AUDITED FINANCIAL STATEMENTS

DOD Surplus, LLC
Years Ended September 30, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

ERNST & YOUNG

DOD Surplus, LLC

Financial Statements

Years Ended September 30, 2011 and 2010

Contents

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Report of Independent Auditors

The Board of Managers
DOD Surplus, LLC

We have audited the accompanying balance sheets of DOD Surplus, LLC as of September 30, 2011 and 2010, and the related statements of income, changes in member's equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DOD Surplus, LLC at September 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

November 21, 2011

DOD Surplus, LLC

Balance Sheets

	September 30	
	2011	**2010**
Assets	(b) (4) [redacted]	
Current assets:		
Cash and cash equivalents		
Accounts receivable, net of allowance for doubtful accounts of (b) (4) [redacted] at September 30, 2011 and 2010, respectively		
Inventory		
Amounts due from related parties		
Total current assets		
Property and equipment, net		
Total assets		
Liabilities and member's equity		
Current liabilities:		
Accounts payable		
Accrued expenses and other		
Customer deposits		
Profit-sharing distributions payable to DLADS/KGP		
Member distributions payable to LSI		
Total current liabilities		
Member's equity:		
Member's equity:		
Total member's equity		
Total liabilities and member's equity		

See accompanying notes.

DOD Surplus, LLC

Statements of Income

	Year Ended September 30	
	2011	**2010**
Revenues	(b) (4) [redacted]	
Cost and expenses:		
Cost of goods sold		
Profit-sharing distributions to DLADS/KGP		
Technology and operations		
Sales and marketing		
General and administrative		
Depreciation and amortization		
Total costs and expenses		
Income from operations		
Other income:		
Interest income		
Net income		

See accompanying notes.

DOD Surplus, LLC

Statements of Changes in Member's Equity

Balance at September 30, 2009
   Contributed capital – for inventory purchases
   Net income
   Distributed to LSI
Balance at September 30, 2010
   Contributed capital – for inventory purchases
   Net income
   Distributed to LSI
Balance at September 30, 2011

(b) (4) [redacted]

See accompanying notes.

DOD Surplus, LLC

Statements of Cash Flows

	Year Ended September 30	
	2011	**2010**
Operating activities	(b) (4) [redacted]	
Net income		
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts		
Depreciation and amortization		
Loss on disposal of property and equipment		
Changes in operating assets and liabilities:		
Accounts receivable		
Inventory		
Amounts due from related parties		
Accounts payable		
Accrued expenses and other		
Customer deposits		
Profit-sharing distributions payable to DLADS/KGP		
Net cash provided by operating activities		
Investing activities		
Purchases of property and equipment		
Proceeds from sale of property and equipment		
Net cash used in investing activities		
Financing activities		
Capital contributions received for inventory purchases		
Payment of capital lease obligations		
Distributions paid to LSI		
Net cash used in financing activities		
Increase in cash and cash equivalents		
Cash and cash equivalents at beginning of year		
Cash and cash equivalents at end of year		

See accompanying notes.

1. Significant Accounting Policies

DOD Surplus, LLC (the Company) is a single-purpose entity that remarkets scrap property under the auspices of the Defense Logistics Agency Disposition Services (DLADS) contract 99-4001-0004. Prior to July 19, 2010, DLADS was known as Defense Reutilization and Marketing Service (DRMS), a division of the Defense Logistics Agency (DLA). The contract was entered into in June 2005 and has a seven-year term and three one-year renewal options. The first of these renewal options was exercised by DLADS in September 2011. Under the terms of the contract, the Company may only conduct the business described in the contract and no other.

DLADS sells inventory to the Company at a fixed price of $.0001 per pound of scrap property.

Organization

The Company was formed as a limited liability company in the state of Delaware on July 20, 2005, and is the wholly owned, sole member company of Surplus Acquisition Venture (SAV), and SAV is wholly owned by Liquidity Services, Inc. (LSI).

The Company will dissolve, and its affairs shall be wound up at the election of the member or upon the occurrence of an event of dissolution under the Delaware Limited Liability Company Act (the Act), provided that upon the occurrence of an event of dissolution under the Act, the member may elect to continue the Company to the extent permitted under the Act.

The member did not make an initial capital contribution to the Company. Except to the extent required under the Act, the member will not be required to make any capital contributions to the Company.

Description of Business

The Company markets scrap property provided by DLADS through an affiliated company using internet online auctions and term contracts. Sales commenced in August 2005. Seventy-seven percent of distributed cash is to be paid to DLADS and Kormendi/Gardner Partners (KGP) as profit-sharing distributions. KGP is a legal/econometric consulting firm engaged by DLADS and receives 1.8%; DLADS receives 75.2%. Twenty-three percent of distributed cash is paid to the corporate parent company LSI. In addition, if the Company’s customer base meets certain small business criteria as defined in the contract, LSI may receive up to an additional 10.0% of distributed cash.

1. Significant Accounting Policies (continued)

Distributions are made only when cash on hand exceeds the sum of outstanding working capital advances, accrued liabilities, contingent liabilities, and management's estimate of the current cash required to cover estimated operating expenses for the upcoming month, as defined. Cash distributions paid to DLADS/KGP for the 12 months ended September 30, 2011 and 2010, totaled (b) (4) [redacted], respectively. Distributions payable represents accrual of distributions amounting to (b) (4) [redacted] to DLADS/KGP at September 30, 2011 and 2010, respectively.

The Company handles all of the day-to-day activities of the scrap inventory. LSI acts as a financing entity and loans capital to the Company when needed.

Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less when acquired to be cash equivalents. Cash and cash equivalents consist of cash on hand and deposits, including money market funds.

Revenue Recognition

Revenue is derived through online auctions of scrap metal. Items sold by the Company could be subject to trade security controls because the item may be subject to export controls. DLADS assigns items sold to the Company with a demilitarization code. A demilitarization code is a single alpha character that identifies the degree of security clearance required to be obtained by the customer prior to accomplishing final disposition of an item. The Company generally sells items that are classified as Demilitarization Q and Demilitarization A. Items classified as Demilitarization Q require the customer to obtain an End Use Certificate (EUC) approved by the DLA Office of the Inspector General (OIG). For sales of Demilitarization Q inventory, revenue is recognized upon the receipt of the approved EUC and payment from the customer. Items classified as Demilitarization A do not require the customer to obtain an approved EUC. For sales of Demilitarization A inventory, revenue is recognized upon receipt of payment from the customer.

The buyer has the obligation to pick up the acquired property, and, as such, the Company's obligation with respect to property sold ends when the notification of the winning bidder occurs.

1. Significant Accounting Policies (continued)

The Company also enters into term contracts whereby a buyer agrees to purchase a certain quantity or dollar amount of scrap over a stated period of time. Deposits made to the Company related to term contract sales are accounted for as customer prepayment liabilities until delivery has occurred.

In the event that the weight of the property differs from the advertised weight by more than $250, the Company will bill the additional amount due or issue the customer a credit memo.

Cost of Goods Sold

Cost of goods sold primarily includes the costs of purchasing and transporting property for auction.

Inventory

Inventory consists of property obtained from DLADS and is stated at the lower of cost or market. The Company records investments made in the Company to fund inventory purchases by LSI as contributed capital – for inventory purchases, as reflected in the statement of changes in member's equity. Cost of goods sold, for the value of inventory sold, is recognized at the time revenue is recognized. Cost is determined using the specific identification method.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Amounts are included in bad debt expense when recorded. The Company determines the adequacy of this allowance by regularly reviewing the composition of its accounts receivable aging and evaluating individual customer receivables, considering such customer's financial condition, credit history, and current economic conditions.

Property and Equipment

Furniture, fixtures, and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful life of three to five years for computer equipment, software, and machinery and equipment, and seven years for furniture and fixtures. Leasehold improvements are depreciated over the estimated useful life or the life of the lease, whichever is less.

1. Significant Accounting Policies (continued)

Customer Deposits

Customer deposits consist of amounts paid by customers to participate in an internet online auction or to bid on a term contract. Amounts are either applied to purchases or refunded to the customer, depending on the outcome of the auction.

Advertising

Advertising costs are expensed as incurred. Advertising expense incurred for the years ended September 30, 2011 and 2010, was (b) (4) [redacted], respectively.

Freight Costs

The Company is responsible for the cost of shipping products among locations to facilitate preparation of property for sale or to lot inventory for auctions. These shipping expenses are included in cost of goods sold and totaled (b) (4) [redacted] for the years ended September 30, 2011 and 2010, respectively.

Income Taxes

The Company generally is not subject to income taxes. The corporate parent, LSI, includes the Company's income in its income tax return; consequently, no provision for income taxes is made in the Company's financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Subsequent Events

Subsequent events have been evaluated up to and including November 21, 2011, which is the date these financial statements were issued.

2. Amounts due from Related Parties

Amounts due from related parties consist of the following:

	September 30	
	2011	**2010**
Receivable from SAV/SAV Services	[redacted]	
Receivable from LSI		
Total	**$ 1,209,574**	$ 2,908,565

3. Property and Equipment

Property and equipment consist of the following:

	September 30	
	2011	**2010**
Computer equipment and software	[redacted]	
Leasehold improvements		
Machinery and equipment		
Less accumulated depreciation		
Property and equipment, net		

4. Accrued Expenses and Other

Accrued expenses and other consist of the following:

	September 30	
	2011	**2010**
Accrued compensation and benefits	[redacted]	
Other accrued expenses		
Payable to LSI		
Total	**$ 2,945,159**	$ 3,773,489

5. Lease Commitments

The Company entered into two subleases with LSI for distribution space in Columbus, Ohio, and Oklahoma City, Oklahoma. LSI has passed through the same terms and conditions to the Company as in the original leases between LSI and the non-related lessors. The Ohio lease is from October 1, 2008 to January 14, 2014, and the Oklahoma lease is from October 1, 2008 to February 16, 2014. While the Company is paying rent for these two facilities, the space is primarily utilized by related entities Government Liquidation.com LLC (GL) and SAV, therefore, the Company has charged those entities for their usage. Total rent expense for these two facilities was [redacted] for the year. The Company charged GL and SAV zero and [redacted] for the year ended September 30, 2011, respectively, and [redacted] for the year ended September 30, 2010, respectively, and included such amounts as an offset to rent expense.

The following represents future minimum operating lease payments required after September 30, 2011:

2012	[redacted]
2013	
2014	
Total	$ 5,117,843

Total rent expense, net of allocations to GL and SAV, for the years ended September 30, 2011 and 2010, was [redacted], respectively.

6. Commitments and Contingencies

DLADS Contract

The Company's current contract with DLADS expires August 2013, with two one-year renewal options remaining. The contract includes a mutual cancellation option based on certain information included in its quarterly report submissions to DLADS. Article Two, Section 2.D in the contract states that if the Performance Ratio (as defined) is less than the benchmark performance ratio for two consecutive calendar quarters, either the Company or DLADS may in its sole discretion terminate the contract within 30 days of the delivery of the second quarterly report. The Company's current business operations are based solely on the contract with DLADS, and termination of such contract would have a direct, material, and adverse effect on the Company's ability to continue as a going concern. The Company has never experienced two

6. Commitments and Contingencies (continued)

consecutive calendar quarters with less than the benchmark performance ratio so the termination rights have never been triggered. The Company's performance ratio for the fiscal quarter ending September 30, 2011, was in excess of the comparative benchmark performance ratio for the fiscal quarter ended September 30, 2011.

7. Concentration of Credit Risk

The Company's accounts receivable result primarily from credit sales to a broad customer base, with a concentration generally existing among five to ten customers. The Company's top five customers amounted to 33% and 41% of the Company's total revenues for the years ended September 30, 2011 and 2010, respectively. These five customers had accounts receivable balances totaling [redacted] at September 30, 2011, and [redacted] at September 30, 2010. The Company had earnest money deposits for these five customers that could be applied against their outstanding accounts receivable of [redacted] at September 30, 2011, and [redacted] at September 30, 2010.

8. 401(k) Benefit Plan

GL established a retirement plan (the Plan) for employees effective June 15, 2001, which is intended to be a qualified plan under Section 401(k) of the Internal Revenue Code. Effective June 1, 2008, the Plan name was changed to DOD Surplus, LLC 401(k) Plan when the Company assumed responsibility for payroll processing of both GL and DOD Surplus, LLC employees. Effective April 1, 2011, the Plan was merged into the Liquidity Services, Inc. 401(k) Profit Sharing Plan (the LSI Plan) under the sponsorship of LSI, the parent company of the Company. The Plan is available to all eligible employees of the Company, beginning on the January 1, April 1, July 1, or October 1 following the participant's employment start date. The Plan is a defined contribution plan. Participants may contribute up to 60% of their base earnings on a pretax basis, subject to the maximum allowable by the Internal Revenue Code. Participants may also elect to defer up to 100% of any employer-paid bonus. Employer contributions consist of a fixed match of $.50 per $1.00 up to 6% of compensation. Participants vest immediately in their elective contributions plus actual earnings thereon, and such amounts are nonforfeitable. Vesting in the Company contribution portion of their accounts plus actual earning thereon is based on years of continuous service. A participant is 50% vested after two full years of service and 100% vested after three years. A participant becomes fully vested upon disability or death or reaching normal retirement age, as defined by the Plan. All other particulars of the Plan remained unchanged. The Company contributed [redacted] and [redacted] to the Plan for the years ended September 30, 2011 and 2010, respectively.

9. Related-Party Transactions

The Company reimburses LSI for health and welfare claims expense incurred and paid on behalf of the Company. For the year ended September 30, 2011, the Company reimbursed LSI [redacted] At September 30, 2011, amounts owed to LSI for expenses were [redacted]. This amount is included in accrued expenses and other.

LSI reimburses the Company for expenses incurred on LSI's behalf. These include technology and marketing labor, web conferencing, and other miscellaneous expenses. For the year ended September 30, 2011, LSI reimbursed the Company [redacted]. At September 30, 2011, amounts due from LSI were [redacted]. This amount is included in amounts due from related parties.

The Company, GL, SAV, and SAV Services, LLC (SVCS) are all related entities. At September 30, 2010, [redacted] of net assets were transferred to SVCS from the Company. These net assets represent the Scottsdale (AZ) Support Office (SSO) employees, facility, and infrastructure, which provide services to the Company and SAV. These services include executive management and various other management-related services and costs including rent, payroll, professional service fees, travel expenses, and other expense items. The Company is allocated its respective portion of these overhead costs based on the ratio of the Company's revenue to the total revenue of the Company and SAV.

The Company funds payroll and pay-related benefit services for itself and other related entities, GL, SAV, and SVCS. Costs for employees employed solely by an individual entity are charged to that entity at cost. Where an operational employee's time is divided between entities, the costs are identified separately and charged to the appropriate entities at cost. If the employee is an hourly paid employee, any necessary cost allocation is obtained from the employee's time sheet. In 2010, salaried employee time was allocated according to splits provided on a quarterly basis and approved by the Executive Vice President of Operations. In 2011, salaried employee time was allocated according to the relationship of revenue for the Company and SAV to the combined revenue of the two companies as determined on a quarterly basis.

The companies also share warehouse space at two national sales centers in Oklahoma City, Oklahoma, and Columbus, Ohio. Warehouse costs are allocated based on utilization.

GL ceased operations in 2010; therefore, there were no intercompany charges between the Company and GL in 2011.

9. Related-Party Transactions (continued)

The net costs charged by the Company to GL for the year ended September 30, 2010, were [redacted] which included [redacted] of expenses paid on the behalf of GL, plus [redacted] of overhead costs allocated to the Company. Also, there was [redacted] paid to the Company by GL to transfer Company customer payments received in GL bank accounts.

The total costs charged to the Company by SVCS for the year ended September 30, 2011, for overhead costs allocated to the Company were [redacted]

The total costs charged to SAV and SVCS by the Company for the year ended September 30, 2011, were [redacted] and [redacted] respectively. Also, there was [redacted] paid to the Company by SAV to transfer customer payments received in SAV bank accounts.

The total costs charged to SAV by the Company for the year ended September 30, 2010, were [redacted], which included [redacted] of cost paid on behalf of SAV, plus [redacted] of overhead costs allocated to SAV by the Company. Also, there was [redacted] paid to the company by SAV to transfer customer payments received in SAV bank accounts.

At September 30, 2011, [redacted] and [redacted] were due from SAV and SVCS, respectively. At September 30, 2010, [redacted] and [redacted] were due from SAV and SVCS, respectively. These amounts are included in amounts due from related parties.

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