

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

**FORM 8-K**

**Current Report  
Pursuant to Section 13 or 15(d) of  
The Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported) **August 1, 2006**

**LIQUIDITY SERVICES, INC.**  
(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction  
of incorporation)

**0-51813**  
(Commission  
File Number)

**52-2209244**  
(IRS Employer  
Identification No.)

**1920 L Street, N.W., 6th Floor, Washington, D.C.**  
(Address of principal executive offices)

**20036**  
(Zip Code)

Registrant's telephone number, including area code **(202) 467-6868**

**N/A**  
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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**Item 1.01. Entry into a Material Definitive Agreement.**

On July 25, 2006, the Compensation Committee of the Board of Directors of Liquidity Services, Inc. (the "Company") recommended to the Company's Board of Directors that the Board of Directors approve revisions to the Company's compensation plan for non-employee directors (the "Revised Plan"), which revisions would allow non-employee directors to elect, pursuant to procedures set forth under the Revised Plan, to receive annual cash payments payable to them under such plan in the form of stock option grants. These stock options will have a one-year vesting period, such that 100% of the options will vest on the one-year anniversary of the grant date. The exercise price shall be, in accordance with the terms of the Company's 2006 Long Term Omnibus Incentive Plan, the closing price of the Company's common stock on the first day of the fiscal year for which the election is made (or if the Nasdaq National Market is closed for trading on such day, then the closing price on the next day on which the Nasdaq National Market is open for trading).

On August 1, 2006, the Company's Board of Directors approved the Revised Plan, which is filed as Exhibit 10.1 to this Current Report on Form 8-K and is incorporated herein by reference.

**Item 9.01. Financial Statements and Exhibits.**

(d) Exhibits

The following exhibit is filed as part of this report:

10.1 LSI Non-Employee Director Compensation Plan

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**LIQUIDITY SERVICES, INC.**

(Registrant)

Date: August 9, 2006

By: /s/ James E. Williams

Name: James E. Williams

Title: Vice President, General Counsel and Secretary

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**Exhibit Index**

<b><u>Exhibit No.</u></b>	<b><u>Description</u></b>
10.1	LSI Non-Employee Director Compensation Plan

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SCHEDULE**LSI Non-Employee Director Compensation****I. Annual Cash Compensation**

Annual cash retainers (to be paid in quarterly installments), plus out-of-pocket expenses as outlined in the table below. The initial payment of this cash compensation shall be made upon the first meeting of the Board of Directors held after completion of the proposed initial public offering of the Corporation. In addition, each year, directors may elect to receive all of their annual cash payments in the form of stock option grants. To make such election, directors shall deliver an irrevocable, written notice thereof to the Corporation's Secretary between September 1<sup>st</sup> and September 30<sup>th</sup> of the fiscal year immediately prior to the year for which the director wishes to make the election. The grant date shall be the first day of the fiscal year for which the election is made. These stock options will have a one year vesting period, such that 100% of the options will vest on the one year anniversary of the grant date. The exercise price shall be, in accordance with the terms of the Corporation's 2006 Long Term Omnibus Incentive Plan, the closing price of the Corporation's common stock on the first day of the fiscal year for which the election is made (or if the Nasdaq National Market is closed for trading on such day, then the closing price on the next day on which the Nasdaq National Market is open for trading). The determination of the number of stock options each director is entitled to receive shall be made as of the first day of the fiscal year for which the director wishes to make the election. The Corporation shall use the valuation method described below in Section II, Annual Equity Compensation, under the heading, "Black-Scholes Option Valuation," to determine the number of options directors would be entitled to receive in lieu of their respective cash payments. Such valuation method shall be used solely for the purpose of determining the number of options each director shall be entitled to receive.

	<b>Cash Amount</b>
<b>Annual Retainer</b>	\$ 25,000
<b>Annual Audit Committee Chairman</b>	\$ 10,000
<b>Annual Compensation Committee Chairman</b>	\$ 5,000
<b>Annual Nominating/Governance Committee Chairman</b>	\$ 5,000

SCHEDULE 1 (cont.)**II. Annual Equity Compensation**

Annual equity compensation valued at approximately \$34,000 per annum as determined in accordance with Black Scholes standard valuation of option grants (see table below for an example of a valuation calculation). These options will have a ten year exercise period and shall vest corresponding to the period of service.

**BLACK-SCHOLES OPTION VALUATION**

<b>Black-Scholes Option Valuation</b>	
Market Price	\$ 12.8900
Exercise Price	\$ 12.8900
Annual Volatility	41.1000%(a)
Risk-Free Rate	4.6600%
Dividend	0.0000%
Expected Life (years)	2.0000(b)
Black-Scholes	\$ 3.4249
Number of Options	20,000
Total Value	\$ 68,498
Amortization Period (Yrs)	2
Value Per Year	34,249
Notes:	

(a) Source: Bloomberg

(b) Expected timeframe under which options will be exercised.

(c) Assumes expected life of two years.

d1	0.450967
d2	(0.130275)
N(d1)	0.673993
N(d2)	0.448175
<b>Formulas</b>	
d1	$= (\text{LOG}(\text{B2}/\text{B3}) + ((\text{B5} - \text{B6}) + (\text{B4} * \text{B4}) / 2) * \text{B7}) / (\text{B4} * \text{SQRT}(\text{B7}))$
d2	$+ \text{D3} - \text{B4} * \text{SQRT}(\text{B7})$
N(d1)	$= \text{NORMDIST}(\text{D3}, 0, 1, 1)$
N(d2)	$= \text{NORMDIST}(\text{D4}, 0, 1, 1)$
BSValue	$= \text{B2} * \text{EXP}(-\text{B6} * \text{B7}) * \text{D5} - \text{B3} * \text{EXP}(-\text{B5} * \text{B7}) * \text{D6}$

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