

AUDITED FINANCIAL STATEMENTS

DOD Surplus, LLC

Years Ended September 30, 2014 and 2013

With Report of Independent Auditors

DOD Surplus, LLC

Financial Statements

Years Ended September 30, 2014 and 2013

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Report of Independent Auditors

The Board of Managers
DOD Surplus, LLC

We have audited the accompanying financial statements of DOD Surplus, LLC, which comprise the balance sheets as of September 30, 2014 and 2013, and the related statements of statements of income, changes in member's equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The Company's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company's sole business activity is to remarket scrap inventory purchased from the Defense Logistics Agency Disposition Services through contract 99-4001-0004. The contract expires in June of 2015 and does not currently contain further extension provisions. At the expiration date the Company will cease receiving inventory. The expiration of the contract raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Ernst & Young LLP

November 26, 2014

DOD Surplus, LLC

Balance Sheets

September 30
2014 2013

Assets

Current assets:

Cash

Accounts receivable, net of allowance for doubtful
accounts of (b) (4) at
September 30, 2014 and 2013, 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

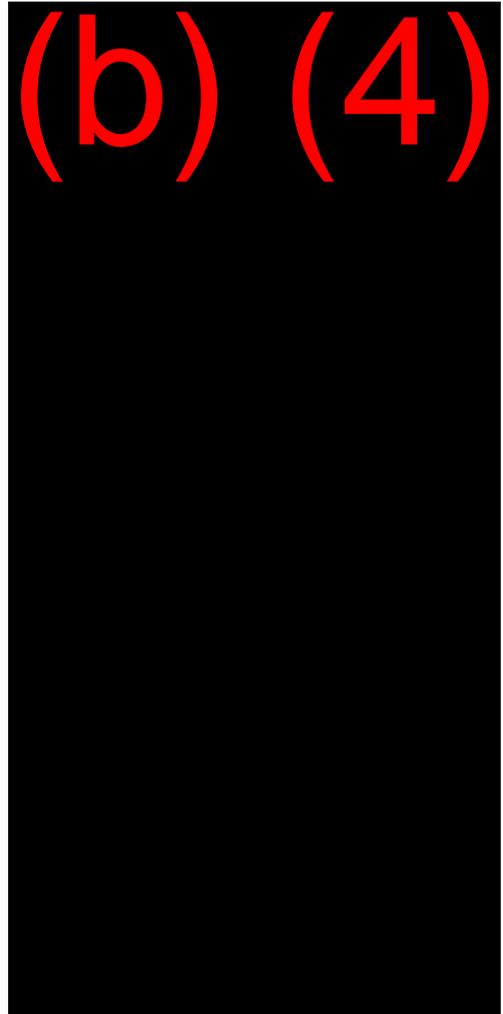
Total current liabilities

Member's equity:

Member's equity

Total member's equity

Total liabilities and member's equity



See accompanying notes.

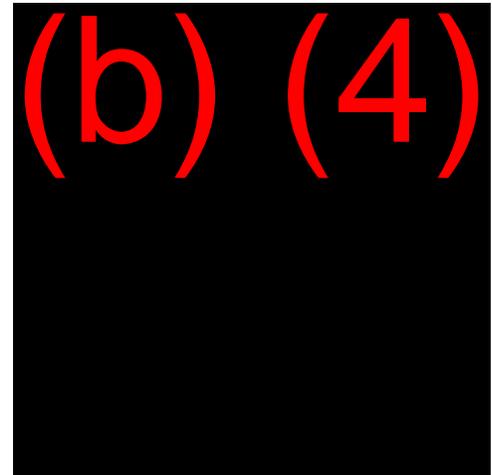
DOD Surplus, LLC

Statements of Income

Year Ended September 30
2014 2013

Revenues
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

Net income



See accompanying notes.

DOD Surplus, LLC

Statements of Changes in Member's Equity

Balance at October 1, 2012

Contributed capital – for inventory purchases

Net income

Distributions to member

Balance at September 30, 2013

Contributed capital – for inventory purchases

Net income

Distributions to member

Balance at September 30, 2014

(b) (4)

See accompanying notes.

DOD Surplus, LLC

Statements of Cash Flows

Year Ended September 30
2014 2013

Operating activities

Net income
Adjustments to reconcile net income to net cash
provided by operating activities:
 Provision of doubtful accounts
 Depreciation and amortization
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

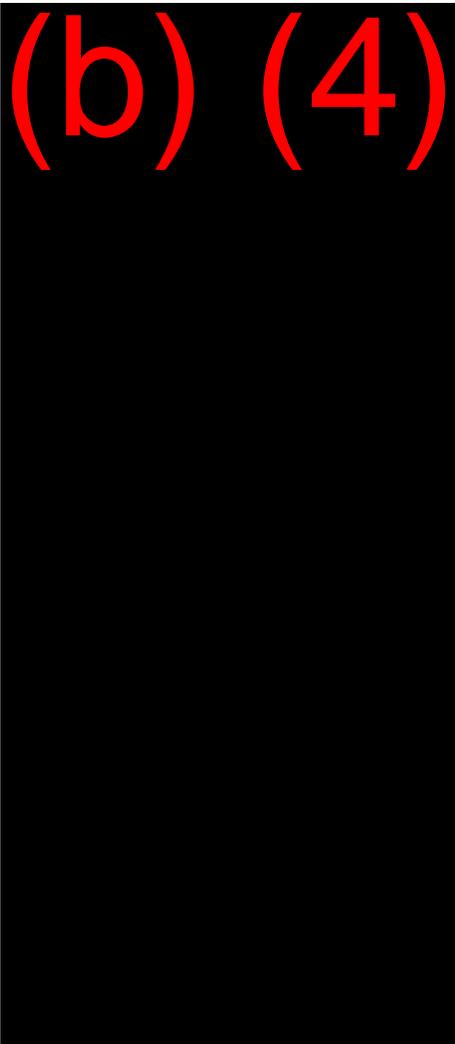
Investing activities

Purchases of property and equipment
Net cash used in investing activities

Financing activities

Capital contributions received for inventory purchases
Distributions paid to member
Net cash used in financing activities

Increase/(decrease) in cash and cash equivalents
Cash at beginning of year
Cash at end of year



See accompanying notes.

DOD Surplus, LLC

Notes to Financial Statements

September 30, 2014

1. Organization

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 (the contract). 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 and second of these renewal options were exercised by DLADS in September 2011 and November 2012, respectively. The third option was exercised in November 2013. The Company's current and only contract with DLADS expires on June 9, 2015. Under the terms of the contract, the Company may only conduct the business described in the contract and no other. The contract was awarded in a competitive bid conducted by DLADS, and the Company may be required to go through a new competitive bidding process when the existing contract expires. As such, the absence of an extended or renewed contract would have a direct, material, and adverse effect on the Company's ability to continue as a going concern. In the event that the Company is not awarded a new or extended contract the Company will wind-down operations and the entity will be dissolved upon completion of its obligations under the contract.

The Company was formed as a limited liability company in the state of Delaware on July 20, 2005, and its sole member is Surplus Acquisition Venture, LLC (SAV). 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 acquired from DLADS through internet online auctions. In accordance with the contract, DLADS sells inventory to the Company at a fixed price of \$0.0001 per pound of scrap property. In addition, 77.0% percent of distributed cash (as defined in the contract) 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%. Of the total distributed cash, 23.0% is paid to the member in the

DOD Surplus, LLC

Notes to Financial Statements (continued)

1. Organization (continued)

form of member distributions. In addition, if the Company's customer base meets certain small business criteria as defined in the contract, the member may receive an additional incentive payment which is withheld from payments to the DLADS.

Cash distributions paid to DLADS/KGP for the fiscal year ended September 30, 2014 and 2013, totaled (b) (4) and (b) (4), respectively. Distributions payable to DLADS/KGP represents accrual of distributions amounting to (b) (4) and (b) (4) at September 30, 2014 and 2013, respectively.

The Company and its affiliates handle 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.

2. Significant Accounting Policies

Cash Equivalents

Cash consists of cash on hand and demand deposits held at financial institutions with original maturities of three months or less and no withdrawal restrictions.

Revenue Recognition

Revenue is derived through online auctions of scrap metal and other commodities acquired from DLADS. Revenues are recognized gross of amounts paid to the DLADS, as the Company establishes its own pricing and retains related inventory risk, is the primary obligor in sales transactions with its customers, and assumes the credit risk for amounts billed to its customers.

The Company recognizes revenue when persuasive evidence of an arrangement exists, goods are made available to the customer, the fee is fixed or determinable, and collectability is reasonably assured. Certain items sold by the Company are subject to trade security controls because the item may be subject to export controls, in which case the customer is required to obtain an End Use Certificate (EUC) approved by the DLA Office of the Inspector General (OIG) prior to sale of the item. For such items, revenue is recognized upon the receipt of the approved EUC and payment from the customer. For items that do not require the customer to obtain an approved EUC, revenue is generally recognized upon receipt of payment from the customer.

DOD Surplus, LLC

Notes to Financial Statements (continued)

2. 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. For term contracts, revenue is generally recognized at the time the customer removes the items from the facility. The Company generally requires a deposit for term contract sales, which are accounted for as customer prepayment liabilities and included in customer deposits on the balance sheet.

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.

The Company collects and remits sales taxes on merchandise that it purchases and sells, and reports such amounts under the net method in its Statements of Income.

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. Inventory purchases are generally funded by the member and recorded as Contributed capital – for inventory purchases 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.

DOD Surplus, LLC

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

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 of the property or the life of the lease, whichever is less.

Customer Deposits

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

Advertising

Advertising costs are expensed as incurred. These advertising expenses are included in sales and marketing expense and totaled (b) (4) and (b) (4) for the years ended September 30, 2014 and 2013, respectively.

Freight Costs

The Company is responsible for the cost of shipping products among its 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) and (b) (4) for the years ended September 30, 2014 and 2013, respectively.

Income Taxes

The Company is organized as a limited liability company. For federal income tax purposes, the Company elected to be treated as a disregarded entity and all income activity is passed through to the member. LSI includes the Company's income in its income tax return and is responsible for the payment of federal income tax related to the activity of the Company. Consequently, no provision for income taxes has been made in the Company's financial statements.

DOD Surplus, LLC

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

Use of Estimates

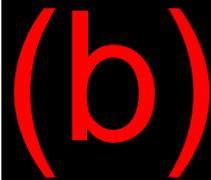
The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of 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 26, 2014, which is the date these financial statements were available to be issued.

3. Property and Equipment

Property and equipment consist of the following:

	September 30	
	2014	2013
Computer equipment and software		
Leasehold improvements		
Machinery and equipment		
Construction in progress		
Less accumulated depreciation		
Property and equipment, net		

DOD Surplus, LLC

Notes to Financial Statements (continued)

4. Accrued Expenses and Other

Accrued expenses and other consist of the following:

	September 30	
	2014	2013
Accrued compensation and benefits		
Other accrued expenses		
Payable to LSI		
Total	<u>\$ 2,446,295</u>	<u>\$ 3,058,178</u>

5. Lease Commitments

The Company entered into three subleases with LSI for distribution space in Columbus, Ohio, and Oklahoma City, Oklahoma. The terms and conditions of the subleases are the same as in the original leases between LSI and the non-related lessors. The Ohio (Creekside) facility lease is from October 1, 2008 to February 28, 2019, and the Ohio (Spiegel) facility lease is from January 1, 2014 to December 31, 2016. The Oklahoma facility lease is from October 1, 2008 to June 30, 2015. While the Company is paying rent for these facilities, the space is primarily utilized by SAV, therefore the Company has charged this entity for its usage. Total rent paid to LSI for these three facilities was \$4,595,740 and \$2,274,128 for the years ended September 30, 2014 and 2013, respectively. The Company charged SAV \$4,548,899 and \$2,008,713 for the years ended September 30, 2014 and 2013, respectively, and included such amounts as an offset to rent expense.

The following represents future minimum operating lease payments for the years ended September 30:

2015		
2016		
2017		
2018		
2019		
Thereafter		
Total	<u>\$ 10,480,713</u>	

DOD Surplus, LLC

Notes to Financial Statements (continued)

5. Lease Commitments (continued)

Total rent expense, net of allocations to SAV, was (b) (4) and (b) (4) for the years ended September 30, 2014 and 2013, respectively, and is included as a component of technology and operations expense.

6. Commitments and Contingencies

DLADS Contract

The Company's current contract with DLADS expires June 2015. The contract includes a mutual cancellation option based on certain information included in the Company's quarterly report submissions to DLADS. Article Two, Section 2.D in the contract states that if the Performance Ratio, which is based on actual sales prices compared to a defined commodities market index, 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 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 ended September 30, 2014 was in excess of the comparative benchmark performance ratio for the fiscal quarter ended September 30, 2014.

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 39% and 41% of the Company's total revenues for the years ended September 30, 2014 and 2013, respectively. The top five customers had accounts receivable balances totaling (b) (4) at September 30, 2014, and (b) (4) at September 30, 2013. The Company had earnest money deposits for the top five customers that could be applied against their outstanding accounts receivable of (b) (4) at September 30, 2014, and (b) (4) at September 30, 2013.

DOD Surplus, LLC

Notes to Financial Statements (continued)

8. 401(k) Benefit Plan

Eligible employees of the Company may participate in the Liquidity Services, Inc. 401(k) Profit Sharing Plan (the Plan) which is sponsored by LSI. The Plan is a defined contribution plan and allows participants to contribute up to the legal maximum of their eligible compensation, not to exceed the maximum tax-deferred amount allowed by the Internal Revenue Service. The Plan also allows the Company to make discretionary matching contributions. The Company contributed (b) (4) and (b) (4) to the Plan for the years ended September 30, 2014 and 2013, respectively.

9. Related-Party Transactions

The Company incurs expenses on behalf of LSI, as well as SAV, GoIndustry (GOI), TruckCenter (TC) and SAV Services, LLC (SVCS), each of which are owned by LSI. LSI and SVCS also incur expenses on behalf of the Company.

While the Company believes that the costs allocated to it by LSI and SVCS, and the costs it has allocated to LSI, SAV, GOI, TC and SVCS are reasonable, such allocations are not necessarily indicative of the related fair value of such costs. The costs allocated between these entities do not include mark ups for intercompany services.

Payments to Related Parties

In addition to the sublease payments to LSI (see Note 5), the Company reimburses LSI for health and welfare claims, and other payroll-related expenses incurred and paid on behalf of the Company. Amounts owed to LSI for expenses were (b) (4) and (b) (4) as of September 30, 2014 and 2013, respectively. These amounts are included in accrued expenses and other.

SCVS provides shared services to the Company, SAV, GOI, and TC, including executive management, marketing, customer service, technology, finance and various other related services and expenses. 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 SAV.

Total costs charged to the Company by LSI and SCVS for allocated overhead costs for the fiscal years ending 2014 and 2013 were as follows:

DOD Surplus, LLC

Notes to Financial Statements (continued)

9. Related-Party Transactions (continued)

	September 30	
	2014	2013
Sales and marketing	(b) (4)	
Technology and operations	(b) (4)	
General and administrative	(b) (4)	
Total	\$ 7,212,740	\$ 5,001,538

Reimbursements from Related Parties

SAV, SVCS, GOI and TC reimburse the Company for expenses incurred on their behalf. These include payroll, rent (see Note 5), utilities, and other miscellaneous expenses. Payroll is allocated as described below. Rent and utilities are allocated based on warehouse utilization. Total costs charged to related party entities by the Company for the years ended September 30, 2013 and 2014, were (b) (4) and (b) (4) respectively.

The Company funds payroll and pay-related benefit services for itself, SAV and SVCS. Costs for personnel 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. Salaried employee wages and benefits are allocated based on the ratio of the Company's revenue to the total revenue of the entities, as determined on a quarterly basis and approved by the Executive Vice President of Operations.

LSI reimburses the Company for expenses incurred on LSI's behalf. These include rent, labor, web conferencing, and other miscellaneous expenses. For the years ended September 30, 2014 and 2013, LSI reimbursed the Company (b) (4) and (b) (4) respectively.

Amounts due from related parties for the above transactions consist of the following:

DOD Surplus, LLC

Notes to Financial Statements (continued)

9. Related-Party Transactions (continued)

	September 30	
	2014	2013
Receivable from SAV/SVCS/TC	(b) (4)	
Receivable from GOI	(b) (4)	
Receivable from LSI	(b) (4)	
Total	<u>\$ 1,642,077</u>	<u>\$ 3,133,856</u>