

LIQUIDITY SERVICES INC  
Form 10-Q  
May 08, 2015  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 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)

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

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 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 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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The number of shares outstanding of the issuer's common stock, par value \$.001 per share, as of May 4, 2015 was 30,011,121.



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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements.****Liquidity Services, Inc. and Subsidiaries****Consolidated Balance Sheets****(Dollars in Thousands)**

	<b>March 31, 2015 (Unaudited)</b>	<b>September 30, 2014</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 86,231	\$ 62,598
Accounts receivable, net of allowance for doubtful accounts of \$2,247 and \$1,042 at March 31, 2015 and September 30, 2014, respectively	14,525	21,688
Inventory	51,695	78,478
Prepaid and deferred taxes	15,679	16,777
Prepaid expenses and other current assets	4,774	5,156
Total current assets	172,904	184,697
Property and equipment, net	14,327	12,283
Intangible assets, net	3,812	17,099
Goodwill	121,835	209,656
Deferred long-term tax assets	28,305	6,160
Other assets	2,022	1,823
Total assets	\$ 343,205	\$ 431,718
<b>Liabilities and stockholders equity</b>		
Current liabilities:		
Accounts payable	\$ 15,686	\$ 15,994
Accrued expenses and other current liabilities	28,094	44,484
Profit-sharing distributions payable	5,025	4,740
Customer payables	30,695	41,544
Total current liabilities	79,500	106,762
Deferred taxes and other long-term liabilities	6,986	7,973
Total liabilities	86,486	114,735
Stockholders equity:		
Common stock, \$0.001 par value; 120,000,000 shares authorized; 29,994,582 shares issued and outstanding at March 31, 2015; 29,668,150 shares issued and outstanding at September 30, 2014	29	28
Additional paid-in capital	210,287	204,704
Accumulated other comprehensive loss	(6,564)	(3,451)
Retained earnings	52,967	115,702
Total stockholders equity	256,719	316,983
Total liabilities and stockholders equity	\$ 343,205	\$ 431,718

*See accompanying notes to the unaudited consolidated financial statements.*



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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Revenue	\$ 83,286	\$ 102,920	\$ 181,449	\$ 196,390
Fee revenue	19,657	25,409	46,637	53,887
Total revenue	102,943	128,329	228,086	250,277
Costs and expenses:				
Cost of goods sold (excluding amortization)	42,661	54,273	96,976	101,983
Profit-sharing distributions	7,558	8,299	17,150	18,429
Technology and operations	24,747	29,070	51,625	54,691
Sales and marketing	10,798	10,459	21,183	20,290
General and administrative	11,374	12,435	20,902	24,742
Amortization of contract intangibles		2,272	1,211	4,679
Depreciation and amortization	1,994	1,973	3,986	3,977
Acquisition costs and related fair value adjustments and impairment of goodwill and long-lived assets		85	96,238	180
Total costs and expenses	99,132	118,866	309,271	228,971
Income (loss) from operations	3,811	9,463	(81,185)	21,306
Interest and other expense, net	(39)	(79)	(77)	(100)
Income (loss) before provision for income taxes	3,772	9,384	(81,262)	21,206
(Provision) benefit for income taxes	(2,391)	(3,753)	18,527	(8,482)
Net income (loss)	\$ 1,381	\$ 5,631	\$ (62,735)	\$ 12,724
Basic earnings (loss) per common share	\$ 0.05	\$ 0.17	\$ (2.09)	\$ 0.39
Diluted earnings (loss) per common share	\$ 0.05	\$ 0.17	\$ (2.09)	\$ 0.39
Basic weighted average shares outstanding	29,988,324	32,231,011	29,957,298	32,187,038
Diluted weighted average shares outstanding	29,988,324	32,321,482	29,957,298	32,489,776

*See accompanying notes to the unaudited consolidated financial statements.*

Table of Contents**Liquidity Services, Inc. and Subsidiaries****Unaudited Consolidated Statements of Comprehensive Income****(Dollars in Thousands)**

	<b>Three Months Ended March 31,</b>		<b>Six Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net income (loss)	\$ 1,381	\$ 5,631	\$ (62,735)	\$ 12,724
Other comprehensive loss:				
Foreign currency translation	(1,157)	(1,633)	(3,113)	(2,162)
Other comprehensive loss, net of taxes	(1,157)	(1,633)	(3,113)	(2,162)
Comprehensive income (loss)	\$ 224	\$ 3,998	\$ (65,848)	\$ 10,562

*See accompanying notes to the unaudited consolidated financial statements.*



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

	Common Stock Shares	Common Stock Amount		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at September 30, 2014	29,668,150	\$ 28	\$	204,704	\$ (3,451)	\$ 115,702	\$ 316,983
Exercise of common stock options and vesting of restricted stock	326,432		1	105			106
Compensation expense and incremental tax benefit from grants of common stock options and restricted stock				5,478			5,478
Net loss						(62,735)	(62,735)
Foreign currency translation					(3,113)		(3,113)
Balance at March 31, 2015	29,994,582	\$ 29	\$	210,287	\$ (6,564)	\$ 52,967	\$ 256,719

*See accompanying notes to the unaudited consolidated financial statements.*

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

	<b>Six Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Operating activities</b>		
Net (loss) income	\$ (62,735)	\$ 12,724
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,197	8,655
Stock compensation expense	5,412	6,567
(Benefit) provision for inventory allowance	(2,463)	291
Provision for doubtful accounts	1,205	91
Deferred tax benefit	(22,145)	
Impairment of goodwill and long-lived assets	96,238	
Incremental tax benefit from exercise of common stock options	(65)	(3,296)
Changes in operating assets and liabilities:		
Accounts receivable	5,957	(3,096)
Inventory	29,246	(42,670)
Prepaid and deferred taxes	1,164	(7,750)
Prepaid expenses and other assets	182	1,305
Accounts payable	(308)	5,358
Accrued expenses and other	(16,390)	29,543
Profit-sharing distributions payable	285	337
Customer payables	(10,849)	2,619
Acquisition earn out payables		175
Other liabilities	(987)	(1,796)
Net cash provided by operating activities	28,944	9,057
<b>Investing activities</b>		
Increase in goodwill and intangibles	(9)	
Purchases of property and equipment	(5,095)	(4,950)
Net cash used in investing activities	(5,104)	(4,950)
<b>Financing activities</b>		
Proceeds from exercise of common stock options (net of tax)	107	2,231
Repurchases of common stock		(3,057)
Incremental tax benefit from exercise of common stock options	65	3,296
Net cash provided by financing activities	172	2,470
Effect of exchange rate differences on cash and cash equivalents	(379)	80
Net increase in cash and cash equivalents	23,633	6,657
Cash and cash equivalents at beginning of period	62,598	95,109
Cash and cash equivalents at end of period	\$ 86,231	\$ 101,766
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for income taxes	\$ 2,453	\$ 12,974

*See accompanying notes to the unaudited consolidated financial statements.*

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**Liquidity Services, Inc. and Subsidiaries**

**Notes to the Unaudited Consolidated Financial Statements**

**1. Organization**

Liquidity Services, Inc. and subsidiaries (LSI or the Company) operates leading auction marketplaces for surplus and salvage assets. LSI 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, LSI 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. LSI 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 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). LSI has one reportable segment consisting of operating auction marketplaces for sellers and buyers of surplus, salvage and scrap assets.

**2. Summary of Significant Accounting Policies**

**Unaudited Interim Financial Information**

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal, recurring adjustments, considered necessary for a fair presentation have been included. The information disclosed in the notes to the consolidated financial statements for these periods is unaudited. Operating results for the three months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending September 30, 2015 or any future period. Fee revenue is revenue earned under the consignment model, as well as other fee revenue, and is presented separately as it accounts for more than 10% of total revenue.

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

**New 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. Unless the FASB delays the effective date of the new

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standard, the new standard will be effective for the Company beginning on October 1, 2017, 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. In April 2015, the FASB proposed a one-year delay in the effective date of the standard, which would make the new standard effective for the Company beginning on October 1, 2018, with an option that would permit companies to adopt the standard as early as the original effective date. Early adoption prior to the original effective date is not permitted. A final decision on the effective date is expected by the end of 2015. 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.

### **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.



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Basic weighted average shares outstanding					
Treasury stock effect of options and restricted stock		90,471		302,738	
Diluted weighted average common shares outstanding	29,988,324	32,321,482	29,957,298	32,489,776	
Net income (loss)	\$ 1,381	\$ 5,631	\$ (62,735)	\$ 12,724	
Basic income (loss) per common share	\$ 0.05	\$ 0.17	\$ (2.09)	\$ 0.39	
Diluted income (loss) per common share	\$ 0.05	\$ 0.17	\$ (2.09)	\$ 0.39	

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**Liquidity Services, Inc. and Subsidiaries**

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

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

**Stock-Based Compensation**

The Company estimates the fair value of share-based awards on the date of grant. The fair value of stock options 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 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, 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 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 when 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.

**3. Defense Logistics Agency (DLA) Disposition Services Contracts**

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 Department of Defense (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. The DoD has exercised both renewal options. In February 2015, the DoD awarded the Company with a second follow-on contract to extend the terms of the Surplus Contract for a base term of six months with three 30-day renewal option periods. Under the current (second) Surplus Contract, the Company is required to purchase all usable surplus property offered to the Company by the DoD 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 is a liability to the DoD of approximately \$6,623,000 and \$19,545,000 for inventory as of March 31, 2015 and September 30, 2014, respectively. The Surplus Contract contains a provision providing for a mutual termination of the contract for convenience.

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As a result of the current (second) Surplus Contract, the Company remarkets all DoD surplus turned into the DLA Disposition Services, excluding rolling stock, available for sale within the United States, Puerto Rico, and Guam.

The DoD, in accordance with the award of the next (third) 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 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. Additionally, the Company has ceased the sale of DoD rolling stock under the current Surplus Contract, which has historically accounted for approximately 30-35% of the overall revenue for the current (second) DoD Surplus contract, resulting in lower revenue in future periods. The Company continues to operate the current (second) DoD Surplus Contract to sell all useable surplus assets of the DoD through August 2015, with three 30-day renewal option periods.



Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to the Unaudited Consolidated Financial Statements (Continued)****3. Defense Logistics Agency (DLA) Disposition Services Contracts (continued)**

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 the Company to receive up to an additional 2% of the profit sharing distribution. This incentive is measured annually on June 30th, and is applied to the prior 12 months. For the three and six months ended March 31, 2015 and 2014 profit-sharing distributions to the DLA Disposition Services under the Scrap Contract were \$7,559,000 and \$17,151,000 and \$8,299,000 and \$18,429,000, respectively, including accrued amounts, as of March 31, 2015 and 2014, of \$5,021,000 and \$4,652,000, 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 March 31, 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.

**4. Goodwill**

The goodwill of acquired companies is primarily related to the acquisition of an experienced and knowledgeable workforce. The following summarizes goodwill activity for the periods indicated:

	<b>Goodwill</b> <b>(in thousands)</b>	
Balance at September 30, 2014	\$	209,656
Translation adjustments		(2,750)
Impairment of goodwill		(85,071)
Balance at March 31, 2015	\$	121,835

**Impairment of Goodwill**

The Company performs its 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, the Company identified indicators of impairment, including the termination of the Wal-Mart Agreement on December 1,

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2014 (as discussed in Notes 5 and 14), 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 the Company's two reporting units exceeded their fair values. Accordingly, step two of the goodwill impairment test was performed. Step two of the goodwill impairment assessment measures the amount of impairment by comparing the book value of goodwill to its implied fair value. If the implied fair value of goodwill is more than its book value, no impairment loss exists. If the implied fair value of goodwill is less than its book value, an impairment loss is recorded to adjust the book value of goodwill to its fair value. As a result of the step two test, the Company recorded a goodwill impairment charge of \$85.1 million during the first quarter of 2015.

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 the Company's 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 (DCF) 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 the Company's business plan for any of its reporting units 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.

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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 with written notice terminating the Wal-Mart Agreement effective December 8, 2014. As a result of the termination of the Wal-Mart Agreement, the Company concluded that the intangible asset related to the Wal-Mart Agreement was impaired and reduced the remaining unamortized contract intangible asset of \$10.3 million to zero during the three months ended December 31, 2014. This impairment charge is recorded in Acquisition costs and related fair value adjustments and impairment of goodwill and long-lived assets in the statements of operations. Intangible assets at March 31, 2015 and September 30, 2014 consisted of the following:

	Useful Life (in years)	Gross Carrying Amount	March 31, 2015		September 30, 2014		Net Carrying Amount
			Accumulated Amortization	Net Carrying Amount	Accumulated Amortization	Net Carrying Amount	
(dollars in thousands)							
Contract intangibles	2 - 5	\$	\$	\$	\$ 33,300	\$ (21,796)	\$ 11,504
Brand and technology	3 - 5	5,750	(3,351)	2,399	5,947	(2,852)	3,095
Covenants not to compete	3 - 5	3,100	(2,063)	1,037	4,330	(2,245)	2,085
Patent and trademarks	3 - 10	662	(286)	376	672	(257)	415
Total intangible assets, net				\$ 3,812			\$ 17,099

Future expected amortization of intangible assets at March 31, 2015 was as follows:

Years ending September 30,	Future Amortization (in thousands)
2015 (remaining six months)	\$ 414
2016	1,260
2017	1,150
2018	852
2019 and after	136
Total	\$ 3,812

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**Liquidity Services, Inc. and Subsidiaries**

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

**6. Debt**

**Senior Credit Facility**

In 2010, the Company entered into a senior credit facility (the Agreement) with a bank, which, as amended, 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% (1.426% at March 31, 2015) due monthly. As of September 30, 2014 and March 31, 2015, the Company had no outstanding borrowings under the Agreement, and the Company's borrowing availability was \$64.9 million and \$66.9 million, respectively, due to issued letters of credit for \$10.1 million and \$8.1 million, respectively.

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 March 31, 2015, the Company was in compliance with these covenants.

**7. Income Taxes**

The Company's interim effective income tax rate is based on management's best current estimate of the expected annual effective income tax rate. The Company estimates that its fiscal year 2015 tax rate will be approximately 22.8%. The effective rate is significantly lower than historical rates due to permanent book to tax differences related to impairment of goodwill with no tax basis. Impairment of goodwill with tax basis resulted in the recognition of a deferred tax asset of \$22.1 million during the first quarter of fiscal year 2015.

The Company applies the 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. Currently, the Company is subject to income tax examinations for fiscal 2011 through 2013. The Company anticipates no material tax liability to arise from these examinations. The statute of limitations for U.S. federal income tax returns for years prior to fiscal 2011 is now closed. However, certain tax attribute carryforwards that were generated prior to fiscal 2011 may be adjusted upon examination by tax authorities if they are utilized.

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**Liquidity Services, Inc. and Subsidiaries**

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

**8. Stockholders' Equity**

**Share Repurchase Program**

Since 2008, 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. The Company did not repurchase any shares during the three and six months ended March 31, 2015 and repurchased approximately 129,000 shares during the three and six months ended March 31, 2014. As of March 31, 2015, there was approximately \$5.1 million that may yet be expended to repurchase shares under the program.

**2006 Omnibus Long-Term Incentive Plan (the 2006 Plan)**

Under the 2006 Plan, as amended in February 2009, 10,000,000 shares of common stock were available for issuance. At September 30, 2013, there were 1,819,050 shares remaining reserved for issuance in connection with awards under the 2006 Plan. 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. At September 30, 2014, there were 772,227 shares remaining reserved for issuance in connection with awards under the 2006 Plan. 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 the six months ended March 31, 2015, the Company issued 77,203 options to directors at the price of \$9.84, and options to purchase 135,134 shares were forfeited. During the six months ended March 31, 2015, the Company issued 142,194 restricted shares to employees and directors at prices ranging from \$9.84 to \$12.57, and 172,211 restricted shares were forfeited. At March 31, 2015, there were 3,844,728 shares remaining reserved for issuance in connection with awards under the 2006 Plan. 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.

Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to the Unaudited Consolidated Financial Statements (Continued)****8. Stockholders' Equity (Continued)****Stock Option Activity**

A summary of the Company's stock option activity for the year ended September 30, 2014, the three months ended December 31, 2014, and the three months ended March 31, 2015 is as follows:

	Options	Weighted- Average Exercise Price
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		
Options exercised	(11,043)	6.41
Options canceled	(30,829)	20.85
Options outstanding at December 31, 2014	1,424,035	19.58
Options granted	77,203	9.84
Options exercised	(3,826)	9.05
Options canceled	(104,305)	13.72
Options outstanding at March 31, 2015	1,393,107	19.50
Options exercisable at March 31, 2015	954,736	17.76

The intrinsic value and weighted average remaining contractual life in years of outstanding and exercisable options at March 31, 2015 is approximately \$242,000 and 5.73 and \$223,000 and 4.43, respectively, based on a stock price of \$9.88 on March 31, 2015. Over the last three years, volatility rates have ranged from 50.90% - 77.92%, a dividend rate of 0%, risk free interest rates have ranged from 0.12% - 1.21%, and expected forfeiture rates have ranged from 19.00% - 22.80%.

**Restricted Share Activity**

A summary of the Company's restricted share activity for the year ended September 30, 2014, the three months ended December 31, 2014, and the three months ended March 31, 2015 is as follows:

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	<b>Restricted Shares</b>	<b>Weighted- Average Fair Value</b>
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	111,300	12.57
Restricted shares vested	(275,562)	26.39
Restricted shares canceled	(61,171)	25.23
Unvested restricted shares at December 31, 2014	1,672,394	23.89
Restricted shares granted	30,894	9.84
Restricted shares vested	(36,001)	27.78
Restricted shares canceled	(111,040)	25.45
Unvested restricted shares at March 31, 2015	1,556,247	23.41

The intrinsic value and weighted average remaining contractual life in years of unvested restricted shares at March 31, 2015 is approximately \$15,376,000 and 8.31, respectively, based on a stock price of \$9.88 on March 31, 2015.

Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to the Unaudited Consolidated Financial Statements (Continued)****9. 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 March 31, 2015 and September 30, 2014, the Company had no Level 1 or Level 2 assets or liabilities that were recorded at fair value on a recurring basis. As of March 31, 2015 and September 30, 2014, the Company's liability for contingent consideration related to the acquisition of assets and liabilities of National Electronic Service Association (NESAs) of zero is the only liability measured at fair value on a recurring basis and is classified as Level 3 within the fair value hierarchy. Under the terms of the agreement, the earn-out is based on EBITDA earned by NESAs 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 ranges from zero to a maximum \$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 and as a result of unfavorable developments in the business, 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. The Company continues to believe that the fair value of the earn-out is zero as of March 31, 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, 2014 and the six months ended March 31, 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 March 31, 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 the applications of 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. Changes in the discount rate are



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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 are recorded in Acquisition Costs 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.

Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to the Unaudited Consolidated Financial Statements (Continued)****10. 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 net periodic benefit cost recognized for the three and six months ended March 31, 2015 and 2014, included the following components:

Qualified Defined Benefit Pension Plan	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
	(dollars in thousands)			
Service cost				
Interest cost	\$ 245	\$ 286	\$ 493	\$ 566
Expected return on plan assets	(299)	(336)	(598)	(658)
Amortization of prior service cost				
Amortization of actuarial (gain)/loss				
Amortization of transitional obligation/(asset)				
Total net periodic benefit cost	\$ (54)	\$ (50)	\$ (105)	\$ (92)

**11. 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 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. The funded status of the Scheme as of September 30, 2014, was disclosed in our Annual Report on Form 10-K in Note 14, Defined Benefit Pension Plan.

Table of Contents**Liquidity Services, Inc. and Subsidiaries****Notes to the Unaudited Consolidated Financial Statements (Continued)****12. 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, and included positions related to the support of the DoD surplus business, capital asset and retail supply chain operations, and corporate functions. The business realignment expenses incurred during the fiscal year ended September 30, 2014 included cash costs of \$1.8 million in employee severance and benefit costs.

The table below sets forth the significant components and activity in the business realignment initiatives for the six months ended March 31, 2015.

	<b>Liability Balance at September 30, 2014</b>	<b>Business Realignment Expenses</b>	<b>Cash Payments</b>	<b>Liability Balance at March 31, 2015</b>
	(in thousands)			
Employee severance and benefit costs	\$ 1,780	(9)	(1,032)	\$ 739
Total	\$ 1,780	(9)	(1,032)	\$ 739

The benefits are expected to be paid during fiscal year 2015. 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 March 31, 2015.

**13. 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 shareholders 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 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. The Company cannot estimate a range of a potential liability, if any, at this time.

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

As a result of the acquisition of Jacobs Trading Company on October 1, 2011, we 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 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 the Company for the overpayment of inventory from Wal-Mart. The payment was received in February 2015.

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

**FORWARD-LOOKING STATEMENTS**

*This document contains forward-looking statements. These statements are only predictions. The outcome of the events described in these forward-looking statements is subject to known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks and other factors include but are not limited to the factors set forth in our Annual Report on Form 10-K for the year ended September 30, 2014 and subsequent filings with the Securities and Exchange Commission. You can identify forward-looking statements by terminology such as may, will, should, could, would, expects, intends, plans, anticipates, believes, estimates, predicts, potential, continues or the negative of these terms or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. There may be other factors of which we are currently unaware or deem immaterial that may cause our actual results to differ materially from the forward-looking statements.*

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

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

**Overview**

*About us.* We operate leading 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 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), and [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 flow of goods in turn attracts an increasing number of professional buyers to our marketplaces. During the 12 months ended March 31, 2015, the number of registered buyers grew from approximately 2,524,000 to approximately 2,688,000, or 6.5%.

*Recent initiatives.* On December 3, 2014, we entered into a Supplemental Agreement with the DoD whereby the DoD exercised the remaining two one-month extension options under the current (second) Surplus Contract. In February 2015, the DoD awarded us with a second follow-on contract to extend the terms of current (second) Surplus Contract for a base term of six months with three 30-day renewal option periods. Under this Agreement, we will continue to provide services to the DoD at least through August 13, 2015.

As a result of the acquisition of Jacobs Trading Company on October 1, 2011, we 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 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 the Company for the overpayment of inventory from Wal-Mart. We received the payment in February 2015.

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On April 13, 2015, to capitalize on our market leadership, we relaunched the Liquidity Services brand in the commercial market to communicate a single brand message that explains our superior reach and unmatched expertise. Positioning Liquidity Services as a single global enterprise with a wide range of services relevant to all of the verticals we serve will benefit our sales organization over time.

We continue to execute our Liquidity One transformation initiative. Liquidity One is a change management program to develop an integrated global business with a single set of best practices and processes. Last year, we built cross-site functionality to enable buyers to access offered assets from their home, LSI marketplaces, via cross-site search results and on bartering tools. We have identified all the differences between our marketplaces and will be addressing those differences by defining and deploying a unified technology platform to support all LSI marketplaces, which will maximize return on technology and product development spend and share platform enhancements with all Liquidity Services clients and buyers.

*Our revenue.* We generate substantially all of our revenue by retaining a percentage of the proceeds from the sales we manage for our sellers. 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 direct 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 model accounted for approximately 14.7% and 14.5% of our total revenue for the three and six months ended March 31, 2015. The merchandise sold under our profit-sharing model accounted for approximately 8.0% and 7.6% of our gross merchandise volume, or GMV, for the three and six months ended March 31, 2015.

- *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 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 19.1% and 20.4% of our total revenue for the three and six months ended March 31, 2015. The merchandise sold under our consignment model accounted for approximately 55.6% and 57.9% of our GMV for the three and six months ended March 31, 2015.

- *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 66.2% and 65.1% of our total revenue for the three and six months ended March 31, 2015. The merchandise sold under our purchase model accounted for approximately 36.4% and 34.5% of our GMV for the three and six months ended March 31, 2015.

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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.



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*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 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.

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**Our Seller Agreements**

*Our DoD agreements.* We have two 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. 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 second Surplus Contract for a base term of six months with three 30-day additional option periods. The DoD, in accordance with the award of the next (third) 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 second Surplus Contract (including buyer premiums) accounted for approximately 26.0% of our total revenue for each of the three and six month periods ended March 31, 2015. The property sold under our second Surplus Contract accounted for approximately 14.1% and 13.6% of our GMV for the three and six months ended March 31, 2015.

Under the 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. During the three months ended March 31, 2015, our inventory acquired under the second Surplus Contract has decreased as we continue to process and sell the surge property provided by 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. 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. Following the DoD's exercise of all three renewal options, the Scrap Contract expires in June 2015. Revenue from our Scrap Contract (including buyer premiums) accounted for approximately 14.7% and 14.5% of our total revenue for the three and six months ended March 31, 2015. The property sold under our Scrap Contract accounted for approximately 8.0% and 7.6% of our GMV for the three and six months ended March 31, 2015.

Under the Scrap Contract, we acquire scrap property at a per pound price and disburse to the DLA Disposition Services a percentage of the profits realized from the sale of the inventory, after deduction for allowable expenses. We refer to these disbursement payments to the DoD as

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profit-sharing distributions. As a result of these arrangements, we recognize as revenue the gross proceeds from these sales. The DoD also reimburses us for actual costs incurred for packing, loading and shipping property under the Scrap and original Surplus Contracts that we are obligated to pick up from non-DoD locations. We also have a small business performance incentive based on the number of scrap buyers that are small businesses that allows us to receive up to an additional 2% of the profit sharing distribution. On May 21, 2007, we entered into a bilateral contract modification under which the DoD agreed to increase our profit-sharing distribution for the Scrap Contract from 20% to 23% effective June 1, 2007, in exchange for our agreement to implement additional inventory assurance processes and procedures with respect to the mutilation of demilitarized scrap property sold.

*Our Wal-Mart Contracts.* We have various contracts with Wal-Mart Stores, Inc., pursuant to which we have the exclusive right to purchase certain consumer products from Wal-Mart that have been removed from the sales stream of its retail operations. 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 does 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,

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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.

*Our commercial agreements.* We have over 600 corporate clients each of which has sold in excess of \$10,000 of surplus and salvage assets in our marketplaces during the last twelve months. 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 marketplaces during the three and six months ended March 31, 2015 and March 31, 2014, totaled \$189.4 million and \$434.7 million, and \$227.2 million and \$461.6 million, respectively.

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

Total registered buyers, as of a given date, 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 March 31, 2015 and September 30, 2014, we had approximately 2,688,000 and 2,615,000 registered buyers, respectively.

*Total auction participants.* For each auction we manage, the number of auction participants represents the total number of registered buyers who have bid one or more times in that auction. As a result, a registered buyer who bids, or participates, in more than one auction is counted as an auction participant in each auction in which he or she participates. Thus, total auction participants for a given period is the sum of the auction participants in each auction conducted during that period. We use this metric to allow us to compare our online auction marketplaces to our

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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 three and six months ended March 31, 2015 and March 31, 2014, approximately 640,000 and 1,271,000, and 665,000 and 1,268,000, total auction participants participated in auctions on our marketplaces, respectively.

*Completed transactions.* Completed transactions represents the number of auctions in a given period from which we have recorded revenue. Similar to GMV, we believe that completed transactions is a key business metric because it provides an additional measurement of the volume of activity flowing through our marketplaces. During the three and six months ended March 31, 2015 and March 31, 2014, we completed approximately 146,000 and 291,000, and 132,000 and 261,000 transactions, respectively.

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**Non-GAAP Financial Measures**

*EBITDA and adjusted EBITDA.* EBITDA is a supplemental non-GAAP financial measure and is equal to net income plus interest expense and other (income) expense, net; provision for income taxes; amortization of contract intangibles; and depreciation and amortization. Our definition of adjusted EBITDA differs from EBITDA because we further adjust EBITDA for stock-based compensation expense, acquisition costs such as transaction expenses and changes in earn out estimates, and goodwill and long-lived assets impairment.

We believe EBITDA and adjusted EBITDA are useful to an investor in evaluating our performance for the following reasons:

- The amortization of contract intangibles relates to amortization of the contract related intangible assets associated with the Jacobs Trading acquisition on October 1, 2011 and the NESAs 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 fluctuated significantly 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.
- The authoritative guidance for stock-based compensation requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their estimated fair values. 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.
- The authoritative guidance related to business combinations requires the recognition of contingent consideration so that it is recognized at the time of acquisition rather than when it is probable and disallows the capitalization of transaction costs. Accordingly, we believe adjusting net income for these acquisition related expenses is useful to investors when evaluating the operating performance of our business on a consistent basis from year-to-year.
- We believe these measures 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 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.

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- 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.

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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 net income to EBITDA and adjusted EBITDA for the periods presented.

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
	(In thousands) (unaudited)			
Net income (loss)	\$ 1,381	\$ 5,631	\$ (62,735)	\$ 12,724
Interest and other expense (income), net	39	79	77	100
Provision (benefit) for income taxes	2,391	3,753	(18,527)	8,482
Amortization of contract intangibles		2,272	1,211	4,679
Depreciation and amortization	1,994	1,973	3,986	3,977
<b>EBITDA</b>	<b>5,805</b>	<b>13,708</b>	<b>(75,988)</b>	<b>29,962</b>
Stock compensation expense	2,810	2,908	5,412	6,567
Acquisition costs and related fair value adjustments and impairment of goodwill and long-lived assets		85	96,238	180
<b>Adjusted EBITDA</b>	<b>\$ 8,615</b>	<b>\$ 16,701</b>	<b>\$ 25,662</b>	<b>\$ 36,709</b>

### **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.



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*Revenue recognition.* For transactions in our online 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.

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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. In 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.
  
- 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 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 have general inventory risk.
  
- 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 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).

The amount of our revenue that was generated outside of the U.S. for the three and six months ended March 31, 2015 and 2014 was 11.8% and 13.8%, and 9.6% and 10.3%, respectively.

*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.

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Generally, 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. 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 of our two reporting units. 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.

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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 (as discussed in Notes 5 and 14), 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 2015.

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 ( DCF ) 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 \$125.6 million at March 31, 2015. Such events may include strategic decisions made in response to economic and competitive conditions, the 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 apply the authoritative guidance related to accounting for uncertainty in income taxes. We concluded that there were no uncertain tax positions identified during our analysis.

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

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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.

*Stock-based compensation.* We recognize in the statements of operations all share-based payments to employees, including grants of employee stock options, 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.

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.

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**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 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 contract intangibles associated with the Jacobs Trading acquisition on October 1, 2011, and the NESAs transaction on November 1, 2012. The intangible asset created in conjunction with the acquisition of Jacobs Trading was valued at \$33.3 million and was being amortized over 55 months on a straight-line basis. The amortization period was correlated to the base term of the Wal-Mart contract from the acquisition date, exclusive of renewal periods. Upon the early termination of the Wal-Mart contract 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 and was being amortized over 20 months, on a straight-line basis. The amortization period was

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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 and related fair value adjustments and impairment of goodwill and long-lived assets.* Acquisition costs consist of expenses incurred to complete a business combination, adjustments to the fair value of earn-outs, and impairment of goodwill and long-lived assets.

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

*Income taxes.* During fiscal years 2013 and 2014, we had an effective income tax rate of approximately 40.0% and 39.3%, respectively, which included federal, state and foreign income taxes. We estimate that our fiscal 2015 effective income tax rate will be approximately 22.8% as a result of the tax benefit generated from the goodwill and long-lived asset impairment. We expect our future years' tax rates to be between 38% and 40%.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Revenue	100.0%	100.0%	100.0%	100.0%
Costs and expenses:				
Cost of goods sold (excluding amortization)	41.4	42.3	42.5	40.7
Profit-sharing distributions	7.4	6.5	7.5	7.4
Technology and operations	24.0	22.6	22.6	21.9
Sales and marketing	10.5	8.1	9.3	8.1
General and administrative	11.1	9.7	9.2	9.9
Amortization of contract intangibles		1.8	0.5	1.8
Depreciation and amortization	1.9	1.5	1.8	1.6
Acquisition costs and related fair value adjustments and impairment of goodwill and long-lived assets		0.1	42.2	0.1
Total costs and expenses	96.3	92.6	135.6	91.5
Income (loss) from operations	3.7	7.4	(35.6)	8.5
Interest and other expense, net	(0.0)	(0.1)	(0.0)	(0.0)
Income (loss) from operations before provision (benefit) for income taxes	3.7	7.3	(35.6)	8.5
(Provision) benefit for income taxes	(2.4)	(2.9)	8.1	(3.4)
Income (loss) from operations	1.3%	4.4%	(27.5)%	5.1%

***Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014***

*Revenue.* Revenue decreased \$25.4 million, or 19.8%, to \$102.9 million for the three months ended March 31, 2015 from \$128.3 million for the three months ended March 31, 2014, primarily due to (1) a 24.0% decrease, or \$13.2 million, in our DoD marketplaces as we have ceased sales of rolling stock and continue to process more low value product; and (2) a 21.5% decrease, or \$12.5 million, in our retail commercial marketplaces primarily as a result of the termination of the Wal-Mart Agreement. These decreases were offset in part by a 12.3% increase, or \$0.5 million, in our state and local government (GovDeals) marketplace. The amount of gross merchandise volume decreased \$37.8 million, or 16.6%, to \$189.4 million for the three months ended March 31, 2015 from \$227.2 million for the three months ended March 31, 2014, primarily due to (1) the decreases in our DoD marketplaces discussed above; (2) a 29.4% decrease, or \$26.1 million, in our retail commercial marketplaces primarily as a result of the termination of the Wal-Mart Agreement; and (3) a 10.8%, or \$4.8 million, decrease in our commercial capital assets marketplaces, which utilize the consignment model resulting in an immaterial effect on revenue. These decreases were offset in part by a 16.2% increase, or \$6.3 million, in our state and local government (GovDeals) marketplace.

*Cost of goods sold (excluding amortization).* Cost of goods sold (excluding amortization) decreased \$11.6 million, or 21.4%, to \$42.7 million for the three months ended March 31, 2015 from \$54.3 million for the three months ended March 31, 2014. As a percentage of revenue, cost of goods sold (excluding amortization) decreased to 41.4% from 42.3%. These decreases are primarily due to decreases in property flow in our



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retail commercial marketplaces as a result of the termination of the Wal-Mart Agreement.

*Profit-sharing distributions.* Profit-sharing distributions decreased \$0.7 million, or 8.9%, to \$7.6 million for the three months ended March 31, 2015 from \$8.3 million for the three months ended March 31, 2014, primarily as a result of a decline in the Scrap Contract sales. As a percentage of revenue, profit-sharing distributions increased to 7.4% from 6.5%, primarily as a result of the 19.8% decrease in revenue as described above.

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*Technology and operations expenses.* Technology and operations expenses decreased \$4.3 million, or 14.9%, to \$24.7 million for the three months ended March 31, 2015 from \$29.1 million for the three months ended March 31, 2014, primarily due to (1) a decrease in expenses of \$2.9 million in staff and temporary wages, primarily as a result of our recent business realignment initiative; and (2) a decrease in expenses of \$1.4 million in warehouse expense as our inventory balance has declined resulting in lower storage costs. As a percentage of revenue, technology and operations expenses increased to 24.0% from 22.6%, primarily as a result of the decrease in revenue as described above.

*Sales and marketing expenses.* Sales and marketing expenses increased \$0.3 million, or 3.3%, to \$10.8 million for the three months ended March 31, 2015 from \$10.5 million for the three months ended March 31, 2014, which is not significant. As a percentage of revenue, sales and marketing expenses increased to 10.5% from 8.1% primarily as a result of the decrease in revenue as described above.

*General and administrative expenses.* General and administrative expenses decreased \$1.1 million, or 9.1%, to \$11.4 million for the three months ended March 31, 2015 from \$12.5 million for the three months ended March 31, 2014, primarily due to our recent business realignment initiative. As a percentage of revenue, general and administrative expenses increased to 11.1% from 9.7%, primarily due to the decrease in revenue as described above.

*Amortization of contract intangibles.* Amortization of contract intangibles was primarily related to the contract intangible asset created in conjunction with the Jacobs Trading acquisition which was valued at \$33.3 million and was being amortized over 55 months on a straight-line basis. Amortization of contract intangibles for the three months ended March 31, 2015 and March 31, 2014, was \$0.0 million and \$2.3 million, respectively. This decrease was 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 were consistent at \$2.0 million for the three months ended March 31, 2015 and March 31, 2014.

*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 decreased \$0.1 million, or 100.0%, to \$0.0 million for the three months ended March 31, 2015 from \$0.1 million for the three months ended March 31, 2014, which is not significant.

*Interest and other expense (income), net.* Interest and other expense (income), net, decreased \$0.1 million, or 100%, to \$0.0 million for the three months ended March 31, 2015 from \$0.1 million for the three months ended March 31, 2014, which is not significant.

*Provision for income tax expense.* Income tax expense decreased \$1.4 million, or 36.2%, to \$2.4 million for the three months ended March 31, 2015 from \$3.8 million for the three months ended March 31, 2014, primarily due to a decrease in our estimated fiscal year 2015 tax rate to 22.8% as a result of the tax benefit generated from the goodwill and long-lived asset impairment charge taken during the three months ended December 31, 2014. We expect our future years tax rates to be between 38% and 40%.

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*Net income.* Net income decreased \$4.2 million, or 75.4%, to \$1.4 million for the three months ended March 31, 2015 from \$5.6 million for the three months ended March 31, 2014.

### ***Six Months Ended March 31, 2015 Compared to Six Months Ended March 31, 2014***

*Revenue.* Revenue decreased \$22.2 million, or 8.9%, to \$228.1 million for the six months ended March 31, 2015 from \$250.3 million for the six months ended March 31, 2014, primarily due to (1) a 15.0% decrease, or \$17.1 million, in our retail commercial marketplaces primarily as a result of the termination of the Wal-Mart Agreement; and (2) a 11.7% decrease, or \$12.2 million, in our DoD marketplaces as we have ceased the sales of rolling stock and continue to process more low value product. These decreases are offset in part by (1) a 24.1% increase, or \$5.8 million, in our commercial capital assets marketplace; and (2) a 16.4% increase, or \$1.3 million, in our state and local government (GovDeals) marketplace. The amount of gross merchandise volume decreased \$26.9 million, or 5.8%, to \$434.7 million for the six months ended March 31, 2015 from \$461.6 million for the six months ended March 31, 2014, primarily due to (1) a 26.1% decrease, or \$45.4 million, in our retail commercial marketplaces primarily as a result of the termination of the Wal-Mart Agreement; and (2) an 11.7% decrease, or \$12.2 million, in our DoD marketplaces as we continue to process more low value product. These decreases were offset in part by (1) a 16.3% increase, or \$17.2 million, in our commercial capital assets vertical; and (2) a 17.3% increase, or \$13.4 million, in our state and local government (GovDeals) marketplace.

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*Cost of goods sold (excluding amortization).* Cost of goods sold (excluding amortization) decreased \$5.0 million, or 4.9%, to \$97.0 million for the six months ended March 31, 2015 from \$102.0 million for the six months ended March 31, 2014, primarily due to the termination of the Wal-Mart Agreement. As a percentage of revenue, cost of goods sold (excluding amortization) increased to 42.5% from 40.7%, primarily due to the decrease in revenue as described above.

*Profit-sharing distributions.* Profit-sharing distributions decreased \$1.3 million, or 6.9%, to \$17.1 million for the six months ended March 31, 2015 from \$18.4 million for the six months ended March 31, 2014, primarily as a result of a decline in the Scrap Contract sales. As a percentage of revenue, profit-sharing distributions increased to 7.5% from 7.4%, which is not significant.

*Technology and operations expenses.* Technology and operations expenses decreased \$3.1 million, or 5.6%, to \$51.6 million for the six months ended March 31, 2015 from \$54.7 million for the six months ended March 31, 2014 primarily due to a decrease in expenses of \$3.1 million in staff and temporary wages, as a result of our recent business realignment initiative. As a percentage of revenue, technology and operations expenses increased to 24.0% from 22.6%, primarily as a result of the decrease in revenue as described above.

*Sales and marketing expenses.* Sales and marketing expenses increased \$0.9 million, or 4.4%, to \$21.2 million for the six months ended March 31, 2015 from \$20.3 million for the six months ended March 31, 2014, which is not significant. As a percentage of revenue, sales and marketing expenses increased to 9.3% from 8.1%, primarily as a result of the decrease in revenue as described above.

*General and administrative expenses.* General and administrative expenses decreased \$3.8 million, or 15.5%, to \$20.9 million for the six months ended March 31, 2015 from \$24.7 million for the six months ended March 31, 2014. As a percentage of revenue, general and administrative expenses decreased to 9.2% from 9.9%. These decreases are primarily due to our recent business realignment initiative, streamlining our GoIndustry global operations, and lowering our external general and administrative expenses.

*Amortization of contract intangibles.* Amortization of contract intangibles was primarily related to the contract intangible asset created in conjunction with the Jacobs Trading acquisition which was valued at \$33.3 million and was being amortized over 55 months on a straight-line basis. Amortization of contract intangibles for the six months ended March 31, 2015 and March 31, 2014, was \$1.2 million and \$4.7 million, respectively. This decrease was 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 were consistent at \$4.0 million for the six months ended March 31, 2015 and March 31, 2014.

*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 533.6%, or \$96.1 million, for the six months ended March 31, 2015 from \$0.2 million for the six months ending March 31, 2014, primarily due to the write-downs of impaired goodwill and long-lived assets mostly as a result of the loss of the Wal-Mart Agreement on December 1, 2014 and a significant decline in market capitalization.

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*Interest and other expense (income), net.* Interest and other expense (income), net, was consistent at \$0.1 million for the six months ended March 31, 2015 and March 31, 2014.

*(Benefit) provision for income tax expense.* Income tax expense decreased \$27.0 million, or 318.4%, to a \$18.5 million income tax benefit for the six months ended March 31, 2015 from \$8.5 million income tax expense for the six months ended March 31, 2014, primarily due to a decrease in our estimated fiscal year 2015 tax rate to 22.8% as a result of the tax benefit generated from the goodwill and long-lived asset impairment charge taken during the three months ended December 31, 2014. We expect our future years tax rates to be between 38% and 40%.

*Net (loss) income.* Net income decreased \$75.5 million, or 593.0%, to \$62.7 million net loss for the six months ended March 31, 2015 from net income of \$12.7 million for the six months ended March 31, 2014, primarily due to the write-down of impaired goodwill and long-lived assets.

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**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 March 31, 2015, we had approximately \$86.2 million in cash and cash equivalents and \$66.9 million available under our \$75.0 million senior credit facility, as amended, due to issued letters of credit for \$8.1 million; \$1.0 million of our availability under this facility is set aside as a contractual obligation under our DoD Scrap Contract.

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 \$2.6 million as of March 31, 2015. As of March 31, 2015 and September 30, 2014, approximately \$15.7 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.

Since 2008, 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 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 our available cash. Our Board of Directors reviews the share repurchase program periodically, the last such review having occurred in February 2014. We did not repurchase any shares during the three and six months ended March 31, 2015 and repurchased approximately 129,000 shares during the three and six months ended March 31, 2014. As of March 31, 2015, there was approximately \$5.1 million that may yet be expended to repurchase shares under the program.

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

***Changes in Cash Flows: Six Months Ended March 31, 2015 Compared to Six Months Ended March 31, 2014***

Net cash provided by operating activities was \$28.9 million for the six months ended March 31, 2015 and \$9.1 million for the six months ended March 31, 2014. For the six months ended March 31, 2015, net cash provided by operating activities primarily consisted of a net loss of \$62.7 million, depreciation and amortization expense of \$5.2 million, stock compensation expense of \$5.4 million, impairment of goodwill and long-lived assets of \$96.2 million, inventory decrease of \$29.3 million, and a net decrease in accounts receivable and prepaid assets of \$7.3 million, offset in part by a deferred tax benefit of \$22.1 million as a result of the impairment of goodwill and long-lived assets, net benefit from for inventory allowance and doubtful accounts of \$1.3 million, a net decrease in accounts payable, accrued expenses and other liabilities of \$28.3 million, and incremental tax from exercises of common stock options of \$0.1 million, net. For the six months ended March 31, 2014, net cash provided by operating activities primarily consisted of net income of \$12.7 million, depreciation and amortization expense of \$8.7 million, stock compensation expense of \$6.6 million, and a net increase in accounts payable, accrued expenses and other liabilities of \$36.2 million, offset in part by an increase in inventory of \$42.7 million, a net increase in accounts receivable, inventory and prepaid assets of \$9.5 million, and provisions for inventory allowance, doubtful accounts, and incremental tax from exercises of common stock options of \$2.9 million, net.

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Net cash used in investing activities was \$5.1 million and \$5.0 million for the six months ended March 31, 2015 and 2014, respectively. Net cash used in investing activities for the six months ended March 31, 2015 consisted primarily of \$5.1 million for purchases of equipment and leasehold improvements. Net cash used in investing activities for the six months ended March 31, 2014 consisted primarily of \$5.0 million for purchases of equipment and leasehold improvements.

Net cash provided by financing activities was \$0.2 million and \$2.5 million for the six months ended March 31, 2015 and 2014, respectively. Net cash provided by financing activities for the six months ended March 31, 2015 consisted primarily of proceeds from the exercise of common stock options including a tax benefit of \$0.2 million. Net cash provided by financing activities for the six months ended March 31, 2014 consisted primarily of proceeds from the exercise of common stock options including a tax benefit of \$5.6 million, offset in part by \$3.1 million in stock repurchases.

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*Capital Expenditures.* Our capital expenditures consist primarily of computers and purchased software, office equipment, furniture and fixtures, and leasehold improvements. The timing and volume of such capital expenditures in the future will be affected by the addition of new customers or expansion of existing customer relationships. We expect capital expenditures to range from \$8.0 million to \$9.0 million in the fiscal year ending September 30, 2015. We intend to fund those expenditures primarily from operating cash flows. Our capital expenditures for the six months ended March 31, 2015 were \$5.1 million. As of March 31, 2015, we had no outstanding commitments for capital expenditures.

*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 March 31, 2015, we had no outstanding indebtedness under our senior credit facility and our borrowing availability was \$66.9 million due to issued letters of credit for \$8.1 million; \$1.0 million of our availability under this facility is set aside as a contractual obligation under our DoD Scrap Contract. 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 March 31, 2015, we were in full compliance with the terms and conditions of our credit agreement.

We believe that our existing cash and cash equivalents will be sufficient to meet our anticipated cash needs for at least the next 12 months. Our future capital requirements will depend on many factors including our rate of revenue growth, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, the development and deployment of new marketplaces, the introduction of new value added services and the costs to establish additional distribution centers. Although we are currently not a party to any definitive agreement with respect to potential investments in, or acquisitions of, complementary businesses, products or technologies, we may enter into these types of arrangements in the future, which could also require us to seek additional equity or debt financing. The sale of additional equity securities or convertible debt securities would result in additional dilution to our stockholders. Additional debt would result in increased interest expense and could result in covenants that would restrict our operations. There is no assurance that such financing, if required, will be available in amounts or on terms acceptable to us, if at all.

**Off-Balance Sheet Arrangements**

We do not have any transactions, obligations or relationships that could be considered material off-balance sheet arrangements.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

*Interest rate sensitivity.* We had no debt as of March 31, 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.



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*Exchange rate sensitivity.* We consider our exposure to foreign currency exchange rate fluctuations to be minimal, as approximately 13.8% percent of our sales are denominated in foreign currencies. We have not engaged in any hedging or other derivative transactions to date.

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**Item 4. Controls and Procedures.**

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

During the most recent fiscal quarter, there has not occurred any change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

As of March 31, 2015, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer, our Chief Financial Officer, and our Chief Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer concluded that our disclosure controls and procedures were effective and were operating to provide reasonable assurance that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer, principal financial officer, and principal accounting officer, as appropriate to allow timely decisions regarding required disclosure.

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**PART II OTHER INFORMATION**

**Item 1. 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 us and our chief executive officer, chief financial officer, and chief accounting officer, on behalf of shareholders 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 our growth initiative, growth potential, and financial and operating conditions, thereby artificially inflating our 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 does not name the chief accounting officer as a defendant. We believe the allegations are without merit on March 2, 2015, moved to dismiss the amended complaint for failure to state a claim or plead fraud with the requisite particularity. We cannot estimate a range of a potential liability, if any, at this time.

From time to time, we may become involved in litigation relating to claims arising in the ordinary course of our business. There are no claims or actions pending or threatened against us that, if adversely determined, would, in our judgment, have a material adverse effect on us.

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**Item 1A. Risk Factors.**

*In addition to the other information set forth in this report, you should carefully consider the factors set forth in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended September 30, 2014, which could materially affect our business, financial condition or future results. The risks described in our Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.*

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**Item 6. Exhibits.**

<b>Exhibit No.</b>	<b>Description</b>
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.
10.1	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.
10.2	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.
10.3	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.
10.4	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.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.3	Certification of Chief Accounting Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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 Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, 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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**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 May 8, 2015.

LIQUIDITY SERVICES, INC.  
(Registrant)

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

By: /s/ James M. Rallo  
James M. Rallo  
*Chief Financial Officer and Treasurer*

By: /s/ Kathryn A. Domino  
Kathryn A. Domino  
*Chief Accounting Officer*