

LIQUIDITY SERVICES INC  
Form DEF 14A  
January 21, 2011

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[Table of Contents](#)

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No.        )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

**Liquidity Services, Inc.**

---

(Name of Registrant as Specified In Its Charter)

---

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
  - (2) Aggregate number of securities to which transaction applies:
  - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

Edgar Filing: LIQUIDITY SERVICES INC - Form DEF 14A

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

---

Table of Contents

Fellow Stockholders:

We are pleased to invite you to attend the 2011 Annual Meeting of Stockholders of Liquidity Services, Inc. to be held on Wednesday, February 16, 2011, at 3:00 p.m., Eastern Time, at the offices of Gibson, Dunn & Crutcher LLP, located at 1050 Connecticut Avenue, NW, Washington, DC 20036.

Details regarding admission to the Annual Meeting and the business to be conducted are more fully described in the accompanying Notice of Annual Meeting of Stockholders and proxy statement.

Your vote is important. Whether or not you plan to attend the Annual Meeting, we hope you will vote as soon as possible. You may vote over the Internet, by telephone or by mailing a proxy or voting instruction card. Voting over the Internet, by phone or by written proxy will ensure your representation at the Annual Meeting regardless of whether you attend in person. Please review the instructions on the proxy or voting instruction card regarding each of these voting options.

Thank you for your ongoing support and continued interest in Liquidity Services, Inc.

Sincerely,  
/s/ WILLIAM P. ANGRICK, III

---

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

---

Table of Contents

**NOTICE OF ANNUAL MEETING OF LIQUIDITY SERVICES, INC. STOCKHOLDERS**

**Important Notice Regarding the Availability of Proxy Materials for the Stockholders Meeting to be Held on February 16, 2011: This Notice of Annual Meeting of Stockholders and Proxy Statement, Annual Report and Other Proxy Materials are Available at [www.envisionreports.com/LQDT](http://www.envisionreports.com/LQDT).**

<b>Time and Date</b>	3:00 p.m., Eastern Time, on February 16, 2011.
<b>Place</b>	The offices of Gibson, Dunn & Crutcher LLP, located at 1050 Connecticut Avenue, NW, Washington, DC 20036.
<b>Items of Business</b>	<p>Elect the three Class II directors named in the proxy statement to the Board of Directors to hold office until our Annual Meeting of Stockholders in 2014 or until their respective successors have been elected or appointed;</p> <p>Ratify the appointment of Ernst &amp; Young LLP as our independent registered public accounting firm for fiscal 2011;</p> <p>Approve an advisory resolution on executive compensation;</p> <p>Conduct an advisory vote on the frequency of conducting future advisory votes on executive compensation; and</p> <p>Transact any other business that may properly come before the Annual Meeting or any adjournment or postponement of the Annual Meeting.</p>
<b>Adjournments and Postponements</b>	Any action on the items of business described above may be considered at the Annual Meeting at the time and on the date specified above or at any time and date to which the Annual Meeting may be properly adjourned or postponed.
<b>Record Date</b>	You are entitled to notice of and to vote at the Annual Meeting and at any adjournment or postponement that may take place only if you were a stockholder as of the close of business on January 4, 2011.
<b>Annual Meeting Admission</b>	You will need an admission ticket or proof of ownership to enter the Annual Meeting. If your shares are held beneficially in the name of a broker, bank or other nominee and you plan to attend the Annual Meeting, you must present proof of your ownership of Liquidity Services stock, such as a bank or brokerage account statement, to be admitted to the Annual Meeting. If you would rather have an admission ticket, you may obtain one in advance by mailing a written request, along with proof of your ownership of Liquidity Services stock, to: Liquidity Services, Inc., Attn: Julie Davis, 1920 L Street, NW, 6 <sup>th</sup> Floor, Washington, DC 20036. All stockholders also must present a form of personal identification in order to be admitted to the Annual Meeting. No cameras, recording equipment, electronic devices, large bags, briefcases or packages will be permitted in the Annual Meeting.

---

Table of Contents

**Voting**

Your vote is very important. Whether or not you plan to attend the Annual Meeting, we encourage you to read this proxy statement and submit your proxy or voting instruction card as soon as possible. You may submit your proxy or voting instruction card for the Annual Meeting by completing, signing, dating and returning your proxy or voting instruction card in the pre-addressed envelope provided, or, in most cases, by using the telephone or the Internet. For specific instructions on how to vote your shares, please refer to the section entitled "Questions and Answers" beginning on page 1 of this proxy statement and the instructions on the proxy or voting instruction card. You may revoke a proxy prior to its exercise at the Annual Meeting by following the instructions in the accompanying proxy statement. Any stockholder attending the Annual Meeting may personally vote on all matters that are considered, in which event the signed proxy will be revoked.

This Notice of Annual Meeting of Stockholders, proxy statement, proxy card and voting instructions and our 2010 Annual Report are first being mailed on or about January 21, 2011.

By Order of the Board of Directors,  
/s/ JAMES E. WILLIAMS

---

**James E. Williams**  
*Vice President, General Counsel and  
Corporate Secretary*

---

Table of Contents

**TABLE OF CONTENTS**

	<b>Page</b>
<u>QUESTIONS AND ANSWERS</u>	<u>1</u>
<u>GOVERNANCE OF THE COMPANY</u>	<u>6</u>
<u>COMPENSATION OF NON-EMPLOYEE DIRECTORS</u>	<u>15</u>
<u>DIRECTOR COMPENSATION FOR FISCAL 2010</u>	<u>16</u>
<u>BENEFICIAL OWNERSHIP OF SHARES OF COMMON STOCK</u>	<u>17</u>
<u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	<u>20</u>
<u>CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS</u>	<u>20</u>
<u>PROPOSALS REQUIRING YOUR VOTE</u>	<u>20</u>
<u>ITEM 1 Election of Directors</u>	<u>20</u>
<u>BOARD OF DIRECTORS</u>	<u>23</u>
<u>EXECUTIVE OFFICERS AND MANAGEMENT</u>	<u>26</u>
<u>ITEM 2 Ratification of Independent Registered Public Accounting Firm</u>	<u>27</u>
<u>AUDITORS</u>	<u>27</u>
<u>ITEM 3 Approval of an Advisory Resolution on Executive Compensation</u>	<u>29</u>
<u>ITEM 4 Advisory Vote on the Frequency of Conducting Future Advisory Votes on Executive Compensation</u>	<u>29</u>
<u>EXECUTIVE COMPENSATION</u>	<u>30</u>
<u>COMPENSATION COMMITTEE REPORT</u>	<u>55</u>
<u>EQUITY COMPENSATION PLAN INFORMATION</u>	<u>55</u>
<u>REQUIREMENTS, INCLUDING DEADLINES, FOR SUBMISSION OF PROXY PROPOSALS, NOMINATION OF DIRECTORS AND OTHER BUSINESS OF STOCKHOLDERS</u>	<u>56</u>
<u>ANNUAL REPORT</u>	<u>58</u>

Table of Contents

**LIQUIDITY SERVICES, INC.  
1920 L STREET, NW, 6<sup>th</sup> FLOOR  
WASHINGTON, DC 20036**

**PROXY STATEMENT**

**QUESTIONS AND ANSWERS**

**Why did I receive these proxy materials?**

We are sending you this proxy statement as part of a solicitation by the Board of Directors of Liquidity Services, Inc. for use at our 2011 Annual Meeting of Stockholders (the "Annual Meeting") and at any adjournment or postponement that may take place. Unless the context otherwise requires, the terms "us," "we," "our" and the "Company" include Liquidity Services, Inc. and its consolidated subsidiaries.

You are invited to attend our Annual Meeting on Wednesday, February 16, 2011, beginning at 3:00 p.m., Eastern Time. The Annual Meeting will be held at the offices of Gibson, Dunn & Crutcher LLP, located at 1050 Connecticut Avenue, NW, Washington, DC 20036.

This Notice of Annual Meeting of Stockholders, proxy statement, proxy card and voting instructions and our 2010 Annual Report are first being mailed on or about January 21, 2011.

**Do I need a ticket to attend the Annual Meeting?**

You will need an admission ticket or proof of ownership to enter the Annual Meeting. If you plan to attend the Annual Meeting, please vote your proxy prior to the Annual Meeting but keep the admission ticket and bring it with you to the Annual Meeting.

If your shares are held beneficially in the name of a broker, bank or other nominee and you plan to attend the Annual Meeting, you must present proof of your ownership of Liquidity Services common stock, such as a bank or brokerage account statement, to be admitted to the Annual Meeting. If you would rather have an admission ticket, you may obtain one in advance by mailing a written request, along with proof of your ownership of Liquidity Services stock, to:

**Liquidity Services, Inc.  
Attn: Julie Davis  
1920 L Street, NW, 6<sup>th</sup> Floor  
Washington, DC 20036**

All stockholders also must present a form of personal identification in order to be admitted to the Annual Meeting.

No cameras, recording equipment, electronic devices, large bags, briefcases or packages will be permitted in the Annual Meeting.

**Who is entitled to vote at the Annual Meeting?**

Holders of Liquidity Services common stock at the close of business on January 4, 2011 (the "Record Date") are entitled to receive this Notice and to vote their shares at the Annual Meeting. As of the Record Date, there were 29,993,060 shares of common stock outstanding and entitled to vote. All holders of common stock shall vote together as a single class on each matter properly brought before the Annual Meeting.

Table of Contents

**What is the difference between holding shares as a stockholder of record and as a beneficial owner?**

If your shares are registered directly in your name with Liquidity Services' transfer agent, Computershare Trust Company, N.A., you are considered the "stockholder of record" with respect to those shares. The Notice of Annual Meeting of Stockholders, proxy statement, proxy card and voting instructions and our fiscal 2010 Annual Report have been sent directly to you by Liquidity Services.

If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the "beneficial owner" of shares held in street name. Access to the Notice of Annual Meeting of Stockholders, proxy statement, voting instruction card and voting instructions and our fiscal 2010 Annual Report is being provided to you by your bank, broker or other nominee, who is considered the stockholder of record with respect to those shares. As the beneficial owner, you have the right to direct your broker, bank or other nominee on how to vote your shares by using the voting instruction card included in the mailing or by following their instructions for voting by telephone or on the Internet (if available).

**How do I vote?**

You may vote using any of the following methods:

***By Mail***

Complete, sign and date the proxy card or voting instruction card and return it in the prepaid envelope. If you are a stockholder of record and you return your signed proxy card but do not indicate your voting preferences, the persons named in the proxy card will vote the shares represented by that proxy in accordance with the recommendations of the Board of Directors set forth under "What are the voting requirements for the matters to be voted on at the Annual Meeting?" below.

If you are a stockholder of record, and the prepaid envelope is missing, please mail your completed proxy card to **Liquidity Services, Inc., 1920 L Street, NW, 6<sup>th</sup> Floor, Washington, DC 20036, Attn: Corporate Secretary.**

***By Telephone or on the Internet***

The telephone and Internet voting procedures established by Liquidity Services for stockholders of record are designed to authenticate your identity, allow you to give your voting instructions and confirm that those instructions have been properly recorded.

You may vote by calling the toll-free telephone number on your proxy card. Please have your proxy card in hand when you call. Easy-to-follow voice prompts allow you to vote your shares and confirm that your instructions have been properly recorded. If you are located outside the United States, see your proxy card for additional instructions.

The website for Internet voting is [www.envisionreports.com/LQDT](http://www.envisionreports.com/LQDT). Please have your proxy card available when you go online. As with telephone voting, you can confirm that your instructions have been properly recorded. If you vote on the Internet, you also can request electronic delivery of future proxy materials.

Telephone and Internet voting facilities for stockholders of record will be available 24 hours a day, and will close at 11:59 p.m., Eastern Time, on February 15, 2011.

The availability of telephone and Internet voting for beneficial owners will depend on the voting processes of your broker, bank or other nominee, and we recommend that you follow the voting instructions in the materials you receive from them.



Table of Contents

If you vote by telephone or on the Internet, you do not have to return your proxy card or voting instruction card.

***In Person at the Annual Meeting***

All stockholders may vote in person at the Annual Meeting. You may also be represented by another person at the Annual Meeting by executing a legal proxy designating that person. If you are a beneficial owner of shares, you must obtain a legal proxy from your broker, bank or other nominee and present it to the inspectors of election with your ballot to be able to vote at the Annual Meeting.

**What can I do if I change my mind after I vote my shares?**

If you are a stockholder of record, you can revoke your proxy before it is exercised by:

sending written notice to the Corporate Secretary of the Company;

delivering a valid, later-dated proxy or a later-dated vote by telephone or on the Internet prior to the Annual Meeting; or

voting in person at the Annual Meeting.

If you are a beneficial owner of shares, you can revoke your proxy before it is exercised by submitting new voting instructions by contacting your broker, bank or other nominee. You may also vote in person at the Annual Meeting if you obtain a legal proxy as described in the answer to the previous question.

All shares represented by properly executed proxies received prior to the Annual Meeting and not revoked will be voted in accordance with the instructions indicated in such proxies. Properly executed proxies that do not contain voting instructions will be voted in accordance with the recommendations of the Board of Directors set forth under "What are the voting requirements for the matters to be voted on at the Annual Meeting?" below.

**What shares can I vote?**

You can vote all shares that you owned on the Record Date. These shares include (1) shares held directly in your name as the stockholder of record; and (2) shares held for you as the beneficial owner through a broker, bank or other nominee. Each outstanding share of Liquidity Services stock entitles its holder to cast one vote for each director nominee and one vote on each other matter to be voted upon.

**What is "householding" and how does it affect me?**

We have adopted a procedure approved by the Securities and Exchange Commission (the "SEC") called "householding." Under this procedure, stockholders of record who have the same address and last name and do not participate in electronic delivery of proxy materials will receive only one copy of our Notice of Annual Meeting of Stockholders and proxy statement and fiscal 2010 Annual Report, unless one or more of these stockholders notifies us that they wish to receive an individual copy. This procedure reduces our printing costs and postage fees and conserves natural resources.

Stockholders who participate in householding will continue to receive separate proxy cards.

If you are eligible for householding, but you and other stockholders of record with whom you share an address currently receive multiple copies of the Notice of Annual Meeting of Stockholders and proxy statement and fiscal 2010 Annual Report, or if you hold stock in more than one account, and in either case you wish to receive only a single copy of each of these documents for your household, please contact our transfer agent, Computershare Trust Company, N.A.

Table of Contents

(in writing: P.O. Box 43078, Providence, RI 02940-3078; from within the United States by telephone: (800) 662-7232; from outside the United States by telephone: (781) 575-2879).

If you participate in householding and wish to receive a separate copy of this Notice of Annual Meeting of Stockholders and proxy statement and fiscal 2010 Annual Report, please contact Computershare Trust Company, N.A., as indicated above and, upon written or oral request, a separate copy of these documents will be delivered to you promptly. Additionally, if you do not wish to participate in householding and prefer to receive separate copies of these documents in the future, please contact Computershare Trust Company, N.A., as indicated above.

If you are a beneficial owner of shares, you may request information about householding from your broker, bank or other nominee.

**Is there a list of stockholders entitled to vote at the Annual Meeting?**

The names of stockholders of record entitled to vote at the Annual Meeting will be available at the Annual Meeting and for ten days prior to the Annual Meeting for any purpose germane to the Annual Meeting, between the hours of 9:30 a.m. and 4:30 p.m., at our principal executive offices at 1920 L Street, NW, 6<sup>th</sup> Floor, Washington, DC 20036, by contacting the Corporate Secretary of the Company.

**How can I vote on each of the matters?**

In the election of directors, you may vote "for" all of the nominees, or your vote may be "withheld" with respect to one or all of the nominees. For the ratification of Ernst & Young LLP as our independent registered public accounting firm and approval of the advisory resolution on executive compensation, you may vote "for" or "against," or you may indicate that you wish to "abstain" from voting on the matter. For approval of the advisory vote on the frequency of conducting future advisory votes on executive compensation, you may vote for a frequency of "every year," "every two years" or "every three years" or you may indicate that you wish to "abstain" from voting on this matter.

**What is the quorum requirement for the Annual Meeting?**

The presence of the holders of a majority of the outstanding shares of common stock entitled to vote at the Annual Meeting, present in person or represented by proxy, is necessary to constitute a quorum. Abstentions and "broker non-votes" are counted as present and entitled to vote for purposes of determining a quorum. A "broker non-vote" occurs when a broker, bank or other nominee holding shares for a beneficial owner does not vote on a particular proposal because that holder does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner.

**Because of a change in New York Stock Exchange rules, brokers, banks and other nominees are not permitted to vote without instructions from the beneficial owner in the election of directors, or on the advisory resolution on executive compensation or the advisory vote on the frequency of conducting future advisory votes on executive compensation. Therefore, if your shares are held through a broker, bank or other nominee, they will not be voted on these matters unless you affirmatively vote your shares in one of the ways described above.** If you are a beneficial owner, your broker, bank or other nominee is permitted to vote your shares on the ratification of Ernst & Young LLP as our independent registered public accounting firm even if the broker, bank or other nominee does not receive voting instructions from you.

Table of Contents

**What are the voting requirements for the matters to be voted on at the Annual Meeting?**

A plurality of the votes cast is required for the election of directors. This means that the director nominees with the most "for" votes will be elected. Thus, shares as to which a stockholder withholds voting authority and broker non-votes will not be counted towards any director nominee's achievement of a plurality and will have no effect on the outcome of the election of directors. Stockholders may not cumulate their votes in favor of any one nominee.

The affirmative vote of the majority of the shares present, in person or by proxy, at the meeting and entitled to vote on the matter is required to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm and to approve the advisory resolution on executive compensation and the advisory vote on the frequency of conducting future advisory votes on executive compensation. Abstentions and broker non-votes, if any, are not counted as votes "for" or "against" these items.

If you sign your proxy card or voting instruction card with no further instructions, your shares will be voted in accordance with the recommendations of the Board ("for" all director nominees named in the proxy statement, "for" the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for fiscal 2011, "for" the approval of the advisory resolution on executive compensation and "for" conducting future advisory votes on executive compensation every year).

**Could other matters be decided at the Annual Meeting?**

As of the date of this proxy statement, we did not know of any matters to be acted on at the Annual Meeting other than those referred to in this proxy statement.

If other matters are properly presented at the Annual Meeting for consideration, the proxy holders named on the proxy card will have the discretion to vote on those matters for you.

**Can I access the Notice of Annual Meeting of Stockholders and proxy statement on the Internet?**

The Notice of Annual Meeting of Stockholders and proxy statement are available under the Investors section of our website at [www.liquidityservicesinc.com](http://www.liquidityservicesinc.com). Instead of receiving future copies of our proxy statement by mail, most stockholders can elect to receive an e-mail that will include electronic links to our proxy statement. Opting to receive your proxy materials online will save us the cost of producing and mailing documents to your home or business, and also will give you an electronic link to the proxy voting site.

*Stockholders of Record:* You may enroll in the electronic proxy delivery service at any time in the future by going directly to [www.computershare.com/investor](http://www.computershare.com/investor) and following the enrollment instructions.

*Beneficial Owners:* If you hold your shares in a brokerage account, you also may have the opportunity to receive copies of these documents electronically. Please check the information provided in the proxy materials mailed to you by your broker, bank or other nominee regarding the availability of this service.

**Who will pay for the cost of this proxy solicitation?**

We will pay the cost of soliciting proxies. Proxies may be solicited on our behalf by directors, officers or employees, acting without special compensation, in person or by telephone, electronic transmission or facsimile transmission.

Table of Contents

**Who will count the vote?**

Representatives of our transfer agent, Computershare Trust Company, N.A., will tabulate the votes and act as inspectors of election.

**GOVERNANCE OF THE COMPANY**

**Our Principles of Corporate Governance**

The Board of Directors has adopted a set of corporate governance principles as a framework for the governance of the Company. The Corporate Governance and Nominating Committee reviews the principles annually and recommends changes to the Board of Directors as appropriate. Our Corporate Governance Principles, as well as the charters of the Audit, Corporate Governance and Nominating and Compensation Committees, are available on our website, *www.liquidityservicesinc.com*, at "Investors Corporate Governance." Stockholders may request a free copy of any of these documents by sending a written request to our Corporate Secretary at Liquidity Services, Inc., 1920 L Street, NW, 6<sup>th</sup> Floor, Washington, DC 20036.

Among other matters, the Corporate Governance Principles contain the following items concerning the Board of Directors:

The Board of Directors, which is elected by the Company's stockholders, oversees the management of the Company and its business. The Board selects the senior management team, which is responsible for operating the Company's business, and monitors the performance of senior management.

A majority of the Board is made up of independent directors. An "independent" director is a director who meets, as determined by the Board, the then-current independence requirements of the SEC and the NASDAQ Stock Market, Inc., as applicable, for directors.

The Board has three standing committees: Audit, Corporate Governance and Nominating and Compensation. Each of the Audit, Corporate Governance and Nominating and Compensation Committees consists solely of independent directors. In addition, directors who serve on the Audit Committee must meet additional, heightened independence criteria applicable to audit committee members. All committees report regularly to the full Board with respect to their activities.

The Corporate Governance and Nominating Committee considers and makes recommendations to the Board regarding committee size, structure, composition and functioning. Committee members and chairs are recommended to the Board by the Corporate Governance and Nominating Committee and are appointed by the full Board.

At the invitation of the Board, members of senior management may attend Board meetings or portions of meetings for the purpose of presenting matters to the Board and participating in discussions. Directors also have full and free access to other members of management and to employees of the Company.

The Board has the authority to retain such outside counsel, experts and other advisors as it determines appropriate to assist it in the performance of its functions. Each of the Audit, Corporate Governance and Nominating and Compensation Committees has similar authority to retain outside advisors as it determines appropriate to assist it in the performance of its functions.

The Company has an orientation process for new Board members that is designed to familiarize them with the Company's business, operations, finances and governance practices. In addition,

Table of Contents

the Board encourages directors to participate in education programs to assist them in performing their responsibilities as directors.

The Board conducts an annual self-evaluation to assess its performance and the performance of the Audit, Corporate Governance and Nominating and Compensation Committees. The ability of individual directors to contribute to the Board is considered in connection with the renomination process. The Corporate Governance and Nominating Committee is responsible for developing, administering and overseeing processes for conducting these evaluations.

**Governance Information**

***Board Leadership***

Currently, Mr. Angrick serves as Chairman of the Board and Chief Executive Officer. The Board presently believes that it is in the best interests of the Company for a single leader to serve as Chairman of the Board and Chief Executive Officer. Combining the roles of Chairman and CEO makes clear that the person serving in these roles has primary responsibility for managing our business, under the oversight and review of the Board. Under this structure, the Chairman and CEO chairs Board meetings during which the Board discusses strategic and business issues. The Board believes that this approach makes sense because the CEO is the individual with primary responsibility for developing our business strategy, directing the work of other officers and leading implementation of our strategic plans as approved by the Board. As a result of this structure, a single leader is directly accountable to the Board and, through the Board, to our stockholders. This structure also enables the CEO to act as the key link between the Board and other members of management. In addition, the Board believes that it is in our best interests at this time to have Mr. Angrick serve as both our Chairman and CEO because of Mr. Angrick's familiarity with our business and history of outstanding leadership. Mr. Angrick co-founded the Company and has served as Chairman and CEO since 2000.

The Board also believes that strong, independent Board leadership is a critical aspect of effective corporate governance. In this regard, the independent directors meet in executive session without management present at least four times per year, and the Board has established the position of Lead Director. The Lead Director is an independent director elected by the independent directors whose responsibility is to chair these executive sessions. The Lead Director also leads and sets the agenda for these executive sessions, provides input to the Chairman and CEO on the agenda for full Board meetings and provides collective feedback from the members of the Board to the Chairman and CEO. Mr. Kramer currently serves as the Lead Director. In addition, each of the Audit, Corporate Governance and Nominating and Compensation Committees is composed of and led by independent directors.

The Board believes that a single leader serving as Chairman and CEO, together with an experienced Lead Director, is the most appropriate leadership structure for the Board at this time. The Board reviews the structure of the Board and the Board's leadership as part of the succession planning process, and the Board may in its discretion separate the roles in the future if it deems it advisable and in the Company's best interests to do so.

***Board Oversight of Risk***

The Board of Directors has overall responsibility for risk oversight and focuses on the most significant risks facing the Company. In this regard, the Board seeks to understand the material risks we face and to allocate among the full Board and its committees responsibilities for oversight of how management addresses those risks, including the risk management systems and processes management uses for this purpose. Overseeing risk is an ongoing process. Accordingly, the Board considers risks faced by the Company periodically throughout the year and at such other times as the Board considers

## Edgar Filing: LIQUIDITY SERVICES INC - Form DEF 14A

### Table of Contents

appropriate with respect to specific proposed actions. The Chairman and CEO is responsible for keeping the Board apprised of material risks facing the Company.

The Board implements its risk oversight function both as a whole and through delegation to various committees. These committees meet regularly and report back to the full Board. The following committees play important roles in carrying out the Board's risk oversight function:

**The Corporate Governance and Nominating Committee:** The Corporate Governance and Nominating Committee is responsible for overseeing risk management throughout the year. In this regard, the Chairman and CEO updates the Corporate Governance and Nominating Committee on material risks facing the Company and how management is addressing such risks and the Corporate Governance and Nominating Committee discusses these risks at each of its regularly scheduled quarterly meetings and more frequently as necessary.

**The Audit Committee:** The Audit Committee oversees our processes for assessing financial-related risks and the effectiveness of our system of internal controls. In performing this function, the Audit Committee reviews and discusses with our independent registered public accounting firm and management the Company's significant risk exposures and the steps management has taken to monitor and control such exposures.

**The Compensation Committee:** The Compensation Committee oversees risks related to the Company's compensation structure and assesses whether the Company's compensation structure establishes appropriate incentives for management and employees.

The Board believes that our leadership structure, discussed under "Board Leadership" above, supports the risk oversight function of the Board. We have a combined Chairman and CEO who keeps the Board informed about the risks we face. In addition, independent directors chair and serve on the various committees involved with risk oversight. We also encourage open communication between senior management and directors.

*Risk Considerations in Our Compensation Program.* The Company's management has conducted an assessment of the risk associated with the Company's current compensation programs covering its employees, including executives. Management's risk assessment considered the following:

The Company's compensation programs appropriately balance fixed compensation with short-term and long-term variable compensation and cash-based compensation with equity-based compensation such that no one pay element would motivate employees to engage in excessive risk taking.

The design of the Company's annual incentive program does not lend itself to excessive risk taking because we:

fund annual incentive awards based on a variety of pre-established performance conditions, thus diversifying the risk associated with any single indicator of performance;

establish performance targets that are objectively determined with verifiable results;

incorporate pre-established caps in any awards; and

retain discretion to decrease bonus payouts.

The Company's long-term incentive program encourages employees to focus on the long-term success of the Company by providing a mix of stock options, which only reward employees if the Company's stock price increases, and restricted stock,

which generates a relatively stable source of income, reducing the motivation employees may have to take excessive risks.

Table of Contents

***Communications with Directors***

Stockholders and other interested parties may communicate with the Board of Directors by writing c/o the Corporate Secretary, Liquidity Services, Inc., 1920 L Street, NW, 6<sup>th</sup> Floor, Washington, DC 20036. Communications intended for a specific director or directors should be addressed to the attention of the relevant individual(s) c/o the Corporate Secretary at the same address.

Our Corporate Secretary will review all correspondence intended for the Board and will regularly forward to the Board a summary of such correspondence and a copy of correspondence that, in the opinion of the Corporate Secretary, is of significant importance to the functions of the Board or otherwise requires the Board's attention. Directors may at any time review a log of all correspondence received by the Corporate Secretary that is intended for the Board and request copies of any such correspondence.

In addition, the Audit Committee has established a procedure for parties to submit concerns regarding what they believe to be questionable accounting, internal accounting controls and auditing matters. Concerns may be reported through our Compliance Hotline at (888) 475-8376. Concerns may be submitted anonymously and confidentially.

***Director Independence***

The Board makes an affirmative determination regarding the independence of each director annually, based upon the recommendation of the Corporate Governance and Nominating Committee. Under the NASDAQ Stock Market, Inc. listing standards, an independent director is a person that the Board of Directors determines to be free of any relationship with Liquidity Services that, in the opinion of the Board, would interfere with the exercise of such person's independent judgment in carrying out the responsibilities of a director, and to meet the then-current objective standards for "director independence" set forth in the listing standards. The Board has not established categorical standards or guidelines to use in making these independence determinations but considers all relevant facts and circumstances. In addition to the Board-level standards for director independence, the directors who serve on the Audit Committee each must satisfy standards established by the SEC, which provide that to qualify as "independent" for the purposes of membership on that committee, members may not accept, directly or indirectly, any consulting, advisory, or other compensatory fee from Liquidity Services other than their director compensation.

The Board of Directors has determined that each of our directors other than Mr. Angrick, our Chairman and CEO, and Mr. Mateus-Tique, our former President and Chief Operating Officer, qualifies as "independent" in accordance with the NASDAQ Stock Market, Inc. listing standards, as follows: Mr. Clough, Mr. Ellis, Mr. Fowler, Mr. Gross, Mr. Kramer and Mr. Perdue.

***Code of Business Conduct and Ethics***

Our Board of Directors has adopted a Corporate Code of Business Conduct and Ethics (the "Code") applicable to all of our directors, officers and employees in order to protect and promote organization-wide integrity and to enhance Liquidity Services' ability to achieve its mission.

The Code embodies general principles such as compliance with laws, acting with honesty and integrity, avoidance of conflicts of interest, maintenance of accurate and timely financial and business records, use of the Company's assets, working with customers, suppliers and governments, protecting the Company's information and obtaining information regarding other companies.



Table of Contents

All directors, officers, and employees are obligated to report violations and suspected violations of the Code and any concerns they may have pertaining to non-compliance with the Code by following certain procedures described in the Code. All reports of suspected Code violations will be forwarded to the General Counsel, except for complaints and concerns involving accounting or auditing matters, which will be handled in accordance with procedures established by the Audit Committee.

The Code is available on our website, [www.liquidityservicesinc.com](http://www.liquidityservicesinc.com), at "Investors Corporate Governance LSI Code of Business Conduct and Ethics." A free printed copy is available to any stockholder who requests it by writing to us at the address on page 1. We intend to disclose future amendments to certain provisions of the Code, or waivers of such provisions granted to executive officers and directors, on our website within four business days following the date of such amendment or waiver.

**Board and Committee Membership**

Our bylaws provide that our Board of Directors shall consist of at least three members. The exact number of members of our Board of Directors will be determined from time to time by resolution of our Board of Directors. Our Board of Directors currently is composed of eight directors, divided into three classes: Class I, Class II and Class III. The term for each class of directors expires at successive annual meetings. The Class I directors are William P. Angrick, III, F. David Fowler and David A. Perdue, Jr., the Class II directors are Phillip A. Clough, George H. Ellis and Jaime Mateus-Tique, and the Class III directors are Patrick W. Gross and Franklin D. Kramer. Mr. Fowler will be retiring from the Board of Directors as of the conclusion of the Annual Meeting, at which time the Board of Directors will have seven directors.

The Board of Directors met six times and acted twice by unanimous written consent during fiscal 2010. Each of our directors attended 75% or more of the aggregate of the total number of meetings of the Board of Directors held while he was a director and of each standing committee on which he served during the period in which the director served as a member of that committee. Our Board has adopted a policy that our directors are encouraged to attend each Annual Meeting of Stockholders. Four members of our Board of Directors attended the 2010 Annual Meeting.

The table below provides fiscal 2010 membership information for the Board of Directors and for each standing committee of the Board.

Name	Position	Year Current Term Expires	Audit Committee Member	Compensation Committee Member	Corporate Governance and Nominating Committee Member
Mr. Angrick	Class I director	2013			
Mr. Clough	Class II director	2011		X	X
Mr. Ellis**	Class II director	2011	X*		
Mr. Fowler**	Class I director	2013	X		
Mr. Gross	Class III director	2012	X	X*	X
Mr. Kramer	Class III director	2012	X	X	X*
Mr. Mateus-Tique	Class II director	2011			
Mr. Perdue	Class I director	2013		X	X

\*  
Chair

\*\*  
Mr. Fowler served as Audit Committee Chair throughout fiscal 2010 and until Mr. Ellis was appointed Audit Committee Chair, effective November 30, 2010. Mr. Fowler will be retiring from the Board of Directors as of the conclusion of the Annual Meeting.

Table of Contents

*The Audit Committee*

Under the terms of its Charter, the Audit Committee meets at least four times per fiscal year, including periodic meetings in executive session with Liquidity Services' management and Liquidity Services' independent registered public accounting firm, and reports regularly to the full Board of Directors with respect to its activities. The Audit Committee represents and assists the Board of Directors in overseeing Liquidity Services' accounting and financial reporting processes and the audits of Liquidity Services' financial statements, including the integrity of the financial statements, Liquidity Services' compliance with legal and regulatory authority requirements, the independent registered public accounting firm's qualifications and independence, the performance of Liquidity Services' independent registered public accounting firm, and the preparation of a report of the Audit Committee to be included in Liquidity Services' annual proxy statement. Specifically, the Audit Committee is responsible for:

Directly appointing, retaining, compensating, evaluating and overseeing the Company's independent registered public accounting firm, which reports directly to the Committee;

Reviewing and pre-approving all audit and permissible non-audit services to be provided by the independent registered public accounting firm, and establishing policies and procedures for the pre-approval of audit and permissible non-audit services to be provided by the independent registered public accounting firm;

At least annually, obtaining and reviewing a report by the independent registered public accounting firm describing: (a) the auditors' internal quality-control procedures; and (b) any material issues raised by the most recent internal quality-control review, or peer review, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, with respect to one or more independent audits carried out by the independent registered public accounting firm, and any steps taken to deal with any such issues;

At least annually, reviewing the qualifications, independence and performance of the independent registered public accounting firm, and discussing with the independent registered public accounting firm its independence. As part of such annual review, the Committee will obtain and review a report by the independent registered public accounting firm describing all relationships between the independent registered public accounting firm and the Company, consistent with professional standards applicable to independent registered public accounting firms, and any other relationships that may impact the independent registered public accounting firm's independence;

Upon completion of the annual audit, reviewing with the independent registered public accounting firm its experiences, any audit problems or difficulties encountered (including restrictions on its work, cooperation received or not received, and significant disagreements with corporate management) and management's response, and findings and recommendations concerning the annual audit of the Company's financial statements;

Meeting to review and discuss with corporate management and the independent registered public accounting firm the annual audited financial statements, and the unaudited quarterly financial statements, including reviewing the Company's specific disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Annual and Quarterly Reports the Company files with the SEC;

Reviewing and discussing earnings press releases, corporate practices with respect to earnings press releases and financial information and earnings guidance provided to analysts and ratings agencies;

## Edgar Filing: LIQUIDITY SERVICES INC - Form DEF 14A

### Table of Contents

Reviewing and discussing with management and the independent registered public accounting firm the Company's major risk exposures and the steps management has taken to monitor and control such exposures;

Reviewing the adequacy and effectiveness of the Company's internal control procedures and internal controls over financial reporting, and any programs instituted to correct deficiencies;

Reviewing and discussing the adequacy and effectiveness of the Company's disclosure controls and procedures;

Overseeing the Company's compliance systems with respect to legal and regulatory requirements and reviewing the Company's Code of Business Conduct and Ethics and programs to monitor compliance with such Code;

Establishing procedures for the submission of complaints regarding accounting, internal accounting controls or auditing matters. These procedures address the receipt, retention and treatment of complaints received by the Company and the confidential, anonymous submission of employee concerns about questionable auditing or accounting matters;

Investigating or referring matters brought to its attention, as appropriate, with full access to all books, records, facilities and personnel of the Company;

Reviewing the application of significant regulatory, accounting and auditing initiatives, including new pronouncements;

Establishing policies for the hiring of employees and former employees of the independent registered public accounting firm;

Annually reviewing and reassessing the adequacy of the Audit Committee Charter and evaluating the performance of the Committee, and recommending changes to the Board as appropriate; and

Performing such other functions as assigned by law, the Company's certificate of incorporation or bylaws or the Board of Directors.

The Audit Committee met five times and acted by unanimous written consent once during fiscal 2010.

The members of the Audit Committee as of the date of this proxy statement are Messrs. Ellis (Chairperson), Fowler, Gross and Kramer. The Board of Directors has determined that each is independent, as defined by the Company's director independence standards and the rules of the NASDAQ Stock Market, Inc. and the SEC, and that Mr. Ellis is an "audit committee financial expert" for purposes of the rules of the SEC.

Under the rules of the SEC, members of the Audit Committee must meet heightened independence standards. The Board of Directors has determined that each of Messrs. Ellis, Fowler, Gross and Kramer meets these heightened independence standards.

See "Audit Committee Report" below for more information on the Audit Committee.

### ***The Corporate Governance and Nominating Committee***

Under the terms of its Charter, the Corporate Governance and Nominating Committee is responsible for identifying individuals qualified to become Board members, recommending director candidates to the Board, developing and recommending amendments to the Corporate Governance



## Edgar Filing: LIQUIDITY SERVICES INC - Form DEF 14A

### Table of Contents

Principles to the Board and undertaking a leadership role in shaping corporate governance. Specifically, the committee is responsible for:

Developing and recommending to the Board criteria for identifying and evaluating director candidates;

Identifying, reviewing the qualifications of and recruiting candidates for election to the Board;

Assessing the contributions and independence of incumbent directors in determining whether to recommend them for reelection to the Board;

Reviewing and recommending changes to the Company's policies on stockholder recommendations of director candidates;

Recommending to the Board candidates for election or reelection to the Board at each annual stockholders' meeting;

Recommending to the Board candidates to be elected by the Board as necessary to fill vacancies and newly created directorships;

Reviewing, evaluating and recommending to the Board a set of Corporate Governance Principles and reviewing and recommending changes to these principles, as necessary;

Making recommendations to the Board concerning the structure, composition and functioning of the Board and its committees;

Recommending to the Board candidates for appointment to Board committees;

Reviewing and recommending to the Board retirement and other tenure policies for directors;

Reviewing and recommending changes to the Company's policies on receiving stockholder communications and proposals;

Reviewing the Company's succession plans relating to the Chief Executive Officer and other senior officers;

Overseeing the annual evaluation of the Board, its committees and directors; and

Annually evaluating the performance of the Committee and the adequacy of the Committee's Charter and recommending changes to the Board as appropriate.

The Corporate Governance and Nominating Committee met nine times and acted once by unanimous written consent during fiscal 2010.

The members of the Corporate Governance and Nominating Committee as of the date of this proxy statement are Messrs. Kramer (Chairperson), Gross, Clough and Perdue. The Board of Directors has determined that each of the members of the Corporate Governance and Nominating Committee is independent, as defined by the Company's director independence standards and the rules of the NASDAQ Stock Market, Inc.

## Edgar Filing: LIQUIDITY SERVICES INC - Form DEF 14A

The Corporate Governance and Nominating Committee is responsible for recommending candidates for election to the Board and believes that candidates for director should have certain minimum qualifications, including the highest level of integrity, sound judgment, the ability to make independent analytical inquiries, the willingness to devote adequate time and resources to diligently perform Board duties and appropriate and relevant business experience and acumen. The Committee considers the number of other boards of public companies on which the candidate serves. The Committee believes that the Board should also include members who have specific industry experience and familiarity with general issues affecting our business, as discussed in more detail under "Item 1 Election of Directors" below.

Table of Contents

The Committee evaluates candidates for the Board on the basis of the standards and qualifications set forth above, and seeks to achieve a diversity of strengths and backgrounds on the Board, particularly in the areas described above. The Committee's review of the skills and experience it seeks in the Board as a whole, and in individual directors, in connection with its review of the Board's composition, enables it to assess the effectiveness of its goal of achieving a Board whose members have a diversity of experiences. The Committee considers these criteria when evaluating director nominees in accordance with the procedures set forth below.

The Corporate Governance and Nominating Committee uses a variety of methods to identify and evaluate candidates for director. Candidates may come to the attention of the Committee through current Board members, professional search firms (to whom we pay a fee), stockholders or other persons. The Committee did not use a professional search firm in fiscal 2010.

The Company's Corporate Governance Principles contain a policy addressing the consideration of candidates for director suggested by our stockholders. Pursuant to this policy, the Committee will consider candidates for director suggested by our stockholders, provided that the recommendations are made in accordance with the procedures required under our bylaws and described in this proxy statement under the heading "Requirements, Including Deadlines, for Submission of Proxy Proposals, Nomination of Directors and Other Business of Stockholders." Director candidates recommended by stockholders in accordance with these procedures and who meet the criteria outlined above, in the Committee's Charter and in our Corporate Governance Principles will be evaluated by the Corporate Governance and Nominating Committee in the same manner as other director candidates.

*The Compensation Committee*

Under the terms of its Charter, the Compensation Committee is to assist the Board of Directors in discharging its responsibilities relating to compensation of Liquidity Services' executive officers and to produce the annual report on executive compensation to be included in Liquidity Services' annual proxy statement. The Compensation Committee is specifically responsible for:

Overseeing the Company's overall compensation structure, policies and programs, and assessing whether the Company's compensation structure establishes appropriate incentives for management and employees;

Administering and making recommendations to the Board with respect to the Company's incentive compensation and equity-based compensation plans;

Reviewing and approving corporate goals and objectives relevant to the compensation of the CEO and other executive officers, evaluating the CEO's performance in light of those goals and objectives and approving the CEO's compensation;

Overseeing the evaluation of other executive officers and setting their compensation based upon the recommendations of the CEO;

Approving stock option and other stock incentive awards for all employees;

Reviewing and recommending employment and severance arrangements for executive officers, including change-in-control provisions, plans or agreements;

Reviewing the compensation of outside directors for service on the Board and its committees and recommending changes in compensation to the Board;

Annually evaluating the performance of the Committee and the adequacy of the Committee's Charter and recommending changes to the Board as appropriate; and

Edgar Filing: LIQUIDITY SERVICES INC - Form DEF 14A

Performing such other duties and responsibilities as are consistent with the purpose of the Committee and as the Board or the Committee deems appropriate.



Table of Contents

The Compensation Committee met eight times and acted twice by unanimous written consent in fiscal 2010.

The members of the Compensation Committee as of the date of this proxy statement are Messrs. Gross (Chairperson), Kramer, Clough and Perdue. The Board of Directors has determined that each of the members of the Compensation Committee is independent, as defined by the Company's director independence standards and the rules of the NASDAQ Stock Market, Inc.

For additional information about the Compensation Committee's policies and procedures, please see "Compensation Discussion & Analysis" below.

**COMPENSATION OF NON-EMPLOYEE DIRECTORS**

Our non-employee directors receive a combination of equity and cash compensation for service on our Board of Directors. Directors who are employed by the Company do not receive any compensation for their service as directors. The Compensation Committee, in consultation with Towers Watson (formerly Towers Perrin, prior to its merger with Watson Wyatt Worldwide, Inc. on January 1, 2010), its independent compensation consultant, periodically reviews non-employee director compensation and recommends changes based on competitive market data. In January 2010, the Compensation Committee recommended keeping the non-employee director compensation program for fiscal 2010 the same as the program in place for fiscal 2009, and the Board of Directors approved this recommendation.

For fiscal 2010, each of our non-employee directors received an annual cash retainer of \$30,000 (other than Mr. Ellis, who joined the Board in May 2010 and received a pro-rated retainer). Committee chairs received an additional annual retainer as follows: \$10,000 for the Audit Committee and \$5,000 for each of the Compensation Committee and the Corporate Governance and Nominating Committee. All amounts paid to our non-employee directors are paid quarterly in arrears, unless an election was made otherwise, except that retainers for committee chair service are paid in advance. Our non-employee directors have the opportunity to receive payment of their cash retainers in the form of stock option grants or grants of restricted stock by making an irrevocable one-time annual election. Stock options received pursuant to this election vest on the last day of the fiscal year with respect to which such stock options were granted. All restrictions applicable to the restricted shares received pursuant to this election also lapse on the last day of the fiscal year with respect to which such restricted shares were granted.

In addition to a cash retainer, non-employee directors also receive equity-based compensation. Annual non-employee director equity awards are granted in February, coinciding with our annual meeting, and vest on the one-year anniversary of the grant date, subject to the director's continued service with the Company through that date. Stock options granted to non-employee directors expire ten years from the date of grant.

For fiscal 2010, each non-employee director received an annual equity award with an aggregate value of \$90,000 granted under the Liquidity Services, Inc. 2006 Omnibus Long-Term Incentive Plan (other than Mr. Ellis, who received a pro-rated annual equity award). Sixty percent of the annual equity award was provided in the form of stock options with a grant date fair value of \$54,000, and forty percent of the annual equity award was provided in the form of restricted stock having a grant date fair value of \$36,000. On February 1, 2010, we granted each of our non-employee directors (other than Mr. Ellis) options to purchase 18,612 shares of our common stock with an exercise price per share of \$10.70 and 3,364 shares of restricted stock. On May 7, 2010, we granted Mr. Ellis options to purchase 13,959 shares of our common stock with an exercise price per share of \$11.21 and 2,523 shares of restricted stock. The determination of the number of stock options to be granted was made using the Black-Scholes model. The number of shares of restricted stock to be granted was determined by dividing the value of the award by the closing price of our common stock on the grant date.

## Edgar Filing: LIQUIDITY SERVICES INC - Form DEF 14A

### Table of Contents

Annual cash retainers and equity compensation for new non-employee directors is pro-rated based on when they join the Board during the fiscal year. The non-employee director compensation described above is summarized in the following table:

Annual Compensation Element for Role	Board Compensation
<b>General Board Service Cash Retainer</b>	\$30,000
<b>Committee Chair Service Cash Retainer</b>	
Audit	\$10,000
Compensation	\$5,000
Corporate Governance and Nominating	\$5,000
<b>General Board Service Equity</b>	
Stock Option Value (60%)	\$54,000
Restricted Stock Value (40%)	\$36,000
Vesting Schedule	Stock options and restricted stock vest on the one-year anniversary of the grant date

In addition to the compensation described above, our non-employee directors are reimbursed for expenses they incur in attending meetings of the Board of Directors or Board committees.

### DIRECTOR COMPENSATION FOR FISCAL 2010

The following table sets forth the total cash and equity compensation paid to our non-employee directors for their service on the Board of Directors and committees of the Board of Directors during fiscal 2010:

Name	Retainer fees paid in cash \$(1)	Stock Awards \$(2)(3)	Option Awards \$(2)(4)	Total (\$)
Phillip A. Clough	\$ 30,000	\$ 36,000	\$ 54,000	\$ 120,000
George H. Ellis(5)	12,500	28,283	41,594	82,377
F. David Fowler	40,000	36,000	54,000	130,000
Patrick W. Gross	35,000	36,000	54,000	125,000
Franklin D. Kramer	35,000	36,000	54,000	125,000
Jaime Mateus-Tique	30,000	36,000	54,000	120,000
David A. Perdue	30,000	36,000	54,000	120,000

(1) Retainer fees, at the election of each director, may be paid in cash or in the form of stock options or restricted stock. For fiscal 2010, Messrs. Clough, Fowler and Perdue elected to receive their retainer fees in the form of restricted stock. As a result, Messrs. Clough, Fowler and Perdue were granted 2,804, 3,738 and 2,804 shares of restricted stock, respectively, with a grant date fair value of \$30,000, \$40,000 and \$30,000, respectively, on February 1, 2010. The restrictions on these shares lapsed on September 30, 2010.

(2) The amounts reported in these columns reflect the aggregate grant date fair value of grants of stock options and restricted stock awards to each of the non-employee directors, computed in accordance with U.S. generally accepted accounting principles, disregarding estimates of forfeitures related to service-based vesting conditions. For additional information about the assumptions used in these calculations, see Note 2 to our audited consolidated financial statements included in our

Table of Contents

Annual Report on Form 10-K for the fiscal year ended September 30, 2010. As described above, in fiscal 2010, each non-employee director (other than Mr. Ellis) was granted options to purchase 18,612 shares of our common stock with a grant date fair value of \$54,000. Each non-employee director (other than Mr. Ellis) also was granted 3,364 shares of restricted stock with a grant date fair value of \$36,000. Mr. Ellis was granted options to purchase 13,959 shares of our common stock with a grant date fair value of \$41,594 and 2,523 shares of restricted stock with a grant date fair value of \$28,283. We calculate the grant date fair value of a restricted stock award by multiplying the closing price of our common shares on the grant date by the number of shares subject to such award.

- (3) At September 30, 2010, each of our non-employee directors held the following shares of restricted stock: Phillip A. Clough, 6,168 shares; George H. Ellis, 2,523 shares; F. David Fowler, 7,102 shares; Patrick W. Gross, 3,364 shares; Franklin D. Kramer, 3,364 shares; Jaime Mateus-Tique, 3,364 shares; and David A. Perdue, 6,168 shares.
- (4) At September 30, 2010, each of our non-employee directors held the following stock option awards, some of which were not fully vested: Phillip A. Clough, 92,733 options; George H. Ellis, 13,959 options; F. David Fowler, 87,930 options; Patrick W. Gross, 96,323 options; Franklin D. Kramer, 96,323 options; Jaime Mateus-Tique, 199,612 options; and David A. Perdue, 18,612 options.
- (5) As Mr. Ellis joined the Board of Directors in May 2010, his cash- and equity-based compensation for fiscal 2010 was pro-rated.

**BENEFICIAL OWNERSHIP OF SHARES OF COMMON STOCK**

The following table sets forth information regarding ownership of our common stock as of January 4, 2011, other than as set forth below, by each of our directors and named executive officers, all of our directors and executive officers as a group and the holders of 5% or more of our common stock known to us. The information in this table is based on our records, information filed with the SEC and information provided to us. To our knowledge, except as disclosed in the table below, none of our stockholders hold more than 5% of our common stock. Except as otherwise indicated, (1) each person has sole voting and investment power (or shares such powers with his or her spouse) with respect to the shares set forth in the following table and (2) the business address of each person shown

## Edgar Filing: LIQUIDITY SERVICES INC - Form DEF 14A

### Table of Contents

below is 1920 L Street, NW, 6<sup>th</sup> Floor, Washington, DC 20036, other than for Ashford Capital Management, Inc., Royce & Associates, LLC and Trigran Investments, Inc.

	Number of Shares Beneficially Owned	Percentage of Shares Outstanding(1)
<b>5% Stockholders:</b>		
Ashford Capital Management, Inc.(2) P.O. Box 4172 Wilmington, DE 19807	2,015,076	6.7%
Royce & Associates, LLC(3) 745 Fifth Avenue New York, NY 10151	1,751,923	5.8%
Trigran Investments, Inc.(4) 630 Dundee Road, Suite 230 Northbrook, IL 60062	1,614,248	5.4%
<b>Named Executive Officers and Directors:</b>		
William P. Angrick, III(5)	7,173,649	23.9%
James M. Rallo(6)	115,016	*
Thomas B. Burton(7)	229,557	*
Eric C. Dean(8)	294,420	1.0%
G. Cayce Roy(9)	139,690	*
Philip A. Clough(10)	1,434,590	4.8%
George H. Ellis(11)	16,482	*
Patrick W. Gross(12)	290,842	1.0%
Franklin D. Kramer(13)	165,769	*
F. David Fowler(14)	101,114	*
Jaime Mateus-Tique(15)	1,273,615	4.2%
David A. Perdue, Jr.(16)	24,780	*
All executive officers and directors as a group (13 individuals)(17)	11,345,997	37.6%

\*

Less than 1% of the outstanding shares of our common stock.

(1) The percentages are calculated based on 29,993,060 shares of common stock outstanding as of the Record Date.

(2) As of December 31, 2009, based on a review of a Schedule 13G/A filed on February 12, 2010, Ashford Capital Management, Inc. beneficially owned, and had sole voting and investment power with respect to, 2,015,076 shares.

(3) As of December 31, 2009, based on a review of a Schedule 13G filed on January 25, 2010, Royce & Associates, LLC beneficially owned, and had sole voting and investment power with respect to, 1,751,923 shares.

(4) As of December 31, 2009, based on a review of a Schedule 13G/A filed on February 12, 2010, Trigran Investments, Inc., Douglas Granat, Lawrence A. Oberman and Steven G. Simon beneficially owned, and had shared voting and investment power with respect to, 1,614,248 shares.

(5) Includes 5,213,194 shares of common stock held by the William P. Angrick, III Revocable Trust, 873,379 shares of common stock held by the William P. Angrick III 2005 Irrevocable Trust, 314,468 shares of common stock held by the Stephanie S. Angrick



## Edgar Filing: LIQUIDITY SERVICES INC - Form DEF 14A

### Table of Contents

Revocable Trust, 289,377 shares of common stock held by the Stephanie S. Angrick 2005 Irrevocable Trust and 99,367 shares of common stock held by the Stephanie S. Angrick 2005 Qualified Grantor Retained Annuity Trust. Mr. Angrick disclaims beneficial ownership of these securities. This amount also includes 227,227 shares of common stock issuable pursuant to options held by Mr. Angrick that are exercisable as of January 4, 2011 or within 60 days of such date.

- (6) Includes 88,331 shares of common stock issuable pursuant to options held by Mr. Rallo that are exercisable as of January 4, 2011 or within 60 days of such date.
- (7) Includes 197,059 shares of common stock issuable pursuant to options held by Mr. Burton that are exercisable as of January 4, 2011 or within 60 days of such date.
- (8) Includes 266,329 shares of common stock issuable pursuant to options held by Mr. Dean that are exercisable as of January 4, 2011 or within 60 days of such date.
- (9) Includes 98,923 shares of common stock issuable pursuant to options held by Mr. Roy that are exercisable as of January 4, 2011 or within 60 days of such date.
- (10) Includes 92,733 shares of common stock issuable pursuant to options held by Mr. Clough that are exercisable as of January 4, 2011 or within 60 days of such date. This amount also includes 1,326,690 shares held by ABS Capital Partners VI, LP, ABS Capital Partners VI-A, LP, ABS Capital Partners VI Offshore, LP (the "ABS Entities"). Mr. Clough is a managing member of ABS Partners VI, LLC, the general partner of the ABS Entities. ABS Partners VI, LLC exercises voting and investment power over the shares held by the ABS Entities. Mr. Clough disclaims beneficial ownership of these securities except to the extent of his pecuniary interest. The address for these entities affiliated with ABS Capital Partners is 400 East Pratt Street, Suite 910, Baltimore, MD 21202-3116.
- (11) Includes 13,959 shares of common stock issuable pursuant to options held by Mr. Ellis that are exercisable as of January 4, 2011 or within 60 days of such date.
- (12) Includes 130,000 shares of common stock held by Sheila Gross, 26,250 shares of common stock held by the Geoffrey Gross Trust, 26,250 shares of common stock held by the Stephanie Gross Trust and 96,323 shares of common stock issuable pursuant to options held by Mr. Gross that are exercisable as of January 4, 2011 or within 60 days of such date.
- (13) Includes 96,323 shares of common stock issuable pursuant to options held by Mr. Kramer that are exercisable as of January 4, 2011 or within 60 days of such date.
- (14) Includes 87,930 shares of common stock issuable pursuant to options held by Mr. Fowler that are exercisable as of January 4, 2011 or within 60 days of such date.
- (15) Includes 700,000 shares of common stock held by the Jaime Mateus-Tique 2009 GRAT, 185,262 shares of common stock held by the Em El 2007 Irrevocable Trust, 15,700 shares of common stock held by the Mateus-Tique Foundation and 188,527 shares of common stock issuable pursuant to options held by Mr. Mateus-Tique that are exercisable as of January 4, 2011 or within 60 days of such date.
- (16) Includes 18,612 shares of common stock issuable pursuant to options held by Mr. Perdue that are exercisable as of January 4, 2011 or within 60 days of such date.
- (17) Includes 1,549,233 shares of common stock issuable pursuant to options held by all executive officers and directors as a group that are exercisable as of January 4, 2011 or within 60 days of such date.



Table of Contents

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires our directors, executive officers and beneficial owners of greater than ten percent of our common stock to file reports of holdings and transactions in Liquidity Services' common stock with the SEC. Based solely on these records, we believe that in fiscal 2010 all persons satisfied these filing requirements on a timely basis, except that each of our directors and officers filed a single Form 4 late to report their annual equity award grants. The name of the individual and the number of transactions (which corresponds to the number of different types of equity awards the individual was granted) that were not timely filed are as follows: William P. Angrick, III (3), James M. Rallo (1), Thomas B. Burton (1), Eric C. Dean (1), G. Cayce Roy (3), James E. Williams (3), Philip A. Clough (3), George H. Ellis (2), Patrick W. Gross (2), Franklin D. Kramer (2), F. David Fowler (3), Jaime Mateus-Tique (2) and David A. Perdue (3).

**CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

The Company did not participate in or review any potential related party transactions during fiscal 2010. To be considered a related party transaction under current SEC rules, a transaction must include the Company as a participant, and one of our officers, directors or greater than 5% stockholders or a family member of such person must have a direct or indirect material interest in the transaction. To date, we have not participated in any related party transactions requiring disclosure as such under the SEC disclosure requirements. Should we consider participating in a related party transaction in the future, such transaction would be reviewed and subject to approval by the Audit Committee, in accordance with our written Audit Committee Charter. We have not adopted specific standards that would govern such review.

As a general matter, our written Code of Business Conduct and Ethics prohibits conflicts of interest. We consider a conflict of interest to exist when a person's private interest interferes in any way with the interests of our Company, including: (i) a conflict that makes it difficult for an employee, officer or director to perform his or her work objectively and effectively; (ii) when an employee, officer or director, or any member of his or her family, receives improper personal benefits as a result of his or her position in or with our Company; or (iii) when an employee, officer or director is engaged in a business or business activity that is in competition with or injurious to us. The Code of Business Conduct and Ethics requires that the General Counsel be consulted with any questions about conflicts of interest in addition to requiring that our directors and officers consult with the General Counsel before engaging in any potential conflict of interest transactions.

**PROPOSALS REQUIRING YOUR VOTE**

**ITEM 1 Election of Directors**

Our Board of Directors currently is composed of eight directors, divided into three classes: Class I, Class II and Class III. F. David Fowler will be retiring from the Board of Directors as of the conclusion of the Annual Meeting, at which time the Board of Directors will have seven members. Our Class II directors, elected at the Annual Meeting of Stockholders in 2008 (other than Mr. Ellis, as described below), are Phillip A. Clough, George H. Ellis and Jaime Mateus-Tique, and their term ends at this Annual Meeting of Stockholders upon the election and qualification of their successors.

Mr. Ellis was appointed to the Board by our Board of Directors on May 7, 2010 and will be up for election for the first time at the Annual Meeting. Mr. Ellis was recommended to the Corporate Governance and Nominating Committee as a director candidate by our Chairman and CEO and one of our non-employee directors.



Table of Contents

Our Class III directors, elected at the Annual Meeting of Stockholders in 2009, are Patrick W. Gross and Franklin D. Kramer, and their term ends at the Annual Meeting of Stockholders in 2012. Our Class I directors, elected at the Annual Meeting of Stockholders in 2010, are William P. Angrick, III and David A. Perdue, Jr., and their term ends at the Annual Meeting of Stockholders in 2013. As noted above, F. David Fowler, also a Class I director, will be retiring from the Board of Directors as of the conclusion of the Annual Meeting.

With respect to the Class II directors to be elected at the Annual Meeting, each nominee for director will, if elected, continue in office until our Annual Meeting of Stockholders in 2014 or until the director's successor has been duly elected and qualified, or until the earlier of the director's death, resignation or retirement.

The proxy holders named on the proxy card intend to vote your proxy if you are a stockholder of record for the election of each of these nominees, unless you indicate on the proxy card that your vote should be withheld from any or all of the nominees. **Because of a change in New York Stock Exchange rules, brokers, banks and other nominees are not permitted to vote in the election of directors without instructions from the beneficial owner. Therefore, if your shares are held through a broker, bank or other nominee, they will not be voted in the election of directors unless you affirmatively vote your shares.**

Each nominee has consented to be named as a nominee in this proxy statement, and we expect each nominee for election as a director to be able to serve if elected. If any nominee is unable to serve, proxies will be voted in favor of the other nominees and may be voted for substitute nominees, unless the Board chooses to reduce the number of directors serving on the Board.

In evaluating director candidates, and considering incumbent directors for renomination, the Board and the Corporate Governance and Nominating Committee consider a variety of factors as discussed above under "The Corporate Governance and Nominating Committee." Among other things, the Board has determined that it is important to have individuals with the following skills and experiences on the Board:

*Industry experience and Company knowledge.* We believe that it is important for our directors to have knowledge of the Company and the online auction marketplace industry, which is relevant to understanding the Company's business, operations and strategy.

*Senior leadership experience.* We believe that it is important for our directors to have served in senior leadership roles at other organizations, which demonstrates strong abilities to motivate and manage others and to identify and develop leadership qualities in others.

*High-growth company experience.* As a high-growth company, it is important for our directors to have experience with other companies that have undergone periods of significant growth because they can provide insight on the challenges faced by companies in these situations, including how to balance strategic acquisitions with organic growth, manage expectations about the scope, speed and success of our growth strategy and leverage operational infrastructure to support expansion.

*Public company board experience.* Directors who have served on other public company boards can offer advice and perspective with respect to Board dynamics and operations; the relationship between the Board and Company management; and other matters, including corporate governance, executive compensation and oversight of strategic, operational and compliance-related matters.

*Media and technology experience.* As a provider of online marketplaces, it is important for our directors to have media and technology experience, especially as this experience relates to the Internet.

Table of Contents

*Financial and accounting experience.* We believe that it is important for our directors to have knowledge of finance and financial reporting processes, which is relevant to understanding and evaluating the Company's capital structure and overseeing the preparation of its financial statements.

*Legal experience.* Directors who have legal experience can assist the Board in fulfilling its responsibilities related to the oversight of the Company's legal and regulatory compliance efforts, and engagement with regulatory authorities.

*Government experience.* Directors who have served in positions with government contractors, in government positions or have other experience working with federal, state, local or foreign governments can provide experience and insight into bidding for and obtaining government contracts and working constructively with governments around the world.

The specific qualifications and experience of the individual directors and nominees and certain other information are set forth on the following pages. For more information on the director nomination process, refer to "The Corporate Governance and Nominating Committee" above.

**The Board of Directors unanimously recommends a vote FOR the election of Phillip A. Clough, George H. Ellis and Jaime Mateus-Tique as directors.**

Table of Contents**BOARD OF DIRECTORS****Name and Age as of  
January 21, 2011****Biographical Information and Director Qualifications and Experience**

William P. Angrick, III  
Age 43

Mr. Angrick is a co-founder of Liquidity Services who has served as the Chairman of the Board of Directors and Chief Executive Officer of LSI since January 2000. Mr. Angrick also serves as the Chief Executive Officer of Liquidity Services' wholly-owned subsidiary, DOD Surplus, LLC. Prior to co-founding Liquidity Services, Mr. Angrick was at Deutsche Bank Alex Brown from 1995 to 1999, where he served as Vice President of the Consumer and Business Services Investment Banking Group after serving as an Associate. Mr. Angrick holds an M.B.A. from the Kellogg Graduate School of Management at Northwestern University and a B.B.A. with honors from the University of Notre Dame. Mr. Angrick earned his CPA certificate in 1990.

As a co-founder and Chairman and CEO of the Company, Mr. Angrick has extensive industry experience and knowledge of the Company. Mr. Angrick also brings to the Board senior leadership experience and financial and accounting experience.

Jaime Mateus-Tique  
Age 44

Mr. Mateus-Tique is a co-founder of Liquidity Services who has served as a director of LSI since April 2000. Mr. Mateus-Tique served as LSI's President and Chief Operating Officer from April 2000 to September 2009. Prior to co-founding Liquidity Services, Mr. Mateus-Tique served as a senior engagement manager at McKinsey & Co., a management consulting firm, from September 1995 to March 2000.

Mr. Mateus-Tique holds an M.B.A. from the Kellogg Graduate School of Management at Northwestern University and a master's degree from Ecole des Hautes Etudes Commerciales in Paris.

As a co-founder and former President and COO of the Company, Mr. Mateus-Tique has extensive industry experience and knowledge of the Company. Mr. Mateus-Tique also brings to the Board senior leadership experience and media and technology experience.

Phillip A. Clough  
Age 49

Mr. Clough has served as a director of Liquidity Services since September 2004. Since January 2007, Mr. Clough has been a Managing General Partner of ABS Capital Partners ("ABS"), a private equity firm focused on investments in growth companies in the technology, business services, media and communications and health care industries. From September 2001 to January 2007, Mr. Clough was a General Partner of ABS. Prior to joining ABS, Mr. Clough was President and Chief Executive Officer of Sitel Corporation, a global provider of outsourced customer support services, from May 1998 to March 2001. In addition to serving as a director of Liquidity Services, Mr. Clough currently serves on the boards of directors of Rosetta Stone Inc., a provider of technology-based language learning solutions, and various private companies. Mr. Clough previously served on the board of directors of American Public Education, Inc., a provider of exclusively online post-secondary education, until 2010.

Table of Contents

**Name and Age as of  
January 21, 2011**

**Biographical Information and Director Qualifications and Experience**

	<p>As a Managing General Partner of a private equity firm, Mr. Clough has senior leadership experience and financial experience. Mr. Clough also brings to the Board high-growth company experience, media and technology experience and public company board experience.</p>
<p>George H. Ellis Age 61</p>	<p>Mr. Ellis has served as a director of Liquidity Services since May 2010. Mr. Ellis has been Chief Financial Officer of Global 360, Inc., a software development company, since July 2006. Mr. Ellis has also served in several capacities at Softbrands, Inc., a software developer and provider of related professional services that has been acquired by Golden State Capital, as a member of its board of directors from October 2001 to August 2009, serving as Chairman from October 2001 to June 2006, and Chief Executive Officer from October 2001 to January 2006. Mr. Ellis is also a director of Blackbaud, Inc., where he is Chairman of the audit committee. Mr. Ellis served on the board of directors of NEON Systems, Inc., from January 2000 to December 2005 and PeopleSupport, Inc., from October 2004 to October 2008. He also served as a director of AremisSoft Corp. from April 1999 until February 2001 and as Chairman and Chief Executive Officer of AremisSoft from October 2001 to July 2002. AremisSoft confirmed its plan of reorganization under Chapter 11 of the Federal Bankruptcy Code in August 2002. Previously, Mr. Ellis served as Chief Financial Officer of Sterling Software, Inc., Chief Financial Officer and founder of Sterling Commerce, Inc., a spin-off of Sterling Software, and Executive Vice President and Chief Operating Officer of the Communities Foundation of Texas. Mr. Ellis also is a Certified Public Accountant and is admitted to the State Bar of Texas.</p> <p>As a CFO and former Chairman and CEO of several companies and an audit committee member, Mr. Ellis has senior leadership experience and financial and accounting experience. Mr. Ellis also brings to the Board high-growth company experience, media and technology experience and public company board experience.</p>
<p>Patrick W. Gross Age 66</p>	<p>Mr. Gross has served as a director of LSI since February 2001. Mr. Gross has served as Chairman of The Lovell Group, a private business and technology advisory and investment firm, since October 2002. Mr. Gross is a founder of, and served as a principal operating officer from 1970 to September 2002 at, American Management Systems, Inc., a publicly traded information technology consulting, software development and systems integration firm. Mr. Gross is also a director of Capital One Financial Corporation, a publicly traded financial services company, Career Education Corporation, a publicly traded provider of post-secondary educational services, Rosetta Stone Inc., a provider of technology-based language learning solutions, Taleo Corporation, a publicly traded provider of talent management solutions, and Waste Management, Inc., a publicly traded provider of integrated waste services. Mr. Gross also currently serves on the boards of directors of various private companies.</p>

Table of Contents**Name and Age as of  
January 21, 2011****Biographical Information and Director Qualifications and Experience**

	As the Chairman of a business and technology advisory and investment firm, Mr. Gross has senior leadership experience and media and technology experience. Mr. Gross also brings to the Board industry experience, high-growth company experience and public company board experience.
Franklin D. Kramer Age 65	Mr. Kramer has served as a director of LSI since September 2001. Since February 2004, Mr. Kramer has been an independent consultant. From March 2001 to May 2005, Mr. Kramer was a lawyer with Shea & Gardner, now Goodwin Procter LLP. Mr. Kramer served as a director of Changing World Technologies, Inc., a privately held energy and environmental service company from February 2002 to April 2006. From February 2002 to December 2003, Mr. Kramer served as Executive Vice President of Changing World Technologies. From January 2004 to January 2006, Mr. Kramer served as a consultant to Changing World Technologies. From March 1996 through February 2001, Mr. Kramer served as Assistant U.S. Secretary of Defense for International Security Affairs. Mr. Kramer currently serves on the boards of directors and boards of advisors of various organizations and private companies. Since March 2007, Mr. Kramer has been an Operating Advisor for Pegasus Capital. As a former Assistant U.S. Secretary of Defense, Mr. Kramer has government experience. Mr. Kramer also brings to the Board senior leadership experience and legal experience.
David A. Perdue, Jr. Age 61	Mr. Perdue has served as a director of LSI since December 2009. Mr. Perdue served as Chairman and Chief Executive Officer of Dollar General Corporation, a retail organization, from June 2003 until his retirement in July 2007, and as Chief Executive Officer of Dollar General Corporation from April 2003 until June 2003. From July 2002 to March 2003, Mr. Perdue served as Chairman and Chief Executive Officer of Pillowtex Corporation, a textile manufacturing company. Pillowtex filed for bankruptcy in July 2003 after emerging from a previous bankruptcy in May 2002. Prior to 2003, Mr. Perdue held senior management positions with Reebok International Ltd., Hagggar Corporation and Sara Lee Corporation. Mr. Perdue has served on the board of directors of Jo-Ann Stores, Inc., a specialty retailer of fabrics and crafts, since 2008 and the board of directors of Alliant Energy Corporation, a public utility holding company, since 2001. As a former Chairman and CEO of several retail and manufacturing companies, Mr. Perdue has senior leadership experience and experience in sales and marketing. Mr. Perdue also brings to the Board public company board experience.

Table of Contents**EXECUTIVE OFFICERS AND MANAGEMENT**

Below you can find information, including biographical information, about our executive officers (other than Mr. Angrick, whose biographical information appears above):

<b>Name</b>	<b>Age</b>	<b>Position</b>
Thomas B. Burton	52	President and Chief Operating Officer, DOD Surplus, LLC
Eric C. Dean		Chief Information Officer
	58	
James M. Rallo		Chief Financial Officer and Treasurer
	45	
G. Cayce Roy		Executive Vice President, President of the Asset Recovery Division
	46	
James E. Williams		Vice President, General Counsel and Corporate Secretary
	43	

*Thomas B. Burton* has served as President and Chief Operating Officer of DOD Surplus, LLC, our wholly-owned subsidiary, since June 2001. Mr. Burton served as LSI's Director of Government Surplus from September 2000 through May 2001. Prior to joining our company in September 2000, Mr. Burton served as the Western Region Director of EG&G Technical Services, a government contractor, from August 1990 to September 2000. Mr. Burton holds a B.S. from Cameron University.

*Eric C. Dean* has served as our Chief Information Officer since October 2007. From 2005 to 2007, Mr. Dean served as Senior Vice President and CIO for Schaller Anderson, a subsidiary of Aetna Inc. and a provider of administrative and consulting services to managed health plans. From 2002 to 2005, Mr. Dean served as an independent consultant, providing advice and support to executives and management with responsibility for large information technology projects. Mr. Dean also previously served as CIO for Andersen Worldwide and as CIO of UAL Corporation, the parent of United Airlines. Mr. Dean holds a B.S. degree in Mathematics from Indiana University.

*James M. Rallo* has served as Chief Financial Officer and Treasurer of LSI since February 2005. Prior to joining our company, Mr. Rallo served as Chief Financial Officer and Treasurer of Sleep Services of America, Inc. from July 1999 to February 2005. Mr. Rallo served as Vice President of Deutsche Banc Alex Brown's Healthcare Investment Banking Group from June 1995 to July 1999. Mr. Rallo holds an M.B.A. from the Smith School of Business at the University of Maryland and a B.S. from Washington and Lee University. Mr. Rallo is a Certified Public Accountant.

*G. Cayce Roy* has served as our Executive Vice President and President of the Asset Recovery Division since August 2008. From 2000 to 2007, Mr. Roy held a number of management positions at Amazon.com, Inc., an online retailer. Most recently, from June 2004 to January 2007, Mr. Roy served as Vice President and General Manager of Amazon Services, LLC. Prior to that, from August 2001 to June 2004, Mr. Roy led Amazon's North American fulfillment operations. Prior to his employment at Amazon, Mr. Roy served with TNT Post Group in Europe. Mr. Roy holds a B.S. from Lehigh University.

*James E. Williams* has served as our Vice President, General Counsel and Corporate Secretary since November 2005. Prior to joining the Company, Mr. Williams was an independent consultant from March 2004 to November 2005. Mr. Williams served as Vice President, General Counsel and Secretary from October 2003 until February 2004 and as Senior Corporate Counsel from July 2002 to September 2003 for Acterna, a provider of telecommunications and test and measurement solutions that was acquired by JDS Uniphase Corporation in late 2005. From June 2000 to June 2002 he served as Assistant General Counsel for PathNet Telecommunications, formerly a wholesale telecommunications provider. Mr. Williams was a corporate associate at the law firms of Kirkland & Ellis LLP and Wilson Sonsini Goodrich & Rosati. He received his B.A. from Brown University and his J.D. from the University of Chicago Law School.

Table of Contents**ITEM 2 Ratification of Independent Registered Public Accounting Firm**

The Audit Committee has selected Ernst & Young LLP to serve as our independent registered public accounting firm for fiscal 2011.

We are asking our stockholders to ratify the selection of Ernst & Young LLP as our independent registered public accounting firm. Although ratification is not required by our bylaws or otherwise, we are submitting the selection of Ernst & Young LLP to our stockholders for ratification because we value our stockholders' views on the Company's independent registered public accounting firm and as a matter of good corporate practice. In the event that our stockholders fail to ratify the selection, the Audit Committee will review its future selection of the independent registered public accounting firm. Even if this selection is ratified, pursuant to the Sarbanes-Oxley Act of 2002, the Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the work of our independent registered public accounting firm and may determine to change the firm selected at such time and based on such factors as it determines to be appropriate.

Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting to answer appropriate questions. They also will have the opportunity to make a statement if they desire to do so.

**Your Board of Directors unanimously recommends a vote FOR the ratification of Ernst & Young LLP as our independent registered public accounting firm for fiscal 2011.**

**AUDITORS****Audit and Non-Audit Fees**

The following table presents fees for professional audit services rendered by Ernst & Young LLP for the audit of the Company's annual financial statements for the fiscal years ended September 30, 2010, and September 30, 2009, and for fees billed for other services rendered by Ernst & Young LLP during those periods.

	Fiscal 2010	Fiscal 2009
Audit fees(1)	\$ 976,000	\$ 929,800
Audit-related fees(2)	\$ 87,200	\$ 83,500
Tax fees(3)	\$ 276,880	\$ 106,075
All other fees	N/A	N/A
Total fees	\$ 1,340,080	\$ 1,119,375

- (1) Audit fees consisted principally of work performed in connection with the audit of our consolidated financial statements and the review of the unaudited quarterly financial statements. This amount includes \$65,000 and \$62,000 in costs during fiscal 2010 and fiscal 2009, respectively, related to the statutory audits of our foreign subsidiaries and other related services.
- (2) Audit-related fees consisted principally of fees incurred in connection with our employee benefit plans.
- (3) Tax fees consisted principally of tax return preparation, planning and compliance work.

Table of Contents

**Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm**

Pursuant to its Charter, Audit Committee policy and applicable law, the Audit Committee pre-approves all audit and permissible non-audit services to be provided by our independent registered public accounting firm. The pre-approval policy applies to audit services, audit-related services, tax services and other services. The Audit Committee has delegated authority to the Chair of the Audit Committee in some cases to pre-approve the provision of services by our independent registered public accounting firm, which pre-approvals the Chair then communicates to the full Audit Committee. To avoid potential conflicts of interest, the law prohibits a publicly traded company from obtaining certain non-audit services from its independent registered public accounting firm. We obtain these services from other service providers as needed.

**Audit Committee Report**

Liquidity Services' management is responsible for Liquidity Services' financial statements, internal controls and financial reporting process. Liquidity Services' independent registered public accounting firm, Ernst & Young LLP, is responsible for auditing the financial statements and for expressing an opinion as to whether those audited financial statements fairly present, in all material respects, the financial position, results of operations and cash flows of the Company in conformity with U.S. generally accepted accounting principles. The Audit Committee was established for the purpose of representing and assisting the Board of Directors in overseeing Liquidity Services' accounting and financial reporting processes and audits of Liquidity Services' annual financial statements, including the integrity of Liquidity Services' financial statements, Liquidity Services' compliance with legal and regulatory authority requirements, the independent registered public accounting firm's qualifications and independence and the performance of Liquidity Services' independent registered public accounting firm. The members of the Audit Committee are not professional accountants or auditors, and their functions are not intended to duplicate or to certify the activities of management and the independent registered public accounting firm.

In this context, the Audit Committee has reviewed and discussed the audited financial statements with management. The Audit Committee has discussed with the independent registered public accounting firm the matters required to be discussed by Public Company Accounting Oversight Board ("PCAOB") Ethics and Independence Rule 3526, "Communication with Audit Committees Concerning Independence." The Audit Committee has received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the PCAOB regarding the independent registered public accounting firm's communications with the audit committee concerning independence, and has discussed with the independent registered public accounting firm its independence.

Based upon the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended September 30, 2010 for filing with the Securities and Exchange Commission. The Board of Directors approved including the audited financial statements in the Company's Annual Report.

**The Audit Committee:**

George H. Ellis, Chair  
F. David Fowler  
Patrick W. Gross  
Franklin D. Kramer

The Audit Committee Report does not constitute soliciting material, and shall not be deemed to be filed or incorporated by reference into any other filing under the Securities Act of 1933, as



Table of Contents

amended, or the Exchange Act, except to the extent that we specifically incorporate the Audit Committee Report by reference therein.

**ITEM 3 Approval of an Advisory Resolution on Executive Compensation**

We are asking stockholders to approve an advisory resolution on the Company's executive compensation as reported in this proxy statement. As described below in the "Compensation Discussion and Analysis" section of this proxy statement, the Compensation Committee's goals in setting executive compensation are to support the attainment of our short- and long-term financial and strategic objectives, reward executives for continuous growth in earnings and stockholder value, and align executives' interests with those of our stockholders. To achieve these goals, our executive compensation structure emphasizes performance-based compensation, including annual incentive compensation and stock-based awards.

We urge stockholders to read the "Compensation Discussion and Analysis," beginning on page 30 of this proxy statement, which describes in more detail how our executive compensation policies and procedures operate and are designed to achieve our compensation objectives, as well as the Summary Compensation Table and other related compensation tables and narrative, appearing on pages 43 through 55, which provide detailed information on the compensation of our named executive officers. The Board of Directors and the Compensation Committee believe that the policies and procedures articulated in the "Compensation Discussion and Analysis" are effective in achieving our goals and that the compensation of our named executive officers reported in this proxy statement reflects and supports these compensation policies and procedures.

In accordance with recently adopted Section 14A of the Exchange Act, and as a matter of good corporate governance, stockholders will be asked at the Annual Meeting to approve the following advisory resolution:

RESOLVED, that the stockholders of Liquidity Services, Inc. (the "Company") approve, on an advisory basis, the compensation of the Company's named executive officers described in the Compensation Discussion and Analysis and disclosed in the Summary Compensation Table and the related compensation tables, notes and narrative in the Proxy Statement for the Company's 2011 Annual Meeting of Stockholders.

This advisory resolution, commonly referred to as a "say-on-pay" resolution, is non-binding on the Board of Directors. Although non-binding, the Board and the Compensation Committee will review and consider the voting results when making future decisions regarding our executive compensation program.

**Your Board of Directors unanimously recommends a vote FOR the advisory resolution on executive compensation.**

**ITEM 4 Advisory Vote on the Frequency of Conducting Future Advisory Votes on Executive Compensation**

Pursuant to recently adopted Section 14A of the Exchange Act, we are asking stockholders to vote on whether future advisory votes on executive compensation of the nature reflected in Item Number 3 above should occur every year, every two years or every three years.

After careful consideration, the Board of Directors has determined that holding an advisory vote on executive compensation every year is the most appropriate policy for the Company at this time, and recommends that stockholders vote for future advisory votes on executive compensation to occur every year. While the Company's executive compensation programs are designed to promote a long-term connection between pay and performance, the Board of Directors recognizes that executive compensation disclosures are made annually. Given that the "say-on-pay" advisory vote provisions are

Table of Contents

new, holding an annual advisory vote on executive compensation provides the Company with more direct and immediate feedback on our compensation programs. However, stockholders should note that because the advisory vote on executive compensation occurs well after the beginning of the compensation year, and because the different elements of our executive compensation programs are designed to operate in an integrated manner and to complement one another, in many cases it may not be appropriate or feasible to change our executive compensation programs in consideration of any one year's advisory vote on executive compensation by the time of the following year's annual meeting of stockholders. An annual advisory vote on executive compensation also is consistent with the Company's practice of annually providing stockholders the opportunity to ratify the Audit Committee's selection of independent auditors.

We understand that our stockholders may have different views as to what is an appropriate frequency for "say-on-pay" votes, and we will carefully review the voting results on this proposal. Stockholders will be able to specify one of four choices for this proposal on the proxy card: one year, two years, three years or abstain. Stockholders are not voting to approve or disapprove the Board's recommendation. This advisory vote on the frequency of future advisory votes on executive compensation is non-binding on the Board of Directors. Notwithstanding the Board of Directors' recommendation and the outcome of the stockholder vote, the Board of Directors may in the future decide to conduct advisory votes on a more or less frequent basis and may vary its practice based on factors such as discussions with stockholders and the adoption of material changes to our compensation programs.

**Your Board of Directors unanimously recommends a vote FOR conducting future advisory votes on executive compensation every year.**

## EXECUTIVE COMPENSATION

### Compensation Discussion & Analysis

This section describes our compensation strategy, programs and practices for the executive officers listed in the Summary Compensation Table that follows this discussion. In this proxy statement, we refer to these individuals as our named executive officers.

#### Executive Summary

Our executive compensation philosophy and the elements of our executive compensation program with regard to fiscal 2010 are summarized below:

The main objectives of our executive compensation program are to support the attainment of our short- and long-term financial and strategic objectives, reward executives for continuous growth in earnings and stockholder value, and align executives' interests with those of our stockholders.

Our executive compensation program emphasizes performance-based compensation, including annual incentive compensation and stock-based awards, including stock options and restricted stock.

Our Compensation Committee is responsible for evaluating and setting the compensation levels of our named executive officers. In setting compensation levels for executives, the Committee solicits the input and recommendations of our Chairman and CEO. The Compensation Committee periodically engages an independent compensation consultant to conduct market reviews of our competitive market for executive talent. The Committee engaged Towers Watson in fiscal 2010 to conduct a review of new market data for use in determining fiscal 2010 compensation levels.

Table of Contents

Compensation for our named executive officers during fiscal 2010 generally was higher than target levels as a result of the Company's and our named executive officers' strong performance. The Company's fiscal 2010 performance led to above-target annual incentive compensation for most of our named executive officers because we exceeded established target goals for company financial performance under our annual incentive bonus plan. As discussed in more detail below, we did not achieve our established target performance goals for the Asset Recovery Division. Our named executive officers received bonuses ranging from 51% to 150% of their respective targets.

To support the retention and incentive purposes of our executive compensation program, in fiscal 2010 certain of our named executive officers received stock option and time-based restricted stock awards and all of our named executive officers received performance-based restricted stock awards.

**General Compensation Philosophy**

Liquidity Services' executive compensation programs are designed to support the attainment of our short- and long-term financial and strategic objectives, reward executives for continuous growth in earnings and stockholder value, and align executives' interests with those of our stockholders. The goal of Liquidity Services' compensation programs is to attract, retain and motivate key executives, and to encourage a long-term commitment to Liquidity Services. To achieve these objectives, the Compensation Committee uses a variety of compensation elements, including: base salary, annual cash incentive compensation, long-term incentive compensation and certain other compensation and benefits.

*Factors Considered When Determining Compensation.* The Compensation Committee seeks to set executive compensation at competitive levels that the Compensation Committee considers appropriate for a company of our size and stage of growth. On an annual basis, the Compensation Committee determines and approves the total compensation level of each of our named executive officers based on its evaluation of external market conditions, Company performance and each named executive officer's individual performance relative to pre-established performance goals and objectives. The Compensation Committee also considers each executive's level of experience, unique skills and abilities critical to the Company, and the executive's tenure, position and responsibilities with the Company. The Compensation Committee considers recommendations from the Chairman and CEO regarding levels for base salary, annual incentive awards and long-term incentive awards for named executive officers. The Chairman and CEO annually provides to the Compensation Committee historical and prospective breakdowns of the total direct compensation components for each named executive officer. The Chairman and CEO also recommends financial and non-financial performance goals for each named executive officer under the annual cash incentive compensation plan.

*Market Data.* Periodically, the Compensation Committee has engaged a leading industry compensation consultant to assess the market competitiveness of our executive compensation program so that our program attracts and retains executive talent essential to achieve our business plans. The Compensation Committee engaged Towers Watson in fiscal 2010 to assess the market competitiveness of our executive compensation program for purposes of evaluating and setting fiscal 2010 executive compensation. For fiscal 2010, the scope of the consultant's work included a review of the Company's executive compensation practices, assistance with development of an appropriate peer group, and presentation to the Compensation Committee of a report regarding executive compensation trends for similarly sized companies and the market competitiveness of our executive compensation program. During fiscal 2010, Towers Watson was engaged directly by the Compensation Committee and did not provide any services to the Company other than the executive and director compensation consulting services described above.

Table of Contents

To assist the Compensation Committee in its market review for fiscal 2010, the Committee's compensation consultant prepared an analysis of the market competitiveness of the aggregate value of total direct compensation (base salary, annual incentive bonus and long-term incentives) as well as the market competitiveness of each element of compensation for each named executive officer. The market review was based upon two different sources of compensation data provided by Towers Watson published surveys and a selected peer group of e-commerce companies.

The survey sources relied upon for the market review were national surveys and contained compensation data for both high-technology sector companies as well as similarly sized general industry companies. For fiscal 2010, these survey sources were the 2009 Towers Perrin CDB Executive Compensation Database; the 2009 Towers Perrin Long-Term Incentive Plan Report and the 2009/2010 Watson Wyatt Industry Report on Top Management Compensation. The survey data was used as a market reference to assess how the Company's compensation practices for top executives compare to market practices and to confirm that the overall compensation mix is reasonably aligned with the marketplace.

The peer companies utilized in the review were approved by the Compensation Committee and developed based on the Company's fiscal 2008 peer group and input from the Compensation Committee's consultant and management. The peer group data was based on the most recent publicly available information. In selecting the companies for inclusion in the peer group, the Compensation Committee considered revenue, market capitalization, number of employees, geographic area, and companies with an internet presence or technology focus. The 2010 peer group included companies with revenues ranging from \$86 million to \$967 million. The peer group companies in fiscal 2010 were:

GSI Commerce Inc.*	Deltek Inc.
1-800-FLOWERS.COM Inc.*	TeleCommunication Systems Inc.
Overstock.com Inc.*	CoStar Group Inc.
The Corporate Executive Board	Rosetta Stone Inc.
VistaPrint Ltd.*	BIDZ.com Inc.*
NeuStar Inc.*	U.S. Auto Parts Network Inc.*
TNS Inc.	Online Resources Corp.
Blackboard Inc.*	GeoEye Inc.
Blue Nile Inc.*	LoopNet Inc.*

\*

Also included in the fiscal 2008 peer group. The Compensation Committee did not commission a new independent consultant review when evaluating and determining fiscal 2009 executive compensation. The compensation decisions specific to each component of total direct compensation for the named executive officers are discussed below.

*Pay Mix.* Because our named executive officers are in a position to directly influence the Company's performance, a significant portion of their compensation is delivered in the form of annual cash incentive bonus and long-term incentive compensation. We rely on a mix of compensation components intended to reward short-term results (in the form of annual cash incentive bonuses) and motivate long-term performance (in the form of option and restricted stock grants that vest over several years). We do not have a specific allocation target between cash and equity-based compensation or between annual and long-term incentive compensation. Instead, we retain the flexibility when determining the compensation mix to react to our evolving business environment and our specific hiring and retention requirements. In fiscal 2010, approximately 59% or more of each of our named executive

Table of Contents

officer's target total direct compensation, including approximately 78% of the target total direct compensation for the Chairman and CEO, was performance-based (in the form of target annual cash incentive bonuses and stock options and restricted stock awards), consistent with the Company's compensation philosophy to link executive compensation with stockholder returns and achievement of strategic business objectives.

**Base Salary**

*Purpose.* Salaries for named executive officers are designed to be competitive when compared with prevailing market rates and are based on a variety of factors, including level of responsibility, performance and the recommendations of the Chairman and CEO (other than with respect to his own compensation). Base salaries are reviewed annually or at the time of promotion or other changes in responsibilities. In determining whether to award base salary increases, the Compensation Committee considers the Company's overall business outlook, the Company's budget, the executive's individual performance, historical compensation, market compensation levels for comparable positions, internal pay equity and other factors, including any retention concerns. Under the terms of the employment agreements in place with our named executive officers, the Compensation Committee may not adjust the salary of a named executive officer downward unless the named executive officer consents to a reduction.

The Compensation Committee utilizes a report of market compensation levels prepared by its independent compensation consultant in order to evaluate the executive's base salaries. The Compensation Committee generally seeks to set base salaries between the 25th and 50th percentile of the peer group, adjusting for experience and other factors such as tenure, individual performance and responsibilities.

*Fiscal 2010 Decisions.* The Compensation Committee approved base salary increases for our named executive officers in fiscal 2010. These increases were based on the Compensation Committee's evaluation of individual performance, internal pay equity, increases in the cost of living and the 2010 study of market compensation. In light of these factors, the Compensation Committee approved increases for our named executive officers (other than Mr. Angrick) ranging from 2.7% to 6%. These increases primarily reflect a cost of living adjustment over the prior year's base salary that had been determined based on the fiscal 2010 report of market compensation. For Mr. Angrick, the Compensation Committee approved an increase of 30.3% because his base salary was determined to be significantly below the 25<sup>th</sup> percentile of the peer group data. Following the increase, Mr. Angrick's base salary was at approximately the 25<sup>th</sup> percentile.

Effective October 1, 2009, our named executive officers received the following salary increases:

Named Executive Officer	2009 Salary	2010 Salary	Percentage Increase
William P. Angrick, III	\$ 303,188	\$ 395,000	30.3%
James M. Rallo	267,120	282,500	5.8%
Eric C. Dean	265,000	275,000	3.8%
Thomas B. Burton	267,750	275,000	2.7%
G. Cayce Roy	250,000	265,000	6.0%

Table of Contents**Annual Incentive Compensation**

*Purpose.* Annual incentive compensation is an "at risk" performance-based cash bonus that is designed to motivate our named executive officers to achieve pre-established corporate financial and individual performance objectives that are consistent with the Company's strategic plan. Bonuses under the plan are payable if, and only to the extent that, these pre-established objectives are achieved. The Compensation Committee retains the discretion to increase or decrease payouts under the bonus plan in connection with its review of the Company's and the executive's performance during the year but did not exercise such discretion in fiscal 2010. Compensation paid under the plan has varied significantly from year to year. For example, over the last three years, the bonus of our Chairman and CEO has ranged from 0 to 121% of his base salary.

The annual incentive bonus plan is also designed to attract and retain key employees by providing our named executive officers with a significant opportunity to earn additional annual cash compensation. As noted below, the target opportunities of our named executive officers range from 50% to 100% of base salary, with a maximum opportunity of between 100% and 200% of base salary. The Committee strives to set the annual incentive plan target opportunity at the median of the peer group with potential for upper quartile pay based on superior performance of the Company and the individual.

*Fiscal 2010 Target Bonus Opportunities.* At the beginning of each fiscal year, the Committee establishes the performance goals and target and maximum cash bonus awards for each named executive officer. Each target and maximum cash bonus award is set as a percentage of each named executive officer's base salary. The amount of the cash bonus ultimately awarded depends on the achievement of performance goals. The "Grants of Plan-Based Awards for Fiscal 2010" table below shows the range of possible payments to each of our named executive officers under the annual incentive bonus plan in fiscal 2010.

For fiscal 2010, the annual incentive cash award target and maximum bonus of our named executive officers were:

Named Executive Officer	Fiscal 2010 Target Bonus Percentage of Base Salary	Fiscal 2010 Annual Incentive Target	Fiscal 2010 Maximum Bonus Percentage of Base Salary
William P. Angrick, III	100%	\$ 395,000	200%
James M. Rallo	60%	169,500	100%
Eric C. Dean	50%	137,500	100%
Thomas B. Burton	80%	220,000	120%
G. Cayce Roy	60%	159,000	100%

The Committee established these target and maximum cash bonus award opportunities based upon (1) the relative scope and responsibility of the named executive officer's position and his respective impact on overall Company performance and (2) comparative compensation data based on the Committee's review of the competitive market conducted for fiscal 2010. For fiscal 2010, the target bonus opportunity for each of our named executive officers remained the same as for fiscal 2009, except that Mr. Roy's target bonus opportunity was increased from 42% to 60% of his base salary to bring his bonus opportunity more in line with the competitive market data. The Compensation Committee determined that the target bonus opportunities of our named executive officers (other than Mr. Burton) were at or near the 75<sup>th</sup> percentile of the competitive market data reviewed for fiscal 2010. The Committee determined that it was appropriate for Mr. Burton's target bonus opportunity to be above the 75<sup>th</sup> percentile because of the significance to the Company of his role as head of DOD Surplus and to incentivize growth in that division.

## Edgar Filing: LIQUIDITY SERVICES INC - Form DEF 14A

### Table of Contents

*Fiscal 2010 Performance Goals.* During the beginning of the fiscal year, the Compensation Committee established performance goals for the plan based on recommendations from management. For fiscal 2010, the Committee determined that awards under the plan for our named executive officers other than Messrs. Burton and Roy would be based on the achievement of two corporate performance goals and one divisional performance goal and achievement of certain individual strategic objectives. For Messrs. Burton and Roy, the Committee determined that their bonuses would be based almost entirely on divisional performance goals (the DOD Surplus Division with respect to Mr. Burton and the Asset Recovery Division with respect to Mr. Roy) rather than Company-wide performance metrics because of their leadership of the respective divisions. The Compensation Committee also evaluates individual performance measured against the individual management objectives described below to determine the actual bonus earned by a named executive officer. The performance goals carry different weights for our named executive officers based on their position and responsibilities. Based on recommendations of management, Mr. Dean's performance goals in fiscal 2010 were significantly weighted towards the achievement of individual performance objectives. As described further below, the individual performance objectives for Mr. Dean include important strategic and operational goals that the Compensation Committee determined were necessary to further the Company's strategic plan and profitability. The relative weights assigned to corporate, divisional and individual goals for fiscal 2010 are as follows:

Name and Principal Position	Corporate GMV	Corporate Adjusted EBITDA	Divisional Performance*	Individual Performance
William P. Angrick, III <i>Chairman and Chief Executive Officer</i>	15%	35%	25%	25%
James M. Rallo  <i>Chief Financial Officer and Treasurer</i>	30%	30%	10%	30%
Eric C. Dean  <i>Chief Information Officer</i>	20%	20%	10%	50%
Thomas B. Burton  <i>President and Chief Operating Officer, DOD Surplus, LLC</i>	0%	0%	90%	10%
G. Cayce Roy  <i>Executive Vice President and President, Asset Recovery Division</i>	0%	0%	90%	10%

\*

Divisional performance for Messrs. Angrick, Rallo, Dean and Roy is measured with respect to the Asset Recovery Division; for Mr. Burton, divisional performance is measured with respect to the DOD Surplus Division.

Similar to fiscal 2009, the Committee's evaluation of the Company's financial performance under the plan for fiscal 2010 was based on two Company-wide goals: Gross Merchandise Volume (GMV) and Adjusted EBITDA. GMV measures the total sales volume of all merchandise sold through the Company's marketplaces during a given period. Adjusted EBITDA is based on the measurement of earnings before interest, taxes, depreciation and amortization, as adjusted for non-cash stock compensation expense. The Committee selected these metrics as the corporate performance measures because they continue to be key metrics used by management to measure the Company's business performance and the basis upon which we communicate forward-looking financial information to the investment community. The target GMV goal for fiscal 2010 was \$410.0 million, approximately 15% greater than fiscal 2009 results. If the Company had achieved a GMV of less than \$380.0 million, then no bonus would have been earned with respect to this goal. The target Adjusted EBITDA goal

Table of Contents

established for fiscal 2010 was \$28.25 million, reflecting an increase of approximately 19.7% over fiscal 2009 results. If the Company had achieved an Adjusted EBITDA of less than \$26.00 million, then no bonus would have been earned with respect to this goal. If the threshold goal for either GMV or Adjusted EBITDA had been achieved, then a named executive officer would have earned 40% of his target bonus percentage for that goal.

For Messrs. Angrick, Rallo and Dean, the performance goal selected for the Asset Recovery Division for fiscal 2010 was based on the division's GMV. Similar to the corporate metric, GMV for the Asset Recovery Division is based on the measurement of the total sales volume of all merchandise sold through the Asset Recovery Division's marketplaces during a given period. Because we believe disclosure of the GMV results for the Asset Recovery Division would cause the Company competitive harm by publishing sensitive information that would not otherwise be disclosed, the Company is not disclosing this target. The Committee cannot specify the degree of difficulty required to meet the GMV target, but believes that achievement of the target goal would have required substantial and sustained performance by the division. The target GMV goal was consistent with the Company's annual business plan and strategic objectives, and achievement of the target goal required extensive business development efforts, a significant increase in inventory velocity and continued improvement in service levels. Achievement of the target GMV goal required year over year growth of 36%, and achievement of the threshold GMV goal, which would have resulted in 40% of the target bonus percentage for this goal being earned, required year over year growth of 24%.

For Mr. Burton, divisional performance for fiscal 2010 was measured with respect to the DOD Surplus Division based on the division's Adjusted EBITDA (*Weight: 70%*) and the division's achievement of the following objectives:

Achieve inventory accuracy during fiscal 2010 for the DOD Surplus Division of at least 98.5% (*Weight: 10%*)

Achieve average quarterly inventory velocity for fiscal 2010 for the DOD Surplus Division of 70 days or less (*Weight: 10%*)

Similar to the corporate metric, Adjusted EBITDA for the DOD Surplus Division is based on the measurement of earnings before interest, taxes, depreciation and amortization, as adjusted for non-cash stock compensation expense. Because we believe disclosure of the Adjusted EBITDA results for the DOD Surplus Division would cause the Company competitive harm by publishing sensitive information that would not otherwise be disclosed, the Company is not disclosing this target. The Committee cannot specify the degree of difficulty required to meet the Adjusted EBITDA target, but believes that achievement of the target goal would have required substantial and sustained performance by the division. The target Adjusted EBITDA goal was consistent with the Company's annual business plan and strategic objectives, and achievement of the target goal required successfully executing marketing strategies, improving inventory accuracy and realizing significant operational efficiencies. Achievement of the target Adjusted EBITDA goal required year over year growth of 9%, and achievement of the threshold Adjusted EBITDA goal, which would have resulted in 40% of the target bonus percentage for this goal being earned, required year over year growth of 0% (due to the exclusion of certain property categories under the new contract with the Department of Defense).

For Mr. Roy, divisional performance for fiscal 2010 was measured with respect to the Asset Recovery Division based on the division's Adjusted EBITDA as a percentage of GMV (*Weight: 25%*) and the division's achievement of the following objectives:

Have at least 38 clients with over \$100,000 in GMV in the fourth quarter (which was subject to the Asset Recovery Division meeting a minimum level of quarterly GMV) (*Weight: 35%*)

Achieve average quarterly inventory velocity for fiscal 2010 for the Asset Recovery Division of 40 days or less (*Weight: 15%*)



Table of Contents

Achieve an auction defect rate in the fourth quarter of 4.5% or less, measured as a percentage of closed auctions (*Weight: 15%*)

Similar to the corporate metric, Adjusted EBITDA for the Asset Recovery Division is based on the measurement of earnings before interest, taxes, depreciation and amortization, as adjusted for non-cash stock compensation expense. Because we believe disclosure of the Adjusted EBITDA results for the Asset Recovery Division would cause the Company competitive harm by publishing sensitive information that would not otherwise be disclosed, the Company is not disclosing this target. The Committee cannot specify the degree of difficulty required to meet the Adjusted EBITDA target, but believes that achievement of the target goal would have required substantial and sustained performance by the division. The target Adjusted EBITDA goal was consistent with the Company's annual business plan and strategic objectives, and achievement of the target goal required extensive business development efforts, a significant increase in inventory velocity and continued improvement in service levels.

The individual performance goals established for each of our named executive officers varied based on his relative job responsibilities and emphasized improvement in metrics or operational objectives within the control of each named executive officer. Each of our named executive officers, other than Messrs. Burton and Roy, had four individual management objectives designed to further each of the following Company strategic initiatives: expansion of the Company's client base; optimization of recovery across all buyer channels; strengthening of operations, service levels and the client/buyer experience; and pursuit of organizational efficiencies to support scalable growth. Messrs. Burton and Roy each had individual management objectives, as noted below, that were linked to the performance of the DOD Surplus Division and the Asset Recovery Division, respectively. Each individual management objective is weighted differently as noted below. To the extent that an objective was determined to be critical to the Company's strategy and business plan, it may have served as an individual objective of more than one named executive officer. In order to receive a bonus for this component, with the exception of Messrs. Burton and Roy, at least 60% of the individual objectives must be achieved.

Our Chairman and Chief Executive Officer's individual performance was evaluated based on the following four individual objectives:

Expand client base by increasing the number of client programs within Fortune 1000 and municipal government markets, measured by support of outreach efforts to executive decision makers and development of new channel partnerships with consultants and industry influencers (*Weight: 30%*)

Optimize recovery across all buyer channels, measured by enablement of cross-listing of items across LSI business-to-business marketplaces (*Weight: 20%*)

Strengthen operations, service levels and client/buyer experience, measured by achievement of average quarterly inventory velocity for fiscal 2010 of 50 days or less for the Asset Recovery Division and of 90 days or less for the DOD Surplus Division, transfer of UK business to the Company's corporate inventory management system platform (*Weight: 20%*)

Pursue organizational efficiencies to support scalable growth, measured by development of a business plan to support implementation of strategy for the government market and the US/UK commercial market and implementation of a new reporting structure and integration of US/UK teams (*Weight: 30%*)

## Edgar Filing: LIQUIDITY SERVICES INC - Form DEF 14A

### Table of Contents

Mr. Rallo's individual performance was evaluated based on the following four individual objectives:

Expand client base by increasing the number of client programs within Fortune 1000 and municipal government markets, measured by development of new channel partnerships with consultants and industry influencers *(Weight: 15%)*

Optimize recovery across all buyer channels, measured by development of reporting tools for business-to-consumer marketplaces and messaging to investor base *(Weight: 10%)*

Strengthen operations, service levels and client/buyer experience, measured by achievement of inventory accuracy during fiscal 2010 of 98%, achievement of average quarterly inventory velocity for fiscal 2010 of 50 days or less for the Asset Recovery Division and of 90 days or less for the DOD Surplus Division and transfer of UK business to the Company's corporate investment management system platform *(Weight: 50%)*

Pursue organizational efficiencies to support scalable growth, measured by introduction of shipping capabilities to the GovDeals and Government Liquidation marketplaces and launch of Paypal on the Government Liquidation marketplace *(Weight: 25%)*

Mr. Dean's individual performance was evaluated based on the following four individual objectives:

Expand client base by increasing the number of client programs within Fortune 1000 and municipal government markets, measured by development of new channel partnerships with consultants and industry influencers *(Weight: 15%)*

Optimize recovery across all buyer channels, measured by enablement of cross-listing of items across LSI business-to-business marketplaces and launch on the Government Liquidation marketplace by the end of fiscal 2010 *(Weight: 25%)*

Strengthen operations, service levels and client/buyer experience, measured by achievement of average quarterly inventory velocity for fiscal 2010 of 50 days or less for the Asset Recovery Division and of 90 days or less for the DOD Surplus Division, transfer of UK business to the Company's corporate inventory management system platform and launch of buyer experience tools on the Liquidation.com marketplace by the second quarter *(Weight: 35%)*

Pursue organizational efficiencies to support scalable growth, measured by introduction of shipping capabilities to the GovDeals and Government Liquidation marketplaces and launch of Paypal on the Government Liquidation marketplace *(Weight: 25%)*

Mr. Burton's individual performance was evaluated based on the following individual objective:

Implement growth initiatives, including alignment of the Government Liquidation marketplace with the GovDeals marketplace

Mr. Roy's individual performance was evaluated based on the following individual objective:

Implement growth initiatives, including alignment of the Asset Recovery Division's operations with UK operations, mergers and acquisitions and branding to sellers

## Edgar Filing: LIQUIDITY SERVICES INC - Form DEF 14A

*Fiscal 2010 Results and Payouts.* At the end of the performance year, our Chairman and CEO assessed the achievement of the Company and individual performance goals and made a recommendation to the Committee regarding the annual bonus payouts. The target cash bonus of each of our named executive officers is shown in the "Grants of Plan-Based Awards for Fiscal 2010" table, and the actual amounts earned by our named executive officers are shown in the "Non-Equity Incentive Plan Compensation" column of the Summary Compensation Table. For fiscal 2010, the portion of each named executive officer's annual bonus that was based on the corporate GMV and Adjusted EBITDA goals was paid out quarterly based on the Company's pro-rata performance compared to each annual goal established for these corporate financial measures. The quarterly bonus

Table of Contents

payments were adjusted each quarter based on the Company's cumulative performance during the year, and the amounts listed in the "Non-Equity Incentive Plan Compensation" column of the Summary Compensation Table represent the aggregate payments made to the named executive officers for fiscal 2010 bonuses.

In determining the amount of the fiscal 2010 awards, the Committee assessed the Company's and each named executive officer's performance measured against the previously described corporate, divisional and individual management objectives. For fiscal 2010, the Company achieved GMV of \$412 million (excluding the GMV of the acquired Network International business), which exceeded the target performance level, and Adjusted EBITDA of \$37 million (excluding the Adjusted EBITDA of the acquired Network International business), which exceeded the maximum performance level, resulting in payouts for these components of 104% and 240%, respectively. The Asset Recovery Division did not achieve the threshold performance level for GMV performance in fiscal 2010.

The Compensation Committee awarded Mr. Angrick an annual cash incentive bonus of 121% of his target bonus, resulting in a bonus payment of \$477,358, based on our strong fiscal 2010 corporate performance and achievement of 85% of his individual objectives. Mr. Angrick achieved all of his individual objectives other than the objective related to outreach to executive decision makers. Mr. Rallo was awarded 133% of his target bonus, resulting in a bonus payment of \$225,774, based on our strong fiscal 2010 corporate performance and achievement of 100% of his individual objectives. Mr. Dean was awarded 119% of his target bonus, resulting in a bonus payment of \$163,350, based on our strong fiscal 2010 corporate performance and achievement of 100% of his individual objectives. Mr. Burton was awarded 150% of his target bonus, resulting in a bonus payment of \$330,000, based on the DOD Surplus Division's achievement of 154.3% of its Adjusted EBITDA target, 105% of its inventory accuracy objective and 95% of its inventory velocity objective and Mr. Burton achieving 112.5% of his growth initiatives objective. Mr. Roy was awarded 51% of his target bonus, resulting in a bonus payment of \$80,693, due to the Asset Recovery Division not achieving its Adjusted EBITDA target or target number of clients with over \$100,000 in GMV but the Asset Recovery Division achieving 90% of its auction defects objective and 112.5% of its inventory velocity objective and Mr. Roy achieving 150% of his growth initiatives objective.

*Fiscal 2011 Bonus Plan.* At its December 2010 meeting, the Compensation Committee determined that the corporate financial measures for our fiscal 2011 annual incentive compensation plan will be GMV and Adjusted EBITDA, similar to our fiscal 2010 plan. The Compensation Committee decided to keep the divisional performance measures for each named executive officer the same as in fiscal 2010, except that for Messrs. Angrick, Rallo and Dean, divisional performance will be measured with respect to all divisions other than the DOD Surplus Division rather than solely with respect to the Asset Recovery Division. The Compensation Committee kept bonus opportunities for our named executive officers consistent with fiscal 2010, except that Mr. Dean's bonus opportunity was increased from 50% to 55% of his base salary and changes were made to the relative weight assigned

Table of Contents

to the performance goals. The relative weight assigned to corporate, divisional and individual goals for fiscal 2011 is as follows:

Name and Principal Position	Corporate GMV	Corporate Adjusted EBITDA	Divisional Performance*	Individual Performance
William P. Angrick, III <i>Chairman and Chief Executive Officer</i>	25%	25%	25%	25%
James M. Rallo <i>Chief Financial Officer and Treasurer</i>	30%	30%	10%	30%
Eric C. Dean <i>Chief Information Officer</i>	20%	20%	10%	50%
Thomas B. Burton <i>President and Chief Operating Officer, DOD Surplus, LLC</i>	0%	0%	75%	25%
G. Cayce Roy <i>Executive Vice President and President, Asset Recovery Division</i>	0%	0%	85%	15%

\*

Divisional performance for Mr. Burton is measured with respect to the DOD Surplus Division; for Mr. Roy divisional performance is measured with respect to the Asset Recovery Division; and for Messrs. Angrick, Rallo and Dean, divisional performance is measured with respect to all divisions other than the DOD Surplus Division, including the Asset Recovery Division.

### Long-Term Incentive Compensation

*Purpose.* We grant equity-based compensation to our named executive officers in order to attract, retain and reward our executives and strengthen the mutuality of interests between our named executive officers and Liquidity Services' stockholders. The Compensation Committee annually determines whether to grant stock options or other equity-based incentives to executives. In making its determinations, the Compensation Committee considers factors such as market data, the executive's and the Company's performance in the last year and the results achieved by the executive, the executive's base salary and the Compensation Committee's view regarding the future potential of long-term contributions of the executive. Recommendations of the Chairman and CEO are also taken into consideration.

The Compensation Committee has historically granted our named executive officers long-term incentive awards in the form of stock options. Our long-term incentive compensation program in fiscal 2010 provided grants of stock options, time-based restricted stock and performance-based restricted stock under our 2006 Omnibus Long-Term Incentive Plan, which has been approved by our stockholders. The Compensation Committee has historically granted annual equity awards with respect to each fiscal year after financial results are available for the prior fiscal year at a regularly scheduled meeting. As the Compensation Committee's meeting schedule is established prior to the start of each fiscal year, the proximity of any award grants to earnings announcements or other market events is coincidental. For annual awards, the Compensation Committee's policy is to grant options and restricted stock awards on the date it approves them. The option exercise price is determined in accordance with the terms of the plan under which the award is granted (generally, the closing price on the date of grant) and cannot be less than the fair market value of our Common Stock as of that date. In addition to annual options awards, our named executive officers may receive stock options in connection with the commencement of employment or upon promotion. In these cases, the exercise

Table of Contents

price is typically the closing price of our common stock on the date the executive begins employment or the effective date of the promotion.

*Fiscal 2010 Annual Awards.* In 2010, the Compensation Committee granted a mix of stock options and time-based restricted stock awards to Messrs. Angrick and Roy as part of the annual grant for fiscal 2010. Approximately 60% of the equity award value was in the form of stock options, and 40% was in the form of restricted stock. Messrs. Rallo, Dean and Burton did not receive a similar annual equity award grant in fiscal 2010 because they each received larger "two-year" grants of stock options in fiscal 2009 than they received in fiscal 2008 for retention and incentive purposes. In contrast, Messrs. Angrick and Roy did not receive these larger grants of stock options in fiscal 2009.

In determining the size of the annual grants to our named executive officers, the Compensation Committee considered the size of equity awards granted in fiscal 2009, the scope of job responsibilities, experience, individual performance and recommendations of management. Generally, the Committee seeks to target named executive officers' annual long-term incentive award values at a level between the 50th and 75th percentile of the Company's fiscal 2010 peer group based on a target value as a percentage of base salary. The grant date fair values of options and time-based restricted stock awarded to Messrs. Angrick and Roy in fiscal 2010 were within this range. Similarly, one-half of the grant date fair value of the two-year option grant to each of Messrs. Rallo, Dean and Burton in fiscal 2009 was between the 50th and 75th percentile of the Company's fiscal 2010 peer group based on a target value as a percentage of base salary.

The grant date fair value of Mr. Angrick's stock options and time-based restricted stock awards was approximately 200% of his base salary, and the grant date fair value of Mr. Roy's stock options and time-based restricted stock awards was approximately 80% of his base salary. We calculated the grant date fair value of stock options by multiplying the Black-Scholes value per option by the number of options awarded and of time-based restricted stock by multiplying the closing price of our common shares on the grant date times the number of restricted shares awarded.

*Fiscal 2010 Special Awards.* In addition to the annual equity awards granted to Messrs. Angrick and Roy, we also awarded each of our named executive officers special one-time grants of performance-based restricted stock. The Compensation Committee decided to grant these special performance-based restricted stock awards to drive performance. In addition, the Compensation Committee recognized that fiscal 2009 annual bonus payouts that were based on achievement of the Company-wide Adjusted EBITDA goal were significantly below target levels and, in some cases, zero, and the Committee wanted to incentivize improved Adjusted-EBITDA performance in fiscal 2010. The Compensation Committee determined the size of the grants to the named executive officers on a subjective basis, with reference to the difference between the named executive officer's actual fiscal 2009 bonus and the fiscal 2009 target bonus, in each case, with respect to the portion of the bonus based on achievement of the Company-wide Adjusted EBITDA goal.

Restrictions on the performance-based restricted shares could lapse only upon achievement during fiscal 2010 of a pre-established consolidated Adjusted EBITDA goal. If the Adjusted EBITDA goal was not achieved during fiscal 2010, the named executive officers would have forfeited the restricted shares on December 31, 2010. The Adjusted EBITDA goal was \$32 million, measured on a rolling 12-month basis, which was established by the Compensation Committee based on the recommendations of management. We achieved Adjusted EBITDA of \$33 million, measured on a rolling 12-month basis, as of the end of February 2010, and the restrictions on the performance-based restricted shares lapsed in March 2010.

Table of Contents

The number of stock options and time-based and performance-based restricted shares granted to our named executive officers in fiscal 2010 is included in the "Grants of Plan-Based Awards for Fiscal 2010" table. The terms and conditions of the grants are more fully described in the footnotes and narrative following that table.

*Fiscal 2011 Equity Awards.* At its November 2010 meeting, the Compensation Committee granted each of our named executive officers a mix of stock options and restricted stock awards for fiscal 2011. These awards were granted on November 30, 2010. Approximately 40% of the equity award value was in the form of stock options, and 60% was in the form of restricted stock.

**Other Compensation and Benefit Programs**

Our named executive officers are eligible to participate in benefit plans that are available to substantially all of our employees, including participation in the Liquidity Services, Inc. 401(k) Profit Sharing and Trust Plan, medical insurance, dental insurance, life insurance and disability insurance programs.

**Perquisites**

Except with respect to Mr. Burton, we do not provide our named executive officers with any additional benefits or perquisites not available to all other employees. In fiscal 2010, Mr. Burton was provided the use of a Company-owned car. The value of this benefit is described in the footnotes to the "Summary Compensation Table" below.

**Employment Agreements**

We have entered into employment agreements with each of our named executive officers that provide for, among other things, specified payments in the event of termination of employment in certain circumstances. The terms of these agreements are described under "Employment Agreements" below. The Committee believes it is important to provide our named executive officers with some measure of financial security in the event that their employment with the Company is terminated without cause or in connection with certain unforeseen circumstances. The Committee believes that these arrangements encourage an executive to comply with post-termination restrictive non-competition covenants and to cooperate with the Company both before and after his employment is terminated. The Committee believes that these arrangements are reasonable and that it is beneficial to have agreements in place that specify the exact terms and benefits an executive receives if the Company elects to terminate a named executive officer's employment.

**Stock Ownership**

There are no equity ownership requirements or guidelines that any of our employees must meet or maintain. Our current named executive officers collectively own a significant amount of Company Common Stock. As of the Record Date, as a group, our named executive officers owned 26.5% of the Company's Common Stock.

**Deductibility of Executive Compensation**

Section 162(m) of the Internal Revenue Code of 1986, as amended (Internal Revenue Code), limits publicly-held companies to an annual deduction for federal income tax purposes of \$1 million for compensation paid to a company's chief executive officer and the three other most highly compensated executive officers (not including the chief financial officer) determined at the end of each year. This limitation does not apply to compensation that meets the requirements under Section 162(m) for "qualifying performance-based" compensation. For fiscal 2010, payments of annual bonuses and the

Table of Contents

grants of stock options and performance-based restricted stock awards were intended to qualify as performance-based compensation.

**Summary Compensation Table**

The following table summarizes the compensation of our named executive officers, which includes our principal executive officer, principal financial officer and our three other most highly compensated executive officers.

Name and Principal Position	Year	Salary (\$)(1)	Stock Awards (\$)(2)	Option Awards (\$)(2)	Non-Equity Incentive	All Other Compensation (\$)(4)	Total (\$)
					Plan Compensation (\$)(3)		
William P. Angrick, III <i>Chairman and Chief Executive Officer</i>	2010	\$ 395,000	\$ 544,005	\$ 499,708	\$ 477,358	\$ 10,688	\$ 1,926,759
	2009	303,188		289,128	0	7,854	600,170
	2008	288,750		515,601	324,555	7,000	1,135,906
James M. Rallo <i>Chief Financial Officer and Treasurer</i>	2010	282,500	108,600		225,774	10,471	627,345
	2009	267,120		590,576	50,000	8,722	916,418
	2008	252,000		429,667	141,246	8,291	831,204
Eric C. Dean <i>Chief Information Officer</i>	2010	275,000	45,250		163,350	13,028	496,628
	2009	265,000		506,208	92,750	11,887	875,845
	2008	239,584		1,755,000	131,750	53,184	2,179,518
Thomas B. Burton <i>President and Chief Operating Officer, DOD Surplus, LLC</i>	2010	275,000	36,200		330,000	13,304	654,504
	2009	267,750		506,208	236,657	11,283	1,021,898
	2008	255,000		460,358	331,500	28,765	1,075,623
G. Cayce Roy(5) <i>Executive Vice President and President, Asset Recovery Division</i>	2010	265,000	121,469	140,745	80,693	0	607,907

- (1) Each of the named executive officers contributed a portion of his salary to the Liquidity Services, Inc. 401(k) Profit Sharing and Trust Plan.
- (2) The amounts reported in these columns reflect the aggregate grant date fair value of grants of stock options and time-based and performance-based restricted stock awards to each of the named executive officers in the years shown, computed in accordance with U.S. generally accepted accounting principles, disregarding estimates of forfeitures related to service-based vesting conditions. The amounts reported for performance-based restricted stock awards were calculated assuming that all applicable performance goals would be achieved. For additional information about these calculations, see the "Grants of Plan-Based Awards for Fiscal 2010" table included in this proxy statement. For additional information about the assumptions used in these calculations, see Note 2 to our audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2010. No stock or option awards granted to our named executive officers were forfeited during fiscal 2010, 2009 or 2008.
- (3) The amounts in the Non-Equity Incentive Plan Compensation column represent the annual cash incentive bonuses described under the section of this proxy statement entitled "Annual Incentive Compensation." These annual cash bonuses were paid quarterly in fiscal 2010 and fiscal 2011 for performance in fiscal 2010. We accrued these amounts for financial reporting purposes in fiscal 2010.
- (4) The amounts in this column for each named executive officer include Company matching contributions to the Liquidity Services, Inc. 401(k) Profit Sharing and Trust Plan. For Mr. Burton, the amount represents \$4,184 in matching contributions and \$9,120 in aggregate incremental cost to the Company of providing Mr. Burton with a car.



(5)

Mr. Roy became our Executive Vice President and President of the Asset Recovery Division effective August 2008 and was not a named executive officer in fiscal years 2008 or 2009. In accordance with SEC rules, the table above does not provide 2008 or 2009 data for him.

Table of Contents

**Employment Agreements**

We have entered into employment agreements with all of our named executive officers that provide for, among other things, the term of employment, compensation and benefits payable during the term of the agreement and certain compensation payable when an executive's employment is terminated under certain conditions.

We also have confidentiality, non-competition and intellectual property agreements with the named executive officers. These agreements typically provide that the employee may not disclose or transfer any of our confidential information to any person, business entity or other organization without authorization from us, and that the employee may not, during his or her employment with us and for 24 months thereafter, hire or solicit any of our employees for employment with another person or entity or in any way interfere with the relationship we have with any of our employees, clients or other business relationships. Further, these agreements also typically provide that the employee may not, during his employment with us and for up to 24 months thereafter, compete with us. These agreements typically also provide that all ideas, designs, works and inventions made by the employee in the course of his or her employment with us are our exclusive property, and that the copyrights of all writings produced by the employee during the course of his or her work for us are the property of our Company.

***Summary of Employment Agreement with William P. Angrick, III***

We entered into an employment agreement with Mr. Angrick effective as of January 1, 2004. The agreement provides that Mr. Angrick will be employed as our Chairman and Chief Executive Officer and that his employment will continue until terminated by either party pursuant to the terms of the agreement. The agreement provided for an initial annual base salary of \$210,000, which may be increased but not decreased. During fiscal 2010, Mr. Angrick received a salary of \$395,000, which was approved by the Compensation Committee. Mr. Angrick is also eligible for an annual incentive bonus under a sliding scale as approved by the Compensation Committee that is equal to up to 100% of his base salary based upon the achievement of our financial budget each year. In addition, he is eligible to receive an additional bonus amount for the completion of projects that increase stockholder value, at the discretion of the Compensation Committee. If Mr. Angrick's employment is terminated as a result of his death, his estate will receive his base salary through the next full calendar month and all other unpaid amounts. If Mr. Angrick's employment is terminated because of disability, he is entitled to his base salary through the third full calendar month after termination and all other unpaid amounts, provided that his base salary will be reduced by any amounts received under any disability insurance provided by the Company.

The agreement also provides that if his employment with the Company is terminated by us other than for cause, disability or death, or is terminated by Mr. Angrick for good reason, Mr. Angrick is entitled to receive: (1) his base salary through the date of termination and all other unpaid amounts owed under the employment agreement and (2) a lump-sum severance package equal to six months of the sum of his base salary plus an amount equal to six months of his average annual bonus for the previous two fiscal years. All severance payments made by us to Mr. Angrick will be payable within 30 days of notice of termination. Mr. Angrick's employment agreement was amended effective January 26, 2006 to address certain requirements of Section 409A of the Internal Revenue Code and effective January 9, 2007 to extend the term from December 31, 2006 to December 31, 2009. Mr. Angrick's employment agreement was extended until December 31, 2010, after which date the agreement shall be renewed automatically for a term of one year unless either party terminates the agreement.

Table of Contents

***Summary of Employment Agreement with James M. Rallo***

We entered into an employment agreement with Mr. Rallo effective as of February 21, 2005. The agreement provides that Mr. Rallo will be employed as our Chief Financial Officer and Treasurer until February 20, 2012. During fiscal 2010, Mr. Rallo received a salary of \$282,500, which was approved by the Compensation Committee. Mr. Rallo is also eligible for an annual incentive bonus of up to 60% of his salary and it must be at least \$50,000, subject to the achievement of certain deliverables and milestones; for fiscal 2010, the annual bonus target was 60% of his base salary.

If Mr. Rallo's employment is terminated as a result of his death, his estate will receive his base salary through the next full calendar month and all other unpaid amounts owed under the employment agreement. If Mr. Rallo's employment is terminated because of disability, he is entitled to receive his base salary through the third full calendar month after termination and all other unpaid amounts, provided that his base salary will be reduced by any amounts received under any disability insurance provided by the Company. This agreement also provides that if his employment with our Company is terminated by us other than for cause, disability or death, or is terminated by Mr. Rallo for good reason, Mr. Rallo is entitled to receive: (1) his base salary through the date of termination and all other unpaid amounts; and (2) a lump-sum severance package equal to the sum of twelve months of his base salary plus an amount equal to his average annual bonus for the previous two fiscal years. All severance payments made by us to Mr. Rallo will be payable within 30 days of notice of termination. Mr. Rallo's employment agreement was amended effective January 25, 2006 to address certain requirements of Section 409A of the Internal Revenue Code.

***Summary of Employment Agreement with Eric C. Dean***

We entered into an employment agreement with Mr. Dean, effective as of October 15, 2007. The agreement provides that Mr. Dean will be employed as our Chief Information Officer and that his employment will continue until October 15, 2010, or until terminated by either party pursuant to the terms of the agreement. The agreement provides for an initial annual base salary of \$250,000, which may be increased but not decreased. During fiscal 2010, Mr. Dean received a salary of \$275,000, which was approved by the Compensation Committee. Mr. Dean is also eligible for an annual incentive bonus; for fiscal 2010, the annual bonus target was 50% of his base salary, based upon the achievement of certain deliverables or goals agreed upon by Mr. Dean and the Company. The agreement also set forth the terms of an initial hire option award, subject to approval of the Compensation Committee. Mr. Dean was granted an option to purchase 250,000 shares of our common stock at a per share exercise price equal to \$13.56, which was the fair value of our common stock on the date of grant.

If Mr. Dean's employment is terminated as a result of his death, his estate will receive his base salary through the next full calendar month and all other unpaid amounts owed under the employment agreement. If Mr. Dean's employment is terminated because of disability, he is entitled to receive his base salary through the third full calendar month after termination and all other unpaid amounts, provided that his base salary will be reduced by any amounts received under any disability insurance provided by the Company. This agreement also provides that if his employment with our Company is terminated by us other than for cause, disability or death, or is terminated by Mr. Dean for good reason, Mr. Dean is entitled to receive: (1) his base salary through the date of termination and all other unpaid amounts; and (2) a lump-sum severance package equal to one month of his base salary plus an amount equal to one month of the average bonus for the previous two fiscal years. After three months of employment, the lump-sum severance package will be equal to six months of his base salary plus an amount equal to six months of the average bonus for the previous two fiscal years. All severance payments made by us to Mr. Dean will be payable within 30 days of notice of termination.

Table of Contents

***Summary of Employment Agreement with Thomas B. Burton***

We entered into an employment agreement with Mr. Burton effective as of June 15, 2001, with a one-year term with automatic one year renewals. The agreement provides that Mr. Burton will be employed as President of DOD Surplus, LLC, our subsidiary, and that his employment will continue until terminated by either party pursuant to the terms of the agreement. The agreement provided for an initial annual base salary under the agreement of \$175,000, in addition to payment of 50% of the premiums for medical and dental insurance for Mr. Burton, his spouse and dependents. During fiscal 2010, Mr. Burton received a salary of \$275,000, which was approved by the Compensation Committee. In addition, Mr. Burton is eligible to receive a bonus upon the attainment of certain performance milestones; for fiscal 2010, the annual bonus target was 80% of his base salary.

If Mr. Burton's employment is terminated as a result of his death, his estate will receive his base salary through the last day of the calendar month of the date of termination and all other unpaid amounts owed under the employment agreement. This agreement also provides that if his employment with our Company is terminated by us other than for cause or Mr. Burton's disability or death, Mr. Burton is entitled to receive: (1) his base salary through the date of termination; and (2) a lump-sum severance package equal to six months of the sum of his base salary plus healthcare benefits. All severance payments made by us to Mr. Burton will be conditioned upon Mr. Burton's execution of a release of all claims against us, our affiliates, officers, directors and employees. Mr. Burton's employment agreement was amended effective January 25, 2006 to address certain requirements of Section 409A of the Internal Revenue Code.

***Summary of Employment Agreement with G. Cayce Roy***

We entered into an employment agreement with Mr. Roy, effective as of August 25, 2008. The agreement provides that Mr. Roy will be employed as our Executive Vice President and President of the Asset Recovery Division and that his employment will continue until August 25, 2012, or until terminated by either party pursuant to the terms of the agreement. The agreement provides for an initial annual base salary of \$250,000, which may be increased but not decreased. During fiscal 2010, Mr. Roy received a salary of \$265,000, which was approved by the Compensation Committee. Mr. Roy is also eligible for an annual incentive bonus; for fiscal 2010, the annual bonus target was 60% of his base salary, based upon the achievement of certain deliverables or goals agreed upon by Mr. Roy and the Company. The agreement also set forth the terms of an initial hire option award, subject to approval of the Compensation Committee. Mr. Roy was granted an option to purchase 280,000 shares of our common stock, which will vest over a four-year period, and an option to purchase 320,000 shares of our common stock, which will vest based on the Asset Recovery Division's achievement of certain financial milestones. The options were granted at a per share exercise price equal to \$10.82, which was the fair value of our common stock on the date of grant. The agreement also provides Mr. Roy with reimbursement for relocation expenses of up to \$60,000, reimbursement for commuting expenses until November 15, 2008, and reimbursement for temporary housing expenses of up to \$7,000 per month for up to twelve months.

If Mr. Roy's employment is terminated as a result of his death, his estate will receive his base salary through the next full calendar month and all other unpaid amounts owed under the employment agreement. If Mr. Roy's employment is terminated because of disability, he is entitled to receive his base salary through the third full calendar month after termination and all other unpaid amounts, provided that his base salary will be reduced by any amounts received under any disability insurance provided by the Company. This agreement also provides that if his employment with our Company is terminated by us other than for cause, disability or death, or is terminated by Mr. Roy for good reason, Mr. Roy is entitled to receive: (1) his base salary through the date of termination and all other unpaid amounts; and (2) a lump-sum severance package equal to six months of his base salary plus an amount equal to six months of the average bonus for the previous two fiscal years. All severance payments made by us to Mr. Roy will be payable within 30 days of notice of termination.

Table of Contents**Grants of Plan-Based Awards for Fiscal 2010**

The following table provides additional information about plan-based awards granted to our named executive officers in fiscal 2010. Our named executive officers generally received four types of plan-based awards: annual cash bonuses (referred to as the "Incentive Compensation Award"), stock options (referred to as the "2010 Option Grant"), time-based restricted stock awards (referred to as the "2010 Stock Grant") and performance-based restricted stock awards (referred to as the "Special Stock Grant").

Name	Equity Award Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Possible Payouts Under Equity Incentive Plan Awards(2)	All Other Stock Awards: Number of Shares of Stock or Units (#)(3)	All Other Awards: Number of Securities Underlying Options (#)(4)	Exercise or Base Price of Option Awards (\$/Share)(5)	Grant Date Fair Value of Stock & Option Awards (\$)(6)
		Threshold (\$)	Target (\$)	Maximum (\$)					
William P. Angrick, III									
<i>Incentive Compensation Award</i>		158,000	395,000	790,000					
<i>2010 Option Grant</i>	12/1/2009						109,589	9.96	499,708
<i>2010 Stock Grant</i>	12/1/2009					35,111			317,755
<i>Special Stock Grant</i>	12/1/2009				25,000				226,250
James M. Rallo									
<i>Incentive Compensation Award</i>		67,800	169,500	282,500					
<i>Special Stock Grant</i>	12/1/2009				12,000				108,600
Eric C. Dean									
<i>Incentive Compensation Award</i>		55,000	137,500	275,000					
<i>Special Stock Grant</i>	12/1/2009				5,000				45,250
Thomas B. Burton									
<i>Incentive Compensation Award</i>		88,000	220,000	330,000					
<i>Special Stock Grant</i>	12/1/2009				4,000				36,200
G. Cayce Roy									
<i>Incentive Compensation Award</i>		63,600	159,000	265,000					
<i>2010 Option Grant</i>	12/1/2009						29,481	9.05	140,745
<i>2010 Stock Grant</i>	12/1/2009					9,422			85,269
<i>Special Stock Grant</i>	12/1/2009				4,000				36,200

- (1) Amounts shown represent the threshold, target and maximum awards that could be earned by the named executive officer under our annual incentive bonus plan for fiscal 2010. Actual bonuses paid for fiscal 2010 are shown in the Summary Compensation Table in the "Non-Equity Incentive Plan Compensation" column. For a discussion of this plan, see "Executive Compensation Annual Incentive Compensation."
- (2) Amounts shown represent the number of performance-based restricted shares that could be earned by the named executive officer if the performance goal described under "Executive Compensation Long-Term Incentive Compensation" was achieved during fiscal 2010. The performance-based restricted shares reported in this column were granted under the Liquidity Services, Inc. 2006 Omnibus Long-Term Incentive Plan.
- (3) The time-based restricted stock reported in this column was granted under the Liquidity Services, Inc. 2006 Omnibus Long-Term Incentive Plan, with 25% vesting on October 1, 2010 and 25% vesting on each of the first three anniversaries of October 1, 2010.
- (4) The stock options reported in this column were granted under the Liquidity Services, Inc. 2006 Omnibus Long-Term Incentive Plan, with 25% vesting on October 1, 2010 and 2.083% per month vesting thereafter for the following 36 months. The options have a term of 9 years and 10 months.
- (5)

## Edgar Filing: LIQUIDITY SERVICES INC - Form DEF 14A

The stock options have an exercise price equal to the closing price of our common stock on the grant date (\$9.05), except that the stock options granted to Mr. Angrick have an exercise price equal to 110% of the closing price of our common stock on the grant date (\$9.96).

Table of Contents

(6) The amounts reported in this column for awards represent the full grant date fair value of the awards calculated in accordance with U.S. generally accepted accounting principles. The value of the time-based and performance-based restricted stock as of the grant date is calculated by multiplying the closing price of our common shares on the grant date times the number of restricted shares awarded. For performance-based restricted stock, this value is calculated assuming the maximum performance levels are attained. The value of the option awards as of the grant date is calculated by multiplying the Black-Scholes value by the number of options awarded. The grant date fair value per option for the stock options granted on December 1, 2009 was \$4.56 and \$4.77 for Messrs. Angrick and Roy, respectively, computed in accordance with U.S. generally accepted accounting principles. For additional information about the assumptions used in these calculations, see Note 2 to the audited consolidated financial statements of the Company included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2010.

The following is a description of material factors necessary to understand the information regarding the awards reflected in the "Grants of Plan-Based Awards for Fiscal 2010" table.

For information regarding the incentive compensation plan, please see "Annual Incentive Compensation" above. Awards under this plan are paid in cash.

Stock option awards granted in fiscal 2010 were granted under our 2006 Omnibus Long-Term Incentive Plan. The 2006 plan provides that the option price of each option shall be at least the fair market value on the grant date of a share of our common stock; provided, however, that if the grantee is a 10% stockholder, the option price of an option granted to such person will be at least 110% of the fair market value on the grant date. Under the plan, the fair market value of a share of common stock is generally the closing price of our common stock on the grant date.

The option awards reflected in the "Grants of Plan-Based Awards for Fiscal 2010" table under "2010 Option Grant" are qualified and non-qualified stock options to purchase shares of our common stock which were approved by the Compensation Committee and granted to the named executive officers as a part of our 2010 annual grant of long-term incentive awards. The options vest 25% on October 1, 2010 and 2.083% per month thereafter for the following 36 months. The options may vest earlier upon a change of control of the Company if the options are not assumed or substituted by the surviving corporation. Unvested options will also vest if the executive is involuntarily terminated by the Company within one year following a change of control. The options have a term of 9 years and 10 months, but that term may be shorter in the event of death, disability or termination of service.

The stock awards reflected in the "Grants of Plan-Based Awards for Fiscal 2010" table under "2010 Stock Grant" are time-based restricted stock awards which were approved by the Compensation Committee and granted to the named executive officers as a part of our 2010 annual grant of long-term incentive awards. These awards vest 25% on October 1, 2010 and 25% on each of the first three anniversaries of October 1, 2010. The restricted shares can accrue dividend equivalents that would be payable upon the lapse of the restrictions applicable to such shares. The restricted stock may vest earlier upon a change of control of the Company if the awards are not assumed, continued or substituted by the surviving corporation.

The stock awards reflected in the "Grants of Plan-Based Awards for Fiscal 2010" table under "Special Stock Grant" are performance-based restricted stock awards which were approved by the Compensation Committee and granted to the named executive officers as a part of a special grant of long-term incentive awards. These awards could vest if the performance goal described under "Executive Compensation Long-Term Incentive Compensation" above was achieved during fiscal 2010. The performance goal was achieved as of the end of February 2010, and the restrictions on the performance-based restricted shares lapsed in March 2010. The restricted shares could accrue dividend equivalents that would have been payable upon the lapse of the restrictions applicable to such shares.

Edgar Filing: LIQUIDITY SERVICES INC - Form DEF 14A

Table of Contents

**Outstanding Equity Awards at 2010 Fiscal Year-End**

The following table provides information on the current holdings of stock options of each named executive officer at September 30, 2010.

Name	Grant Date	Number of Securities Underlying Options (#) Exercisable	Option Awards Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price\$(1)	Option Expiration Date
William P. Angrick, III	9/21/06(2)	100,000		17.63	9/21/2016
	12/4/07(2)	61,249	22,751	12.02	10/1/2017
	12/29/08(2)	6,667	41,667	8.23	12/29/2018
	12/1/09(5)		109,589	9.96	10/1/2019
James M. Rallo	10/28/05(3)	56,124		7.00	10/28/2015
	3/30/06(2)	16,876		12.89	3/30/2016
	12/4/07(2)	51,041	18,959	10.93	10/1/2017
	12/29/08(4)	53,665	86,335	7.48	12/29/2018
Eric C. Dean	10/15/07(2)	182,289	67,711	13.56	10/15/2017
	12/29/08(4)	45,999	74,001	7.48	12/29/2018
Thomas B. Burton	3/30/06(2)	75,000		12.89	3/30/2016
	12/4/07(2)	54,686	20,314	10.93	10/1/2017
	12/29/08(4)	45,999	74,001	7.48	12/29/2018
G. Cayce Roy	7/30/08(6)	59,317	134,168	10.82	7/30/2018
	7/30/08(7)		320,000	10.82	7/30/2018
	12/1/09(5)		29,481	9.05	10/1/2019

- (1) The closing price of our common stock on the grant date is the exercise price for stock options, except stock options granted to Mr. Angrick. The exercise price for Mr. Angrick's outstanding stock options is 110% of the closing price of our common stock on the grant date.
- (2) These stock options were granted under the Liquidity Services, Inc. 2006 Omnibus Long-Term Incentive Plan and vest over a four-year period, with 25% vesting on the first anniversary of the grant date and 2.083% per month vesting thereafter for the following 36 months.
- (3) These stock options were granted under the Liquidity Services, Inc. 2005 Stock Option and Incentive Plan and vested 10% on the completion of our initial public offering in February 2006 and 90% upon the finding by our independent registered public accountants that there were no weaknesses in our internal control procedures upon the completion of their review of our internal control procedures for fiscal 2007.
- (4) These stock options were granted under the Liquidity Services, Inc. 2006 Omnibus Long-Term Incentive Plan and vest over a five-year period, with 20% vesting on the first anniversary of the grant date and 1.67% per month vesting thereafter for the following 48 months.
- (5) These stock options were granted under the Liquidity Services, Inc. 2006 Omnibus Long-Term Incentive Plan and vest over a four-year period, with 25% vesting on October 1, 2010 and 2.083% per month vesting thereafter for the following 36 months.





Edgar Filing: LIQUIDITY SERVICES INC - Form DEF 14A

Table of Contents

(6) These stock options were granted under the Liquidity Services, Inc. 2006 Omnibus Long-Term Incentive Plan and vested 25% on August 25, 2009 and 2.083% per month vesting thereafter for the following 36 months.

(7) These stock options were granted under the Liquidity Services, Inc. 2006 Omnibus Long-Term Incentive Plan and vest based on the Asset Recovery Division's achievement of certain financial milestones.

The following table provides information on the current holdings of stock awards of each named executive officer at September 30, 2010.

Name	Stock Awards	
	Number of Shares or Units of Stock That Have Not Vested (#)(1)	Market Value of Shares or Units of Stock That Have Not Vested (\$)
William P. Angrick, III	35,111	562,127
James M. Rallo		
Eric C. Dean		
Thomas B. Burton		
G. Cayce Roy	9,422	150,846

(1) These amounts refer to time-based restricted stock awards that were granted under the Liquidity Services, Inc. 2006 Omnibus Long-Term Incentive Plan, which vest over a four-year period, with 25% vesting on October 1, 2010 and 25% on each of the first three anniversaries of October 1, 2010.

**Option Exercises and Stock Vested During Fiscal 2010**

The following table shows the stock options that were exercised, and the restrictions on restricted stock that lapsed, during fiscal 2010 for each of our named executive officers. The values shown below are before payment of any applicable withholding tax and/or broker commissions.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized upon Exercise (\$)(1)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)(2)
William P. Angrick, III	31,666	89,931	25,000	312,000
James M. Rallo	23,876	241,331	12,000	149,760
Eric C. Dean			5,000	62,400
Thomas B. Burton	47,500	501,500	4,000	49,920
G. Cayce Roy	86,515	264,782	19,000	198,420

(1)

Edgar Filing: LIQUIDITY SERVICES INC - Form DEF 14A

The value realized on exercise is calculated as the difference between (A) either (i) the actual sales price of the shares underlying the options exercised if the shares were immediately sold upon

Table of Contents

exercise or (ii) the closing price of the shares underlying options exercised if the shares were not immediately sold after exercise and (B) the applicable exercise price of the options.

(2)

The value realized on vesting is calculated by multiplying (A) the closing price of a common share on the vesting date and (B) the number of shares acquired on vesting before withholding taxes.

**Potential Payments upon Termination of Employment and Change of Control**

*Payments upon Termination of Employment*

We have entered into employment agreements with each of our named executive officers that provide compensation upon certain triggering events that result in termination of employment. These agreements are described under "Employment Agreements" above. The table below quantifies the compensation that would have become payable under existing plans and arrangements if each named executive officer's employment had terminated on September 30, 2010 upon certain triggering events. These amounts are estimates only, as the actual obligation can only be determined at the time of a named executive officer's separation from our Company. The amounts described below are in addition to benefits that are generally available to our employees such as distributions under our 401(k) plan, life insurance, disability benefits and accrued vacation.

Unvested stock options and restricted stock granted under the Liquidity Services, Inc. 2006 Omnibus Long-Term Incentive Plan do not accelerate upon death, disability or retirement. Unvested options also do not accelerate upon termination of employment by the Company with or without cause or by the executive for "good reason" unless such termination occurs within one year following a "corporate transaction" as further described below. Unvested restricted stock also does not accelerate upon termination of employment by the Company with or without cause or by the executive for "good

Edgar Filing: LIQUIDITY SERVICES INC - Form DEF 14A

Table of Contents

reason." All values were computed as of September 30, 2010 based on the closing price of our common stock on the last trading day of the fiscal year (\$16.01).

Name	Death	Disability	Type of Termination		Retirement
			By Company with Cause or By the Executive without Good Reason	By Company without Cause or By the Executive with Good Reason	
William P. Angrick, III					
Salary	\$ 65,833(1)	\$ 131,667(2)		\$ 197,500	
Bonus				119,340	
Option Awards					
Stock Awards					
<b>TOTAL</b>	<b>65,833</b>	<b>131,667</b>		<b>316,840</b>	
James M. Rallo					
Salary	47,083(1)	94,167(2)		282,500	
Bonus				137,887	
Option Awards					
Stock Awards					
<b>TOTAL</b>	<b>47,083</b>	<b>94,167</b>		<b>420,387</b>	
Eric C. Dean					
Salary	45,833(1)	91,667(2)		137,500	
Bonus				64,025	
Option Awards					
Stock Awards					
<b>TOTAL</b>	<b>45,833</b>	<b>91,667</b>		<b>201,525</b>	
Thomas B. Burton					
Salary	22,917(3)			137,500(4)	
Bonus					
Health Benefits				3,958(4)	
Option Awards					
Stock Awards					
<b>TOTAL</b>	<b>22,917</b>			<b>141,458</b>	
G. Cayce Roy					
Salary	44,167(1)	88,333(2)		132,500	
Bonus				41,173	
Option Awards					
Stock Awards					
<b>TOTAL</b>	<b>44,167</b>	<b>88,333</b>		<b>173,673</b>	

(1)

Upon termination of employment as a result of death, the named executive officer is entitled to continued salary through the next full month following the date of termination. The amount shown in this column is the maximum payment that will be paid and represents two months' base salary.

Table of Contents

- (2) Upon termination of employment as a result of disability, the named executive officer is entitled to continued salary through the third full month following the date of termination. The amount shown in this column is the maximum payment that will be paid and represents four months' base salary. This amount may be reduced by the amount of any disability benefit payments from insurance provided by the Company.
- (3) Upon termination of employment as a result of death, the named executive officer is entitled to continued salary through the month in which the date of termination occurs. The amount shown in this column is the maximum payment that will be paid and represents one month's base salary.
- (4) Mr. Burton is entitled to these benefits only if his employment is terminated by the Company without cause.

***Change of Control Arrangements***

*Employment Agreements.* We do not provide additional change of control benefits to our named executive officers under their respective employment agreements.

*Stock Options.* Our named executive officers hold unvested stock options under the Liquidity Services, Inc. 2006 Omnibus Long-Term Incentive Plan. This plan contains provisions regarding the treatment of any unvested stock options in connection with a change of control of the Company.

Under the Liquidity Services, Inc. 2006 Omnibus Long-Term Incentive Plan, in the event of a "corporate transaction" either (1) all of the options will vest in full and become exercisable for fifteen days prior to the scheduled consummation of the change of control, or (2) the Board may elect, in its sole discretion, to cancel any outstanding awards of options and pay to the holder an amount in cash or securities equal to the number of options multiplied by the amount the fixed price paid to stockholders exceeds the option price. Under the plan, a "corporate transaction" generally means (1) the dissolution or liquidation of the Company or a merger, consolidation, or reorganization of the Company with one or more other entities in which the Company is not the surviving entity, (2) the sale of substantially all of the assets of the Company or (3) any transaction which results in any person or entity (other than persons who are stockholders or affiliates of the Company at the time the plan was approved by the Company's stockholders) owning 50% or more of the combined voting power of all of the classes of stock of the Company. If the options are assumed or continued by the surviving company, or the surviving company substitutes the options with a substantially equivalent option, then no such acceleration of vesting or cancellation of options shall occur.

Unvested options will also vest if the named executive officer's service with the Company is involuntarily terminated within one year following a "corporate transaction." For this purpose, an involuntary termination means a termination of service with the Company without cause or a voluntary resignation of the named executive officer following a material adverse change in the executive's title or responsibilities, a material reduction in base salary, or receipt of a notice that the executive's principal workplace will be relocated more than 50 miles.

Table of Contents

The table below shows our estimates of the amount of the benefit each of our named executive officers would have received if the unvested options held by them as of September 30, 2010 had become fully vested as a result of a change of control or an involuntary termination within one year following a change in control. The estimated amount of benefit was calculated by multiplying the number of unvested options held by the applicable named executive officer by the difference between the closing price of our common stock on the last trading day of the fiscal year, which was \$16.01, and the exercise price of the option.

Name	Number of Unvested Options at September 30, 2010 (#)	Estimated Benefit (\$(1))
William P. Angrick, III	174,007	1,077,959
James M. Rallo	105,294	832,749
Eric C. Dean	141,712	797,120
Thomas B. Burton	94,315	734,424
G. Cayce Roy	483,649	2,562,320

(1)

For vesting of unvested stock options, the values are based on the number of options that would have vested on the last business day of fiscal 2010, multiplied by the difference between the closing price of our common stock on the last trading day of the 2010 fiscal year (\$16.01) and the exercise price of the unvested option. If the exercise price of any unvested option was greater than the closing price of our common stock on the last trading day of fiscal 2010, no value was attributed to the acceleration of these unvested options.

*Restricted Stock.* Certain of our named executive officers hold unvested restricted stock awards under the Liquidity Services, Inc. 2006 Omnibus Long-Term Incentive Plan. This plan contains provisions regarding the treatment of any unvested restricted stock awards in connection with a change of control of the Company.

Under the Liquidity Services, Inc. 2006 Omnibus Long-Term Incentive Plan, in the event of a "corporate transaction" all of the restricted stock awards will vest in full and the shares of common stock subject to such awards will be delivered immediately prior to the scheduled consummation of the change of control. If the restricted stock awards are assumed or continued by the surviving company, or the surviving company substitutes the restricted stock awards with a substantially equivalent restricted stock award, then no such acceleration of vesting of restricted stock awards shall occur.

The table below shows our estimates of the amount of the benefit each of our named executive officers would have received if the unvested restricted stock awards held by them as of September 30, 2010 had become fully vested as a result of a change of control. The estimated amount of benefit was calculated by multiplying the number of unvested restricted shares held by the applicable named



Table of Contents

executive officer by the closing price of our common stock on the last trading day of the 2010 fiscal year, which was \$16.01.

Name	Number of Unvested Restricted Shares at September 30, 2010 (#)	Estimated Benefit (\$)(1)
William P. Angrick, III	35,111	562,127
James M. Rallo		
Eric C. Dean		
Thomas B. Burton		
G. Cayce Roy	9,422	150,846

**COMPENSATION COMMITTEE REPORT**

The Compensation Committee of our Board of Directors has reviewed and discussed the Compensation Discussion and Analysis contained within this proxy statement with management and, based on such review and discussions, our Compensation Committee recommended to our Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and incorporated into our Annual Report on Form 10-K for the fiscal year ended September 30, 2010.

Compensation Committee  
Patrick W. Gross, Chair  
Phillip A. Clough  
Franklin D. Kramer  
David A. Perdue, Jr.

**Compensation Committee Interlocks and Insider Participation**

The members of our Compensation Committee in fiscal 2010 were Messrs. Gross, Clough, Kramer and Perdue. No member of the Compensation Committee has been an officer or employee of Liquidity Services or any of our subsidiaries at any time. None of our executive officers serves as a member of the board of directors or compensation committee of any other company that has one or more executive officers serving as a member of our Board or our Compensation Committee.

**EQUITY COMPENSATION PLAN INFORMATION**

Shares of our common stock are authorized for issuance to directors, employees and consultants under our 2006 Omnibus Long-Term Incentive Plan. We have also issued shares under our 2005 Stock Option and Incentive Plan in the past. We will not make any further awards under the 2005 plan. Both

Table of Contents

of these plans have been approved by our stockholders. The following table provides information as of September 30, 2010 about outstanding options and shares reserved for issuance under these plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options (a)	Weighted-Average Exercise Price of Outstanding Options (\$) (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	5,720,456	11.20	3,986,513
Equity compensation plans not approved by security holders	0	0	0
<b>Total</b>	<b>5,720,456</b>	<b>\$ 11.20</b>	<b>3,986,513</b>

**REQUIREMENTS, INCLUDING DEADLINES, FOR SUBMISSION OF PROXY PROPOSALS,  
NOMINATION OF DIRECTORS AND OTHER BUSINESS OF STOCKHOLDERS**

Under the rules of the SEC, if a stockholder would like us to include a proposal in our proxy statement and form of proxy for presentation at our 2012 Annual Meeting of Stockholders, the proposal must be received by us at our principal executive offices at 1920 L Street, NW, 6<sup>th</sup> Floor, Washington, DC 20036, to the attention of the Corporate Secretary, no later than September 23, 2011.

Our bylaws, as permitted by the rules of the SEC, contain certain procedures that a stockholder must follow to nominate persons for election as directors or to introduce an item of business at an Annual Meeting of Stockholders. These procedures provide that for nominations or other business to be properly brought before an annual meeting by a stockholder:

the stockholder must have given timely notice thereof in writing to our Corporate Secretary;

such business must be a proper matter for stockholder action under the General Corporation Law of the State of Delaware;

if the stockholder, or the beneficial owner on whose behalf any such proposal or nomination is made, has provided us with a Solicitation Notice, as that term is defined below, such stockholder or beneficial owner must, in the case of a proposal, have delivered a proxy statement and form of proxy to holders of at least the percentage of our voting shares required under applicable law to carry any such proposal, or, in the case of a nomination or nominations, have delivered a proxy statement and form of proxy to holders of a percentage of our voting shares reasonably believed by such stockholder or beneficial holder to be sufficient to elect the nominee or nominees proposed to be nominated by such stockholder, and must, in either case, have included in such materials the Solicitation Notice; and

if no Solicitation Notice has been timely provided, the stockholder or beneficial owner proposing such business or nomination must not have solicited a number of proxies sufficient to have required the delivery of such a Solicitation Notice.

To be timely, a stockholder's notice must be delivered to our Corporate Secretary at our principal executive offices not less than 90 or more than 120 days prior to the first anniversary of the date of the preceding year's Annual Meeting of Stockholders. Therefore, in order to be considered timely with respect to the 2012 Annual Meeting of Stockholders, it must be received no earlier than October 19, 2011 and no later than November 18, 2011.

If, however, the date of the Annual Meeting is advanced more than 30 days prior to or delayed by more than 70 days after the anniversary of the preceding year's Annual Meeting, notice by the



## Edgar Filing: LIQUIDITY SERVICES INC - Form DEF 14A

### Table of Contents

stockholder must be delivered no earlier than the close of business on the 120th day prior to such Annual Meeting and not later than the close of business on the later of:

the 90th day prior to such Annual Meeting, or

the 10th day following the day on which public announcement of the date of such meeting is first made.

In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period or extend any time period for the giving of a stockholder's notice as described above.

In addition, notwithstanding the above timelines, in the event that the number of directors to be elected to the Board of Directors is increased and we do not make a public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors at least 100 days prior to the first anniversary of the date of the preceding year's Annual Meeting of Stockholders, a stockholder's notice shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Corporate Secretary at our principal executive offices not later than the close of business on the 10th day following the day on which we first made such public announcement.

Such notice shall set forth the following information:

as to each person who the stockholder proposes to nominate for election or reelection as a director, all information relating to such person as would be required to be disclosed in solicitations of proxies for the election of such nominees as directors pursuant to Regulation 14A under the Exchange Act, and such person's written consent to being named in the proxy statement as nominee and to serve as director if elected;

as to any other business that the stockholder proposes to bring before the meeting, a brief description of such business, the text of the proposal or business, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made;

as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made:

the name and address of such stockholder, as they appear on our books, and of such beneficial owner;

the class and number of shares of our stock that are owned beneficially and of record by such stockholder and such beneficial owner; and

a representation that either such stockholder or beneficial owner intends to deliver a proxy statement and form of proxy to holders of, in the case of a proposal, at least the percentage of our voting shares required under applicable law to carry the proposal or, in the case of a nomination or nominations, a sufficient number of holders of our voting shares to elect such nominee or nominees (an affirmative statement of such intent is referred to as a "Solicitation Notice").

If any proposed nomination or business is not in compliance with the foregoing procedures, the chairman of the meeting has the power to declare that any defectively proposed business or nomination shall not be presented for stockholder action at the meeting and shall be disregarded.

## Edgar Filing: LIQUIDITY SERVICES INC - Form DEF 14A

Stockholders must also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder. These procedures do not affect any rights of stockholders to request inclusion of proposals in the Company's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

Table of Contents

**ANNUAL REPORT**

Our Annual Report to stockholders on Form 10-K for the fiscal year ended September 30, 2010 is included with these proxy solicitation materials. **A copy of our Annual Report, including the financial statements and the financial statement schedules included therein, is also available without charge by visiting our website, [www.liquidityservicesinc.com](http://www.liquidityservicesinc.com), or upon written request to us at Liquidity Services, Inc., 1920 L Street, NW, 6<sup>th</sup> Floor, Washington, DC 20036, Attn: Corporate Secretary.**













