UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from to

Commission file number 0-51813

LIQUIDITY SERVICES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**52-2209244**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1920 L Street, N.W., 6th Floor, Washington, D.C.	**20036**
(Address of Principal Executive Offices)	(Zip Code)

(202) 467-6868

(Registrant s Telephone Number, Including Area Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

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

The number of shares outstanding of the issuer s common stock, par value $.001 per share, as of August 4, 2015 was 30,026,223.

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PART I FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements.

Liquidity Services, Inc. and Subsidiaries
Consolidated Balance Sheets

(Dollars in Thousands)

	June 30, 2015 (Unaudited)	September 30, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 96,188	$ 62,598
Accounts receivable, net of allowance for doubtful accounts of $2,396 and $1,042 at June 30, 2015 and September 30, 2014, respectively	10,041	21,688
Inventory	40,672	78,478
Prepaid and deferred taxes	21,126	16,777
Prepaid expenses and other current assets	5,320	5,156
Total current assets	173,347	184,697
Property and equipment, net	13,021	12,283
Intangible assets, net	3,365	17,099
Goodwill	122,361	209,656
Deferred long-term tax assets	28,305	6,160
Other assets	2,397	1,823
Total assets	$ 342,796	$ 431,718
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 17,117	$ 15,994
Accrued expenses and other current liabilities	23,763	44,484
Profit-sharing distributions payable	2,686	4,740
Customer payables	30,683	41,544
Total current liabilities	74,249	106,762
Deferred taxes and other long-term liabilities	6,749	7,973
Total liabilities	80,998	114,735
Stockholders equity:		
Common stock, $0.001 par value; 120,000,000 shares authorized; 30,011,121 shares issued and outstanding at June 30, 2015; 29,668,150 shares issued and outstanding at September 30, 2014	29	28
Additional paid-in capital	213,479	204,704
Accumulated other comprehensive loss	(6,292)	(3,451)
Retained earnings	54,582	115,702
Total stockholders equity	261,798	316,983
Total liabilities and stockholders equity	$ 342,796	$ 431,718

See accompanying notes to the unaudited consolidated financial statements.

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Liquidity Services, Inc. and Subsidiaries
Unaudited Consolidated Statements of Operations

(Dollars in Thousands, Except Per Share Data)

	Three Months Ended June30, 2015	Three Months Ended June30, 2014	Nine Months Ended June 30, 2015	Nine Months Ended June 30, 2014
Revenue	$ 70,060	$ 100,307	$ 251,509	$ 296,697
Fee revenue	19,686	26,658	66,323	80,545
Total revenue	89,746	126,965	317,832	377,242
Costs and expenses:				
Cost of goods sold (excluding amortization)	35,838	54,537	132,814	156,520
Profit-sharing distributions	6,355	8,254	23,505	26,683
Technology and operations	24,784	27,420	76,409	82,111
Sales and marketing	10,255	10,661	31,438	30,951
General and administrative	10,476	11,793	31,378	36,535
Amortization of contract intangibles		2,349	1,211	7,028
Depreciation and amortization	2,044	1,927	6,030	5,904
Acquisition costs and related fair value adjustments and impairment of goodwill and long-lived assets		(18,564)	96,238	(18,384)
Total costs and expenses	89,752	98,377	399,023	327,348
(Loss) income from operations	(6)	28,588	(81,191)	49,894
Interest and other expense, net	(8)	(197)	(85)	(297)
(Loss) income before benefit (provision) for income taxes	(14)	28,391	(81,276)	49,597
Benefit (provision) for income taxes	1,629	(10,018)	20,156	(18,500)
Net income (loss)	$ 1,615	$ 18,373	$ (61,120)	$ 31,097
Basic earnings (loss) per common share	$ 0.05	$ 0.59	$ (2.04)	$ 0.98
Diluted earnings (loss) per common share	$ 0.05	$ 0.59	$ (2.04)	$ 0.98
Basic weighted average shares outstanding	30,011,121	30,937,394	29,975,239	31,770,490
Diluted weighted average shares outstanding	30,011,121	30,937,394	29,975,239	31,893,512

See accompanying notes to the unaudited consolidated financial statements.

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Liquidity Services, Inc. and Subsidiaries
Unaudited Consolidated Statements of Comprehensive Income

(Dollars in Thousands)

	Three Months Ended June30,		Nine Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Net income (loss)	$ 1,615	$ 18,373	$ (61,120)	$ 31,097
Other comprehensive income (loss):				
Foreign currency translation	272	2,238	(2,841)	76
Other comprehensive income (loss), net of taxes	272	2,238	(2,841)	76
Comprehensive income (loss)	$ 1,887	$ 20,611	$ (63,961)	$ 31,173

See accompanying notes to the unaudited consolidated financial statements.

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Liquidity Services, Inc. and Subsidiaries
Unaudited Consolidated Statement of Changes in Stockholders Equity

(In Thousands Except Share Data)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at September 30, 2014	29,668,150	$ 28	$ 204,704	$ (3,451)	$ 115,702	$ 316,983
Exercise of common stock options and vesting of restricted stock	342,971	1	106			107
Compensation expense and incremental tax benefit from grants of common stock options and restricted stock			8,669			8,669
Net loss					(61,120)	(61,120)
Foreign currency translation				(2,841)		(2,841)
Balance at June 30, 2015	30,011,121	$ 29	$ 213,479	$ (6,292)	$ 54,582	$ 261,798

See accompanying notes to the unaudited consolidated financial statements.

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Liquidity Services, Inc. and Subsidiaries
Unaudited Consolidated Statements of Cash Flows

(In Thousands)

	Nine Months Ended June 30, 2015		Nine Months Ended June 30, 2014	
Operating activities				
Net (loss) income	$	(61,120)	$	31,097
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		7,241		12,932
Gain on earn out liability				(18,390)
Stock compensation expense		8,911		9,517
(Benefit) provision for inventory allowance		(4,682)		222
Provision for doubtful accounts		1,354		144
Deferred tax benefit		(22,145)		
Impairment of goodwill and long-lived assets		96,238		
Incremental tax loss (benefit) from exercise of common stock options		31		(3,556)
Changes in operating assets and liabilities:				
Accounts receivable		10,293		(401)
Inventory		42,488		(40,350)
Prepaid and deferred taxes		(4,380)		(1,698)
Prepaid expenses and other assets		(738)		1,418
Accounts payable		1,123		(774)
Accrued expenses and other		(20,773)		15,634
Profit-sharing distributions payable		(2,054)		(683)
Customer payables		(10,861)		2,217
Other liabilities		(1,381)		(2,234)
Net cash provided by operating activities		39,545		5,095
Investing activities				
Increase in intangibles		(12)		(39)
Purchases of property and equipment		(5,371)		(6,494)
Net cash used in investing activities		(5,383)		(6,533)
Financing activities				
Repurchases of common stock				(44,873)
Proceeds from exercise of common stock options (net of tax)		107		4,006
Incremental tax loss (benefit) from exercise of common stock options		(31)		3,556
Net cash provided by (used in) financing activities		76		(37,311)
Effect of exchange rate differences on cash and cash equivalents		(648)		588
Net increase in cash and cash equivalents		33,590		(38,161)
Cash and cash equivalents at beginning of period		62,598		95,109
Cash and cash equivalents at end of period	$	96,188	$	56,948
Supplemental disclosure of cash flow information				
Cash paid for income taxes	$	6,369	$	16,650

See accompanying notes to the unaudited consolidated financial statements.

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Liquidity Services, Inc. and Subsidiaries
Notes to the Unaudited Consolidated Financial Statements

1. Organization

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

2. Summary of Significant Accounting Policies

Unaudited Interim Financial Information

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

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

New Accounting Pronouncements

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

Business Combinations

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

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Liquidity Services, Inc. and Subsidiaries
Notes to the Unaudited Consolidated Financial Statements (Continued)

Accounts Receivable

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

Earnings per Share

Basic net income attributable to common stockholders per share is computed by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net income attributable to common stockholders per share includes the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The Company had 2,440,475 and 1,901,976 unvested restricted shares outstanding at June 30, 2015 and 2014, respectively, which were issued at prices ranging from $7.48 to $52.55, of which 1,870,472 and 1,870,472, and 401,753 and 254,855 shares have been excluded in the calculation of diluted income per share for the three and nine months ended June 30, 2015 and 2014, respectively, due to the difference between the issuance price and the average market price for the reporting period. The Company has also excluded the following stock options in its calculation of diluted income per share because the option exercise prices were greater than the average market prices for the applicable period:

(a) for the three months ended June 30, 2015, 1,270,590 options;

(b) for the nine months ended June 30, 2015, 1,270,590 options;

(c) for the three months ended June 30, 2014, 754,994 options; and

(d) for the nine months ended June 30, 2014, 574,477 options.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
	(unaudited) (dollars in thousands, except per share amounts)			
Weighted average shares calculation:				
Basic weighted average shares outstanding	30,011,121	30,937,394	29,975,239	31,770,490
Treasury stock effect of options and restricted stock				123,022
Diluted weighted average common shares outstanding	30,011,121	30,937,394	29,975,239	31,893,512
Net income (loss)	$ 1,615	$ 18,373	$ (61,120)	$ 31,097
Basic earnings (loss) per common share	$ 0.05	$ 0.59	$ (2.04)	$ 0.98
Diluted earnings (loss) per common share	$ 0.05	$ 0.59	$ (2.04)	$ 0.98

Liquidity Services, Inc. and Subsidiaries
Notes to the Unaudited Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (continued)

Stock-Based Compensation

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

The Company issues restricted stock awards where restrictions lapse upon either the passage of time (service vesting), achieving performance targets, or some combination of these restrictions. For those restricted stock awards with only service conditions, the Company recognizes compensation cost on a straight-line basis over the explicit service period. For awards with both performance and service conditions, the Company starts recognizing compensation cost over the remaining service period, when it is probable the performance condition will be met. For stock awards that contain performance vesting conditions, the Company excludes these awards from diluted earnings per share computations until the contingency is met as of the end of that reporting period. For awards to non-employees (who are not directors), the Company records compensation cost when the performance condition is met.

The Company presents the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) as a financing activity with a corresponding operating cash outflow in the Consolidated Statements of Cash Flows.

3. Defense Logistics Agency (DLA) Disposition Services Contracts

The Company has a Surplus Contract with the DLA Disposition Services in which the base term expired in February 2012 with two one year renewal options. The Department of Defense (DoD) has exercised both renewal options. In January 2014, the DoD awarded the Company with a follow-on contract to extend the terms of the Surplus Contract for a base term of ten months with two one-month renewal option periods. The DoD has exercised both renewal options. In February 2015, the DoD awarded the Company with a second follow-on contract to extend the terms of the Surplus Contract for a base term of six months with three 30-day renewal option periods. The DoD has exercised all three 30-day renewal option periods. Under the current (second) Surplus Contract, the Company is required to purchase all usable surplus property offered to the Company by the DoD at a fixed percentage equal to 1.8% of the DoD s original acquisition value (OAV). The Company retains 100% of the profits from the resale of the property and bears all of the costs for the merchandising and sale of the property. Included in Accrued expenses and other current liabilities in the Consolidated Balance Sheet is a liability to the DoD of approximately $393,000 and $19,545,000 for inventory as of June 30, 2015 and September 30, 2014, respectively. The Surplus Contract contains a provision providing for a mutual termination of the contract for convenience.

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

The DoD, in accordance with the award of the next (third) Surplus Contract, split the contract into a rolling stock and a non-rolling stock contract; with bidding on these two surplus contracts held on April 1 and 2, 2014. On April 1, 2014, the Company was the high bidder for the non-rolling stock surplus contract with a bid equal to 4.35% of the DoD s OAV. The non-rolling stock surplus contract has a base term of two years with four one-year renewal options. Following the bidding event on April 2, 2014 for the DoD rolling stock contract, the Company withdrew from the live auction bidding for this contract. Bidding reached a level that the Company determined would be economically unsustainable under the terms of the new contract, jeopardizing the high level of service the Company has historically provided the agency client. The price the Company will pay for inventory under the new non-rolling stock contract is expected to increase from 1.8% to 4.35% of OAV, resulting in significantly higher Cost of Goods Sold (COGS) in fiscal year 2016 and beyond. Additionally, the Company has ceased the sale of DoD rolling stock under the current Surplus Contract, which has historically accounted for approximately 30-35% of the overall revenue for the current (second) DoD Surplus Contract, resulting in lower revenue in current and future periods. The Company continues to operate the current (second) DoD Surplus Contract to sell all useable surplus assets of the DoD through November 14, 2015.

Liquidity Services, Inc. and Subsidiaries
Notes to the Unaudited Consolidated Financial Statements (Continued)

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

The Company has a Scrap Contract with the DLA Disposition Services in which the base term expired in June 2012 with three one year renewal options. The DoD has exercised all three renewal options. Under the terms of the Scrap Contract, the Company is required to purchase all scrap government property referred to it by the DLA Disposition Services. The Company distributes to the DLA Disposition Services 77% of the profits realized from the ultimate sale of the inventory, after deduction for allowable expenses, as provided for under the terms of the contract. The Contract also has a performance incentive that allows the Company to receive up to an additional 2% of the profit sharing distribution. This incentive is measured annually on June 30th, and is applied to the prior 12 months. The Company earned a performance incentive for the 12 months ended June 30, 2015, of approximately $1,123,000, which was paid in the quarter ended June 30, 2015. Following the expiration of the Scrap Contract, on June 8, 2015, the DoD notified the Company that it was extending the performance period relating to the Scrap Contract by nine months with three three-month additional renewal option periods commencing on June 9, 2015. Modifications were made to the principal terms of the Scrap Contract including that: (i) contract pricing will be adjusted to reflect a 65% profit sharing distribution to the DLA Disposition Services; (ii) DLA Disposition Services may elect to terminate portions of the Scrap Contract by location with a 90-day notification required; provided, that no such termination shall be effective sooner than February 8, 2016; and (iii) DLA Disposition Services may elect to terminate portions of the Scrap Contact by certain commodity categories with a 60-day notification required; provided that no such termination shall be effective sooner than October 8, 2015. For the three and nine months ended June 30, 2015 and 2014 profit-sharing distributions to the DLA Disposition Services under the Scrap Contract were $6,354,000 and $23,505,000 and $8,255,000 and $26,683,000, respectively, including accrued amounts, as of June 30, 2015 and 2014, of $2,682,000 and $3,632,000, respectively. The Scrap Contract may be terminated by either the Company or the DLA Disposition Services if the rate of return performance ratio does not exceed specified benchmark ratios for two consecutive quarterly periods and the preceding twelve months. The Company has performed in excess of the benchmark ratios throughout the contract period through June 30, 2015.

As a result of the Scrap Contract, the Company is the sole remarketer of all U.S. Department of Defense scrap turned into the DLA Disposition Services available for sale within the United States, Puerto Rico, and Guam.

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Liquidity Services, Inc. and Subsidiaries
Notes to the Unaudited Consolidated Financial Statements (Continued)

4. Goodwill

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

		Goodwill (in thousands)
Balance at September 30, 2014	$	209,656
Translation adjustments		(2,224)
Impairment of goodwill		(85,071)
Balance at June 30, 2015	$	122,361

Impairment of Goodwill

The Company performs its annual goodwill impairment assessment as of the end of the fiscal year. The last annual impairment assessment was performed as of September 30, 2014 and the results of that assessment indicated that goodwill was not impaired. During the three months ended December 31, 2014, the Company identified indicators of impairment, including the termination of the Wal-Mart Agreement on December 1, 2014 (as discussed in Notes 5 and 14), the significant decline in market capitalization during the quarter, and continued uncertainty in projections for fiscal year 2015 and beyond. As a result, we tested the goodwill for impairment as of December 31, 2014. Based on the goodwill impairment analysis as of the interim testing date, the carrying values of the Company s two reporting units exceeded their fair values. Accordingly, step two of the goodwill impairment test was performed. Step two of the goodwill impairment assessment measures the amount of impairment by comparing the book value of goodwill to its implied fair value. If the implied fair value of goodwill is more than its book value, no impairment loss exists. If the implied fair value of goodwill is less than its book value, an impairment loss is recorded to adjust the book value of goodwill to its fair value. As a result of the step two test, the Company recorded a goodwill impairment charge of $85.1 million during the first quarter of fiscal 2015.

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

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Liquidity Services, Inc. and Subsidiaries
Notes to the Unaudited Consolidated Financial Statements (Continued)

5. Intangible Assets

As a result of the acquisition of Jacobs Trading Company on October 1, 2011, the Company assumed the rights and obligations of Jacobs Trading Company under Seller s Master Merchandise Salvage Contract (the Wal-Mart Agreement) dated May 13, 2011. On December 1, 2014, Wal-Mart provided the Company with written notice terminating the Wal-Mart Agreement effective December 8, 2014. As a result of the termination of the Wal-Mart Agreement, the Company concluded that the intangible asset related to the Wal-Mart Agreement was impaired and reduced the remaining unamortized contract intangible asset of $10.3 million to zero during the three months ended December 31, 2014. This impairment charge is recorded in Acquisition costs and related fair value adjustments and impairment of goodwill and long-lived assets in the statements of operations. Intangible assets at June 30, 2015 and September 30, 2014 consisted of the following:

		June 30, 2015			September 30, 2014		
	Useful Life (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
				(dollars in thousands)			
Contract intangibles	2 5	$	$	$	$ 33,300	$ (21,796)	$ 11,504
Brand and technology	3 - 5	5,750	(3,639)	2,111	5,947	(2,852)	3,095
Covenants not to compete	3 - 5	3,100	(2,208)	892	4,330	(2,245)	2,085
Patent and trademarks	3 - 10	666	(304)	362	672	(257)	415
Total intangible assets, net				$ 3,365			$ 17,099

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

Years ending September 30,	Future Amortization (in thousands)
2015 (remaining three months)	$ 207
2016	1,016
2017	1,150
2018	852
2019 and after	140
Total	$ 3,365

6. Debt

Senior Credit Facility

In 2010, the Company entered into a senior credit facility (the Agreement) with a bank, which, as amended, provides for borrowings up to $75.0 million, as amended. On May 1, 2015, the Company amended this credit facility extending the term to May 31, 2018. Borrowings under the Agreement bear interest at an annual rate equal to the 30 day LIBOR rate plus 1.25% (1.436% at June 30, 2015) due monthly. As of September 30, 2014 and June 30, 2015, the Company had no outstanding borrowings under the Agreement, and the Company s borrowing availability was $64.9 million and $65.9 million, respectively, due to issued letters of credit for $10.1 million and $9.1 million, respectively.

Borrowings under the Agreement are secured by substantially all of the assets of the Company. The Agreement contains certain financial and non-financial restrictive covenants including, among others, the requirements to maintain a minimum level of earnings before interest, income taxes, depreciation and amortization (EBITDA) and a minimum debt coverage ratio. As of June 30, 2015, the Company was in compliance with these covenants.

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Liquidity Services, Inc. and Subsidiaries
Notes to the Unaudited Consolidated Financial Statements (Continued)

7. Income Taxes

The Company s interim effective income tax rate is based on management s best current estimate of the expected annual effective income tax rate. The Company estimates that its fiscal year 2015 tax rate will be approximately 24.8%. The effective rate is significantly lower than historical rates due to permanent book to tax differences related to impairment of goodwill with no tax basis. Impairment of goodwill with tax basis resulted in the recognition of a deferred tax asset of $22.1 million during the first quarter of fiscal year 2015.

The Company applies the guidance related to uncertainty in income taxes. The Company has concluded that there were no uncertain tax positions identified during its analysis. The Company s policy is to recognize interest and penalties in the period in which they occur in the income tax provision. The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, various state and local jurisdictions and in foreign jurisdictions, primarily Canada and the U.K. Currently, the Company is subject to income tax examinations for fiscal 2011 through 2013. The Company anticipates no material tax liability to arise from these examinations. The statute of limitations for U.S. federal income tax returns for years prior to fiscal 2011 is now closed. However, certain tax attribute carryforwards that were generated prior to fiscal 2011 may be adjusted upon examination by tax authorities if they are utilized.

8. Stockholders Equity

Share Repurchase Program

Since 2008, the Company s Board of Directors has approved the repurchase of up to $101.9 million in shares under a share repurchase program. Under the program, the Company is authorized to repurchase the issued and outstanding shares of common stock. Share repurchases may be made through open market purchases, privately negotiated transactions or otherwise, at times and in such amounts as management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements and other market conditions. The repurchase program may be discontinued or suspended at any time, and will be funded using the Company s available cash. The Company s Board of Directors reviews the share repurchase program periodically, the last such review having occurred in February 2014. The Company did not repurchase any shares during the three and nine months ended June 30, 2015 and during the three and nine months ended June 30, 2014, the Company repurchased approximately 129,000 and 2,963,000 shares, respectively. As of June 30, 2015, there was approximately $5.1 million that may yet be expended to repurchase shares under the program.

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

Under the 2006 Plan, as amended in February 2009, 10,000,000 shares of common stock were available for issuance. At September 30, 2013, there were 1,819,050 shares remaining reserved for issuance in connection with awards under the 2006 Plan. During fiscal year 2014, the

Company granted options to purchase 437,755 shares to employees and directors with exercise prices between $21.53 and $31.37, and options to purchase 181,094 shares were forfeited. During fiscal year 2014, the Company granted 1,040,748 restricted shares to employees and directors at prices ranging from $13.11 to $38.09, and 250,586 restricted shares were forfeited. At September 30, 2014, there were 772,227 shares remaining reserved for issuance in connection with awards under the 2006 Plan. In February 2015, at the Company s annual meeting of stockholders, the stockholders approved an amendment to the Plan which provided for an increase of 3,000,000 shares of the Company s common stock to the shares available for issuance under the 2006 Plan and established a fungible share pool so that grants of awards other than options or stock appreciation rights after January 9, 2015, would be counted as 1.5 shares from the reserve. During the nine months ended June 30, 2015, the Company issued 310,177 options to employees and directors at prices ranging from $9.35 to $10.41, and options to purchase 185,225 shares were forfeited. During the nine months ended June 30, 2015, the Company issued 1,097,206 restricted shares to employees and directors at prices ranging from $9.35 to $12.57, and 226,456 restricted shares were forfeited. At June 30, 2015, there were 2,288,798 shares remaining reserved for issuance in connection with awards under the 2006 Plan. During the nine months ended June 30, 2015, the Company issued 737,972 cash-settled stock appreciation rights, at the price of $9.35, and 6,360 cash-settled stock appreciation rights were forfeited. The maximum number of shares subject to options or stock appreciation rights that can be awarded under the 2006 Plan to any person is 1,000,000 per year. The maximum number of shares that can be awarded under the 2006 Plan to any person, other than pursuant to an option or stock appreciation right, is 700,000 per year. These shares and options generally vest over a period of one to four years conditioned on continued employment for the incentive period.

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Liquidity Services, Inc. and Subsidiaries
Notes to the Unaudited Consolidated Financial Statements (Continued)

8. Stockholders Equity (Continued)

Stock Option Activity

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

	Options	Weighted-Average Exercise Price
Options outstanding at September 30, 2013	1,592,406	$ 16.46
Options granted	437,755	22.41
Options exercised	(383,160)	10.83
Options canceled	(181,094)	18.14
Options outstanding at September 30, 2014	1,465,907	19.50
Options granted		
Options exercised	(11,043)	6.41
Options canceled	(30,829)	20.85
Options outstanding at December 31, 2014	1,424,035	19.58
Options granted	77,203	9.84
Options exercised	(3,826)	9.05
Options canceled	(104,305)	13.72
Options outstanding at March 31, 2015	1,393,107	19.50
Options granted	232,974	9.95
Options exercised		
Options canceled	(50,091)	16.26
Options outstanding at June 30, 2015	1,575,990	18.19
Options exercisable at June 30, 2015	933,375	18.03

The intrinsic value and weighted average remaining contractual life in years of outstanding and exercisable options at June 30, 2015 is approximately $232,000 and 6.23 and $192,000 and 4.41, respectively, based on a stock price of $9.63 on June 30, 2015. Over the last three years, volatility rates have ranged from 50.90% - 77.92%, a dividend rate of 0%, risk free interest rates have ranged from 0.12% - 1.38%, and expected forfeiture rates have ranged from 19.00% - 22.80%.

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Liquidity Services, Inc. and Subsidiaries
Notes to the Unaudited Consolidated Financial Statements (Continued)

8. Stockholders Equity (Continued)

Restricted Share Activity

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

	Restricted Shares	Weighted-Average Fair Value
Unvested restricted shares at September 30, 2013	1,543,869	$ 28.89
Restricted shares granted	1,040,748	18.78
Restricted shares vested	(436,204)	24.72
Restricted shares canceled	(250,586)	23.87
Unvested restricted shares at September 30, 2014	1,897,827	24.96
Restricted shares granted	111,300	12.57
Restricted shares vested	(275,562)	26.39
Restricted shares canceled	(61,171)	25.23
Unvested restricted shares at December 31, 2014	1,672,394	23.89
Restricted shares granted	30,894	9.84
Restricted shares vested	(36,001)	27.78
Restricted shares canceled	(111,040)	25.45
Unvested restricted shares at March 31, 2015	1,556,247	23.41
Restricted shares granted	955,012	9.82
Restricted shares vested	(16,539)	44.04
Restricted shares canceled	(54,245)	19.69
Unvested restricted shares at June 30, 2015	2,440,475	18.04

The intrinsic value and weighted average remaining contractual life in years of unvested restricted shares at June 30, 2015 is approximately $23,502,000 and 8.74, respectively, based on a stock price of $9.63 on June 30, 2015.

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Liquidity Services, Inc. and Subsidiaries
Notes to the Unaudited Consolidated Financial Statements (Continued)

9. Fair Value Measurement

The Company measures and records in the accompanying consolidated financial statements certain liabilities at fair value on a recurring basis. Authoritative guidance issued by the FASB establishes a fair value hierarchy for those instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and the Company s assumptions (unobservable inputs). The hierarchy consists of three levels:

Level 1	Quoted market prices in active markets for identical assets or liabilities;
Level 2	Inputs other than Level 1 inputs that are either directly or indirectly observable; and
Level 3	Unobservable inputs developed using estimates and assumptions developed by the Company, which reflect those that a market participant would use.

As of June 30, 2015 and September 30, 2014, the Company had no Level 1 or Level 2 assets or liabilities that were recorded at fair value on a recurring basis. As of June 30, 2015 and September 30, 2014, the Company s liability for contingent consideration related to the acquisition of assets and liabilities of National Electronic Service Association (NESA) of zero is the only liability measured at fair value on a recurring basis and is classified as Level 3 within the fair value hierarchy. Under the terms of the agreement, the earn-out is based on EBITDA earned by NESA during the 36-48 months after closing. EBITDA growth used in the calculation is capped at 20% of prior period. The Company s estimate for the total payout ranges from zero to a maximum $37.7 million. The Company s estimate of the fair value of the earn-out as of the date of acquisition was $18.0 million. Based upon revised projections and as a result of unfavorable developments in the business, the Company determined that the fair value of the earn-out as of June 30, 2014 was zero and reversed the liability of $18.6 million. The Company continues to believe that the fair value of the earn-out is zero as of June 30, 2015. The changes in liabilities measured at fair value for which the Company has used Level 3 inputs to determine fair value for the year ended September 30, 2014 and the nine months ended June 30, 2015 are as follows ($ in thousands):

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

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

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

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Liquidity Services, Inc. and Subsidiaries
Notes to the Unaudited Consolidated Financial Statements (Continued)

10. Defined Benefit Pension Plan

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

The net periodic benefit cost recognized for the three and nine months ended June 30, 2015 and 2014, included the following components:

Qualified Defined Benefit Pension Plan

	Three Months Ended June 30,	Nine Months Ended June 30,