,390)	5,437
Stock compensation expense	12,405	12,605	13,379
Provision (benefit) for inventory allowance	(575)	271	(1,122)
Provision (benefit) for doubtful accounts	1,109	151	(357)
Deferred tax expense (benefit)	(6,282)	828	(6,852)
Impairment of goodwill and intangibles	147,414		
Incremental tax loss (benefit) from exercise of common stock options and restricted stock	38	(3,805)	(8,588)
Changes in operating assets and liabilities:			
Accounts receivable	12,651	2,211	(7,466)
Inventory	43,101	(49,488)	(7,470)
Prepaid and deferred taxes	(38,545)	(2,829)	14,243
Prepaid expenses and other assets	(1,499)	2,735	(26)
Accounts payable	(4,534)	(545)	6,542
Accrued expenses and other	(18,895)	9,659	(2,341)
Profit-sharing distributions payable	(2,228)	425	274
Customer payables	(11,742)	12,046	(4,768)
Acquisition earn out payable			(11,422)
Other liabilities	(1,310)	(1,003)	(198)
Net cash provided by operating activities	43,491	11,856	46,743
<b>Investing activities</b>			
Cash paid in divestiture	(2,372)		
Cash paid for acquisitions and increase in goodwill and intangibles	(137)	(141)	(14,730)
Purchases of property and equipment	(7,312)	(7,539)	(5,463)
Net cash used in investing activities	(9,821)	(7,680)	(20,193)
<b>Financing activities</b>			
Principal repayments of debt			(39,000)
Repurchases of common stock		(44,873)	
Proceeds from exercise of common stock options (net of tax)	106	4,146	2,532
Incremental tax benefit from exercise of common stock options and restricted stock	(38)	3,805	8,588
Payment of acquisition contingent liabilities			(8,185)
Net cash (used in) provided by financing activities	68	(36,922)	(36,065)
Effect of exchange rate differences on cash and cash equivalents	(871)	235	(158)
Net increase (decrease) in cash and cash equivalents	32,867	(32,511)	(9,673)
Cash and cash equivalents at beginning of year	62,598	95,109	104,782
Cash and cash equivalents at end of year	\$ 95,465	\$ 62,598	\$ 95,109

**Supplemental disclosure of cash flow information**



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Cash paid for income taxes	\$	5,678	\$	18,108	\$	16,760
Cash paid for interest						2,034
Contingent purchase price accrued						18,390
Note receivable from sale of business unit		12,250				
Tax refund receivable from sale of business unit		33,491				

*See accompanying notes to the consolidated financial statements.*

Table of Contents

**Liquidity Services, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**1. Organization**

Liquidity Services, Inc. and subsidiaries (LS or the Company) is a leading online auction marketplace for surplus and salvage assets. LS enables buyers and sellers to transact in an efficient, automated online auction environment offering over 500 product categories. The Company's marketplaces provide professional buyers access to a global, organized supply of surplus and salvage assets presented with digital images and other relevant product information. Additionally, LS enables its corporate and government sellers to enhance their financial return on excess assets by providing a liquid marketplace and value-added services that integrate sales and marketing, logistics and transaction settlement into a single offering. LS organizes its products into categories across major industry verticals such as consumer electronics, general merchandise, apparel, scientific equipment, aerospace parts and equipment, technology hardware, energy equipment, industrial capital assets, fleet and transportation equipment and specialty equipment. The Company's online auction marketplaces are [www.liquidation.com](http://www.liquidation.com), [www.govliquidation.com](http://www.govliquidation.com), [www.govdeals.com](http://www.govdeals.com), [www.networkintl.com](http://www.networkintl.com), [www.truckcenter.com](http://www.truckcenter.com), [www.secondipity.com](http://www.secondipity.com), and [www.go-dove.com](http://www.go-dove.com). LS has one reportable segment consisting of operating auction marketplaces for sellers and buyers of surplus, salvage and scrap assets. In fiscal year 2015, approximately 7.8% of the Company's revenue was generated outside of the U.S.

The Company's operations are subject to certain risks and uncertainties 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, its susceptibility to rapid technological change, actual and potential competition by entities with greater financial resources, and the potential for the U.S. Government agencies from which the Company has derived a significant portion of its inventory to change the way they conduct their surplus disposition or to otherwise not renew their contracts with the Company.

The Company has evaluated subsequent events through the date that these financial statements were issued and filed with the Securities and Exchange Commission.

**2. Summary of Significant Accounting Policies**

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

**Principles of Consolidation and Basis of Presentation**

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Certain prior period amounts have been reclassified to conform to the current year's presentation. All intercompany balances and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. In addition, in the opinion of management, all adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation of the results for the periods presented have been included.

Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****2. Summary of Significant Accounting Policies (Continued)****Business Combinations**

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

**Cash and Cash Equivalents**

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

**Accounts Receivable**

Accounts receivable are recorded at the invoiced amount and are non-interest bearing. The Company maintains an allowance for doubtful accounts to reserve for potentially uncollectible receivables. Allowances are based on management's judgment, which considers historical experience and specific knowledge of accounts where collectability may not be probable. The Company makes provisions based on historical bad debt experience, a specific review of all significant outstanding invoices and an assessment of general economic conditions.

**Inventory**

Inventory consists of property obtained for resale, generally through the online auction process, and is stated at the lower of cost or market. Cost is determined using the specific identification method. Charges for unsellable inventory are included in cost of goods sold in the period in which they have been determined to occur.

**Property and Equipment**

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

Computers and purchased software	One to five years
Office equipment	Three years
Furniture and fixtures	Five to seven years
Leasehold improvements	Shorter of lease term or useful life
Buildings	Thirty-nine years
Land	Not depreciated

Table of Contents

**Liquidity Services, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

**Intangible Assets**

Intangible assets primarily consist of contract acquisition costs, covenants not to compete, and other intangible assets associated with acquisitions. Intangible assets are amortized using the straight-line method over their estimated useful lives, ranging from three to ten years.

**Impairment of Long-Lived Assets**

Long-lived assets, including amortizable intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. If an impairment indicator is present, the Company evaluates recoverability by comparing the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If the assets are impaired, the impairment recognized is measured by the amount by which the carrying amount exceeds the estimated fair value of the assets.

**Goodwill**

Goodwill is reviewed for impairment annually or more frequently if events or circumstances indicate impairment may exist. Examples of such events or circumstances could include a significant change in business climate or the loss of a significant customer. In evaluating goodwill for impairment, the Company first assesses qualitative factors to determine whether it is more than likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. If the Company concludes that it is not more likely than not that the fair value of the reporting unit is less than its carrying value, no further testing of goodwill assigned to the reporting unit is required. However, if the Company concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying value, the Company applies a two-step fair value-based test to assess goodwill for impairment. The first step compares the fair value of a reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step is then performed. The second step compares the carrying amount of the reporting unit's goodwill to the implied fair value of the goodwill. If the fair value of the goodwill is less than the carrying amount, an impairment loss would be recorded in the statement of operations.

**Revenue Recognition**

The Company recognizes revenue when all of the following criteria are met:

a buyer submits the winning bid in an auction and, as a result, evidence of an arrangement exists and the sale price has been determined;

the buyer has assumed the risks and rewards of ownership; and

collection is reasonably assured.

Revenue is also evaluated for reporting revenue of gross proceeds as the principal in the arrangement or net of commissions as an agent. In arrangements in which the Company is deemed to be the primary obligor, bears physical and general inventory risk, and credit risk, LS recognizes as revenue the gross proceeds from the sale, including buyer's premiums. The Company has evaluated its revenue recognition policy related to sales under LS's profit-sharing model and determined it is appropriate to account for these sales on a gross basis. In the Company's evaluation, the Company

Table of Contents

**Liquidity Services, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

relied most heavily upon its status as primary obligor in the sales relationship and the fact that the Company has general inventory risk.

In arrangements in which the Company acts as an agent or broker on a consignment basis, without taking physical or general inventory risk, revenue is recognized based on the sales commissions that are paid to the Company by the sellers for utilizing LS's services; in this situation, sales commissions represent a percentage of the gross proceeds from the sale that the seller pays to the Company upon completion of the transaction. Such revenue as well as other fee revenue is presented as Fee Revenue in the Consolidated Statements of Operations.

The Company collects and remits sales taxes on merchandise that it purchases and sells, and reports such amounts under the net method in its Consolidated Statements of Operations.

**Cost of Goods Sold**

Cost of goods sold includes the costs of purchasing and transporting property for auction as well as credit card transaction fees. The Company purchases the majority of its inventory at a percentage of the supplier's original acquisition cost under the Surplus Contract and certain commercial contracts, at a percentage of the supplier's last retail price under certain commercial contracts, and at a fixed price per pound that varies depending on the type of the inventory purchased under the Scrap Contract. Title for the inventory passes to the Company at the time of purchase and the Company bears the risks and rewards of ownership. The Company does not have title to assets sold on behalf of its commercial or government customers when it receives only sales commission revenue and, as such, recognizes no cost of goods sold associated with those sales. Cost of goods sold also includes shipping and handling costs and amounts paid by customers for shipping and handling.

**Risk Associated with Certain Concentrations**

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

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

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

**Income Taxes**

The Company accounts for income taxes using an asset and liability approach for measuring deferred taxes based on temporary differences between the financial statement and income tax bases of

Table of Contents

**Liquidity Services, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

assets and liabilities existing at each balance sheet date using enacted tax rates for the years in which the taxes are expected to be paid or recovered. A valuation allowance is provided to reduce the deferred tax assets to a level that the Company believes will more likely than not be realized. The resulting net deferred tax asset reflects management's estimate of the amount that will be realized.

The Company applies the authoritative guidance related to uncertainty in income taxes. The Company has concluded that there were no uncertain tax positions identified during its analysis.

**Stock-Based Compensation**

The Company estimates the fair value of share-based awards on the date of grant. The fair value of stock options and stock appreciation rights is determined using the Black-Scholes option-pricing model. The fair value of restricted stock awards is based on the closing price of the Company's common stock on the date of grant. The determination of the fair value of the Company's stock option awards, stock appreciation rights, and restricted stock awards is based on a variety of factors including, but not limited to, the Company's common stock price, expected stock price volatility over the expected life of awards based on historical realized volatility, and actual and projected exercise behavior. Additionally, the Company has estimated forfeitures for share-based awards at the dates of grant based on historical experience, adjusted for future expectation. The forfeiture estimate is revised as necessary if actual forfeitures differ from materially these estimates.

The Company issues restricted stock awards where restrictions lapse upon either the passage of time (service vesting), achieving performance targets, or some combination of these restrictions. For those restricted stock awards with only service conditions, the Company recognizes compensation cost on a straight-line basis over the explicit service period. For awards with both performance and service conditions, the Company starts recognizing compensation cost over the remaining service period, when it is probable the performance condition will be met. For stock awards that contain performance vesting conditions, the Company excludes these awards from diluted earnings per share computations until the contingency is met as of the end of that reporting period. For awards to non-employees (who are not directors), the Company records compensation cost as the performance condition is met. The Company presents the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) as a financing activity with a corresponding operating cash outflow in the Consolidated Statements of Cash Flows.

**Advertising Costs**

Advertising expenditures are expensed as incurred. Advertising costs charged to expense were \$5,331,000, \$7,229,000, and \$4,560,000 for the years ended September 30, 2015, 2014 and 2013, respectively.

**Fair Value of Financial Instruments**

Cash and cash equivalents, accounts receivable, accounts payable, profit-sharing distributions payable, and customer payables reported in the Consolidated Balance Sheets approximate their fair values.

Table of Contents

**Liquidity Services, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

**Foreign Currency Translation**

The functional currency of the Company's foreign subsidiaries is the local currency. The translation of the subsidiary's financial statements into U.S. dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet date and for revenue and expense accounts using an average exchange rate during the period. The resulting translation adjustments are recognized in accumulated other comprehensive (loss) income, a separate component of stockholders' equity. Realized foreign currency transaction gains and losses for 2013, 2014 and 2015 are included in interest expense and other expense (income), net in the consolidated statements of operations.

**Earnings per Share**

Basic net income attributable to common stockholders per share is computed by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net income attributable to common stockholders per share includes the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The Company had 1,543,869 unvested restricted shares, which were issued at prices ranging from \$7.48 - \$52.55, during the years ended September 30, 2013, 2012, 2011, 2010, and 2009, of which 383,831 have been included in the calculation of diluted income per share for the year ended September 30, 2013. The Company had 1,897,827 unvested restricted shares, which were issued at prices ranging from \$7.48 - \$52.55, during the years ended September 30, 2014, 2013, 2012, 2011, 2010, and 2008, of which 341,137 have been included in the calculation of diluted income per share for the year ended September 30, 2014. The Company had 2,367,187 unvested restricted shares, which were issued at prices ranging from \$7.48 - \$52.55, during the years ended September 30, 2015, 2014, 2013, 2012, 2011, 2010, and 2008, of which 795,923 have been included in the calculation of diluted income per share for the year ended September 30, 2015. The Company has also not included the following stock options in the calculation of diluted income per share because the option exercise prices were greater than the average market prices for the applicable periods:

- (a) for the fiscal year ended September 30, 2015 - 1,256,345 options;
- (b) for the fiscal year ended September 30, 2014 - 836,303 options; and
- (c) for the fiscal year ended September 30, 2013 - 151,291 options.

Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****2. Summary of Significant Accounting Policies (Continued)**

The following summarizes the potential outstanding common stock of the Company as of the dates set forth below:

	September 30,		
	2015	2014	2013
	(amounts in thousands except per share and share data)		
Weighted average shares calculation:			
Basic weighted average shares outstanding	29,987,985	31,243,932	31,616,926
Treasury stock effect of options and restricted stock		151,369	1,040,310
Diluted weighted average common shares outstanding	29,987,985	31,395,301	32,657,236
Net (loss) income	\$ (104,815)	\$ 30,390	\$ 41,104
Basic (loss) earnings per common share	\$ (3.50)	\$ 0.97	\$ 1.30
Diluted (loss) earnings per common share	\$ (3.50)	\$ 0.97	\$ 1.26

**Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (FASB) issued a new standard that will change the way the Company recognizes revenue and significantly expand the disclosure requirements for revenue arrangements. In July 2015, the FASB delayed the effective date of the new standard such that the new standard will be effective for the Company beginning on October 1, 2018, and may be adopted either retrospectively or on a modified retrospective basis whereby the new standard would be applied to new and existing arrangements with remaining performance obligations as of the effective date, with a cumulative catch-up adjustment recorded to retained earnings at the effective date for existing arrangements with remaining performance obligations. The Company is currently evaluating the methods of adoption allowed by the new standard and the effect that adoption of the standard is expected to have on the consolidated financial statements and related disclosures. As a result, the Company's evaluation of the effect of the new standard will likely extend over several future periods.

In April 2014, FASB issued Accounting Standards Update ("ASU") 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. The amendments in this Update improve the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results. Under current U.S. GAAP, many disposals, some of which may be routine in nature and not a change in an entity's strategy, are reported in discontinued operations. The amendments in this update also require expanded disclosures for discontinued operations. In addition, for individually significant components of an entity that does not qualify for discontinued operations reporting, the Update requires the entity to disclose the pretax profit or loss of the component. Publicly-traded entities are required to prospectively apply this guidance for all disposals (or classifications as held for sale) of components that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial



statements previously issued or available for issuance. The Company has evaluated and early adopted

Table of Contents

**Liquidity Services, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

the new standard for purposes of reporting the disposal of Jacobs Trading Company pursuant to a purchase and sale agreement on September 22, 2015.

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which amends existing guidance by requiring that additional information be disclosed about items reclassified out of accumulated other comprehensive income. The additional information includes separately stating the total change for each component of other comprehensive income and separately disclosing both current-period other comprehensive income and reclassification adjustments. Entities are also required to present, either on the face of the income statement or in the note to the financial statements, significant amounts reclassified out of accumulated other comprehensive income as separate line items of net income but only if the entire amount reclassified must be reclassified to net income in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity must cross-reference to other disclosures that provide additional detail about those amounts. ASU 2013-02 was effective for interim and annual periods beginning after December 15, 2013, which for the Company was its fiscal 2014 first quarter. The adoption of this update did not have a material impact on its financial statements.

**3. Significant Contracts**

*DLA Disposition Services*

The Company has a Surplus Contract with the DLA Disposition Services in which the base term expired in February 2012 with two one year renewal options. The DoD has exercised both renewal options. In January 2014, the DoD awarded the Company with a follow-on contract to extend the terms of the Surplus Contract for a base term of ten months with two one-month renewal option periods. On December 3, 2014, the DoD exercised the two one-month renewal option periods. In February 2015, the DoD awarded the Company a second follow-on contract to the second Surplus Contract for a base term of six months with three 30-day additional option periods. The DoD has exercised all three 30-day renewal option periods. On November 13, 2015, the DLA Disposition Services notified the Company that they were amending the current Surplus Contract to extend the wind-down period by an additional ten months to allow for the continued processing of usable non-rolling stock surplus property. All other terms, including pricing, remain consistent with the current Surplus Contract. Under the current Surplus Contract, the Company is required to purchase all usable surplus property offered to the Company by the Department of Defense at a fixed percentage equal to 1.8% of the DoD's original acquisition value (OAV). The Company retains 100% of the profits from the resale of the property and bears all of the costs for the merchandising and sale of the property. Included in Accrued expenses and other current liabilities in the Consolidated Balance Sheet, the Company has a liability to the DoD of approximately \$2,026,000 and \$19,545,000 for inventory as of September 30, 2015 and 2014, respectively. The Surplus Contract contains a provision providing for a mutual termination of the contract for convenience.

As a result of the current Surplus Contract, the Company is the sole remarketer of all DoD surplus turned into the DLA Disposition Services available for sale within the United States, Puerto Rico, and Guam. Revenue from the current Surplus Contract accounted for 27.7%, 26.8%, and 24.7% of our consolidated revenue for the fiscal years ended September 30, 2013, 2014, and 2015, respectively.

Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****3. Significant Contracts (Continued)**

The DoD, in accordance with the award of the next Surplus Contract, split the contract into a rolling stock and a non-rolling stock contract, with bidding on these two surplus contracts held on April 1 and 2, 2014. On April 1, 2014, the Company was the high bidder for the non-rolling stock surplus contract with a bid equal to 4.35% of the DoD's OAV. The non-rolling stock surplus contract has a base term of two years with four one-year renewal options. Following the bidding event on April 2, 2014 for the DoD rolling stock contract, the Company withdrew from the live auction bidding for this contract. Bidding had reached a level that the Company determined would be economically unsustainable under the terms of the new contract, jeopardizing the high level of service the Company has historically provided the agency client. The price the Company will pay for inventory under the new non-rolling stock contract is expected to increase from 1.8% to 4.35% of OAV, resulting in significantly higher Cost of Goods Sold (COGS) in fiscal year 2016 and beyond. This Surplus Contract became effective November 14, 2015.

The Company has a Scrap Contract with the DLA Disposition Services in which the base term expired in June 2012 with three one year renewal options. The DoD has exercised all three renewal options. Under the terms of the Scrap Contract, the Company is required to purchase all scrap government property referred to it by the DLA Disposition Services. The Company distributes to the DLA Disposition Services 77% of the profits realized from the ultimate sale of the inventory, after deduction for allowable expenses, as provided for under the terms of the contract. The Contract also has a performance incentive that allows it to receive up to an additional 2% of the profit sharing distribution. This incentive is measured annually on June 30<sup>th</sup>, and is applied to the prior 12 months. The Company earned a performance incentive for the years ended September 30, 2015, 2014 and 2013 of approximately \$1,123,000, \$1,326,000, and \$1,265,000, respectively. Effective June 9, 2015, modifications were made to the principal terms of the Scrap Contract including that (i) contract pricing will be adjusted to reflect a 65% profit sharing distribution to the DLA Disposition Services; (ii) DLA Disposition Services may elect to terminate portions of the Scrap Contract by location with a 90-day notification required; and (iii) DLA Disposition Services may elect to terminate portions of the Scrap Contract by certain commodity categories with a 60-day notification required; provided that no such termination shall be effective sooner than October 8, 2015. The modifications to the Scrap Contract included the elimination of the small business performance incentive. For the years ended September 30, 2015, 2014 and 2013, profit-sharing distributions to the DLA Disposition Services under the Scrap Contract were \$28,093,000, \$34,935,000, and \$35,944,000, including accrued amounts, as of September 30, 2015, 2014, and 2013, of \$2,509,000, \$4,740,000, and \$4,315,000, respectively. The Scrap Contract may be terminated by either the Company or the DLA Disposition Services if the rate of return performance ratio does not exceed specified benchmark ratios for two consecutive quarterly periods and the preceding twelve months. The Company has performed in excess of the benchmark ratios throughout the contract period through September 30, 2015.

As a result of the Scrap Contract, the Company is the sole remarketer of all U.S. Department of Defense scrap turned into the DLA Disposition Services available for sale within the United States, Puerto Rico, and Guam. Revenue from the Scrap Contract accounted for 13.5%, 14.4%, and 15.3% of our consolidated revenue for the fiscal years ended September 30, 2013, 2014, and 2015, respectively.

Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****4. Acquisitions***National Electronic Service Association (NESA)*

On November 1, 2012, the Company acquired the assets and assumed liabilities of National Electronic Service Association (NESA) in an all cash transaction. The acquisition price included an upfront cash payment of approximately \$18.3 million and an earn-out payment. Under the terms of the agreement, the earn-out is based on EBITDA earned by NESA during the 36-48 months after closing. EBITDA growth used in the calculation is capped at 20% of prior period. The Company's estimate for the total payout ranged from zero to a maximum of \$37.7 million. The Company's estimate of the fair value of the earn-out as of the date of acquisition was \$18.0 million. Based upon revised projections, the Company determined that the fair value of the earn-out as of June 30, 2014 was zero and reversed the liability of \$18.6 million with a corresponding reduction (credit) in the Acquisition Costs line in the Consolidated Statement of Operations for the year ended September 30, 2014. The Company continues to believe the fair value of the earn-out is zero as of September 30, 2015. NESA is a Canadian provider of returns management, refurbishment and reverse logistics services for high-value consumer products. NESA provides expertise and focused services to Fortune 1000 companies in the management of Consumer Electronics, Telecommunications, and Information Technology products.

Under the acquisition method of accounting, the total estimated purchase price is allocated to NESA's net tangible and intangible assets acquired based on their estimated fair values as of November 1, 2012. Based on management's valuation of the fair value of tangible and intangible assets acquired and liabilities assumed, the purchase price was allocated as follows:

	<b>Consideration Amount (in thousands)</b>
Cash	\$ 3,760
Goodwill	27,009
Vendor contract intangible asset	3,936
Covenants not to compete	1,400
Other intangible asset	225
Property and equipment	234
Accrued liabilities	(204)
 Total consideration	 \$ 36,360

Goodwill was created as part of the acquisition as the Company acquired an experienced and knowledgeable workforce, 75% of which is expected to be tax deductible as a result of the asset purchase structure of the transaction. The amount of revenue from NESA since the acquisition date and related supplemental pro forma information is not significant and it is impracticable for us to determine the amount of earnings for NESA.

Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****5. Property and Equipment**

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

	September 30,	
	2015	2014
	(in thousands)	
Computers and purchased software	\$ 24,565	\$ 23,185
Office/Operational equipment	6,922	6,502
Furniture and fixtures	1,260	1,467
Vehicles	1,015	1,006
Leasehold improvements	5,301	4,729
Building	1,849	
Land	754	
	41,666	36,889
Less: Accumulated depreciation and amortization	(28,310)	(24,606)
	\$ 13,356	\$ 12,283

Depreciation and amortization expense related to property and equipment for the years ended September 30, 2015, 2014 and 2013 was \$6,130,000, \$5,623,000, and \$5,696,000, respectively.

**6. Goodwill**

The goodwill of acquired companies is primarily related to the acquisition of an experienced and knowledgeable workforce. As of December 31, 2014, the Company identified indicators of impairment and as a result performed an impairment test which resulted in an impairment of \$85.1 million. As part of the Company's annual impairment test, the Company identified indicators of impairment and as a result performed an impairment test and concluded as part of the step one test that the carrying values of both of the Company's two reporting units exceeded their estimated fair values. As a result of the step two test, the Company recorded an impairment charge of \$51.2 million during the fourth quarter of fiscal year 2015. The Company performed the step two test using the discounted cash flow method. The following summarizes our goodwill activity for the periods indicated:

	Goodwill
	(in thousands)
Balance at September 30, 2013	\$ 211,711
Translation adjustments	(2,055)
Balance at September 30, 2014	209,656
Impairment charge	(136,248)
Business disposition	(6,733)
Translation adjustments	(2,602)
Balance at September 30, 2015	\$ 64,073

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Goodwill impairment losses as of September 30, 2015, were \$136.2 million and were the result of the termination of the Wal-Mart Agreement, cessation of operations of NESA, and decline in market capitalization.

Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****7. Intangible Assets**

Intangible assets at September 30, 2015 and September 30, 2014 consisted of the following:

	Useful Life (in years)	September 30, 2015			September 30, 2014		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
(dollars in thousands)							
Contract intangibles	10	\$ 1,500	\$	\$ 1,500	\$ 33,300	\$ (21,796)	\$ 11,504
Brand and technology	3 - 5	5,749	(3,926)	1,823	5,947	(2,852)	3,095
Covenants not to compete	3 - 5	700	(433)	267	4,330	(2,245)	2,085
Patent and trademarks	3 - 10	792	(331)	461	672	(257)	415
<b>Total intangible assets, net</b>				<b>\$ 4,051</b>			<b>\$ 17,099</b>

Future expected amortization of intangible assets at September 30, 2015 was as follows:

Years ending September 30,	Amortization (in thousands)
2016	\$ 1,440
2017	1,070
2018	284
2019	203
2020 and after	1,054
<b>Total</b>	<b>\$ 4,051</b>

Amortization expense related to intangible assets for the years ended September 30, 2015, 2014 and 2013 was \$3,105,000, \$10,972,000, and \$11,678,000, respectively.

**8. Debt****Senior Credit Facility**

In 2010, the Company entered into a senior credit facility (the Agreement) with a bank, which provides for borrowings up to \$75.0 million, as amended. On May 1, 2015, the Company amended this credit facility extending the term to May 31, 2018. Borrowings under the Agreement bear interest at an annual rate equal to the 30 day LIBOR rate plus 1.25% (1.451% at September 30, 2015) due monthly. As of September 30, 2015, the Company had no outstanding borrowings under the Agreement, and the Company's borrowing availability was \$37.5 million, of which the Company has used \$13.9 million for issued letters of credit. Borrowings under the Agreement are secured by substantially all of the assets of the Company. The Agreement contains certain financial and non-financial restrictive covenants including, among others, the requirements to maintain a minimum level of earnings before interest, income taxes, depreciation and amortization (EBITDA) and a minimum debt coverage ratio. As of September 30, 2015, the Company was in compliance with these covenants.





Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****9. Commitments****Leases**

The Company leases certain office space and equipment under non-cancelable operating lease agreements, which expire at various dates through 2021. Certain of the leases contain escalation clauses and provide for the pass-through of increases in operating expenses and real estate taxes. Rent related to leases that have escalation clauses is recognized on a straight-line basis. Resulting deferred rent charges are included in other long-term liabilities and were \$1,151,000 and \$1,113,000, at September 30, 2015 and 2014, respectively. Future minimum payments under the leases as of September 30, 2015 are as follows:

Years ending September 30,	Operating Lease Payments (in thousands)
2016	\$ 9,087
2017	7,086
2018	5,508
2019	3,735
2020	1,578
2021	982
Total future minimum lease payments	\$ 27,976

Rent expense for the years ended September 30, 2015, 2014 and 2013 was \$12,528,000, \$12,099,000, and \$11,236,000, respectively.

**10. 401(k) Benefit Plan**

The Company has a retirement plan (the Plan), which is intended to be a qualified plan under Section 401(k) of the Internal Revenue Code. The Plan is a defined contribution plan available to all eligible employees and allows participants to contribute up to the legal maximum of their eligible compensation, not to exceed the maximum tax-deferred amount allowed by the Internal Revenue Service. The Plan also allows the Company to make discretionary matching contributions. For the years ended September 30, 2015, 2014 and 2013, the Company contributed and recorded expense of approximately \$2,434,000, \$2,680,000, and \$2,382,000, respectively, to the Plan.

Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****11. Income Taxes**

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

	Year ended September 30,		
	2015	2014	2013
	(in thousands)		
<b>Current tax provision:</b>			
U.S. Federal	\$ (32,116)	\$ 14,328	\$ 27,611
State	(1,375)	2,613	5,035
Foreign	203	1,888	1,757
	(33,288)	18,829	34,403
<b>Deferred tax (benefit) expense:</b>			
U.S. Federal	326	(2,886)	(6,012)
State	(4,422)	(526)	(1,096)
Foreign	(2,187)	4,240	256
	(6,283)	828	(6,852)
<b>Total provision</b>	<b>\$ (39,571)</b>	<b>\$ 19,657</b>	<b>\$ 27,551</b>

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

	September 30,	
	2015	2014
	(in thousands)	
<b>Deferred tax assets:</b>		
Net operating losses Foreign	\$ 8,586	\$ 6,426
Net operating losses US	11,208	1,674
Accrued vacation and bonus	4,251	2,040
Inventory capitalization	2,817	7,328
Inventory reserves	299	105
Allowance for doubtful accounts	83	291
Stock compensation expense	7,135	10,259
Amortization of intangibles	2,808	9,071
Pension liability		790
Other	530	273
<b>Total deferred tax assets before valuation allowance</b>	<b>37,717</b>	<b>38,257</b>
<b>Less: valuation allowance</b>	<b>(8,474)</b>	<b>(7,216)</b>
<b>Net deferred tax assets</b>	<b>29,243</b>	<b>31,041</b>
<b>Deferred tax liabilities:</b>		
Amortization of goodwill	14,760	16,022
Depreciation	472	754

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Pension liability		112	
Total deferred tax liabilities	\$	15,344	\$ 16,776
Net deferred taxes	\$	13,899	\$ 14,265

Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****11. Income Taxes (Continued)**

The net current deferred tax asset of approximately \$10,059,000, and \$12,321,000 is recorded in prepaid and deferred taxes on the consolidated balance sheet as of September 30, 2015 and 2014, respectively. The net non-current deferred tax asset of approximately \$5,871,000 and \$6,160,000 is recorded in deferred tax assets and other assets on the consolidated balance sheet as of September 30, 2015 and 2014 respectively. The net non-current deferred tax liability of approximately \$2,031,000 and \$4,217,000 is recorded in other liabilities on the consolidated balance sheet as of September 30, 2015 and 2014 respectively.

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

	Year ended September 30,		
	2015	2014	2013
U.S. statutory rate	35.0%	35.0%	35.0%
Permanent items	(6.3)	0.5	0.6
State taxes	2.6	2.7	3.9
Net foreign rate differential	(3.0)	(2.5)	(0.7)
Change in valuation allowance	(0.9)	3.6	1.3
Provision for income taxes	27.4%	39.3%	40.1%

At September 30, 2015 and 2014, the Company had deferred tax assets related to available foreign net operating loss (NOL) carryforwards of approximately \$8,586,000 and \$6,426,000, respectively. All but approximately \$455,000 of our foreign NOLs maintain an indefinite carry forward life. The NOLs with limited carryforward periods will expire beginning in 2017 through 2035. Due to historic losses of those foreign entities, the Company does not believe that it is more likely than not that the related deferred tax assets will be realized and a full valuation allowance has been recorded. In addition, the Company also recorded a deferred tax asset of \$9,534,000 related to NOL carryforwards related to its loss from its sale of the Jacobs Trading business. These NOL carryforwards expire in 2035. The Company will adjust these NOL carryforwards and the related valuation allowance as the related tax returns are filed. The Company has incurred a current U.S. tax loss of approximately \$112,085,000 of which \$91,759,000 will be carried back to 2013 and 2014 to recover approximately \$32,115,000 and \$1,376,000 of federal and state taxes respectively.

The Company has not recorded a provision for deferred U.S. tax expense on the undistributed earnings of foreign subsidiaries since the Company intends to indefinitely reinvest the earnings of these foreign subsidiaries outside the U.S. The amount of such undistributed foreign earnings was approximately \$12.0 million as of September 30, 2015. As of September 30, 2015 and 2014, approximately \$23.6 million and \$9.3 million, respectively, of cash and cash equivalents was held overseas and not available to fund domestic operations without incurring taxes upon repatriation.

The Company applies the authoritative guidance related to uncertainty in income taxes. The Company has concluded that there were no uncertain tax positions identified during its analysis. The Company's policy is to recognize interest and penalties in the period in which they occur in the income tax provision. The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, various state and local jurisdictions and in foreign jurisdictions, primarily Canada and the U.K.

Table of Contents

**Liquidity Services, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**11. Income Taxes (Continued)**

Currently, the Company is subject to income tax examinations for fiscal years 2012, 2013, and 2014. The Company anticipates no material tax liability to arise from these examinations. The statute of limitations for years prior to fiscal 2012 is now closed. However, certain tax attribute carryforwards that were generated prior to fiscal 2012 may be adjusted upon examination by tax authorities if they are utilized.

**12. Stockholders' Equity**

**2006 Omnibus Long-Term Incentive Plan**

In conjunction with the Company's initial public offering, the board of directors and the Company's stockholders approved the 2006 Omnibus Long-Term Incentive Plan, or the 2006 Plan, on December 2, 2005. The 2005 Stock Option and Incentive Plan was terminated when the 2006 Plan became effective, immediately after the closing of the initial public offering.

A portion of the options and restricted shares granted to employees vest based on certain performance conditions being satisfied by the Company. Performance-based stock options are tied to the Company's annual performance against pre-established internal targets and the actual payout under these awards may vary from zero to 100% of an employee's target payout, based upon the Company's actual performance during the previous twelve months. The performance-based stock options are also subject to vesting requirements and generally vest when the performance condition has been satisfied. The fair value for stock options granted during the period was estimated at the grant date using the Black-Scholes option pricing model, as described in Note 2, and the fair value of restricted shares granted is based on the closing price of the shares on the grant date. Compensation cost is recognized when the performance condition has been satisfied or when it becomes probable that the performance condition will be satisfied.

Under the 2006 Plan, as amended, 10,000,000 shares were available for issuance. At September 30, 2009, there were 5,189,996 shares remaining reserved for issuance in connection with awards under the 2006 Plan. During fiscal year 2010, the Company granted options to purchase 624,566 shares to employees and directors with exercise prices between \$9.05 and \$13.96, and options to purchase 75,467 shares were forfeited. During fiscal year 2010, the Company granted 699,410 restricted shares to employees and directors at prices ranging from \$9.05 to \$13.96, and 45,026 restricted shares were forfeited. At September 30, 2010, there were 3,986,513 shares remaining reserved for issuance in connection with awards under the 2006 Plan. During fiscal year 2011, the Company granted options to purchase 321,072 shares to employees and directors with exercise prices between \$14.30 and \$17.02, and options to purchase 73,591 shares were forfeited. During fiscal year 2011, the Company granted 736,340 restricted shares to employees and directors at prices ranging from \$12.88 to \$25.52, and 150,112 restricted shares were forfeited. During fiscal year 2012, the Company granted options to purchase 181,783 shares to employees and directors with exercise prices between \$31.37 and \$42.31, and options to purchase 78,148 shares were forfeited. During fiscal year 2012, the Company granted 633,647 restricted shares to employees and directors at prices ranging from \$31.37 to \$52.55, and 138,052 restricted shares were forfeited. During the twelve months ended September 30, 2012, the Company issued 100,000 restricted shares to a non-employee that vest based on performance conditions. During fiscal year 2013, the Company granted options to purchase 171,994 shares to employees and directors with exercise prices between \$29.47 and \$46.72, and options to purchase 32,244 shares were forfeited. During fiscal year 2013, the Company granted 997,857 restricted shares to

Table of Contents

**Liquidity Services, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**12. Stockholders' Equity (Continued)**

employees and directors at prices ranging from \$29.47 to \$42.47, and 403,083 restricted shares were forfeited. During the twelve months ended September 30, 2013, the Company issued 335,000 restricted shares and cancelled 281,500 restricted shares to a non-employee that vest based on performance conditions. During fiscal year 2014, the Company granted options to purchase 437,755 shares to employees and directors with exercise prices between \$21.53 and \$31.37, and options to purchase 181,094 shares were forfeited. During fiscal year 2014, the Company granted 1,040,748 restricted shares to employees and directors at prices ranging from \$13.11 to \$38.09, and 250,586 restricted shares were forfeited. In February 2015, at the Company's annual meeting of stockholders, the stockholders approved an amendment to the Plan which provided for an increase of 3,000,000 shares of the Company's common stock to the shares available for issuance under the 2006 Plan and established a fungible share pool so that grants of awards other than options or stock appreciation rights after January 9, 2015, would be counted as 1.5 shares from the reserve. During fiscal year 2015, the Company granted options to purchase 310,177 shares to employees and directors with exercise prices between \$9.35 and \$10.41, and options to purchase 288,572 shares were forfeited. During fiscal year 2015, the Company granted 1,298,604 restricted shares to employees and directors at prices ranging from \$9.35 to \$12.57, and 486,040 restricted shares were forfeited. At September 30, 2015, there were 2,364,472 shares remaining reserved for issuance in connection with awards under the 2006 Plan. During the fiscal year ended September 30, 2015, the Company issued 737,972 cash-settled stock appreciation rights, at the price of \$9.35, and 59,156 cash-settled stock appreciation rights were forfeited. Stock appreciation rights are recorded as liability awards. The maximum number of shares subject to options or stock appreciation rights that can be awarded under the 2006 Plan to any person is 1,000,000 per year. The maximum number of shares that can be awarded under the 2006 Plan to any person, other than pursuant to an option or stock appreciation right, is 700,000 per year. These shares and options generally vest over a period of one to four years conditioned on continued employment for the incentive period.

The 2006 Plan permits the granting of options to purchase shares of common stock intended to qualify as incentive stock options under the Internal Revenue Code and stock options that do not qualify as incentive stock options ("non-qualified stock options"). The exercise price of each stock option may not be less than 100% of the fair market value of the common stock on the date of grant. However, if a grant recipient, who holds at least 10% of the common stock of the Company, receives an incentive stock option, the exercise price of such incentive stock option may not be less than 110% of the fair market value of the common stock on the date of grant. The term of each stock option is fixed by the compensation committee and may not exceed 10 years from the date of grant.

The compensation committee may also award under the 2006 Plan:

restricted stock, which are shares of common stock subject to restrictions;

stock units, which are common stock units subject to restrictions;

dividend equivalent rights, which are rights entitling the recipient to receive credits for dividends that would be paid if the recipient had held a specified number of shares of common stock;

stock appreciation rights, which are rights to receive a number of shares or, in the discretion of the compensation committee and subject to applicable law, an amount in cash or a combination of shares and cash, based on the increase in the fair market value of the shares underlying the right during a stated period specified by the compensation committee;

Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****12. Stockholders' Equity (Continued)**

unrestricted stock, which are shares of common stock granted without restrictions as a bonus; and

performance and annual incentive awards, ultimately payable in common stock or cash, as determined by the compensation committee (the compensation committee may grant multi-year and annual incentive awards subject to achievement of specified goals tied to business criteria set forth in the 2006 Plan).

**Share Repurchase Program**

The Company's Board of Directors has approved the repurchase of up to \$101.9 million in shares under a share repurchase program. Under the program, the Company is authorized to repurchase the issued and outstanding shares of common stock. 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 the Company's available cash. The Company's Board of Directors reviews the share repurchase program periodically, the last such review having occurred in February 2014. A summary of the Company's share repurchase activity from fiscal year 2009 to the year ended September 30, 2015 is as follows:

<b>Fiscal Year Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Cash Paid for Shares Purchased</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1)</b>
<b>2009</b>	<b>707,462</b>	<b>\$ 5.50</b>	<b>\$ 3,874,000</b>	<b>\$ 6,126,000</b>
<b>2010</b>	<b>1,225,019</b>	<b>\$ 11.53</b>	<b>14,471,000</b>	<b>1,655,000</b>
<b>2011</b>	<b>229,575</b>	<b>\$ 15.39</b>	<b>3,541,000</b>	<b>18,114,000</b>
<b>2012</b>	<b>505,067</b>	<b>\$ 59.41</b>	<b>30,000,000</b>	<b>18,114,000</b>
<b>2013</b>				<b>31,000,000</b>
<b>2014</b>	<b>2,962,978</b>	<b>\$ 15.90</b>	<b>44,873,000</b>	<b>5,127,000</b>
<b>2015</b>				<b>\$ 5,127,000</b>

(1)

On December 2, 2008, the Company's Board of Directors approved a share repurchase program, under which the Company was authorized to repurchase up to \$10.0 million of the issued and outstanding shares of Company common stock. On each of February 2, 2010, November 30, 2010 and May 31, 2011, the Company's Board of Directors approved an additional \$10.0 million for the share repurchase program. On May 17, 2012, the Company's Board of Directors approved an additional \$30.0 million for the share repurchase program. On December 12, 2013, the Company's Board of Directors approved an additional approximately \$12.9 million for the share repurchase program. On February 5, 2014, the Company's Board of Directors approved an additional \$19.0 million for the share repurchase program.

Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****12. Stockholders' Equity (Continued)****Stock Option Activity**

A summary of the Company's stock option activity for the years ended September 30, 2015, 2014, and 2013 is as follows:

	Options	Weighted-Average Exercise Price
Options outstanding at September 30, 2012	1,675,795	\$ 13.84
Options granted	171,994	35.76
Options exercised	(223,139)	11.35
Options canceled	(32,244)	18.67
Options outstanding at September 30, 2013	1,592,406	16.46
Options granted	437,755	22.41
Options exercised	(383,160)	10.83
Options canceled	(181,094)	18.14
Options outstanding at September 30, 2014	1,465,907	19.50
Options granted	310,177	9.92
Options exercised	(14,869)	7.09
Options canceled	(288,572)	20.26
Options outstanding at September 30, 2015	1,472,643	17.46
Options exercisable at September 30, 2015	946,434	18.23

The following table summarizes information about options outstanding at September 30, 2015:

Range of Exercise Price	Number Outstanding	Options Outstanding	
		Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
\$5.53 - \$7.48	66,280	3.26	\$ 7.44
\$8.40 - \$46.72	1,406,363	6.16	\$ 17.93

The following table summarizes information about options exercisable at September 30, 2015:

Range of Exercise Price	Number Exercisable	Options Exercisable	
		Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
\$5.53 - \$46.72	946,434	4.23	\$ 18.23



Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****12. Stockholders' Equity (Continued)**

The following table summarizes information about assumptions used in valuing options granted:

	Year ended September 30		
	2015	2014	2013
Dividend yield			
Expected volatility	71.9% - 77.9%	50.9%	51.8% - 60.6%
Risk-free interest rate	0.26% - 1.4%	0.1% - 1.2%	0.1% - 1.0%
Expected forfeiture rate	22.2% - 22.8%	22.8%	19.7%

The intrinsic value of outstanding and exercisable options at September 30, 2015 was approximately \$2,000 and \$2,000, respectively, based on a stock price of \$7.39 on September 30, 2015.

The weighted average grant date fair value of options granted during 2015, 2014, and 2013 was \$4.89, \$7.89, and \$12.98, respectively.

The intrinsic value of options exercised at September 30, 2015, 2014, and 2013 was approximately \$4,000, \$1,119,000, and \$4,943,000, respectively.

**Restricted Share Activity**

A summary of the Company's restricted share activity for the years ended September 30, 2015, 2014, and 2013 is as follows:

	Restricted Shares	Weighted- Average Fair Value
Unvested restricted shares at September 30, 2012	1,399,609	\$ 22.51
Restricted shares granted	997,857	36.97
Restricted shares vested	(450,514)	21.18
Restricted shares canceled	(403,083)	35.39
Unvested restricted shares at September 30, 2013	1,543,869	28.89
Restricted shares granted	1,040,748	18.78
Restricted shares vested	(436,204)	24.72
Restricted shares canceled	(250,586)	23.87
Unvested restricted shares at September 30, 2014	1,897,827	24.96
Restricted shares granted	1,298,604	10.04
Restricted shares vested	(343,204)	27.50
Restricted shares canceled	(486,040)	26.54
Unvested restricted shares at September 30, 2015	2,367,187	16.08

For the years ended September 30, 2015, 2014 and 2013 the Company recorded stock-based compensation of \$12,405,000, \$12,605,000, and \$13,379,000, respectively. The total costs related to unvested awards, not yet recognized, as of September 30, 2015 was \$28,666,000, which will be recognized over the weighted average vesting period of 20.3 months.

Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****13. Fair Value Measurement**

The Company measures and records in the accompanying consolidated financial statements certain 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.

As of September 30, 2015 and 2014, the Company had no Level 1 or Level 2 assets or liabilities measured at fair value. As of September 30, 2013, the Company's liability for an earn-out related to the NESAs acquisition of \$18,390,000 is the only liability measured at fair value on a recurring basis and classified as Level 3 within the fair value hierarchy. Based upon revised projections and as a result of unfavorable developments in the business, the Company determined that the fair value of the earn-out relates to the NESAs acquisition as of June 30, 2014 was zero and reversed the liability of \$18.6 million. The Company continues to believe that the fair value of the earn-out related to the NESAs acquisition is zero as of September 30, 2015. The changes in liabilities measured at fair value for which the Company has used Level 3 inputs to determine fair value for the year ended September 30, 2015 are as follows (\$ in thousands):

	<b>Level 3 Liabilities</b>
Balance at September 30, 2013	\$ 18,390
Acquisition contingent consideration	
Settlements	
Change in fair value of contingent consideration	(18,390)
Balance at September 30, 2014	
Acquisition contingent consideration	
Settlements	
Change in fair value of contingent consideration	
Balance at September 30, 2015	\$

When valuing its Level 3 liabilities, the Company gives consideration to operating results, financial condition, economic and/or market events, and other pertinent information that would impact its estimate of the expected earn-out payment. The valuation procedures are primarily based on management's projection of EBITDA for the acquired businesses and applying a discount to the expected earn out payments to estimate fair value. Discount rates range from 2.0% to 6.0% and are based on the Company's cost of borrowing. Given the short-term nature of the earn-out periods, changes in the discount rate are not expected to have a material impact on the fair value of these liabilities. Because of the inherent uncertainty, this estimated value may differ significantly from the value that would have been used had a ready market for the liability existed, and it is reasonably possible that the difference could be material. Changes in fair value of the Company's Level 3 liabilities

Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****13. Fair Value Measurement (Continued)**

are recorded in Acquisition costs and related fair value adjustments and impairment of goodwill and long-lived assets in the Consolidated Statements of Operations.

The Company's financial assets not measured at fair value are cash and cash equivalents (which includes cash and commercial paper with original maturities of less than 90 days). The Company believes the carrying value approximates fair value due to the short term maturity of these instruments.

**14. Defined Benefit Pension Plan**

Certain employees of GoIndustry, which the Company acquired in July 2012, are covered by a qualified defined benefit pension plan.

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

The net periodic benefit cost recognized for the years ended September 30, 2015, 2014 and 2013, included the following components:

**Qualified Defined Benefit Pension Plan**

	Year ended September 30,		
	2015	2014	2013
	(in thousands)		
Interest cost	\$ 964	\$ 1,125	\$ 1,055
Expected return on plan assets	(1,186)	(1,324)	(1,055)
<b>Total net periodic benefit cost</b>	<b>\$ (222)</b>	<b>\$ (199)</b>	<b>\$</b>

The following table provides a reconciliation of benefit obligations, plan assets, and funded status related to the Company's qualified defined benefit pension plan for the years ended September 30, 2015 and September 30, 2014:

**Qualified Defined Benefit Pension Plan**

	Year ended September 30,	
	2015	2014
	(in thousands)	
<b>Change in benefit obligation</b>		
Beginning balance	\$ 27,527	\$ 25,558
Interest cost	964	1,125
Benefits paid	(1,674)	(1,104)
Actuarial (gain)/loss	(905)	1,924
Foreign currency exchange rate changes	(1,843)	24

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Ending balance	\$ 24,069	\$ 27,527
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Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****14. Defined Benefit Pension Plan (Continued)****Qualified Defined Benefit Pension Plan**

	Year ended September 30,	
	2015	2014
	(in thousands)	
<b>Change in plan assets</b>		
Beginning balance at fair value	\$ 24,946	\$ 22,006
Actual return on plan assets	1,382	2,321
Benefits paid	(1,674)	(1,104)
Employer's contributions	1,613	1,727
Foreign currency exchange rate changes	(1,730)	(4)
Ending balance at fair value	\$ 24,537	\$ 24,946
Overfunded (underfunded) status of the plan	\$ 468	\$ (2,581)

The accrued pension asset of \$0.5 million is recorded in Other long-term assets in the Consolidated Balance Sheet. Because the plan is closed to new participants, the accumulated benefit obligation is equal to the projected benefit obligation, and totals \$24,069,000 and \$27,527,000 at September 30, 2015 and September 30, 2014, respectively.

The amount recognized in other comprehensive loss related to the Company's qualified defined benefit pension plan, net of tax, for the year ended September 30, 2015 and September 30, 2014, is shown in the following table:

**Qualified Defined Benefit Pension Plan**

	Year ended September 30,	
	2015	2014
	(in thousands)	
<b>Accumulated OCI</b>		
Accumulated OCI at beginning of year	\$ (220)	\$ (1,147)
New actuarial (gains)/losses	(1,101)	927
Accumulated OCI at end of year	\$ (1,321)	\$ (220)

Estimated amounts to be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost during 2015 based on September 30, 2015 plan measurements are \$0. The plan complies with the funding provisions of the UK Pensions Act 2004 and the Occupational Pension Schemes Regulations Act 2005. In fiscal year 2016, the Company expects to contribute \$1.6 million to



Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****14. Defined Benefit Pension Plan (Continued)**

the plan. In addition, the Company expects to make the following pension plan contributions over the next 10 years:

	<b>Plan Contributions</b>	
	<b>(in thousands)</b>	
Year ending September 30,		
2016	\$	1,578
2017		1,578
2018		1,578
2019		394
2020		
2021 through 2025		
Total	\$	5,128

**Actuarial Assumptions**

The actuarial assumptions used to determine the benefit obligations at September 30, 2015 and September 30, 2014, and to determine the net periodic benefit cost for the year were as follows:

**Qualified Defined Benefit Pension Plan**

	<b>2015</b>	<b>2014</b>
Discount rate	3.70%	3.80%
Expected return on plan assets	4.60%	5.00%
Increases to non-GMP pensions in payment accrued pre 4/6/97	0.00%	0.00%
Increases to non-GMP pensions in payment accrued post 4/6/97	1.90%	2.30%
Rate of increases to deferred CPI linked benefits	1.90%	2.30%
Rate of increases to deferred RPI linked benefits	3.00%	3.30%

Mortality 90% of S1NxA tables, projected in line with 2014 CMI projection model and 1.0% p.a long-term rate of improvement.

Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****14. Defined Benefit Pension Plan (Continued)****Estimated Future Benefit Payments**

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

Year ending September 30,	<b>Pension Benefits</b> (in thousands)	
2016	\$	649
2017		1,013
2018		768
2019		774
2020		822
2021 through 2025		4,201
Total	\$	8,227

**Fair Value Measurements**

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

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

Assets were initially invested based on the target allocations stated below. The assets are allocated among equity investments and fixed income securities. The Trustees review the investment policy on an ongoing basis, to determine whether a change in the policy or asset allocation targets is necessary. The assets are not rebalanced and consisted of the following as of September 30, 2015:

	<b>Target Allocation</b>	<b>Actual 2015</b>
Equity securities	50%	39.5%
Fixed-income securities	50%	59.0%
Cash equivalents	0%	1.5%
Total	100.0%	100.0%



The class of equity securities consists of one pooled fund whose strategy is to invest in approximately 70% UK company shares (domestic) and 30% international equity securities. The class

Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****14. Defined Benefit Pension Plan (Continued)**

of fixed-income securities consists of one pooled fund whose strategy is to invest in a limited number of government and corporate bonds.

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

The Company is required to present certain fair value disclosures related to its postretirement benefit plan assets, even though those assets are not included on the Company's Consolidated Balance Sheets. The following table presents the fair value of the assets of the Company's qualified defined benefit pension plan by asset category and their level within the fair value hierarchy, which has three levels based on reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets, Level 2 refers to fair values estimated using significant other observable inputs, and Level 3 includes fair values estimated using significant unobservable inputs.

Balance as of September 30, 2015	Level 1	Level 2	Level 3	Total
	(in thousands)			
Equity securities	\$	\$ 9,692	\$	\$ 9,692
Fixed-income securities		14,477		14,477
Cash equivalents	368			368
Total	\$ 368	\$ 24,169	\$	\$ 24,537

**Valuation Techniques**

The Company relies on pricing inputs from investment fund managers to value investments. The fund manager prices the underlying securities using independent external pricing sources, or determined according to approved pricing policies in circumstances where independent sources are not available.

**15. Guarantees**

During the second quarter of 2015, the Company issued a guarantee to GoIndustry (UK) Limited (the "Subsidiary") and the Trustees (the "Trustees") of the Henry Butcher Pension Fund and Life Assurance Scheme (the "Scheme"). Under the arrangement, the Company irrevocably and unconditionally (a) guarantees to the Trustees punctual performance by the Subsidiary of all its Guaranteed Obligations, defined as all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally in any capacity whatsoever) of the Company to make payments to the Scheme up to a maximum of 10 million British pounds, (b) undertakes with the Trustees that, whenever the Subsidiary does not pay any amount when due in respect of its Guaranteed Obligations, it must immediately on demand by the Trustees pay that amount as if it were the principal obligor; and (c) indemnifies the Trustees as an independent and primary obligation immediately on demand against any cost, charge, expense, loss or liability suffered or incurred by the Trustees if any payment obligation guaranteed by it is or becomes unenforceable, invalid or illegal; the amount of the cost, charge, expense, loss or liability under this indemnity will be equal to the amount the Trustees

Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****15. Guarantees (Continued)**

would otherwise have been entitled to recover on the basis of a guarantee. The guarantee is a continuing guarantee that will extend to the ultimate balance of all sums payable by the Company in respect of its Guaranteed Obligations.

**16. Business Realignment Expenses**

On October 1, 2014, the Company announced that it had realigned its workforce in response to the new terms and scope of its DoD (third) Surplus Contract for non-rolling stock and to adjust for the efficiencies realized in its commercial business through ongoing integration efforts to support the future vision and growth of the Company. The business realignment included employee reductions across the organization. Business realignment expenses during the fiscal year ended September 30, 2014, included costs of \$1.8 million in employee severance and benefit costs. In September 2015, the Company evaluated its business realignment effort which resulted in a net increase of \$0.3 million in accrued expense primarily due to timing changes in commencement of the third DoD Surplus Contract and the delay in the wind-down of the NESA business.

The table below sets forth the significant components and activity in the business realignment initiatives during the fiscal year ended September 30, 2015

	<b>Liability Balance at September 30, 2014</b>	<b>Business Realignment Expenses</b>	<b>Cash Payments</b>	<b>Foreign Currency Adjustment</b>	<b>Liability Balance at September 30, 2015</b>
	(in thousands)				
Employee severance and benefit costs for fiscal 2014 accrual	\$ 1,780	\$ (216)	\$ (1,161)	\$ (47)	\$ 356
Employee severance and benefit costs for fiscal 2015 accrual		489			489
<b>Total</b>	<b>\$ 1,780</b>	<b>\$ 273</b>	<b>\$ (1,161)</b>	<b>\$ (47)</b>	<b>\$ 845</b>

The business realignment expenses are recorded in costs and expenses from operations in the statement of operations, and in accrued expenses and other current liabilities on the balance sheet as of September 30, 2014 and September 30, 2015.

**17. Termination of the Wal-Mart Agreement**

As a result of the acquisition of Jacobs Trading Company on October 1, 2011, the Company assumed the rights and obligations of Jacobs Trading Company under Seller's Master Merchandise Salvage Contract (the "Wal-Mart Agreement") dated May 13, 2011. On December 1, 2014, Wal-Mart provided the Company written notice (the "Termination Notice") terminating the Wal-Mart Agreement effective December 8, 2014. The Termination Notice alleged that the Company failed to comply with certain provisions under the Wal-Mart Agreement with respect to service level requirements and restrictions on the disposition of merchandise. The Company disputed these allegations and contested the termination of the Wal-Mart Agreement with Wal-Mart. As a result of negotiations with Wal-Mart, on January 22, 2015, a settlement was finalized whereby, in exchange for both parties waiving all respective claims against the other, Wal-Mart agreed to pay \$7.5 million in damages. The payment was received from Wal-Mart in February 2015.

Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****18. Business Disposition**

On September 30, 2015, the Company sold certain assets related to the Jacobs Trading business to a Buyer, Tanager Acquisitions, LLC. In connection with the disposition, the Buyer assumed certain liabilities related to the Jacobs Trading business. The Buyer issued the Company a five-year promissory note in the amount of \$12.3 million. As a result of the disposition, during the three months ended September 30, 2015, the Company recorded a loss on the disposition of \$8.0 million, determined as follows (in thousands):

Carrying value of net assets disposed	\$ 22,920
Carrying value of net liabilities disposed	(2,707)
	20,213
Buyer issued note	(12,250)
Loss on sale of assets	\$ 7,963

**19. Legal Proceedings**

On July 14, 2014, Leonard Howard filed a putative class action complaint in the United States District Court for the District of Columbia against the Company and its chief executive officer, chief financial officer, and chief accounting officer, on behalf of stockholders who purchased the Company's common stock between February 1, 2012, and May 7, 2014. The complaint alleges that defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 by, among other things, misrepresenting the Company's growth initiative, growth potential, and financial and operating conditions, thereby artificially inflating its share price, and seeks unspecified compensatory damages and costs and expenses, including attorneys' and experts' fees. On October 14, 2014, the Court appointed Caisse de Dépôt et Placement du Québec and the Newport News Employees' Retirement Fund as co-lead plaintiffs. The Plaintiffs filed an amended complaint on December 15, 2014, which alleges substantially similar claims but which does not name the chief accounting officer as a defendant. The Company believes the allegations are without merit and on March 2, 2015, moved to dismiss the amended complaint for failure to state a claim or plead fraud with the requisite particularity. That motion was fully submitted as of June 1, 2015, and the Company is awaiting a decision by the Court. The Company cannot estimate a range of potential liability, if any, at this time.

**20. Quarterly Results (Unaudited)**

The following table sets forth for the eight most recent quarters the selected unaudited quarterly consolidated statement of operations data. The unaudited quarterly consolidated statement of operations data has been prepared on the same basis as the Company's audited consolidated financial

Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****20. Quarterly Results (Unaudited) (Continued)**

statements and, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of this data.

	Dec. 31, 2013	Mar. 31, 2014	June 30, 2014	Three months ended			Mar. 31, 2015	June 30, 2015	Sept. 30, 2015
				Sept. 30, 2014	Dec. 31, 2014				
	(in thousands, except share and per share data)								
Revenue from operations	\$ 121,948	\$ 128,329	\$ 126,965	\$ 118,419	\$ 125,143	\$ 102,943	\$ 89,746	\$ 79,293	
Income (loss) before provision for income taxes from operations	\$ 11,843	\$ 9,463	\$ 28,588	\$ 523	\$ (84,996)	\$ 3,811	\$ (6)	\$ (63,024)	
Net income (loss) from operations	\$ 7,093	\$ 5,631	\$ 18,373	\$ (707)	\$ (64,116)	\$ 1,381	\$ 1,615	\$ (43,695)	
Basic earnings (loss) per common share	\$ 0.22	\$ 0.17	\$ 0.59	\$ (0.02)	\$ (2.14)	\$ 0.05	\$ 0.05	\$ (1.46)	
Diluted earnings (loss) per common share	\$ 0.22	\$ 0.17	\$ 0.59	\$ (0.02)	\$ (2.14)	\$ 0.05	\$ 0.05	\$ (1.46)	
Basic weighted average shares outstanding	32,143,064	32,231,011	30,937,394	29,664,259	29,926,273	29,988,324	30,011,121	30,026,223	
Diluted weighted average shares outstanding	32,658,070	32,321,482	30,937,394	29,664,259	29,926,273	29,988,324	30,011,121	30,026,223	

Table of Contents

**LIQUIDITY SERVICES, INC.**  
**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**  
(dollars in thousands)

	Balance at beginning of period	Charged (credited) to expense	Reductions	Balance at end of period
Deferred tax valuation allowance (deducted from net deferred tax assets)				
Year ended September 30, 2013	4,558	866		5,424
Year ended September 30, 2014	5,424	1,792		7,216
Year ended September 30, 2015	7,216	1,258		8,474
Allowance for doubtful accounts (deducted from accounts receivable)				
Year ended September 30, 2013	1,248	337	694	891
Year ended September 30, 2014	891	240	89	1,042
Year ended September 30, 2015	1,042	1,243	1,814	471
Inventory allowance (deducted from inventory)				
Year ended September 30, 2013	2,574	147	1,269	1,452
Year ended September 30, 2014	1,452	271		1,723
Year ended September 30, 2015	1,723	(575)	378	770

Table of Contents

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
2.1	Share Purchase Agreements, dated as of April 5, 2008 and April 6, 2008, by and between Liquidity Services, Inc., and its wholly-owned subsidiary, Liquidity Services, Ltd., on the one hand, and David Mark Jacobs, Simon Jacobs, Darren Lee Innocent and Darren Malcolm Dorrington, on the other, incorporated herein by reference to Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 8, 2008.
2.2	Agreement and Plan of Merger, dated June 8, 2010, by and among Liquidity Services, Inc., Leon Kennedy Acquisition Corp., Network International, Inc. and Eton Venture Services, Ltd. Co. incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the SEC on June 21, 2010.
2.3	Asset Purchase Agreement, dated May 24, 2011, among Youk Acquisition Partners, LLC, TruckCenter.com, LLC, Corey P. Schlossmann, Samantha Schlossmann, Jessica Schlossmann and Katie Schlossmann, incorporated herein by reference to Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q, filed with the SEC on August 9, 2011.
2.4	Asset Purchase Agreement dated as of September 1, 2011, among Liquidity Services, Inc., Profar Acquisition Partners, LLC and Jacobs Trading, LLC, incorporated herein by reference to the Company's Current Report on Form 8-K, filed with the SEC on September 1, 2011.
2.5	Scheme of Arrangement dated May 23, 2012 relating to a cash acquisition by Liquidity Services Limited of GoIndustry-DoveBid plc effected under Part 26 of the United Kingdom Companies Act of 2006, incorporated herein by reference to Exhibit 2.5 to the Company's Annual Report on Form 10-K filed with the SEC on November 29, 2012.
2.6	Asset Purchase Agreement, dated as of November 1, 2012, among Liquidity Services Canada Ltd., 683949 Ontario Limited, Dominic Renda Holdings Incorporated, Chiku Holdings Ltd., Dominic Renda and Pankaj Dave, incorporated herein by reference to Exhibit 2.6 to the Company's Annual Report on Form 10-K filed with the SEC on November 29, 2012.
2.7	Purchase and Sale Agreement, dated September 22, 2015, by and between Jacobs Trading, LLC and Tanager Acquisitions, LLC, incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the SEC on October 6, 2015.
2.8	First Amendment to Purchase and Sale Agreement dated September 30, 2015 by and between Jacobs Trading, LLC and Tanager Acquisitions, LLC, incorporated herein by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K, filed with the SEC on October 6, 2015.
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, incorporated herein by reference to Exhibit 3.2 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.
4.1	Form of Certificate of Common Stock of the Company, incorporated herein by reference to Exhibit 4.1 to Amendment No. 5 to the Company's Registration Statement on Form S-1 (Registration No. 333-129656), filed with the SEC on February 21, 2006.

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### Table of Contents

<b>Exhibit No.</b>	<b>Description</b>
4.2	Registration Rights Agreement, dated September 3, 2004, by and between the Company and ABS Capital Partners IV, L.P., ABS Capital Partners IV-A, L.P., ABS Capital Partners IV Offshore L.P. and ABS Capital Partners IV Special Offshore L.P., incorporated herein by reference to Exhibit 4.2 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.
10.1	Defense Logistics Agency, Multi-Year Sale of Surplus Scrap Material at Locations Nationwide, Defense Reutilization and Marketing Service, Invitation for Bids, No. 99-4001, December 7, 2004, incorporated herein by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 (Registration No. 333-129656), filed with the SEC on November 14, 2005.
10.2.1	Executive Employment Agreement, dated September 2, 2004, between the Company and William P. Angrick, III, incorporated herein by reference to Exhibit 10.3.1 to Amendment No. 3 to the Company's Registration Statement on Form S-1 (Registration No. 333-129656), filed with the SEC on February 1, 2006.#
10.2.2	Amendment to Executive Employment Agreement between the Company and William P. Angrick, III, dated January 26, 2006, incorporated herein by reference to Exhibit 10.3.2 to Amendment No. 3 to the Company's Registration Statement on Form S-1 (Registration No. 333-129656), filed with the SEC on February 1, 2006.#
10.2.3	Amendment to Executive Employment Agreement between the Company and William P. Angrick, III, dated January 9, 2007, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on January 16, 2007.#
10.3.1	Executive Employment Agreement, dated September 2, 2004, between the Company and Jaime Mateus-Tique, incorporated herein by reference to Exhibit 10.4.1 to Amendment No. 3 to the Company's Registration Statement on Form S-1 (Registration No. 333-129656), filed with the SEC on February 1, 2006.#
10.3.2	Amendment to Executive Employment Agreement between the Company and Jaime Mateus-Tique, dated January 25, 2006, incorporated herein by reference to Exhibit 10.4.2 to Amendment No. 3 to the Company's Registration Statement on Form S-1 (Registration No. 333-129656), filed with the SEC on February 1, 2006.#
10.4.1	Executive Employment Agreement, dated January 27, 2005, between the Company and James M. Rallo, incorporated herein by reference to Exhibit 10.6.1 to Amendment No. 3 to the Company's Registration Statement on Form S-1 (Registration No. 333-129656), filed with the SEC on February 1, 2006.#
10.4.2	Amendment to Executive Employment Agreement between the Company and James M. Rallo, dated January 25, 2006, incorporated herein by reference to Exhibit 10.6.2 to Amendment No. 3 to the Company's Registration Statement on Form S-1 (Registration No. 333-129656), filed with the SEC on February 1, 2006.#
10.5.1	Executive Employment Agreement, dated November 11, 2005, between the Company and James E. Williams, incorporated herein by reference to Exhibit 10.8.1 to Amendment No. 3 to the Company's Registration Statement on Form S-1 (Registration No. 333-129656), filed with the SEC on February 1, 2006.#
10.5.2	Amendment to Executive Employment Agreement between the Company and James E. Williams, dated January 26, 2006, incorporated herein by reference to Exhibit 10.8.2 to Amendment No. 3 to the Company's Registration Statement on Form S-1 (Registration No. 333-129656), filed with the SEC on February 1, 2006.#



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### Table of Contents

<b>Exhibit No.</b>	<b>Description</b>
10.6	Executive Employment Agreement, dated August 25, 2008, between the Company and G. Charles Roy, incorporated herein by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K, filed with the SEC on September 8, 2008.#
10.7	Executive Employment Agreement, dated as of January 2, 2013, by and between the Company and Leoncio Casusol, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on February 4, 2013.#
10.8	2005 Stock Option and Incentive Plan, incorporated herein by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-1 (Registration No. 333-129656), filed with the SEC on November 14, 2005.#
10.9	Liquidity Services, Inc. Amended and Restated 2006 Omnibus Long-Term Incentive Plan, incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A, filed with the SEC on January 26, 2015.#
10.10	Form of Indemnification Agreement for directors and officers, incorporated herein by reference to Exhibit 10.11 to Amendment No. 3 to the Company's Registration Statement on Form S-1 (Registration No. 333-129656), filed with the SEC on February 1, 2006.#
10.11	LSI Non-Employee Director Compensation Plan, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on August 9, 2006.
10.12	Form of Notice of Stock Option Grant, incorporated herein by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K, filed with the SEC on April 4, 2006.#
10.13	Amendment No. 1 to Sales Contract Number 99-4001-0004, dated as of May 21, 2007, between DOD Surplus, LLC (a wholly-owned subsidiary of Liquidity Services, Inc.) and the Defense Reutilization and Marketing Service of the U.S. Department of Defense, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 29, 2007.
10.14	Amendment No. 2 to Sales Contract Number 99-4001-0004, dated as of May 21, 2007, between DOD Surplus, LLC (a wholly-owned subsidiary of Liquidity Services, Inc.) and the Defense Reutilization and Marketing Service of the U.S. Department of Defense, incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on May 29, 2007.
10.15	Surplus Usable Property Sales Contract (Sales Contract Number 08-0001-0001) between Liquidity Services, Inc. and the Defense Reutilization and Marketing Service of the U.S. Department of Defense, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on August 6, 2008.
10.16	Supplemental Agreement 1 (Sales Contract Number 08-0001-0001), incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on February 5, 2009.
10.17	Supplemental Agreement No. 6 relating to Surplus Usable Property Sales Contract (Sales Contract Number 08-0001-0001) between Liquidity Services, Inc. and the Defense Reutilization and Marketing Service of the U.S. Department of Defense, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 17, 2012.
10.18	Form of Notice of Restricted Stock Grant, incorporated herein by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K filed with the SEC on December 8, 2008.#

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### Table of Contents

<b>Exhibit No.</b>	<b>Description</b>
10.19	Financing and Security Agreement, dated April 30, 2010, by and between Liquidity Services, Inc. and Bank of America, N.A., incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on May 6, 2010.
10.20	First Amendment to Financing and Security Agreement dated as of September 1, 2011 between Liquidity Services, Inc. and Bank of America, N.A., incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on September 1, 2011.
10.21	Revolving Credit Note, dated April 30, 2010, issued by Liquidity Services, Inc. to Bank of America, N.A., incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on May 6, 2010.
10.22	Guaranty of Payment Agreement, dated April 30, 2010, by GovDeals, Inc. for the benefit of Bank of America, N.A., incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the SEC on May 6, 2010.
10.23	Security Agreement, dated April 30, 2010, by GovDeals, Inc. for the benefit of Bank of America, N.A., incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K, filed with the SEC on May 6, 2010.
10.24	Pledge, Assignment and Security Agreement (GovDeals), dated April 30, 2010, by Liquidity Services, Inc. for the benefit of Bank of America, N.A., incorporated herein by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K, filed with the SEC on May 6, 2010.
10.25	Guaranty of Payment Agreement, dated April 30, 2010, by Surplus Acquisition Venture, LLC for the benefit of Bank of America, N.A., incorporated herein by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K, filed with the SEC on May 6, 2010.
10.26	Security Agreement, dated April 30, 2010, by Surplus Acquisition Venture, LLC for the benefit of Bank of America, N.A., incorporated herein by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K, filed with the SEC on May 6, 2010.
10.27	Pledge, Assignment and Security Agreement (Surplus Acquisition Venture), dated April 30, 2010, by Liquidity Services, Inc. for the benefit of Bank of America, N.A., incorporated herein by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K, filed with the SEC on May 6, 2010.
10.28	Shareholders' Agreement dated as of September 1, 2011 among Liquidity Services, Inc., Jacobs Trading, LLC, WGD, Inc., Irwin L. Jacobs and Howard Grodnick, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on September 1, 2011.
10.29	Supplemental Agreement to Contract for Multi-Year Sale of Surplus Scrap Material at Locations Nationwide (Contract Number 99-4001-0004), dated as of September 22, 2011, between Liquidity Services, Inc. and the Defense Logistics Agency Disposition Services, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on September 26, 2011.
10.30	Master Merchandise Salvage Contract between Profar Partners, LLC and Wal-Mart Stores, Inc., incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K filed with the SEC on December 9, 2011.

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### Table of Contents

<b>Exhibit No.</b>	<b>Description</b>
10.31	Letter from DLA Disposition Services, dated November 5, 2012, relating to Contract for Multi-Year Sale of Surplus Scrap Material at Locations Nationwide (Contract Number 99-4001-0004), effective as of June 9, 2005 between the Company and DLA Disposition Services, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on November 7, 2012.
10.32	Amended and Restated Executive Employment Agreement, dated October 1, 2014, by and between the Company and Thomas B. Burton, incorporated herein by reference to Exhibit 10.32 to the Company's Annual Report filed with the SEC on November 21, 2014.#
10.33	Executive Employment Agreement, dated September 10, 2014, by and between the Company and Gardner Dudley, incorporated herein by reference to Exhibit 10.33 to the Company's Annual Report filed with the SEC on November 21, 2014.#
10.34	Letter from DLA Disposition Services, dated November 21, 2013, relating to Contract for Multi-Year Sale of Surplus Scrap Material at Locations Nationwide (Sales Contract Number 99-4001-0004), effective as of June 9, 2005 between the Company and DLA Disposition Services, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on December 4, 2013.
10.35	Supplemental Agreement No. 8, dated January 17, 2014, relating to the modification of Surplus Usable Property Sales Contract (Sales Contract Number 08-0001-0001), as amended, between the Company and DLA Disposition Services, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on January 21, 2014.
10.36	Notice of Award, Statement, and Release Document, dated January 17, 2014, relating to Surplus Usable Property Sales Contract (Sales Contract Number 08-0001-0001), as amended, between the Company and DLA Disposition Services, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on January 21, 2014.
10.37	Notice of Award, Statement, and Release Document, dated February 13, 2015, relating to the Surplus Contract between the Company and the Defense Logistics Agency Disposition Services of the U.S. Department of Defense, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on February 17, 2015
10.38	Fourth Amendment to Financing and Security Agreement dated May 1, 2015, by and between Liquidity Services, Inc. and Bank of America, N.A., incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on May 1, 2015.
10.39	Supplemental Agreement No. 14 dated June 8, 2015 between the Company and DLA Disposition Services, relating to Contract for Multi-Year Sale of Surplus Scrap Material at Locations Nationwide (Contract Number 99-4001-0004), effective as of June 9, 2005 between the Company and DLA Disposition Services, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on June 9, 2015
10.40	Notice of Award, Statement and Release Document (Contract Number 15-5601-0001) dated June 8, 2015 issued by DLA Disposition Services, incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on June 9, 2015.

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### Table of Contents

<b>Exhibit No.</b>	<b>Description</b>
10.41	Supplemental Agreement No. 1 to Mutual Agreement for Contract (15-0001-0001) dated February 13, 2015, relating to the Surplus Contract between the Company and the Defense Logistics Agency Disposition Services of the U.S. Department of Defense, incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on July 21, 2015.
10.42	Executive Employment Agreement dated July 20, 2015 by and between the Company and Jorge Celaya, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on July 23, 2015.#
21.1	List of Subsidiaries.
23.1	Consent of Ernst & Young LLP.
24.1	Power of Attorney (included on signature page).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Certification of Chief Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.3	Certification of Chief Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Registrant's Annual Report on Form 10-K for the year ended September 30, 2011, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Changes in Stockholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements.

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# Designates management or compensation plans.

\* Filed herewith.

Table of Contents

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 23, 2015.

LIQUIDITY SERVICES, INC.

By: /s/ WILLIAM P. ANGRICK, III

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

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

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on November 23, 2015.

<b>Signature</b>	<b>Title</b>
/s/ WILLIAM P. ANGRICK, III <hr/> William P. Angrick, III	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)
/s/ JORGE A. CELAYA <hr/> Jorge A. Celaya	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ KATHRYN A. DOMINO <hr/> Kathryn A. Domino	Chief Accounting Officer (Principal Accounting Officer)
/s/ JAIME MATEUS-TIQUE <hr/> Jaime Mateus-Tique	Director
/s/ PHILLIP A. CLOUGH <hr/> Phillip A. Clough	Director
/s/ PATRICK W. GROSS <hr/> Patrick W. Gross	Director
/s/ GEORGE H. ELLIS <hr/> George H. Ellis	Director
/s/ BEATRIZ V. INFANTE <hr/>	Director

