

LIQUIDITY SERVICES INC
 Form 424B4
 March 15, 2007

**Filed pursuant to Rule
 424(b)(4)
 Registration No.: 333-140643**

PROSPECTUS

3,500,000 Shares

Common Stock

We are offering for sale 100,000 shares of our common stock. The selling stockholders included in this prospectus are offering an additional 3,400,000 shares of common stock.

Our common stock is listed on the Nasdaq Global Market and traded under the symbol LQDT. The closing price of our common stock on March 13, 2007 was \$18.06.

Investing in our common stock involves risk. See Risk Factors beginning on page 11.

	Per Share		Total
Public offering price	\$	18.000	\$ 63,000,000
Underwriting discounts and commissions	\$	0.945	\$ 3,307,500
Proceeds, before expenses, to Liquidity Services, Inc.	\$	17.055	\$ 1,705,500
Proceeds, before expenses, to the selling stockholders	\$	17.055	\$ 57,987,000

Certain of the selling stockholders have granted the underwriters the right to purchase up to 525,000 additional shares of common stock to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares on or about March 19, 2007.

Friedman Billings Ramsey

CIBC World Markets

RBC Capital Markets

Cantor Fitzgerald & Co.

**Lazard Capital Markets
 Stifel Nicolaus**

Oppenheimer & Co.

Prospectus dated March 13, 2007

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You should rely only on the information contained in this document or to which we have referred you. We have not, and the underwriters have not, authorized anyone to provide you with different information. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

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PROSPECTUS SUMMARY

The following is a brief summary of selected contents of this prospectus. It does not contain all the information that may be important to you. You should read the entire prospectus, including our consolidated financial statements and related notes incorporated by reference in this prospectus. You should carefully consider, among other things, the matters discussed under the caption Risk Factors before making an investment decision.

Overview

We are a leading online auction marketplace for wholesale, surplus and salvage assets. Our marketplaces provide professional buyers access to a global supply of wholesale, surplus and salvage assets organized into over 500 categories and presented with product information necessary to make more informed bids, including digital images, detailed descriptions and extensive technical information. We enable our corporate and government sellers to enhance their financial returns from the sale of excess assets by providing a liquid marketplace and integrated value-added services, including sales and marketing, logistics and transaction settlement. Our online auction marketplaces are www.liquidation.com, www.govliquidation.com and www.liquibiz.com. We also operate a wholesale industry portal, www.goWholesale.com, that connects advertisers with buyers seeking products for sale and business services.

We believe our ability to create liquid marketplaces for wholesale, surplus and salvage assets generates a continuous flow of goods from our corporate and government sellers and that this flow of goods attracts an increasing number of professional buyers to our marketplaces. During fiscal year 2006, the number of registered buyers grew from approximately 386,000 to approximately 524,000, or 35.7%. By December 31, 2006, the number of registered buyers had grown to approximately 565,000. In fiscal year 2006 and the three months ended December 31, 2006, we generated revenue of \$147.8 million and \$45.2 million, respectively. During the past three fiscal years, we have conducted over 508,000 online transactions generating approximately \$364 million in gross merchandise volume. Our revenue has grown at a compound annual growth rate of approximately 35% for the last four fiscal years, and we have been profitable since fiscal year 2003 and cash flow positive since fiscal year 2002.

Industry Overview

We believe many manufacturers, retailers, corporations and government agencies focus on the procurement of new goods for initial use or resale but not on the disposal, liquidation and tracking of goods in the reverse supply chain, such as retail customer returns, overstock products and end-of-life goods. We believe that the volume of goods in this reverse supply chain is continuing to increase, driven by accelerating product innovation, supply chain complexity, government regulations and the return policies of national and online retailers. According to D.F. Blumberg Associates, Inc., a research and consulting firm, the estimated reverse logistics market in North America will grow from approximately \$38.5 billion in 2004 to over \$63.1 billion in 2008. In an effort to streamline and improve the efficiency of their disposition activities for surplus and end-of-life assets, federal and state governments have made significant progress toward outsourcing these functions. Similarly, we believe corporations continue to realize that their current supply chain infrastructure is not well suited to cost effectively handle the sale of surplus, salvage, returned and overstocked merchandise.

Traditional methods of wholesale, surplus and salvage asset disposition, such as live on-site auctions and negotiated direct sales, are generally highly fragmented and limited in geographic reach. As a result, buyers are often unaware of or unable to participate in these events, which reduces buyer competition and the ultimate value a seller realizes from a sale. We believe the Internet provides professional buyers of

wholesale, surplus and salvage assets with a more effective and efficient means to identify and source goods available for immediate purchase.

Our Solution

Our solution is comprised of our online auction marketplaces, value-added services and our wholesale search and advertising portal. Our three online marketplaces serve as a transparent and convenient method for the sale of wholesale, surplus and salvage assets and are designed to address the particular requirements of the sellers and professional buyers we serve. Sellers and buyers come together to transact for goods sold as-is, where-is, generally without the discretionary right to return the goods. 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, and specialty equipment and sell these products in lot sizes ranging from full truck loads to pallets, packages and large individual items.

Our comprehensive solution includes value-added services that simplify the sale process for sellers and enhance the utility of our marketplaces for our buyers. Unlike other online auction websites on which sellers post information and deal directly with the buyer to complete a sale, we manage each step of the transaction. We perform all required pre-sale services such as receiving and lotting merchandise and implementing marketing strategies. In a centralized location, our buyers are provided access to detailed product descriptions, digital images, seller transaction histories, shipping weights and dimensions and estimated shipping costs. After a transaction is executed, we also perform all required post-sale services such as payment collection, settlement and reporting. We believe these value-added services significantly contribute to an enhanced selling price while providing buyers with a secure transaction environment and confidence in the goods they purchase.

We believe our marketplaces benefit over time from greater scale and adoption by our constituents. Aggregating buyer demand enables us to generate a continuous flow of goods from corporate and government sellers, which in turn attracts an increasing number of professional buyers. As buyers continue to discover and use our online trading platform as an effective method to source assets, we believe our marketplaces become an increasingly attractive sales channel for corporations and government agencies. We believe this self-reinforcing cycle results in greater transaction volume and enhances the value of our marketplaces.

In addition to our marketplaces, our wholesale industry portal, www.goWholesale.com, provides a single online destination for buyers to find wholesale products, suppliers and services. We developed this portal to provide advertisers with the ability to reach our growing network of professional buyers.

Our Benefits to Sellers and Buyers

We offer the following key benefits to sellers and buyers:

Benefits to Sellers	Benefits to Buyers
<ul style="list-style-type: none"> • Access to a broad, aggregated buyer audience enhances value realized on the sale of wholesale, surplus and salvage assets 	<ul style="list-style-type: none"> • Marketplaces provide access to a continuous flow of wholesale, surplus and salvage assets
<ul style="list-style-type: none"> • Comprehensive service offerings allow sellers the ability to fully outsource reverse supply chain activities 	<ul style="list-style-type: none"> • Complete product search capabilities with search criteria including keyword, category, lot size, condition and location improve information availability
<ul style="list-style-type: none"> • Profit-sharing arrangements align our interests with those of our sellers 	<ul style="list-style-type: none"> • Intelligent alerts delivered through e-mail provide buyers with notice of upcoming auctions of interest
<ul style="list-style-type: none"> • Online auction environment and liquid marketplaces allow sellers to sell goods in any condition for cash 	<ul style="list-style-type: none"> • Superior product information, including digital images, detailed descriptions with shipping dimensions and extensive technical information, enables more informed bidding
<ul style="list-style-type: none"> • Faster cycle times and greater flexibility than traditional auction methods improve seller recovery on asset sales 	<ul style="list-style-type: none"> • Shipping quotes and services assure buyers can both estimate the cost of delivery in advance of a bid and have the goods delivered
<ul style="list-style-type: none"> • Discrete venue to sell surplus and salvage assets preserves brand value and mitigates channel conflict 	<ul style="list-style-type: none"> • Secure settlement and dispute resolution assure the delivery of goods and provide a means to resolve problems
<ul style="list-style-type: none"> • Transaction platform provides transparent reporting capabilities 	<ul style="list-style-type: none"> • Tracking and reporting tools provide buyers real time transaction information

Our Growth Strategy

Our objective is to build upon our position as a leading online auction marketplace for selling wholesale, surplus and salvage assets. The key elements of our strategy are:

Grow our buyer base and increase the total number of auction participants. We intend to increase the level of bidding activity and competition within each auction by growing our database of professional buyers and implementing an increased variety of both online and traditional marketing programs to increase buyer participation in our online marketplaces.

Increase penetration of existing sellers. We intend to increase our sales by further penetrating our existing seller relationships to manage and sell an increased share of their available supply of wholesale, surplus and salvage assets.

Develop new seller relationships. We intend to increase our number of corporate and government seller relationships by leveraging our demonstrated performance record and expanded sales and marketing initiative.

Develop and enhance features and services. We intend to utilize the insights gained from our completed auctions to develop and enhance features and services that benefit our buyers and sellers.

Expand our wholesale industry portal and advertising network. We intend to further expand our advertising network and develop products that enable wholesale buyers and sellers to more quickly and easily find, create and organize relevant industry information.

Acquire complementary businesses. We intend to continue our disciplined and targeted acquisition strategy to increase our share of the supply of wholesale, surplus and salvage goods sold by selectively acquiring complementary businesses, such as the STR acquisition which we completed in October 2006.

Our Government Contracts

We are the exclusive contractor of the Defense Reutilization and Marketing Service, or DRMS, for the sale of surplus and scrap assets of the United States Department of Defense, or DoD, in the United States. In June 2001, we were awarded a competitive-bid exclusive contract under which we acquire, manage and sell all usable surplus property of DoD turned in to DRMS. This contract expires in June 2008 and accounted for 91.0%, 87.5%, 56.6% and 40.9% of our revenue and for 77.5%, 76.5%, 48.3% and 34.7% of our gross merchandise volume for the fiscal years ended September 30, 2004, 2005 and 2006 and the three months ended December 31, 2006, respectively. Total revenue under our DoD surplus property contract has increased at a compound annual growth rate in excess of 17% since fiscal year 2002. In June 2005, we were awarded a competitive-bid exclusive contract under which we acquire, manage and sell substantially all scrap property of DoD turned in to DRMS. This contract expires in 2012, subject to DoD's right to extend for three additional one-year terms, and accounted for 0.4%, 26.5% and 27.7% of our revenue and for 0.3%, 22.6% and 23.5% of our gross merchandise volume in fiscal years 2005, 2006 and the three months ended December 31, 2006, respectively.

Risks Associated with Our Business

We are subject to a number of risks, which you should be aware of before you decide to buy our common stock. These risks are discussed more fully in the "Risk Factors" section of this prospectus beginning on page 11. We depend on contracts with the DoD for a significant portion of our revenue, as described above. If our DoD contracts are terminated or if our relationship with DoD is impaired, we could experience a significant decrease in our revenue and have difficulty generating income. In addition, our ability to increase our revenue and maintain profitability depends on whether we can successfully expand the supply of merchandise available for sale on our online marketplaces and attract and retain active professional buyers to purchase the merchandise. We operate in a highly competitive, rapidly growing online services market for auctioning or liquidating wholesale, surplus and salvage assets. We may not be able to obtain merchandise that meets our buyer's price or selection requirements, which may cause our buyer base to decline or not grow as rapidly as we expect.

Corporate Information

We were incorporated in Delaware in November 1999 as Liquidation.com, Inc. and commenced operations in January 2000. We were renamed Liquidity Services, Inc. in November 2001. Our principal executive offices are located at 1920 L Street, N.W., 6th Floor, Washington D.C. 20036, and our telephone number is (202) 467-6868. Our corporate website is located at www.liquidityservicesinc.com. The information contained in, or that can be accessed through, our website is not part of this prospectus.

Unless otherwise indicated, the terms "Liquidity Services, Inc.," "Liquidity Services," "LSI," "Company," "company," "we," "us" and "our" refer to Services, Inc. and its subsidiaries.

All references to years in this prospectus, unless otherwise noted, refer to our fiscal years, which end on September 30. For example, a reference to "2006," "fiscal 2006" or "fiscal year 2006" means that 12-month period that ended September 30, 2006.

The Offering

Common stock offered by us	100,000 shares
Common stock offered by the selling stockholders	3,400,000 shares
Common stock to be outstanding after the offering	27,812,084 shares
Use of proceeds	Our net proceeds from this offering after deducting estimated expenses will be approximately \$0.7 million. We will use these net proceeds for working capital and general corporate purposes. We will not receive any proceeds from the sale of shares by the selling stockholders.
Nasdaq Global Market symbol	LQDT

The share information in the table above is based on the number of shares outstanding as of February 8, 2007 and excludes:

- 2,306,313 shares issuable upon the exercise of outstanding stock options at a weighted average exercise price of \$11.25 per share; and
- 3,444,000 shares available for future issuance under our 2006 Omnibus Long-Term Incentive Plan.

Except as otherwise noted, all information in this prospectus assumes the underwriters do not exercise their over-allotment option.

Summary Consolidated Financial Data

You should read the following summary consolidated financial data together with our consolidated financial statements and the related notes incorporated by reference in this prospectus and with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus. The consolidated statement of operations data for the years ended September 30, 2004, 2005 and 2006 and the consolidated balance sheet data as of September 30, 2005 and 2006 are derived from, and are qualified by reference to, our consolidated financial statements that have been audited by Ernst & Young LLP, an independent registered public accounting firm, and that are incorporated by reference in this prospectus. The consolidated statement of operations data for the three months ended December 31, 2005 and 2006, and the consolidated balance sheet data as of December 31, 2006, are derived from, and are qualified by reference to, our unaudited consolidated financial statements that are incorporated by reference in this prospectus. The consolidated balance sheet data as of September 30, 2004 is derived from our audited consolidated financial statements that are not included or incorporated by reference in this prospectus.

	Year ended September 30,			Three months ended December 31,	
	2004	2005	2006	2005	2006
				(unaudited)	
	(dollars in thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenue	\$ 75,869	\$ 89,415	\$ 147,813	\$ 32,207	\$ 45,167
Costs and Expenses:					
Cost of goods sold (excluding amortization)	5,743	6,288	12,160	2,367	8,462
Profit-sharing distributions	39,718	48,952	80,253	18,170	18,729
Technology and operations	12,814	14,696	20,081		