

AUDITED FINANCIAL STATEMENTS

DOD Surplus, LLC

Years Ended September 30, 2007 and 2006

DOD Surplus, LLC

Financial Statements

Years Ended September 30, 2007 and 2006

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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, 2007 and 2006, and the related statements of income, changes in member 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, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

November 19, 2007

DOD Surplus, LLC

Balance Sheets

September 30
2007 2006

Assets

Current assets:

Cash and cash equivalents
Accounts receivable, net of allowance for doubtful
accounts of (b) (4) at September 30, 2007 and
(b) (4) at September 30, 2006

Inventory

Prepaid expenses and other current assets

Total current assets

Property and equipment, net

Total assets

Liabilities and member equity

Current liabilities:

Accounts payable

Accrued expenses and other

Customer deposits

Profit-sharing distributions payable to DRMS/KGP

Member distributions payable to LSI

Capital lease obligations

Total current liabilities

Capital lease obligations, less current portion

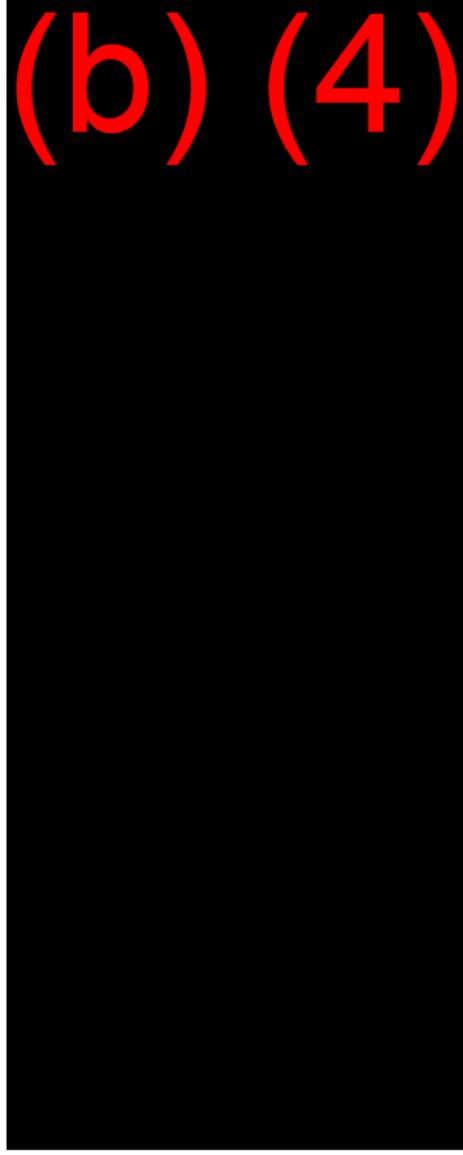
Member equity:

Member equity

Total member equity

Total liabilities and member equity

See accompanying notes.



DOD Surplus, LLC

Statements of Income

Years Ended September 30

2007

2006

Revenues
Cost and expenses:
 Cost of goods sold
 Profit-sharing distributions to DRMS/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

A large black rectangular redaction box covers the financial data for the years 2007 and 2006. The redaction is marked with a large red "(b)" on the left and a large red "(4)" on the right, indicating that the information is withheld under FOIA exemption (b)(4).

See accompanying notes.

DOD Surplus, LLC

Statements of Changes in Member Equity

Balance at September 30, 2005
Contributed capital – for inventory purchases
Distributed to LSI
Net income
Balance at September 30, 2006
Contributed capital – for inventory purchases
Distributed to LSI
Net income
Balance at September 30, 2007

(b) (4)

See accompanying notes.

DOD Surplus, LLC
Statements of Cash Flows

Years Ended September 30
2007 2006

Operating activities

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
 Prepaid expenses and other current assets
 Accounts payable
 Accrued expenses and other
 Customer deposits
 Profit-sharing distributions payable to DRMS/KGP
Net cash provided by operating activities

Investing activities

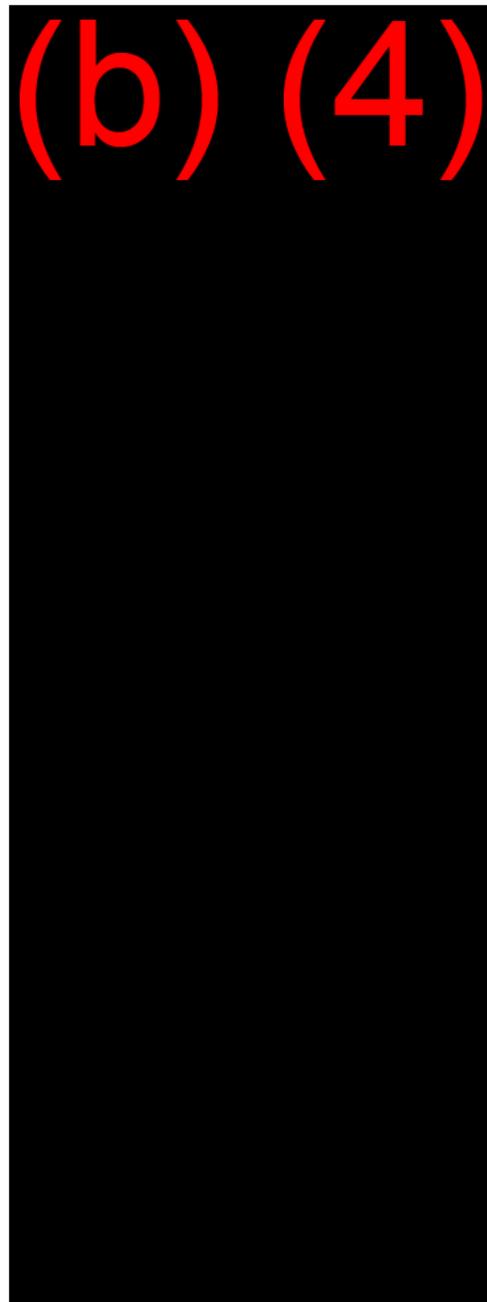
Purchases of property and equipment
Net cash used in investing activities

Financing activities

Capital contributions received for inventory purchases
Payment of capital lease obligations
Distributions paid to LSI
Net cash used in financing activities
(Decrease) increase in cash and cash equivalents
Cash and cash equivalents at beginning of year
Cash and cash equivalents at end of year

Supplemental disclosure of noncash financing activities

Property and equipment acquired through capital leases



See accompanying notes.

DOD Surplus, LLC

Notes to Financial Statements

September 30, 2007

1. Significant Accounting Policies

DOD Surplus, LLC (the Company) is a single purpose entity that remarkets scrap property under the auspices of the Defense Reutilization and Marketing Service (DRMS) contract 99-4001-0004. The contract was entered into in June of 2005 and has a seven-year term. Under the terms of the contract, the Company may only conduct the business of the contract and no other.

The DRMS (a division of the Department of Defense's Defense Logistics Agency) 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 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 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 contribution to the capital of the Company. Except to the extent required under the Act, the member will not be required to make any additional contributions to the capital of the Company.

Description of Business

The Company's contract with the DRMS requires that it use its professional sales and marketing expertise to maximize net proceeds to the DRMS from the sale of scrap property. The Company markets the scrap property through internet online auctions, sealed bid sales, and term contracts. Sales commenced in August 2005. Seventy-seven percent of distributed cash is to be paid to the DRMS and Kormendi/Gardner Partners (KGP) as profit-sharing distributions. KGP is a legal/econometric consulting firm engaged by the DRMS and receives 1.8%; the DRMS receives 75.2%. Twenty-three percent of distributed cash is paid to the 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.

DOD Surplus, LLC

Notes to Financial Statements (continued)

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 the DRMS/KGP for the 12 months ended September 30, 2007 and 2006, totaled approximately (b) (4) respectively. Distributions payable represents accrual of distributions amounting to approximately (b) (4) to DRMS/KGP at September 30, 2007 and 2006, respectively.

The Company handles all of the day-to-day activities of the purchases and sales of this 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

Auction and related revenues are recognized upon receipt of payment from 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 winning bidder occurs.

Term contract sales are recognized upon pick-up of property by the customer and invoicing by the Company.

In the event that the weight of the property differs from the advertised weight by more than 5.0%, 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.

DOD Surplus, LLC

Notes to Financial Statements (continued)

1. Significant Accounting Policies

Inventory

Inventories consist of property obtained for the auction and term contract sales process and are stated at the lower of cost or market. The Company records investments made in the Company to fund inventory purchases by its parent company, LSI, as contributed capital – for inventory purchases in the statements of changes in member equity. Cost of goods sold, for the value of inventory sold, is recognized at the time revenue is recognized. Cost is generally determined using the specific identification method.

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 and software and three to five years for machinery and equipment.

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 year ended September 30, 2007 and 2006 was approximately (b) (4) respectively.

Freight Costs

The Company is responsible for the payment of the inbound freight costs of certain inventory delivered by DRMS, as well as the cost of shipping products among locations to facilitate customer pick-up of products or to lot inventory for auctions. These shipping expenses are included in cost of goods sold and totaled approximately (b) (4) for the years ended September 30, 2007 and 2006, respectively.

DOD Surplus, LLC

Notes to Financial Statements (continued)

1. Significant Accounting Policies

Income Taxes

The Company generally is not subject to income taxes. The member includes the Company's income or loss 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.

2. Property and Equipment

Property and equipment, including equipment under capital lease obligations, consist of the following:

	September 30	
	2007	2006
Computer equipment and software	(b) (4)	(4)
Machinery and equipment	(b) (4)	(4)
Less accumulated depreciation	(b) (4)	(4)
Property and equipment, net	(b) (4)	(4)

The cost of assets held under capital leases was approximately (b) (4) with accumulated depreciation of (b) (4) at September 30, 2007 and 2006, respectively.

DOD Surplus, LLC

Notes to Financial Statements (continued)

3. Accrued Expenses and Other

Accrued expenses and other consists of the following:

	September 30	
	2007	2006
Accrued compensation and benefits	(b) (4)	
Other accrued expenses	(b) (4)	
Total	\$ 643,267	\$ 403,709

4. Lease Commitments

The Company has entered into various capital leases for the purchase of certain property and equipment. The future minimum lease payments required after September 30, 2007 are due over the next three fiscal years and have a net present value of (b) (4). Total interest expense under capital leases was approximately (b) (4) for each of the years ended September 30, 2007 and 2006.

5. Commitments and Contingencies

DRMS Contract

The Company's current contract with DRMS expires June 2012. The contract includes a mutual cancellation option based on certain information included in its quarterly report submissions to DRMS. 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 DRMS 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 DRMS, 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 ending September 30, 2007 was in excess of the comparative benchmark performance ratio for the fiscal quarter ended September 30, 2007.

DOD Surplus, LLC

Notes to Financial Statements (continued)

6. 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 10 customers. The Company's top five customers amounted to 31% and 43% of the Company's total revenues for the years ended September 30, 2007 and 2006, respectively. Three of these five customers had accounts receivable balances totaling approximately (b) (4) at September 30, 2007.

7. Related Party Transactions

Government Liquidation.com, LLC, a related entity, provides executive management and various other management related services to the Company. Additionally, Government Liquidation.com, LLC pays certain expenses on behalf of the Company, including rent, payroll, professional services fees, travel expenses and other expense items. The Company is allocated its portion of the total cost based on the ratio of the Company's employees to total employees at the shared headquarters of Government Liquidation.com, LLC and the Company. Amounts are charged to the Company through intercompany accounts. The Company's total costs charged from Government Liquidation.com, LLC for the year ended September 30, 2007 were approximately (b) (4) which included (b) (4) of allocated costs and (b) (4) of expenses paid on behalf on the Company by Government Liquidation.com, LLC. The Company's total costs charged from Government Liquidation.com, LLC for the year ended September 30, 2006 were approximately (b) (4) which included (b) (4) of allocated costs and (b) (4) of expenses paid on behalf on the Company by Government Liquidation.com, LLC. At September 30, 2007 and 2006, approximately (b) (4) respectively, was payable to Government Liquidation.com, LLC.