

Liquidity Services Inc.

Investor Presentation Q2 FY10

Liquidation.com **Government
Liquidation**


GovDeals[®]

LiquiBiz.com
"The European Source for Business Surplus"

FORWARD-LOOKING INFORMATION

This presentation contains forward-looking statements. All forward-looking statements speak only as of the date of this presentation. Except as required by applicable law, we do not intend to publicly update or revise any forward-looking statements. These forward-looking statements are only predictions and are not guarantees of performance. These statements are based on our management's beliefs and assumptions, which in turn are based on currently available information. The outcome of the events described in these forward-looking statements is subject to known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Many of these factors are beyond our ability to control or predict. You can identify forward-looking statements by terminology such as "may," "will," "should," "could," "would," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continues" or the negative of these terms or other comparable terminology. These statements include, among others, statements regarding our expected business outlook, anticipated financial and operating results, our business strategy and means to implement the strategy, our objectives, the amount and timing of capital expenditures, the likelihood of our success in expanding our business, financial plans, budgets, working capital needs and sources of liquidity.

Potential investors should carefully review in its entirety our filings with the Securities and Exchange Commission from time to time. You should be aware that the occurrence of the events described in the "Risk Factors" section and elsewhere in our periodic reports could harm our business, prospects, operating results, and financial condition.

- **Leading E-Commerce Marketplace for Surplus Assets**
- **Large and Growing Market Opportunity**
- **Compelling Customer Value Proposition and Prestigious Client Roster**
- **Extensive Base of Buyers and Sellers with a Network Effect**
- **Proven Track Record of Growth and Profitability**
- **Strong Growth Prospects with Key Competitive Advantages**
- **Committed Team and Board with High Inside Ownership**

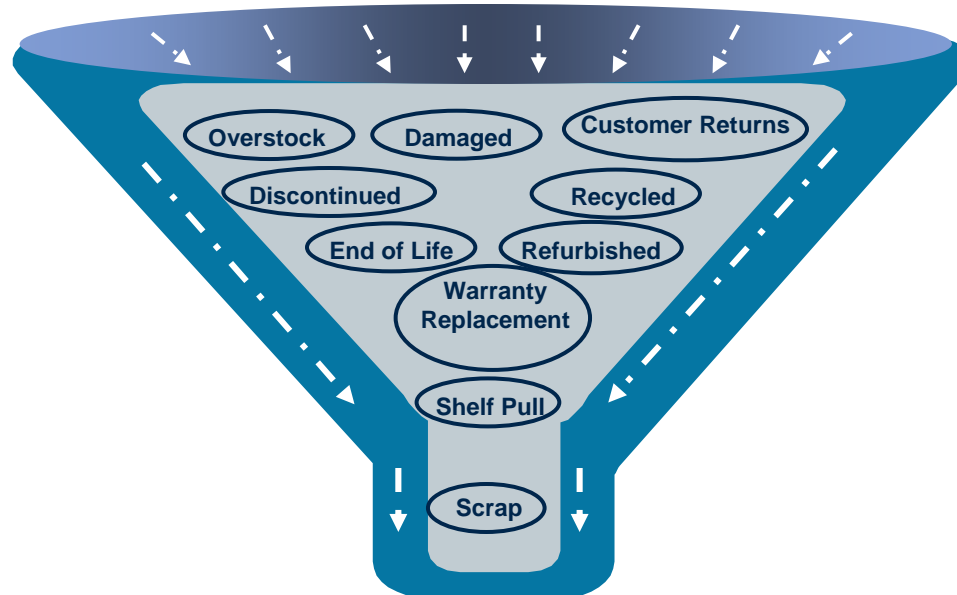
Reverse Supply Chain Market Overview

THE TRADITIONAL SUPPLY CHAIN



Macro Drivers

- Return Policies
- Product Innovation
- Regulatory Policies
- Supply Chain Inefficiencies



THE REVERSE SUPPLY CHAIN

Surplus and Salvage Goods

Inefficient and Fragmented Marketplace Has Led to Historically Low Recovery Values

Addressing Multiple Large Market Opportunities

U.S. Commercial

Liquidation.com



\$63.1 B

2008

\$73.3 B

2010

Total Reverse Logistics Market – North America
Source: D.F. Blumberg Associates and RLT, Inc

European Commercial

LiquiBiz.com

"The European Source for Business Surplus"



\$43.4 B

2008

\$51.5 B

2010

Total Reverse Logistics Market – Europe
Source: D.F. Blumberg Associates and RLT, Inc.

Public Sector

**Government
Liquidation**



GovDeals®



\$2.0 B

2008

Source: Company Research

LSI Solution – A Differentiated and Scalable Online Marketplace

Hello bobshaw, we have recommendations for you. (Not bobshaw?)


TESTED 26-OCT **Bea** **Business** **PayPal**

-- Search -- All Categories All Conditions All Locations Search

All Categories Advanced Search

Home > Consumer Electronics > Video Games > Sony Playstation 3 Consoles!...

Sony Playstation 3 Consoles! All Cables Included Est. MSRP \$2,100 Auction ID 2114976
Includes Cables and Games and 3 Year Limited Manufacturer's Warranty



1

Place a Bid

Total Bids (View History) 57
Current High Bid (per lot): \$1,100.00
Per Unit Price: \$125.00
Minimum Bid: \$1,150.00

\$ **Place Bid**

Time Left:

| Days | Hours | Minutes |
|------|-------|---------|
| 2 | 21 | 42 |

End Date: 07/31/09 04:50 PM EST

The auction closing time will automatically extend by 3 minutes whenever a new bid is submitted with the 3 minutes before auction closing.

Attention: Do not use a PO Box address. Packages cannot be shipped to PO Box addresses.

About Proxy Bidding

Seller Profile

WarehouseVideo
Selling for: 2 years and 3 months
Fulfilled by: Liquidation.com

| | 1 month | 6 months | 1 year | Ranking |
|---------------------------|---------|----------|---------|---------|
| Completed Transactions: | 8 | 1000+ | 10,000+ | |
| Average Days to Ship: | 2.5 | 2.2 | 2.1 | ★★★★★ |
| Buyer Dispute Rate: | 100% | 100% | 100% | ★★★★★ |
| Repeat Buyer Rate: | 80% | 81% | 79% | ★★★★★ |
| Seller Cancellation Rate: | 2% | 1% | 1% | ★★★★★ |

View WarehouseVideo's Other Auctions

- Add to My Watchlist
- Get a Shipping Quote
- Email This Auction
- Questions and Answers

2

Enlarge and View All Images

3

4

Summary and Description Shipping Details Terms & Conditions

Summary

| | | | |
|-----------------------|----------|------------------|----------------|
| Auction Type: | Standard | Asset Location: | Sacramento, CA |
| Condition: | Returns | Zip Code: | 95255 |
| Total Lots Available: | 1 | Buyer's Premium: | 5% |

Customer Returns and Shelf Pulls



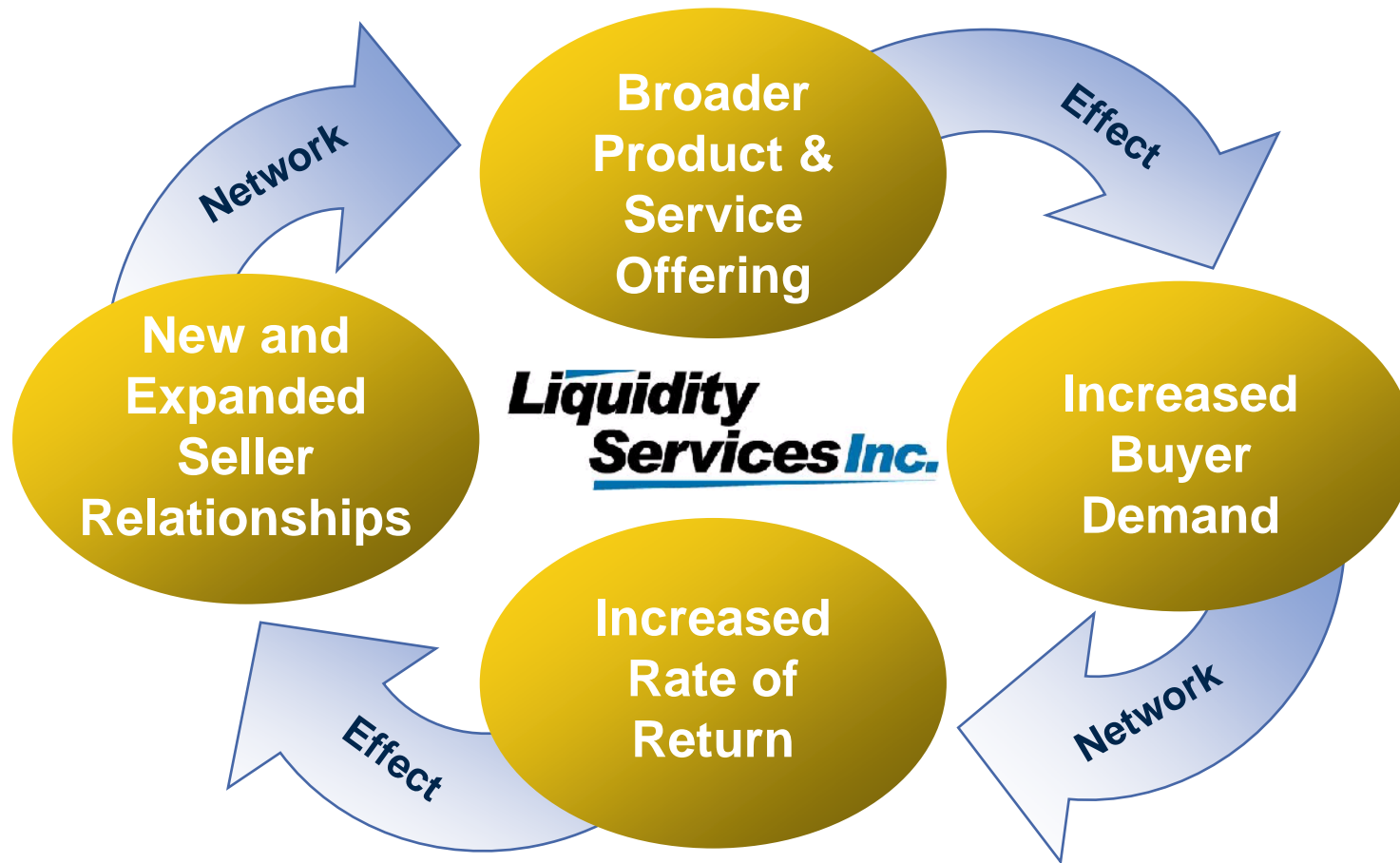
Government Surplus Property



Salvage & Scrap Assets



The LSI Network Effect



LSI Delivers Significant Value to Buyers and Sellers Creating a Network Effect

Our Professional Buyers

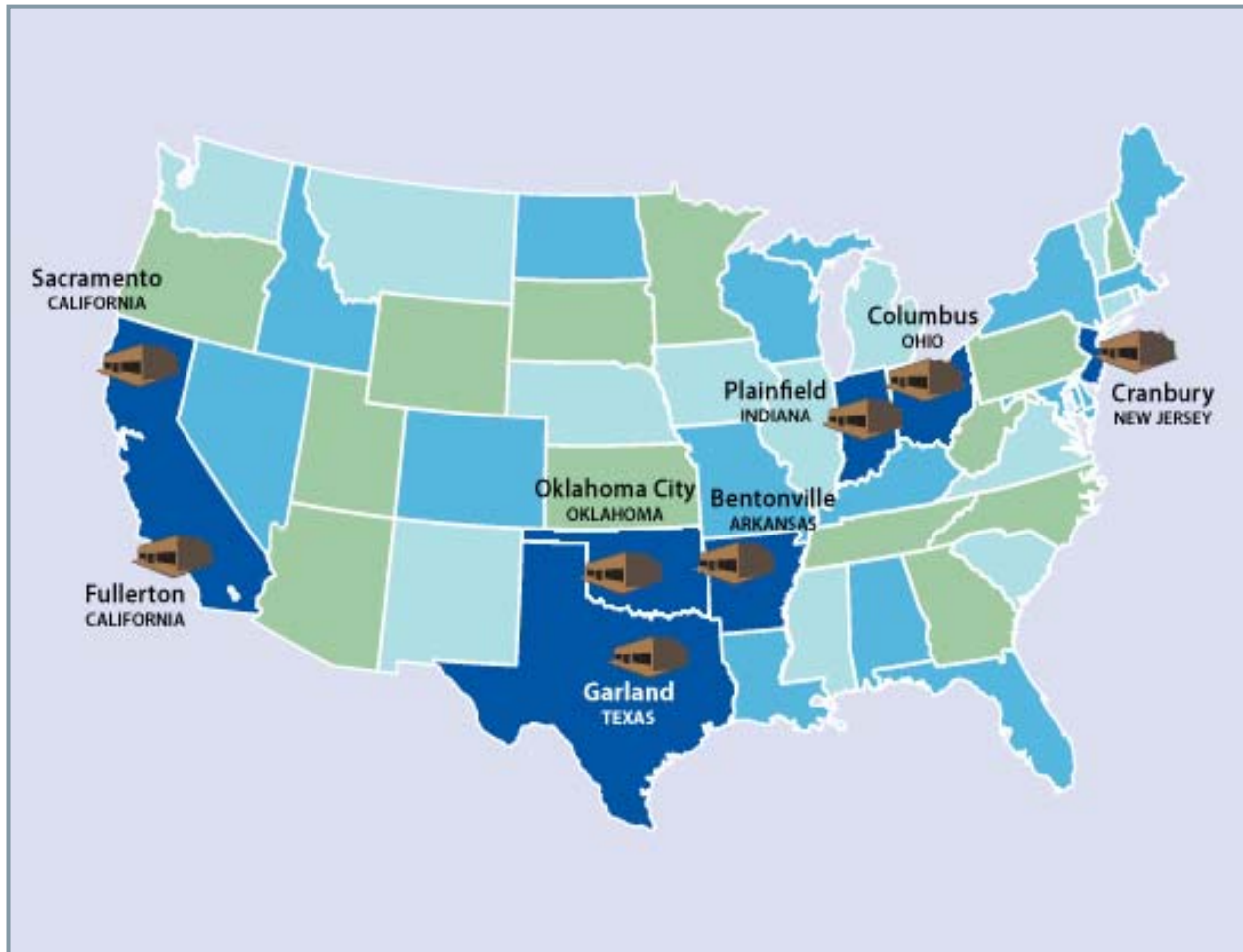
- **Online Power Sellers**
- **Discount Retailers**
- **End Users**
- **VARS / Refurbishers**
- **Import / Export Firms**
- **Flea Market Resellers**
- **Scrap Recyclers**

Buyer Benefits

- **Access to Large Flow of Assets**
- **Prices Below Wholesale Cost**
- **Product Search Tools & Alerts**
- **Turn-key, Low Cost Shipping**
- **Secure Settlement**
- **Customer Support**

LSI Provides the Right Services to Gain Buyer Trust and Satisfaction

National Distribution Center Network



Logistics Services

- 8 U.S. Warehouse locations
- 1.5 million square feet
- Negotiated rates with leading national carriers
- Buyer pick-up services
- Full menu of seller services

LSI Provides Integrated Logistics Services to Meet Buyer and Seller Needs

Strong Seller Relationships and Leading Reputation

Prestigious Seller Base

- 7 of the top 10 U.S. Retailers
- 2 of the top 3 Online Retailers
- 2 of the top 3 Warehouse Clubs
- U.S. Department of Defense
- 2,800+ State and Local Government Agencies
- Middle Market Retailers
- Service Companies
- Distributors and VARs
- Manufacturers and OEMs

Seller Benefits

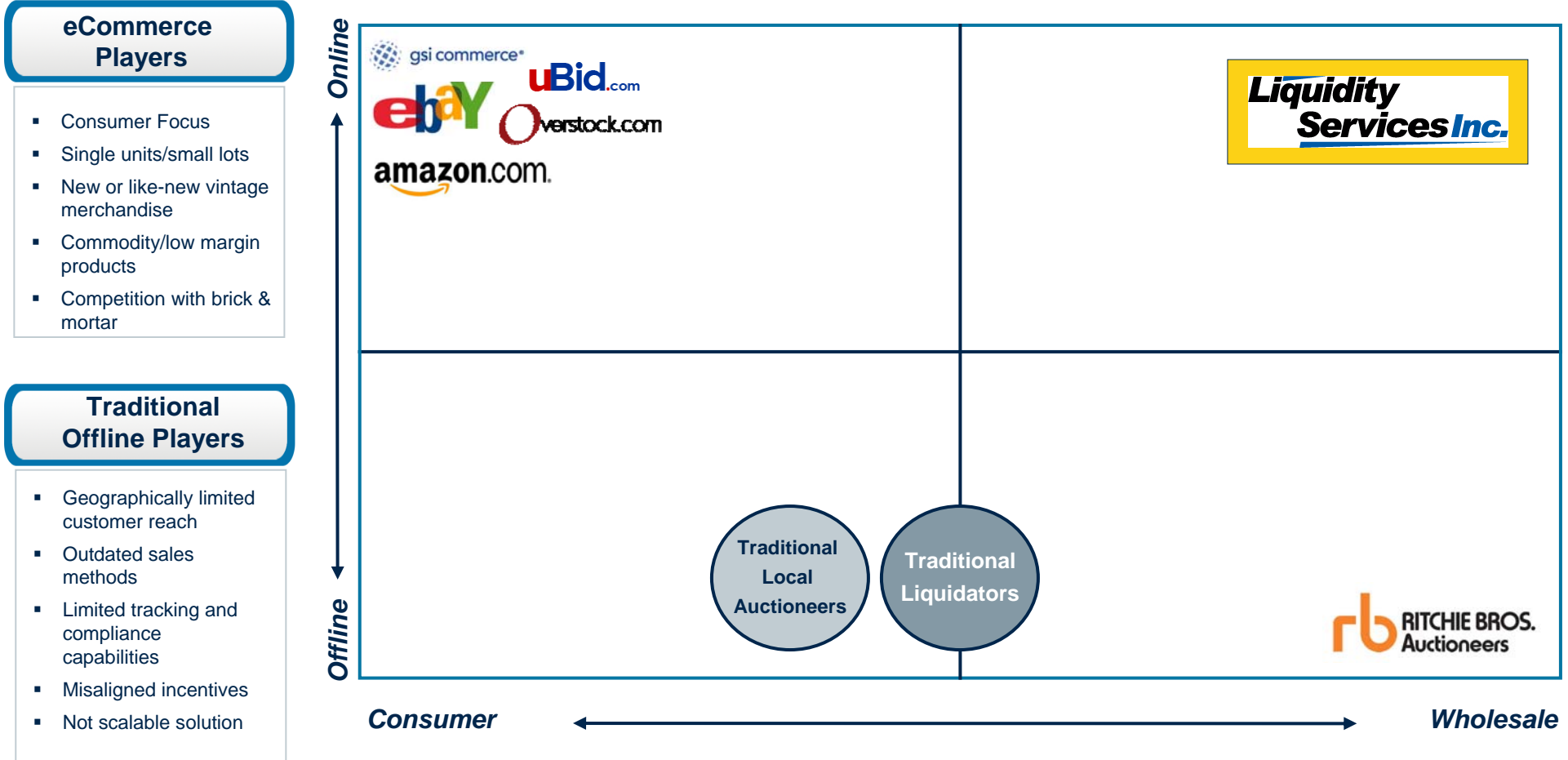
- Access to 1.3 million Professional Buyers
- Full Transparency
- Higher Net Returns
- Faster Sales Cycle
- Brand and Channel Protection
- Incentive Aligned Interests
- Regulatory Compliance
- Integrated Logistics Services

LSI Serves a Growing Pipeline of Large and Mid-size Sellers

Growing Roster of Commercial Sellers



Differentiated Competitive Position



LSI's Wholesale Focused Online Marketplace is Highly Differentiated

External

**Acquire Complementary
Businesses**

Innovation

**Develop and Enhance
Features and Services**

**Expand Vertical
Market Segments
and Expertise**

Organic

**Grow Buyer Base and
Increase Participation**

**Increase Penetration of
Existing Sellers**

**Develop New
Seller Relationships**

Achieve \$1 billion in GMV within the next five years.

Compelling Business Model

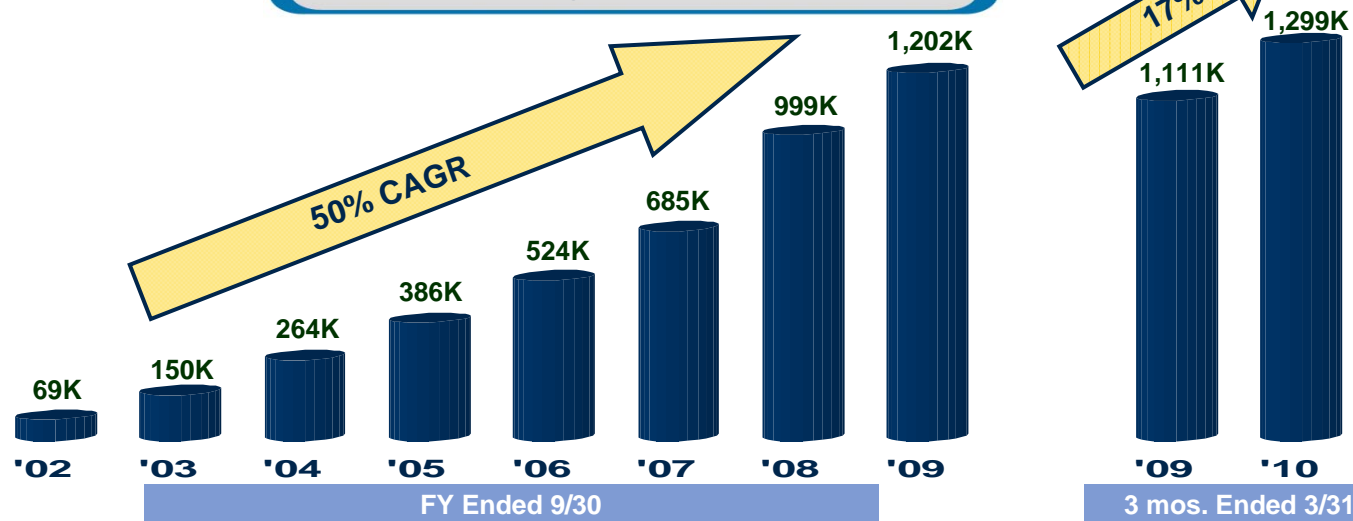
- High Customer Value
- Multiple, Recurring Revenue Streams
- Large Average Transaction Values
- Diversified Product and Customer Mix
- Significant Barriers to Exit as Critical Mass Builds

Strong Financial Position

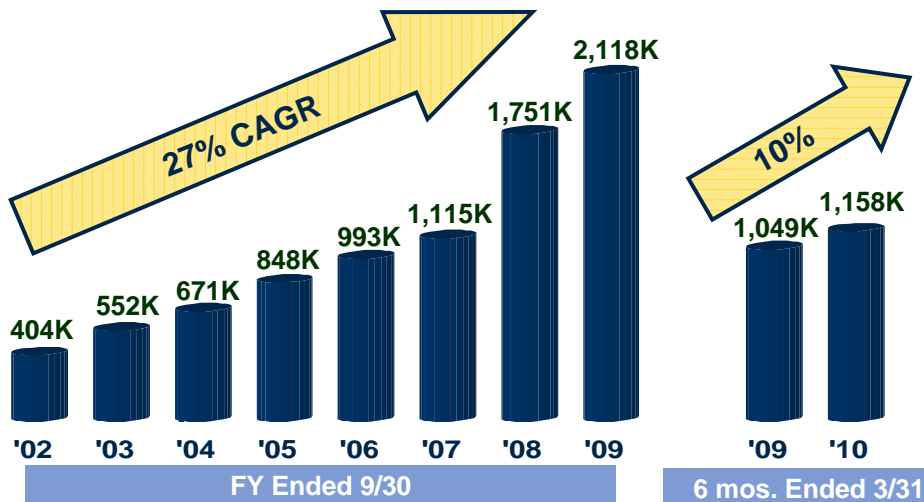
- \$68 Million of Cash
- Debt Free
- Strong Cash Flow Dynamics - \$12.2 Million in Q2 2010
- 30 Consecutive Quarters of Profitability
- Minimal Cap Ex – \$4.0 - \$4.5M annually

Key Operating Metrics

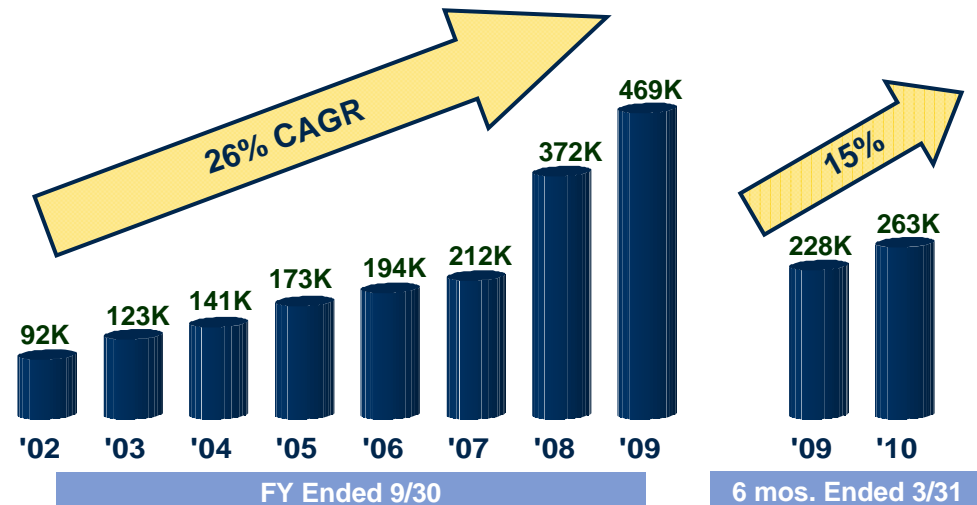
Total Registered Buyers



Total Auction Participants

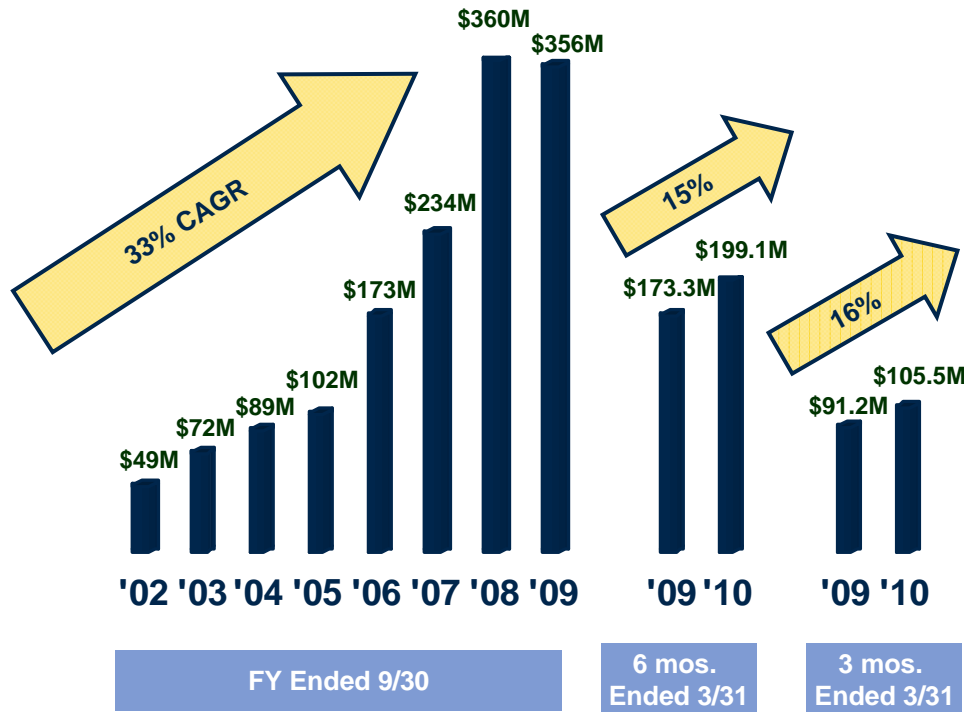


Completed Transactions

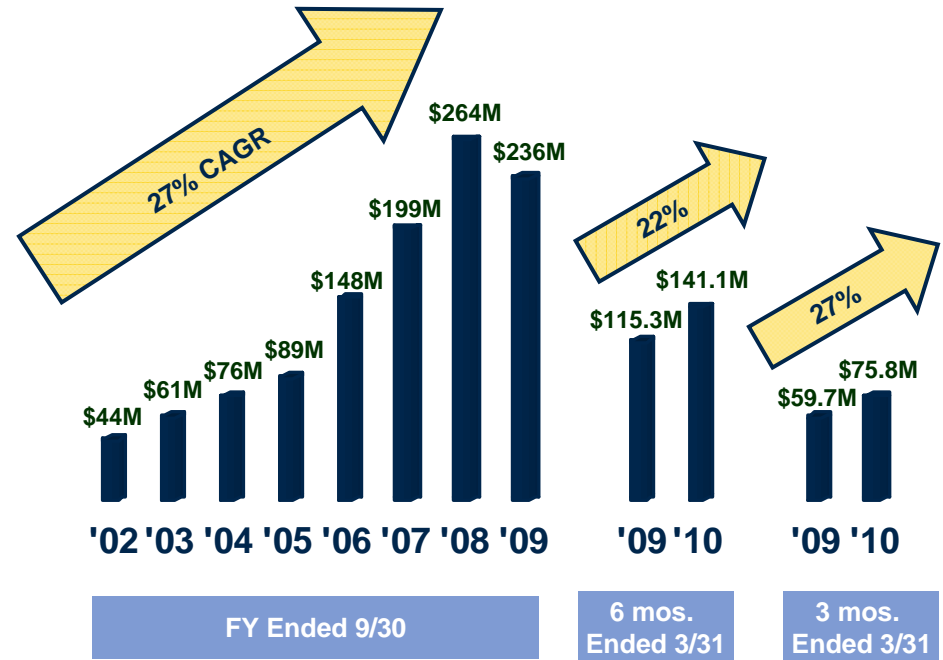


Financial Highlights

Gross Merchandise Volume



Revenue



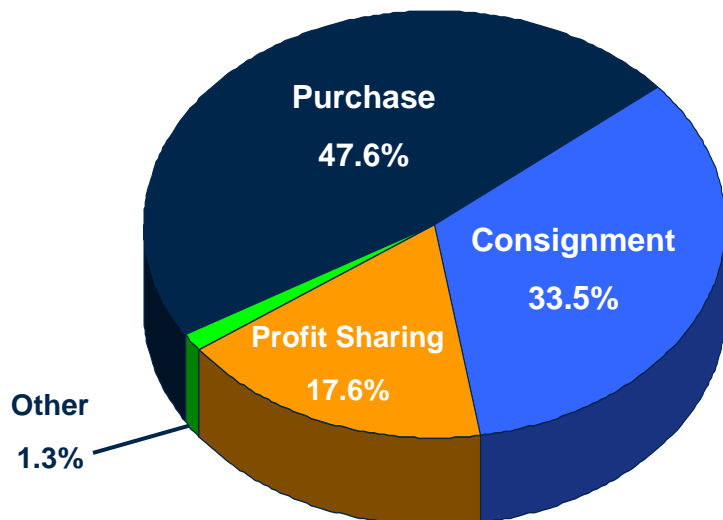
Multiple, Synergistic Revenue Streams

- Consignment Model
- Profit Sharing Model
- Purchase Model
- Buyer Premium Fees

Diversification and Growth

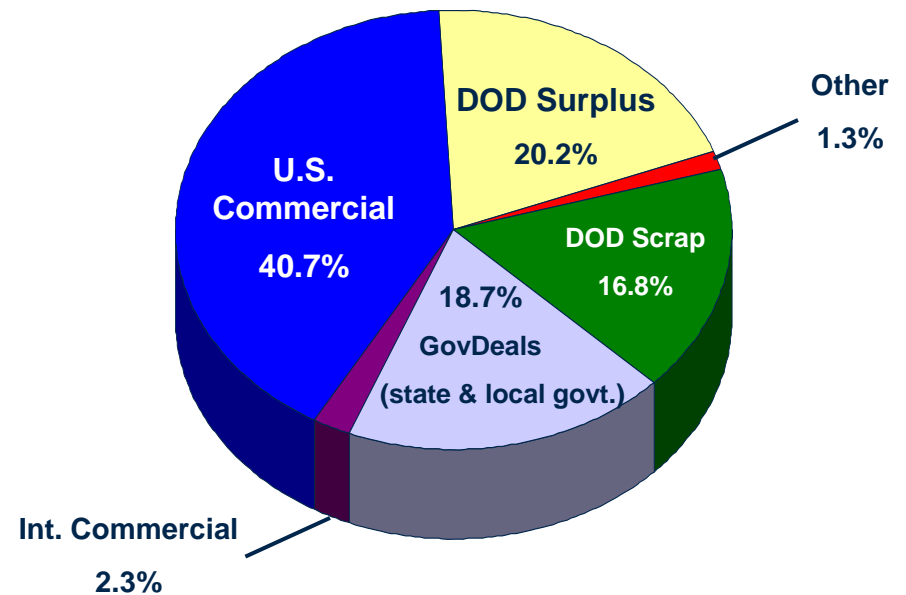
GMV Mix

Pricing Model



Q2 '10

Seller Base

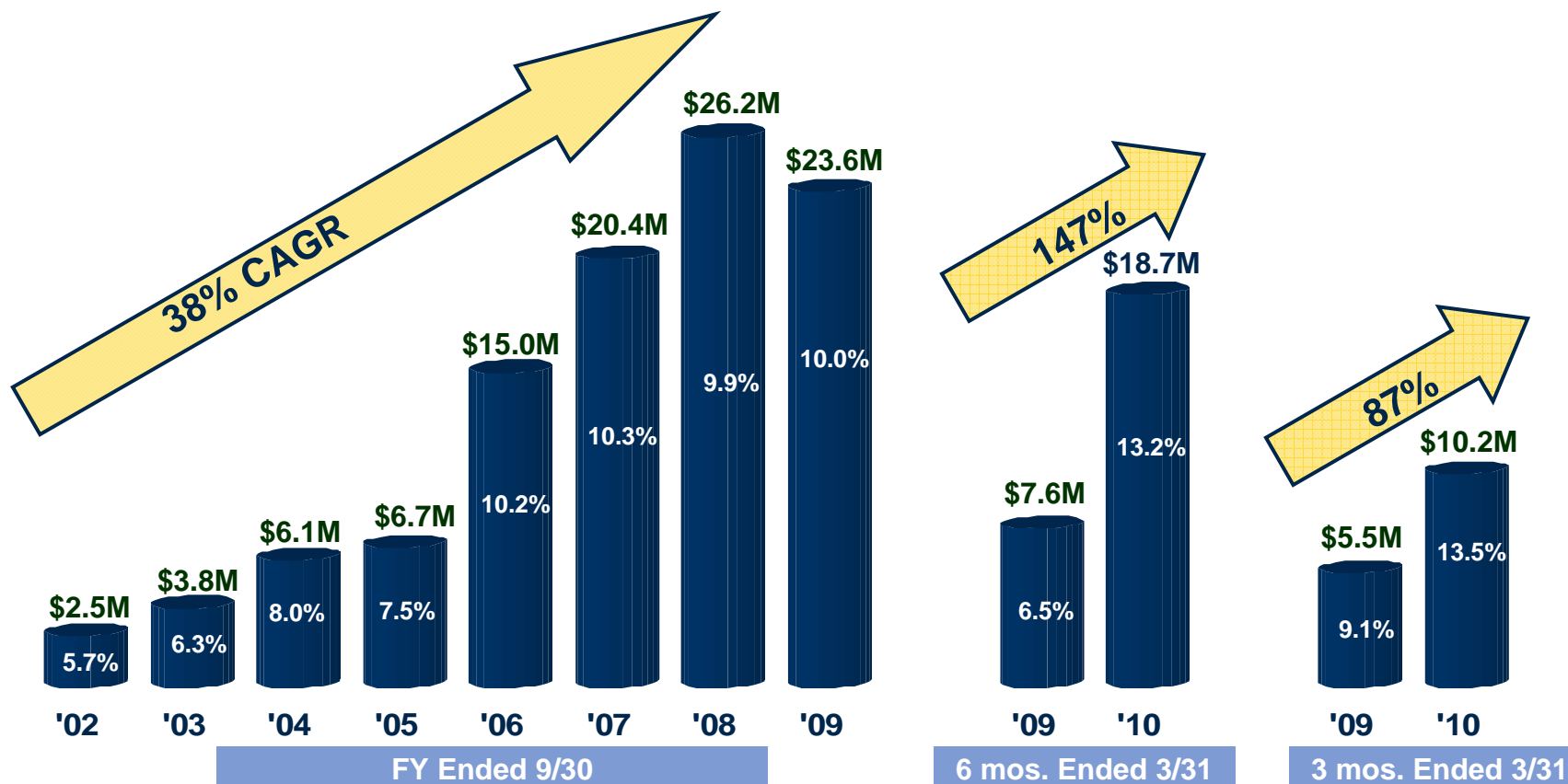


Q2 '10

LSI Has a Diversified Business and Seller Base

Consistent Profitability

Adjusted EBITDA (1)

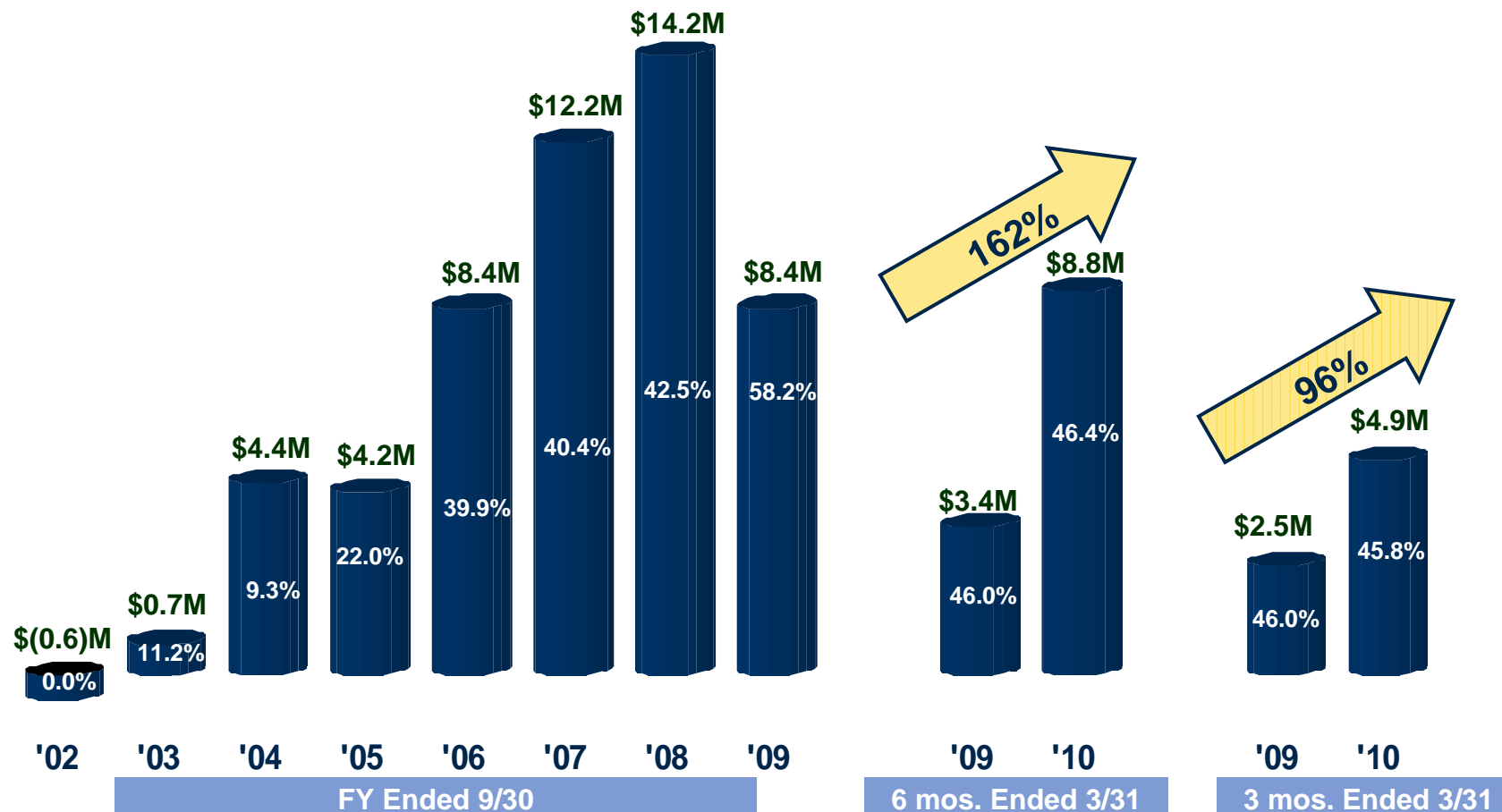


Note: Percentages indicate margin based on GAAP Revenue

(1) Adjusted EBITDA shown for fiscal years 2002 – 2009 and the interim time periods includes adjustments for stock-based compensation and a portion of certain acquisition payments. For the fiscal years ended September 30, 2002, 2003, 2004, 2005, 2006, 2007, 2008 and 2009, Net Income was \$1.3M, \$2.8M, \$5.3M, \$4.1M, \$8.0M, \$11.0M, \$11.6M and \$5.7M, respectively. For the three and six months March 31, 2009 and 2010, net income was \$1.7M and 1.7M, and \$3.6M and 6.5M, respectively.

Consistent Profitability

Adjusted Net Income (2)



Note: Percentages indicate effective income tax rate

(2) Adjusted Net Income shown for fiscal years 2002 – 2009 and the interim periods includes adjustments for stock-based compensation and a portion of certain acquisition payments. For the fiscal years ended September 30, 2002, 2003, 2004, 2005, 2006 2007, 2008 and 2009, Net Income was \$1.3M, \$2.8M, \$5.3M, \$4.1M, \$8.0M \$11.0M, \$11.6M, and \$5.7M, respectively. For the three and six months March 31, 2009 and 2010, net income was \$1.7M and 1.7M, and \$3.6M and 6.5M, respectively.

Operating Model

| | FY 2009 | YTD 6 Mos. '10 |
|---------------------------------|-------------|----------------|
| Gross Merchandise Volume | 100% | 100% |
| Revenue | 66.3% | 70.9% |
| Cost of Goods Sold | 24.3% | 30.3% |
| Profit-Sharing Distributions | 12.7% | 10.1% |
| Technology and Operations | 13.1% | 12.2% |
| Sales and Marketing | 5.1% | 4.8% |
| General and Administration | 6.3% | 6.2% |
| Add: Stock-based Compensation | (1.8%) | (2.1%) |
| Adjusted EBITDA Margin | 6.6% | 9.4% |

See slide #21 for a reconciliation to Adjusted EBITDA and Adjusted Net Income

Reconciliation of Financial Data

| In Thousands | Year ended September 30, | | | | | | | | 6 Mos Ended Mar 31, | | 3 Mos Ended Mar 31, | |
|---|--------------------------|---------|---------|---------|----------|----------|----------|----------|---------------------|----------|---------------------|----------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2009 | 2010 | 2009 | 2010 |
| | Net Income | \$1,324 | \$2,776 | \$5,269 | \$4,122 | \$7,981 | \$11,019 | \$11,553 | \$5,719 | \$1,677 | \$6,517 | \$1,675 |
| Interest (income) expense & other income, net | 169 | 391 | 621 | 570 | (431) | (2,176) | (1,495) | (516) | (326) | (42) | (90) | (55) |
| Provision for income taxes | - | 351 | 541 | 1,166 | 5,295 | 7,460 | 8,546 | 7,961 | 1,429 | 5,650 | 1,427 | 3,019 |
| Amortization of contract intangibles | 2,483 | 1,862 | - | 135 | 813 | 813 | 813 | 813 | 407 | 407 | 203 | 203 |
| Depreciation and amortization | 408 | 465 | 531 | 586 | 727 | 1,302 | 2,083 | 3,116 | 1,316 | 1,881 | 678 | 970 |
| EBITDA | \$4,384 | \$5,845 | \$6,962 | \$6,579 | \$14,385 | \$18,418 | \$21,500 | \$17,093 | \$4,503 | \$14,413 | \$3,893 | \$7,714 |
| Stock compensation expense | - | - | 85 | 87 | 623 | 1,943 | 4,674 | 6,465 | 3,049 | 4,245 | 1,566 | 2,509 |
| Adjustment | (1,899) | (2,095) | (932) | - | - | - | - | - | - | - | - | - |
| Adjusted EBITDA | \$2,485 | \$3,750 | \$6,115 | \$6,666 | \$15,008 | \$20,361 | \$26,174 | \$23,558 | \$7,552 | \$18,658 | \$5,459 | \$10,223 |

| | Year ended September 30, | | | | | | | | 6 Mos Ended Mar 31, | | 3 Mos Ended Mar 31, | |
|---------------------------------------|------------------------------|----------|----------|----------|----------|----------|----------|----------|---------------------|----------|---------------------|----------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2009 | 2010 | 2009 | 2010 |
| | Profit Sharing distributions | \$17,717 | \$30,427 | \$39,718 | \$48,952 | \$80,253 | \$69,638 | \$91,106 | \$45,333 | \$26,137 | \$20,059 | \$11,068 |
| Adjustment | 1,899 | 2,095 | 932 | - | - | - | - | - | - | - | - | - |
| Adjusted profit-sharing distributions | \$19,616 | \$32,522 | \$40,650 | \$48,952 | \$80,253 | \$69,638 | \$91,106 | \$45,333 | \$26,137 | \$20,059 | \$11,068 | \$11,797 |

| | | | | | | | | | | | | |
|---|---------|---------|---------|---------|---------|----------|----------|---------|---------|---------|---------|---------|
| Net income | \$1,324 | \$2,776 | \$5,269 | \$4,122 | \$7,981 | \$11,019 | \$11,553 | \$5,719 | \$1,677 | \$6,571 | \$1,675 | \$3,577 |
| Stock compensation expense (net of tax) | - | - | 85 | 68 | 374 | 1,158 | 2,687 | 2,702 | 1,647 | 2,292 | 846 | 1,355 |
| Adjustment | (1,899) | (2,095) | (932) | - | - | - | - | - | - | - | - | - |
| Adjusted net income | (\$575) | \$681 | \$4,422 | \$4,190 | \$8,355 | \$12,177 | \$14,240 | \$8,421 | \$3,324 | \$8,863 | \$2,521 | \$4,932 |