

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP**

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934 or Section 30(h) of the Investment Company Act of 1940

| OMB APPROVAL                                 |           |
|--|-----------|
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|   |   |  |
|---|---|--|
| 1. Name and Address of Reporting Person*<br><u>Rallo James M</u><br><br>(Last) (First) (Middle)<br><u>C/O LIQUIDITY SERVICES, INC.</u><br><u>1920 L STREET, N.W., 6TH FLOOR</u><br><br>(Street)<br><u>WASHINGTON DC 20036</u><br><br>(City) (State) (Zip) | 2. Issuer Name and Ticker or Trading Symbol<br><u>LIQUIDITY SERVICES INC [ LQDT ]</u> | 5. Relationship of Reporting Person(s) to Issuer (Check all applicable)<br><br>Director 10% Owner<br><input checked="" type="checkbox"/> Officer (give title below) Other (specify below)<br><u>CFO, Treasurer</u> |
|   | 3. Date of Earliest Transaction (Month/Day/Year)<br><u>01/04/2008</u>                 |  |
| 4. If Amendment, Date of Original Filed (Month/Day/Year)  |   |  |

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

| 1. Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) |   | 4. Securities Acquired (A) or Disposed Of (D) (Instr. 3, 4 and 5) |            |         | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Indirect Beneficial Ownership (Instr. 4) |
|---------------------------------|--------------------------------------|--|--------------------------------|---|---|------------|---------|---|--|---|
|                                 |                                      |  | Code                           | V | Amount  | (A) or (D) | Price   |   |  |   |
| Common Stock                    | 01/04/2008                           |  | M                              |   | 625   | A          | \$12.89 | 26,124  | D  |   |

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)**

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of Derivative Security | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) |   | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) |     | 6. Date Exercisable and Expiration Date (Month/Day/Year) |                 | 7. Title and Amount of Securities Underlying Derivative Security (Instr. 3 and 4) | 8. Price of Derivative Security (Instr. 5) | 9. Number of derivative Securities Beneficially Owned Following Reported Transaction(s) (Instr. 4) | 10. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 11. Nature of Indirect Beneficial Ownership (Instr. 4) |
|--|--|--------------------------------------|--|--------------------------------|---|--|-----|--|-----------------|---|--|--|---|--|
|  |  |                                      |  | Code                           | V | (A)  | (D) | Date Exercisable   | Expiration Date |   |  |  |   |  |
| Employee Stock Option                      | \$7  |                                      |  |                                |   |  |     | (1)  | 10/28/2015      | Common Stock  | 67,500                                     | 67,500   | D   |  |
| Employee Stock Option                      | \$2  |                                      |  |                                |   |  |     | (2)  | 02/24/2015      | Common Stock  | 59,917                                     | 59,917   | D   |  |
| Employee Stock Option                      | \$12.89  | 01/04/2008                           |  | M                              |   | 625  |     | (3)  | 03/30/2016      | Common Stock  | 625  | \$0  | 16,876  | D  |
| Employee Stock Option                      | \$10.93  |                                      |  |                                |   |  |     | (4)  | 10/01/2017      | Common Stock  | 70,000                                     | 70,000   | D   |  |

**Explanation of Responses:**

- On October 28, 2005, the reporting person was granted an option to purchase 75,000 shares of common stock. On February 28, 2006, the option vested as to 10% (7,500 shares) upon the completion of the Company's initial public offering; the remaining 90% (67,500 shares) shall vest upon the delivery by the Company's independent accountants of an unqualified opinion on management's assessment of the Company's internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act.
- The option vested as to 25% on February 25, 2005 and has vested, and will continue to vest, at 2.083% per month thereafter on the 25th of each month for the 36 months following the month of grant.
- Twenty-five percent of this option grant vested on March 30, 2007, with the remaining options vesting in monthly installments through March 30, 2010.
- Twenty-five percent of this option grant will vest on October 1, 2008, and thereafter 1/48th of the option grant will vest each month for thirty-six months.

/s/ James E. Williams, by 01/08/2008  
power of attorney

\*\* Signature of Reporting Person Date

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

\* If the form is filed by more than one reporting person, see Instruction 4 (b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB Number.